Marketing Management

DEMKT503

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LOVELY PROFESSIONAL UNIVERSITY

Marketing Management

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Unit 01: Introduction

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Objective

- understand about market and marketing
- basic concepts of marketing.
- nature and scope of marketing.
- Understand exchange process
- Marketing concepts
- analyze detailed functions of marketing

Introduction

Far-reaching changes have been taking place in the Indian economy during the recent past, consequent to the opening up of our economy through globalization and liberalization policies. The floodgates have been thrown open to allow international competition for manufactured goods as well as services, making it a question of survival of the fittest in any industry. In the present highly competitive economy, which can be called a buyer's market, it is the customer who wields full power. He can make or wreck a company.

Food for thought

Why Sachets Ruled over the Indian Markets?

- **SACHETS ARE CHEAPER**
- **MORE Convenient**

No wonder that the collective battle cry from sales and marketing people, retailers, wholesalers and advertising wizards alike is now 'Serve the Customer', or 'Delight the Customer'. The customer who was considered the 'King' is now treated almost like 'God', emulating the highly successful marketing people of Japan. When consumer expectations become higher and higher, superior market driven strategies or customer driven strategies and their execution in the market are important. Companies have to be fully customer oriented to succeed in the present competitive scenario, and should 'think customer', 'live for customer', 'smell customer', and 'build customer relations'

There are various standard definitions of marketing. While the words used may be different, it is obvious that all marketing activity is about the customer, focused at acquiring them and retaining them.

Marketing is a business function and set of processes involved in creating, delivering and communicating value to customers, followed by managing customer relationships, resulting in mutual benefit for the business and its stakeholders.

Marketing is also the science of selecting target markets via market analysis and segmentation, with a comprehensive knowledge of buying behavior, aiming to provide the best customer value.

However, marketing is successful only when an organization's mission, vision, tasks and ability to leverage technology align with and complement each other, and the business as a whole.

- Marketing is an organizational function and a set of processes for**creating, communicating, and delivering** value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders."***(The American Marketing Association)***
- "Marketing is a total system of business activities designed to plan, price, promote, and distribute want- satisfying products to target markets to achieve organizational objectives"(***William J. Stanton, Michael J. Etzel, and Bruce J. Walker)***
- Marketing is the creation, communication and delivery of value, as well as the management customer relationships for a lifetime. (Luman Learning)

Although marketing viewed as an indicator of a firm's success, it is a matter of perspective.

For example, brands like Toyota, Nissan and Nestle must rely on marketing to grow and keep their customer base. For regulated industries like utilities and medical care and small businesses with unique products, marketing may be low key and confined to flyers.

1.1 Market Vs Marketing

In the business world, you have heard about the terms market and marketing, end number of times. but have you ever wondered, as, they are same or different? **Market** refers to a place where buyer and sellers can come in contact with each other either directly or indirectly, so as to trade goods and services for value. Its main function is to determine the price of the commodity, with the help of demand and supply factors.

The term **marketing** is derived from the term market, and implies a process that involves some activities which creates value for customers, clients and society as a whole. It encompasses the promotion of business or its products/services so as to increase sales and thus the profit.

BASIS FOR COMPARISON	MARKET	MARKETING
Meaning	Market is defined as an arrangement whereby buyers and sellers meet each other to conclude the transaction.	Marketing is a function that identifies human and social needs and satisfies them.
What is it?	A set up i.e. a place.	A set of processes, i.e. a means of creating utility.
Process	Market is a process, that fixes the price of commodities through demand and supply forces.	Marketing is a process that analyses, creates, informs and delivers value to the customer.
Concept	Market is a narrow concept.	Marketing is a wide concept that includes diverse activities.
Consistency	Market varies by products, place, factors and so on.	Marketing philosophy remains same, no matter where it is applied.
Facilitates	Trade between parties.	Link between customer and company.

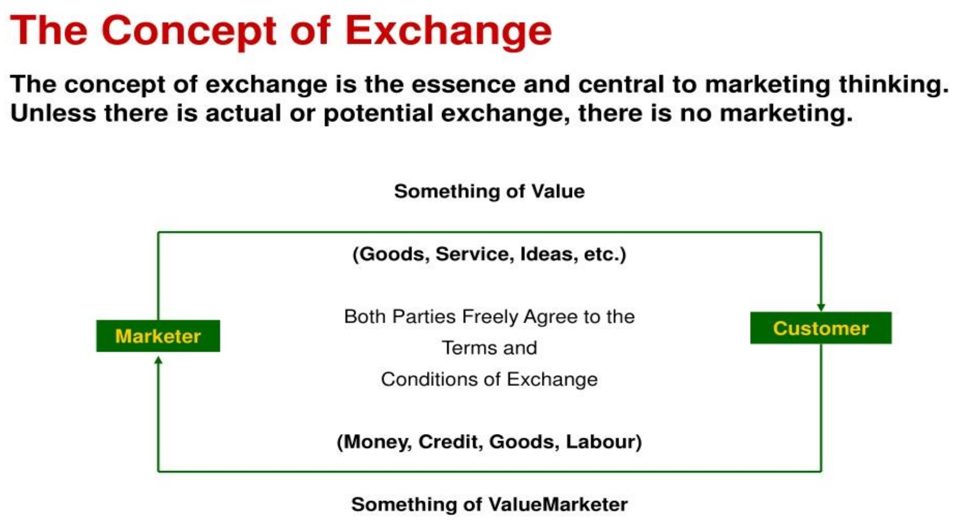
1.2 Exchange Process

A marketing exchange is what happens any time two or more people trade goods or services. In marketing theory, every exchange is supposed to produce "utility," which means the value of what you trade is less than the value of what you receive from the trade. Of course, all exchanges in the real world are much more complicated.

How Exchanges Work?

Marketing theorists consider exchange to be the central concept without which there would be no such thing as marketing. For an exchange to happen, both parties have to have something of value for each other. For instance, a man visiting a coffee shop might have enough money to buy a cup of coffee while the cafe has the coffee. Both parties must be able to communicate with each other, and both must want to exchange something and be able to do so.

If the customer in the coffee shop can't make himself understood, or if he decides he doesn't want a cup of coffee, or if he turns out not to have quite enough money, then there will be no exchange. If all of the needed conditions are met, there will be an exchange of money for coffee.



1.3 Selling

The selling theory believes that if companies and customers are dropped and detached, then the customers are not going to purchase enough commodities produced by the enterprise.

The notion can be employed argumentatively, in the case of commodities that are not solicited, i.e. the commodities which the consumer doesn't think of buying and when the enterprise is functioning at more than 100% capacity, the company intends at selling what they manufacture, but not what the market requires.

In the sales process, a salesperson sells whatever products the production department has produced. The sales method is aggressive, and customer's genuine needs and satisfaction is taken for granted.

1.4 Marketing

The marketing theory is a business plan, which affirms that the enterprise's profit lies in growing more efficient than the opponents, in manufacturing, producing and imparting exceptional consumer value to the target marketplace.

Marketing is a comprehensive and important activity of a company. The task generally comprises recognising consumer needs, meeting that need and ends in customer's feedback.

In between, activities such as production, packaging, pricing, promotion, distribution and then the selling will take place. Consumer needs are of high priority and act as a driving force behind all these actions. Their main focus is a long run of business ending up with profits.

It depends upon 4 elements, i.e. integrated marketing, target market, profitability customer and needs. The idea starts with the particular market, emphasises consumer requirements, regulates activities that impact consumers and draws gain by serving consumers.

1.5 Selling Vs Marketing

Selling	Marketing
Definition	
The selling theory believes that if companies and customers are dropped detached, then the customers are not going to purchase enough commodities produced by the enterprise. The notion can be employed argumentatively, in the case of commodities that are not solicited.	The marketing theory is a business plan, which affirms that the enterprise's profit lies in growing more efficient than the opponents, in manufacturing, producing and imparting exceptional consumer value to the target marketplace.
Related to	
Constraining customer's perception of commodities and services.	Leading commodities and services towards the consumer's perception.
Beginning point	
Factory	Marketplace
Concentrates on	
Product	Consumer needs
Perspective	
Inside out	Outside in
Business Planning	
Short term	Long term
Orientation	
Volume	Profit
Cost Price	
Cost of Production	Market ascertained

1.6 Types of Marketing Entities

Anything which is sellable needs marketing. Based on the above statement, the following is the list of entities to which marketing is a necessary function:

Goods: Any product manufactured in mass quantity, requires proper marketing to make it available to its consumers located in different places of the country or world. For example; Mobile phones manufactured in China and sold all over the world

Services: An economic activity performed to meet the consumer's demand, needs, promotion andmarketing.For example; Ola cabs providing for local taxi services

Events: Various trade fairs, live shows, local events and other promotional events need advertising and publicity.For example; Indian Fashion Expo is the event where leading fashion houses participate in displaying exhibit their creation needs marketing to reach customers, manufacturers and traders.

Experiences: It even organizes and customizes the impression made by certain goods and services to fulfil the customer's wish.For example; A Europe trip package provided by makemytrip.com or tripadvisor.com

Persons: A person who wants to promote his skills, profession, art, expertise to acquire customers, take the help of marketing functions.

For Example; A chartered accountant updates his profile over linkedin.com to publicise his skills and talent to reach clients.

Places: Marketing of tourist places, cities, states and countries helps to attract visitors from all over the world. For example; India's Ministry of Tourism promoting India through 'Incredible India' campaign

Properties: It provides for selling of tangible and intangible properties like real estate, stocks, securities, debentures, etc.For example; Real estate agents publicise the residential plots to investors

Organizations: Several corporations and non-profit organisations like schools, colleges, universities, art institutes, etc. create and maintain a public impression through marketing. For example; Circulars and advertisements made by colleges as 'admission open.'

Information: Certain information related to healthcare, technology, science, media, law, tax, market, finance, accounting, etc. have to demand among the corporate decision-makers who are marketed by some leading information agencies.For example; Bloomberg provides all current financial, business and market data

Ideas: Brands market their products or services through advertisements spreading a social messageto connect with the consumers.For example; Idea 4G's advertisement spreading the message of 'sharing our real side.'

1.7 Nature of Marketing

1. Marketing is Customer Oriented: Marketing begins and ends with the customer. The job of the marketing is not only to satisfy the consumer but even to delight him/her. All the activities of an organization must be directed and focused towards the consumer.

The organizations cannot ignore emerging technologies, materials, instruments and new ways of organizing the things but with the considerations of consumers. Therefore, marketers must allow their customers to dictate product specifications and standards regarding quality. The job can only be performed if consumers' needs are continuously monitored.

2. Marketing is the Delivery of Value: When a consumer derives satisfaction from a particular product on the basis of product's overall capacity and performance is known as value in consumer's perception. The consumers today make a trade-off between cost and benefit of the product and they consider the product's value and price before making a decision.

At times they will have to give up a particular product to obtain the other one since first one involves a big cost. Thus, he will choose the product that gives him more value per rupee. According to De Rose, "Value is the satisfaction of customer requirements at the lowest possible cost of acquisition, ownership, and use". Thus, the organization's strategies must be aimed at delivering greater customer value than that of their competitors.

3. Marketing is a Network of Relationships: The customer is at the centre-stage and focus of all marketing activities. From 1990s onwards the focus is not only to identify the needs and delivers it to customers but is shifting towards relationships marketing. The marketers who are smart enough maintain their relationships by delivering high quality products in time, better services and fair prices in comparison with their counterparts.

4. Marketing as a Separate Discipline: There used to be the days when marketing was treated as a part of economics. But now it is recognized as a full-fledged separate discipline. With the emergence of marketing concept, the issues of green marketing and environmental protection have come up and regarding that various laws have been framed.

When we talk of knowing consumer behavior, it leads us to entirely a new world of human behavior and for that matter; a marketer must possess the knowledge of psychology. Therefore, marketing has emerged as separate discipline and got its strengths from the related areas like law, psychology, anthropology, sociology and statistics etc.

5. Marketing is Business: When it is said that marketing is business, the contention is that the all activities starts from marketing i.e.; through knowing consumer and end up on the consumers i.e.; knowing consumer dissonance. It means the entire business revolves round the marketing.

According to Peter F Drucker, "Marketing is so basic that it cannot be considered as a separate function. It is the whole business seen from the point of view of its final result, that is, from the customer's point of view. Business success is not determined by the producer but by the customer". So, business seeks customers because they are the business providers and ultimately marketing is business.

1.8 Scope of Marketing

Nature of marketing can be studied under the following terms which will explain it in a better manner:

1. **Marketing is a Science as Well as an Art**: A science is something that is done in a systematic manner following certain standard processes. Science is a systematic body of knowledge regarding a particular subject. Marketing too has a very systematic approach and practices. Right from developing a new product or service, understanding needs and wants through research, segmentation, targeting, positioning, pricing etc. or taking feedback from customers, everything is done in a systematic manner.

Marketing is a never ending process. At every stage of the process a marketer undertakes research to offer excellent products to customers, thus proving that marketing is based on scientific practices.

Art is the expression of human imagination and skill, it has an emotional connect. In Marketing we see this aspect in areas of customer relationship, product positioning, advertising, packaging, pricing etc. The process of segmentation, targeting and positioning is done in a systematic manner, but it also possesses creativity in communicating the message to the customer.

This creativity and emotional connect makes marketing an art. How effectively the marketer segments, targets and places the product in the minds of customers depends on the systematic process adopted and the creative skills applied. Either it is packaging of a product or placing products on the shelves, everywhere, we can see the application of science and art.

2. **Marketing is Customer Oriented**: The key objective of marketing is to provide goods and services as per the needs of the customers. Before developing and providing a product, marketers try to find out, what exactly customers are looking for? Based on the findings, the product is created and provided to customers.

Once customer consumes or experiences the product or service, the marketer again does research about the performance of the product and service. So Marketing is totally customer oriented, which starts with customers and ends with customer.

3. **Marketing Involves Human Actions**: Humans are an integral part of all marketing activities. Right from marketing research, product development, delivery consumption, post consumption etc. Humans help to satisfy other human beings needs and wants. Without proper human actions marketing would be impossible.

4. **Marketing is an Exchange Process**: By exchange we mean transfer of something for one party to another. Every stage of marketing is an exchange and therefore we can rightly say that marketing is an exchange process. There is exchange between buyers and sellers, sellers offer products and buyers give money in exchange for the products. There is exchange of ideas and views between Company and Customer, Marketer offers some benefits in exchange for customer feedback.

Advertising agencies offer their services in return for money. There is an exchange of ideas, communication, money, products, experiences, technology etc. between all stakeholders and the Marketer.

5. **Marketing is Strategy**: Strategy is a plan of action to achieve long term or overall goals. Marketing involve short term and long term goals. Every function of marketing needs a systematic plan of action. Questions such as, “What to Produce”, “What to Sell”, “When to Sell”, “Whom to Sell to”, etc. is answered only thorough strategy of the Organization.

6. **Goal Oriented**: The main goal of marketing is customer satisfaction, all activities or functions of marketing are undertaken for achievement of one major goal that is customer satisfaction. To achieve the major goals many smaller goals need to be addressed by marketing. Therefore it is rightly said that Marketing is Goal Oriented.

1.9 Need and Want

A need is anything which is essential for survival. Everything else than need falls into the category of want which is inessential for basic survival but is usually required for the fulfillment of desires.

Need and want are different from each other. A need is defined by the things which are essential for basic survival. However, want include all the things that one desires or wishes to have. Need is important for a person as one cannot survive without fulfilling of these basic needs like food and water.

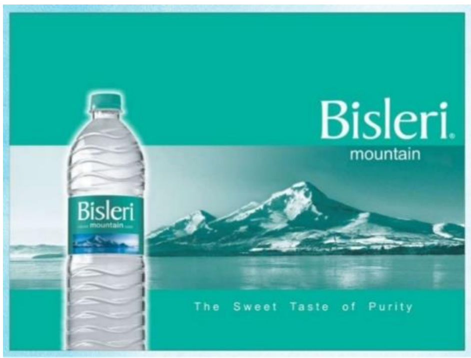
Some of the common needs include shelter, food, water, clothing, etc. Heat and electricity are also included in the category of needs. One should focus on fulfillment of needs than fulfillment of wishes, as need is of prime importance. Need is described by a term called as a necessity. Maslow's hierarchy of needs depict five needs ranging from physiological, safety, belonging, esteem and finally self-actualization.

On the other hand, want is related to desire not with the necessity. It is not essential for life, but still a person tends to consider his or her wants as of immense importance. It is important to mention that need and want may differ from one person to another. One cannot categorize concretely that what will be considered as a need or as a want. For example – a car may be a want for someone, and a need for another one who has no other means of transportation nearby.

Many times a person fails to understand the difference between want and need. Therefore, it is very important to prioritize need over wants after recognizing them. Want is never satisfied. It tends to take a monstrous form before one actually starts thinking about overspending in wants thinking them as needs. One should be practical enough and should spend on needs first and then on wants. Want is something associated with emotions rather than practical approach.

It is very important to find a balancing equation between the two, through which all basic needs must be treated first, and then some of the wants may also be achieved without being in trouble financially or in any other way.

Need or want ?



1.10 Maslow Need Hierarchy Theory:

Maslow's hierarchy of needs was proposed by a humanistic psychologist, Abraham Maslow in 1943. He proposed this theory in a paper in Psychological Review entitled "A Theory of Human Motivation". Further, he subsequently extended the concept by including the observation on human behaviour.

In 1954, Maslow's theory was fully explained in his book Motivation and Personality. The theory became very popular in many areas of subjects like science, management, sociology research, and psychology.

Maslow's hierarchy of needs is displayed like a pyramid with the most fundamental need at the bottom, while the highest on the top. According to the theory, Maslow explains that there are four needs like

I. Physiological needs.
II. Esteem.
III. Love.
IV. Deficiency needs.

All these four needs are required to match the fundamental requirement of a human being. This theory further states that the most basic level of need strengthens the desire in human personality.

The original Maslow's hierarchy of needs has five-stage models, and it is briefly explained below.

Stage:1 – Biological and Physiological Needs.

Air, Water, Food, Warmth, Shelter, Sleep and Sex.

Stage:2 – Safety Needs.

Freedom from Fear, Protection from Natural Elements, Law and Order, Security and Stability.

Stage:3 – Love and Belonging Needs.

Love, Friendship, Affection, Trust and Acceptance, Intimacy, Receiving and Giving, Affiliating and being part of a Family or Friends or Work.

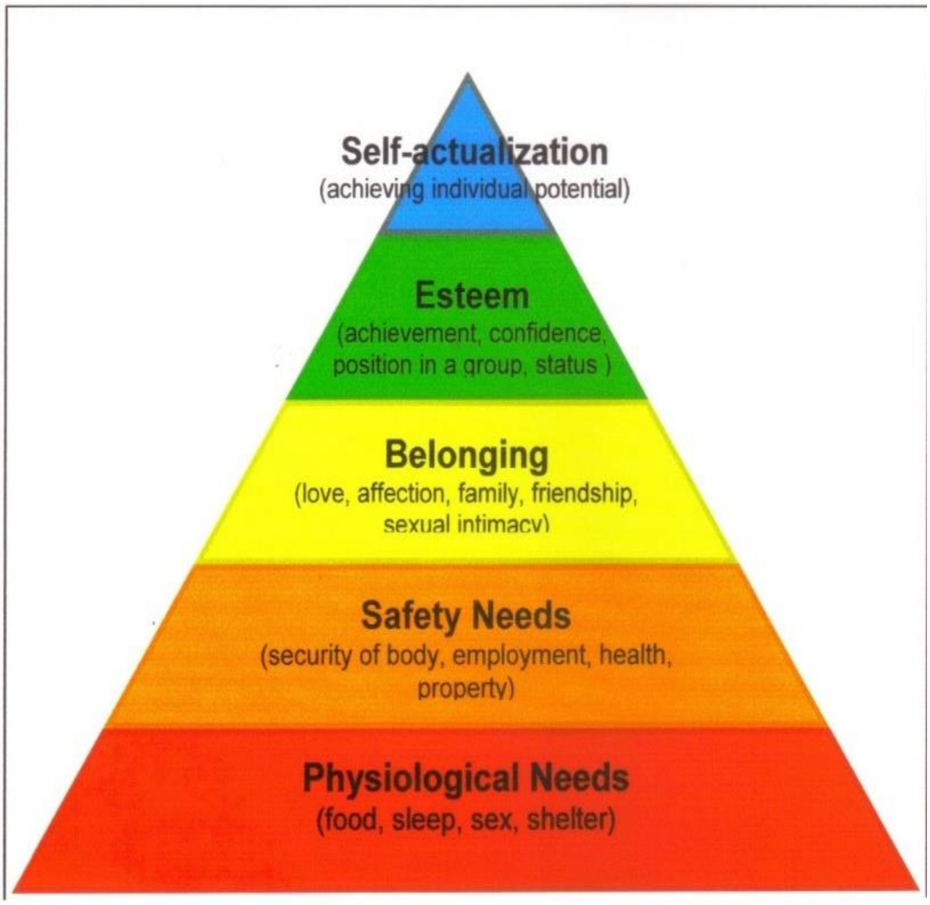
Stage:4-Esteem Needs.

Self-Esteem, Independence, Mastery, Dominance, Achievement, Prestige, Status Self-Respect

Stage:5-Self-Actualization Needs.

Self-Fulfilment, Seeking Personal Growth and Realizing Personal Potential.

However, in the 1960s and 1970s, the five-stage model has been changed during the development of the theory and marked it to eight-stage model.



Types of needs:

Stated Needs	• I want a car
Real Needs	• I want a car for going to work with low operating costs
Unstated Needs	• I want good after-sale service from the dealer
Delight Needs	• I want the dealer to include some gifts with the car
Secret Needs	• I want a car for the status symbol

1.11 Need want and Demand

NEED

Need is a term that used for describing those requirements that exist naturally, for example: we need foods, water, safety, clothing, home, etc. Needs can be classified to different categories:

Physical Needs: basic requirements of life (foods, air, home, safety)

Social Needs: basic requirements of human beings (family, friends) for different of relation-ships.

Individual needs: education, knowledge, expression, creativity, ego-needs (self-esteem).

WANT

Wants are indirect requirements that we like to get them, wants can be conditional and un-conditional, for example: we want to buy a computer if price is cheap; there are infinite wants of human beings. Wants can be created by providing different products that affecting individuals thinking.

Wants of human beings are related to human intelligence that chooses what their mind decides according to their preferences and behavior.

DEMAND

Demands can be used for paying money for (Needs and Wants). This term if very important in business because finally, demands of products and services are the final decisions that taken to consideration for business activities. Usually, demand is a monetary term that transfers requests from buyer to seller; this process is a core of each business that marketing playing a big role in it.

1.12 Marketing Concepts

There are 5 different concepts of marketing, each of which vary in the function that they deal with. For example – production concept deals with production and selling concept deals with selling. Each of the concept was developed as per the need of the market. As the market changed, so did the concepts of marketing. And today, we have an opportunity to look at all 5 concepts of marketing and what they represent.

- Productionconcept
- Product concept
- Sellingconcept
- Marketing concept
- Societalmarketing concept

1) Production Concept: Consumers prefer products that are widely available and inexpensive. The production concept is more operations oriented than any other concept.

2) Product Concept: Consumers favor products that offer the most quality, performance, or innovative features. The product concept believes in the consumer and it says the consumers are more likely to be loyal if they have more options of products or they get more benefits from the product of the company.

3) Selling Concept: Consumers will buy products only if the company aggressively promotes or sells these products. Off course, in this era of marketing, we know that selling is not the only tactic to sell your product. You have to focus on marketing as well.

4) Marketing Concept: Focuses on needs/wants of target markets & delivering value better than competitors. The marketing concept believes in the pull strategy and says that you need to make your brand so strong that customers themselves prefer your brand over every other competitor. This can be achieved through marketing.

1.13 Functions of Marketing

Marketing is the process that comprises of all the activities involved from the concept of the product all the way till it reaches the final consumer. So there are a lot of activities in this process, which we call the functions of marketing.

1. **Identify consumer Needs:** One of the first steps the company needs to take is to identify the needs and wants of the consumers in the market. To do so they must gather information and analyse this information. Once you understand your customer thoroughly you can base your product design on this information.

2. Planning: The next logical step would be to make a marketing plan. Firstly you must be very clear about the objectives of the company and what it wishes to achieve. Then you figure out a timeline to achieve these objectives. And finally, you plan the marketing strategy of your company accordingly.

3. Product Development: As per your consumer research, we then develop the product that suits the needs of the consumer. The design of the product is also an important factor in many products. Like for example when buying a car, the design will play a huge factor. There are other factors to be considered like cost, durability etc

4. **Standardization and Grading**: Standardisation means ensuring uniformity in the product. All customers must get the same product of the same design and quality. And these standards need to be maintained throughout.

Grading is the process of classification of products according to similar characteristics and/or quality. If the product does not have any predetermined quality or other specifications like say agricultural products. Grading will ensure the consumer knows your goods are of the highest quality.

5. Packing and Labelling: The package and the label are the first impressions your product makes on the consumer so they are of essential importance. They are not only to protect and identify the goods but are great marketing tools. There is proof that an attractive package and label can go a long way in making a product a success.

6. Branding: One important decision the company has to make is whether they want the product to have an individual identity in the market or they want it to be recognized by the brand name.

Certain brands enjoy incredible goodwill in the market and it can benefit the product. But you may also want the product to have a separate identity so it can flourish on its own attributes.

7. Setting up Customer Support Services: Depending on your product there may be a variety of customer services that the company has to set up. Pre-sales service, consumer helpline, maintenance services, technical support are just some of the services that your product may require. These are important functions of marketing.

8. Pricing: This may be one of the most important functions of marketing. The price of a product will largely determine its success or failure. Factors like demand, market conditions, competition prices etc will be considered to come up with the correct pricing strategy.

One other thing the company must remember that prices of the products should not be changed too frequently. This leads to confusion in the market.

9. Promotion: This is where you inform the customers of your product and persuade them to buy it. There are four major promotion methods – advertising, personal selling, sales promotion and publicity. The company must decide on its best promotion mix, a combination involving all or some of these four methods.

10 Distribution: Here the company must ensure the correct distribution channel for its product. It will depend on a variety of factors such as the concentration of the market, shelf life of the product, company's capital requirements etc. Inventory management is another important factor the company must look into.

11. Transportation: The physical movement of the goods from its place of production to its place of consumption is transportation. It is a very important function of marketing. The company must analyse the geographical boundaries of its market. This will help them choose the correct modes of transportation.

And in the global economy where we live in, there are almost no barriers to international trade.So if a company wishes to go global transportation will be a key factor in their marketing mix.

12. Warehousing: As we have know there is always a lag time between the production and the consumption of most goods. Sometimes the products are seasonal or the supply is irregular or there are production difficulties. But companies like to maintain a smooth flow of goods. So storage and warehousing of goods are necessary.

Keywords

Market , marketing , Value , satisfaction , need , want , demand , transportation , warehousing and Pricing

Summary

Marketing is dynamic and all pervasive subject in business that makes the whole organization ready to serve the customers. The emphasis is on optimum utilization of resources and converted effort on the part of marketing manager to deliver higher value to customers and greater profit to the organization. while selling is more about product push , marketing is about identification and satisfaction of customer needs.

The exchange process can range from simple , economy based exchange process to complex ones.

Marketing Management is a process of identifying consumer needs, selecting target segments, developing products and services and implementing the marketing program for generating higher customer satisfaction and profit for the organization .

Self Assessment

1. ________________ brings out new ideas and get several opportunities in Marketing.

A. Production
B. Marketing
C. Creativity
D. Consumer

2. The main objective of marketing is__________.

A. Increasing profit
B. Increasing sales
C. Increasing prices
D. Decreasing cost of production

3. Effective Marketing requires

A. Proper pricing
B. Customized products
C. Effective procedures
D. All the above

4. Concept which deals with good and quality products providing to the consumers is:

A. Marketing concept
B. Product Concept
C. Exchange Concept
D. Production Concept

5. Function of Marketing deals with the development of goods with respect to their Color, Design, Shape and other characteristics is called______________________

A. Production
B. Product Planning and Development
C. Packaging and Pricing
D. Standardization and Grading

6. The Marketing Function deals with cost of the product and the capacity of consumer to pay is called:

A. Packaging
B. Branding
C. Pricing
D. Marketing

7. The process of collecting and analyzing the information regarding consumer need and nature of competition prevailing prices effectiveness of advertising media etc is called:

A. Product Research
B. Marketing research
C. Price Research
D. Selling Research

8. Marketing is based on the rule of buying and selling. According to this concept Marketing is an art of:

A. Buying more
B. Selling More
C. Fulfilling consumers need
D. All the above

9. Customer deals with the same Organization for a long time is called________________

A. Customization
B. Customer Equity
C. Customers Need
D. Customer Retention

10. A person who purchase any product or service is known as_____________________

A. Customer
B. Consumer
C. Marketing staff
D. Salesperson

11. "Many people want BMW, only a few are able to buy" this is an example of _______

A. Need
B. Want
C. Demand
D. Status

12. _____ makes a service different from a product.

A. Pricing
B. Intangibility
C. Ubiquity
D. Liquidity

13. Marketing Management is the _________ of choosing target markets and getting, keeping and growing customers through creating, delivering and communicating superior customer value.

A. Art
B. Science
C. Art and Science
D. None of the above

14. Marketing people market following entities:

A. Goods
B. Services
C. Experiences
D. All the above

15. At a fast-food restaurant, what is marketed?

A. Pizza
B. Goods
C. Services
D. Goods and services

Answers for Self Assessment

1.	C	2.	A	3.	D	4.	B	5.	D
6.	C	7.	B	8.	C	9.	D	10.	A
11.	C	12.	B	13.	C	14.	D	15.	D

Review Question

1. Define marketing? what is importance of marketing to customers and organizations?
2. Why modern marketing is acknowledged over traditional one?
3. Discuss Scope and Nature of Marketing ?
4. Marketing is considered as Lifeline for the organizations, Discuss the prerequisites required for the same.
5. Are customers and Consumers same , Discuss ?

Further Readings

1. Stanton, Etzel and Walker- Fundamentals of marketing (TMH)
2. Philip Kotler- Marketing Management (PHI)
3. Philip Kotler and Armstrong- Principles of marketing (PHI)
4. Ramaswamy and Namakumari- Marketing management (Macmillan

Unit 02: Marketing Orientation

CONTENTS

Objective

- Evolution of modern marketing concept
- Elaborate holistic marketing concept
- Understand importance and relevance of holistic marketing.
- Analyze new marketing orientations.

Introduction

Marketing goals are the specified aims that any company wants to achieve via its marketing strategy and efforts. Examples of these goals include creating brand awareness, establishing thought leadership, generating marketing qualified leads, improving brand engagement, increasing the quality and quantity of leads, etc.

Marketing goals are defined as numerous objectives and growth-driven benchmarks that a company aims to achieve by making marketing strategies. A marketing goal is also understood as a marketing objective that provides clarity to a marketer to focus on what is essential and what is unnecessary.

For example, a digital marketing campaign can have marketing goals like increasing website traffic, growing email lists, gaining more social media followers, converting target audiences, etc. Setting marketing goals give direction to a company's marketing efforts. As per research, marketers who set goals are 376% more successful than those who did not have set goals.

Goals are an essential part of the marketing plan. Marketers often opt to set SMART goals. SMART mnemonic acts as a guide for setting smart goals.

2.1 SMART Marketing Goals

S for Specific

The goal should be specified and defined. It eliminates confusion and increases accountability and responsibility.

M for Measurable

Measurable goals make it easy for a company to track its progress. Marketing goals for a business should be measurable to check if it is offering the expected results or not.

A for Attainable/Achievable

Realistic goals are always achievable. It is pointless to set unattainable goals as it demoralizes workers as efforts do not result in rewards.

R for Relevant

Relevant goals have a real benefit attached to them. It should be in line with the vision and objective of the company. Goals that matter to the organization are relevant to its growth and development.

T for Time-Bound

Setting time-bound goals with clear deadlines put a clock on it. A company must achieve these goals within a certain period. Otherwise, setting goals does not amount to much.

These SMART goals give a marketer a framework for how to plan their marketing strategies. It allows them to maximize their successes. Without goals,people in an organization would work aimlessly. Here is a list of different types of SMART marketing goals-

1. Increasing sales
2. Generating leads (or opportunities)
3. Acquiring new customers
4. Reducing churn (or retain customers)
5. Up-selling and cross-selling
6. Improving awareness
7. Increasing customer satisfaction
8. Launching a new product or solution
9. Re-branding or re-positioning
10. Increasing web traffic
11. Refining go-to-market strategy
12. Launching a new initiative, etc

Examples are:

AMA

- American Marketing Association (2007) defined Marketing as "the activity , set of institutions and processes for creating , communicating , delivering and exchanging offerings that have value for customers, clients, partners and society at large".

2.2 Evolution of Marketing Concept

Marketing is an act of influencing people to buy a product or service. We have been witnessing this act of marketing since we have started commercialization and with the passage of time, we have witnessed the evolution of marketing.Until and unless you have clearly understood the entire concept of marketing and how its evolution took place, it is difficult for you to understand the modern-day marketing techniques and strategies.

We can never ignore the importance of marketing in any business as it is undoubtedly the backbone of any business.

Business will cripple down if marketing team is not able to function properly. Use the right marketing techniques and put them at the sweet spot to get the maximum out of your campaigns.

Well, when we are talking about the marketing concept, it has always been changing for many years and there are still some changes that are going on right now. From classical times to the modern contemporary word, the evolution of marketing has gone through a lot of changes and here we are going to discuss all it for sure.

The Era of Trade And Production

These are the times when things were pretty simple for sure. The main importance of marketing and the focus was simply the exploration of the resources and trading them as well. During the mid 19th century, there is no doubt that commodities with the commercial sector where just the staple of the economy for sure.

Everything that was created was done with the hands for sure. So, there is no doubt that making products for trading was the main concept of marketing. However, with the industrial revolution, trade era came to an end and gave birth to a completely new era for sure.

This was the production era where the main focus of the marketing was on the production of more goods and hence mass production as a very important factor in here for sure. The manufacturing was done in the most efficient and effective manner which was the main concern for the business as well. So, the marketing conception became a lot simpler.

The Era of Sales

The competition began to arise with the sales era and there is no doubt that the businesses were not easily able to sell the products that were mass-produced.

Hence, the companies found it more and more difficult to sell the products to the customers. So, the concept of marketing in this era started to focus on the promotion of the products to sell them in the best way. This is something that we do until this date.

The Relationship Era

The sales era also gave way to the relationship era where the long term relationships were made between companies and consumers. The businesses started to focus on the needs and requirements of the customers more so that they could build better relationships with them.

The Era Of Social Marketing

There is no doubt that this era was the basic game changer for the businesses for sure. With the help of the internet and social media, the evolution of digital marketing came to exist in the best way for sure.

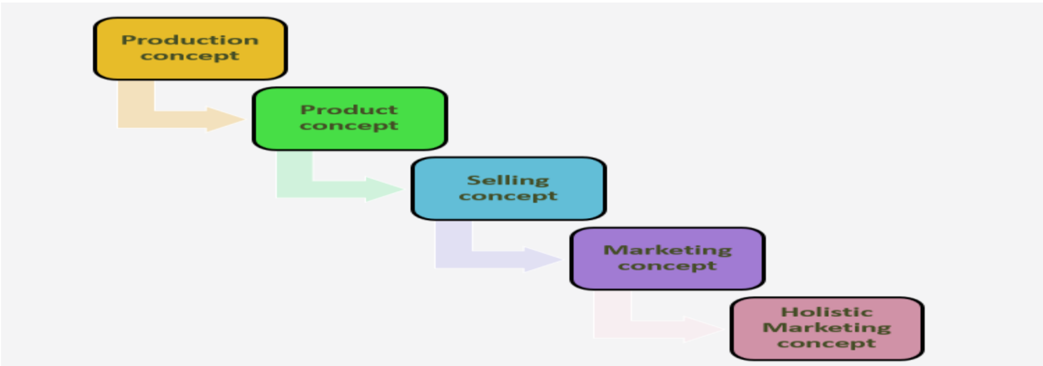
People could easily reach out in the best way to the companies and they could stay fully in contact with each other as well. Different types of social media and communication are the main components of this era and there is no doubt that there are a lot of amazing things to come in the evolution of marketing with the change of times as well.

Let us now understand how our modern-day marketing has evolved from an ancient marketing concept–

2.3 Evolution of Marketing Concept

The evolution of marketing started during the Industrial Revolution that took place in the 18th and 19th century. We can trace the entire evolution of marketing in four different phases-

1. Production Orientation
2. Product Orientation
3. Sales Orientation
4. Customer Orientation
5. Social Orientation and so on.



1. Production Orientation:

Under this people believed that when a product's quality is good enough it doesn't require any additional efforts in promotion as people will anyhow purchase it. This was the widely used approach during the industrial revolution.

People focused on more production under low cost so that it can fetch better returns. Before the revolution maximum products were handmade and this entire process made the production cost of the product go high.

Due to a high production cost, producers had no option than to sell it at higher prices.

After the introduction of machinery, this production cost came comparatively down and the products were being sold at 1/10th of the original price.

Customers were ready to buy this product with happiness as it was cheaper for them than ever. In this case, there was hardly any requirement of marketing and the products were being sold with ease.

Though when we are going through this philosophy of production orientation, we need to know that a few assumptions were taken while framing this philosophy like; everything that was being produced with the machinery could be sold, the production cost was kept to a minimum only and so on.

Manufacturers during this phase of the evolution of marketing concept were eyeing for more efficient production which is coming out of low-cost as to attain the maximum profit.

This concept dominated the business landscape in the 1900s, where organizations focused heavily on the mass production of products. Emphasis was on streamlining the production process and concentrating on improving efficiencies, with little focus on consumers or anything else.

The assumption was that customers valued price. For this reason, this approach focused on maximizing efficiency while lowering production costs to meet customers' price needs. This business strategy dedicated its resources towards its products, and its marketing point was the price.

Advantages of Production Orientation:

Mass production

Maximum efficiency at the lowest costs

Distribution of products inexpensively

Disadvantages of Production Orientation

This approach lacked the fundamental drive that controls the consumer market, that is, customer needs.

The emphasis on efficiency may affect the company's ability to produce a product that meets the customer's high demands.

Highlights:

Oldest concept

Believed that customers favor products that are easily available and highly affordable.

Focus on improving production and mass distribution

This orientation makes sense in developing countries.

Efforts on reducing costs to provide inexpensive goods.

Ford's automobiles are a very good example of production. When Ford pushed a large number of automobiles in the market, more people bought its vehicles.

2. Product Orientation

Here, a more competitive approach was taken during the production process in order to produce the most ideal product they can.

An assumption was made during this phase if the people are already having a product of certain quality they will only expect you to produce a product of better quality than that.

If they are already benefited from the core features of a product then if you want to sell your product, you will have to create something different and better.

What was happening in this phase was, every production process was setting a standard before itself.

Since customers were seeking for a product with more and more unique features, manufacturers were also aiming towards producing a better and better product. They were doing their best to solve the problem of the diverse needs of customers.

But there was a downside during this approach of production – the prices of the product were going up at a high rate.

Since every time the product contained more and more features, this leads the manufacturers to increase the price of the product and sometimes even the customer themselves were not in a position to pay the prices for what they seek were seeking from the product.

Highlights:

- Focus is on making Superior Goods.
- Believed that customers prefer goods with best quality & Innovative Features
- Importance is given to improving the product
- Goods sell themselves.

This approach, which was popular during the 1950s and 1960s, mainly focused on the product that a company intends to market. Unlike in quantity-oriented organizations where the price was the focal point, product orientation placed emphasis on quality.

While all resources were directed towards the quality of a product (hence the production of premium products), the approach didn't focus on the needs of its target audience.

Advantages of Product Orientation

Mass production of products at lower costs

Focus on quality

Improved sales due to the high quality of products

Better market research

Disadvantages of Product Orientation

Narrow branding: Customers identify with brands, and if you don't develop a brand that resonates with their needs, they may not be interested in what you're selling.

High risks of running out of business: Without a clear message explaining to customers the benefits of using their products, a competitor with a better message can run you out of business.

If you haven't established your reputation in the marketplace, consumers may not trust you to deliver.

Your business solely depends on the strength of your product. Customers expect nothing but top-notch quality.

Making a profit on premium products may require you to set a higher price tag than the market can accept.

The costs of developing top-quality products are steep.

- **Apple:** Apple is one of the world's largest tech companies and it falls under the category of top 5 tech companies of the world. iPhone, TV, Store, Music, Videos, and iPad are some of the main products of Apple. The company also follows the product concept by the focus on delivering a quality product. The customer market of Apple doesn't care about the price.
- **Gucci:** Gucci is one of the world's leading luxury fashion brands. The company offers quality makeup, handbags, ready-to-wear clothes, shoes, fragrance, home decoration, and many other accessories. The brand also follows the product concept by offering the latest fashionable products to the customers. The customers are willing to pay a higher price for the Gucci products.
- **Louis Vuitton:** Louis Vuitton is also a French fashion brand. Luxury ready-to-wear watches, shoes, clothes, jewelry, sunglasses, accessories, leather goods, and books are some of the main products of Louis Vuitton. The company also provides quality products to its customers, and they're willing to anything to get the Louis Vuitton product. Factors like quality, luxury, fashion, and status are more important to the customers of the brand than price.

3. Sales Orientation

With the passage of time people started to recognize the importance of the promotion process and why they should introduce marketing to their business.

Producers started to realize that mere production of quality products is not enough for their business's growth rather they will also have to invest in the promotion process.

They realized that it was extremely difficult for them to move the product out of their firm without a proper promotion or advertising.

What we know today about marketing was realized at that period of time. They started to feel that no matter how much quality their products contain, people won't buy it if they are kept to mum.

During this phase, the manufacturers were only eyeing on two things – producing the best quality product they can and convincing the people at their best to buy the products that they have produced.

They started using different tactics to influence people to buy their products. Even high-pressure tactics were being introduced to boost up sales.

This philosophy is being followed since the 1940s and the marketing which we are following currently is entirely based on the same philosophy.

A sales-oriented approach can be especially effective for a business competing for customers in a saturated market. It can also be a valuable tool for a firm that holds dead stock and wants to reintroduce them to the market.

The extra effort that the sales and marketing team devotes towards selling a product may tip a consumer's buying decision.

Advantages of Sales Orientation

It generates immediate short-term sales.

If a company's product or service is the best in the market, selling it should be easy.

Aggressive selling tactics may influence a consumer's purchasing power.

Broad customer reach for unsought goods. Companies can introduce products or services that customers don't know about or don't even need and use aggressive sales techniques to boost sales.

Disadvantages of Sales Orientation

Customer loyalty and confidence are at risk since they are pressured to buy what they don't want.

High risk of 'backlash'. Running a promotion campaign is costly, and it can lead to losses if consumers resist the product or service.

The approach is not sustainable in the long term.

4. Societal Orientation

Due to the increase in environmental awareness, the new concept of "Societal Orientation" has emerged. Organizations are formulating marketing strategies and production processes that recognize the impact on the environment, within and without.

Businesses that implement this idea incline towards the ethical approach in their wider marketing and research strategies. A good example is the pharmaceutical industry and life science sectors, which have come under scrutiny for their unethical marketing strategies.

Advantages of Societal Orientation

Promotes ethical practices

Helps build a better image for the organization

Increases a company's sales and market share

Economic resources are adequately utilized

Raises the standard of living of people in society

Disadvantages of Societal Orientation

The marketing message can be misleading

Budget limitations

5. Marketing Orientation

Market-oriented businesses focus on analyzing the target audience to determine their needs and design a product to fit those needs. This business model centers everything around what the customer wants rather than on promotions. Market orientation revolves around customer satisfaction and reacting to the demands of the customer.

Marketing oriented organizations approach their operations from a consumer perspective and focus on the current and future needs of customer needs. The entire firm appreciates the significance of the customer and recognizes that the business won't exist without them.

The marketing orientation concept is built around three pillars:

Customer focus – The customer is at the heart of corporate marketing strategies. They are considered the most important stakeholders, and companies base their philosophies on serving the customer to ensure his needs and wants are met.

Coordinated marketing – The success of any company depends on coordinated team efforts. It's a company-wide responsibility, and everyone must work together to achieve a common goal.

Profitability – In a fiercely competitive global economy, businesses are constantly under pressure to prove their financial standing every quarter. Within the framework of marketing orientation, companies' profits are driven by both financial (ROI and market share), and non-financial (behavioral patterns, attitude, and awareness) measures.

Each company strives to develop an orientation towards one of these pillars, depending on its internal structure and culture.

The widespread adoption of Internet technology has contributed to the shift toward marketing orientation. Customers have grown increasingly discerning, and social media has become one of the primary sources of customer outreach.

In a market orientation concept, companies don't just introduce products or services to customers. It's a long process that starts with researching the demographics and demands of the target audience. It also involves rigorous marketing efforts to convince potential customers to make a purchase decision.

Advantages of Market Orientation

The consumer-centric approach helps an organization to know what the customers really want, hence avoiding wastage of resources.

It builds a strong customer relationship. In turn, customers help the company grow and thrive.

It increases customer satisfaction, confidence, and loyalty.

It increases sales, which also leads to higher volume and market share of a business entity.

Listening to the needs of the consumers helps a business create and develop a brand that customers can identify with.

Businesses using this concept are more resilient to change than their competitors.

The customer-focused approach fosters product innovation.

Customer satisfaction encourages buyer feedback, which in turn improves effectiveness and efficiency.

Disadvantages of Market Orientation

Businesses must learn to quickly change direction to keep up with the constantly changing demands of their customers.

It takes heavy investment in research to understand the ever-changing needs of consumers.

This approach may not always be innovative since it's more concerned about meeting the desires of consumers than creating new products.

2.4 What can be marketed?

- Airpods have become a vital accessory preferred by people working in community or even while cooking.
- Features like noise cancelling and wireless charging have raised the product benchmark in the wireless earphone category.
- Apple's Airpods bring in around **$12 billion a year** which is nearly as much as Adobe and Uber's overall revenue, and twice as much as AMD's revenue for 2020.

Services:

These are intangible products that involve performing some service for the customers. This may be service performed on the customer, like a manicure, or on customer's possessions, like pet grooming , As economies advance more efforts are devoted to production of Services For instance in U.S the economy consists of a 70 – 30 services to goods mix which include hotels, car rental, banking

Events:

Time based shows such as New Year celebration, trade shows artistic performance and company anniversaries are promoted by marketers aggressively to both companies and consumers due to huge financial rewards earned through sales.

Experiences:

By orchestrating several services and goods, a firm can create stage and market experiences. (Kotler & Keller 2009) Walt Disney world magic kingdom represents experiential marketing whereby Customers visit a fairy kingdom, a haunted house or a pirate ship and experience how it feels like. For example the HARD ROCK café offer an experience whereby they can enjoy their meal or see a band in a live stage.

Persons:

Involves marketing of a celebrity or of a candidate in a public election. People such as Madonna, Michael Jordan, Oprah Winfrey and the Rolling Stones have been really successful in their careers mainly because of how well they have marketed themselves. Management consultant guru Tom Peters a master at self branding has advised each person's to become a "brand".

Places:

Cities, states, regions and nations, compete actively to attract tourists and investment through factories, company headquarters and new resident. (Kotler & Keller 2009) Place marketers include economic development specialist, real estate agents, and national tourism agencies.

Properties:

This could be physical properties like real estate or intangible rights of ownership of financial property such as stocks and bond. Properties are bought and sold on regular basis and this requires marketing.

Organizations:

This basically refers to building positive image of organizations, such as companies, universities, and charitable organizations to attract customers. For example Philips the Dutch electronics company puts out ads with the tag line "sense and simplicity" to convince costumers that their products are easy and simple to use.

Information:

Information can be produced and marketed as products Books are the most common means of selling information, but there are many other type of information marketed. For example educational institutions produce and distribute information at a price students and communities.

Ideas:

Every market offering includes a basic idea. (Kotler & Keller 2009) In addition ideas may be marketed by themselves. For example Charles Revson observed "in the factory, we make cosmetics; in the stores we sell". Products and services are platform of delivering some idea or benefit.

Example: Apple Air Pods

2.5 Holistic Marketing

- *The whole is more than the sum of its parts." — Aristotle*

Holistic marketing revolves around this philosophy of holism where the business and its parts are considered as one interconnected entity and where all its activities are directed towards one specified goal.

Holistic marketing is a business marketing philosophy which considers business and all its parts as one single entity and gives a shared purpose to every activity and person related to that business.

The process of holistic marketing takes into account the considerations of stakeholders, customers, employees, suppliers, and the community as a whole when creating and implementing marketing strategies. Businesses realize that they can set themselves apart through a holistic marketing approach, while at the same time creating synergy among departments in the organization.

According to Kotler identified the following 10 types of entities which may be marketed. According to Kotler marketing management is the art and science of choosing target markets and getting, keeping and growing customers through creating, delivering, and communicating superior customer value

Physical goods that may be manufactured produced in farms or mined. These account for the bulk of the marketing efforts in most of the countries. Each year companies globally market billions of fresh canned, packed, and frozen food products and millions of automobiles and electronics. Due to the internet individuals can also effectively market their goods.

- Example: **That goal involves creating a great customer experience and building a positive brand image.**
- If a business behaved one way on social media and presented themselves in ads differently, this would send a mixed message to the customers, which is something you absolutely don't want to do.

If a business implements the holistic marketing concept correctly, it greatly contributes to four very important things:

1. Brand building
2. Consistency
3. Efficiency
4. Effectiveness

2.6 But how does a business achieve this?

- **There are 4 components, or marketing forms, to this process:**
- **relationship marketing**
- **integrated marketing**
- **internal marketing**
- **and socially responsible marketing**

1. Relationship Marketing:

The relationship marketing aspect of holistic marketing philosophy focuses on a long-term customer relationship and engagement rather than short-term goals like customer acquisition and individual sales.

This strategy focuses on targeting marketing activities on existing customers to create a strong, emotional, and everlasting customer connection. These connections further help the business in getting repeated sales, free word of mouth marketing and more leads.

Example: Do us a Flavor

Frito-Lay's launched a campaign "Do Us a Flavor", where they asked their loyal customers for new chips flavors. To shortlist the flavors, customers can vote on it through social media and shortlisted flavors gets into the Lay's flavor lineup. The suggested customer receives a handsome cash prize. The company did this to achieve the goals of engaging its customers and creating a long-term relationship.

- People love relationships, and brands should focus on that in the first place. The Zappos Call center staff spends more than average time with its customers. The goal of longer conversation is not making a sale but building strong relationships. What is the result? 75% of the total repurchase rate comes through its call centers.
- Most businesses spend their money on advertising, but Zappos philosophy is that money should be invested in customer service so that it will encourage the customers to do word of mouth marketing for Zappos.

2. Integrated marketing

This form of marketing is the second component of the holistic marketing concept and is related to the aforementioned unified message that the business sends to its customers.

This strategy ensures that all marketing parts of a business work together, which includes departments and employees who deal with paid media, earned media, and owned media.

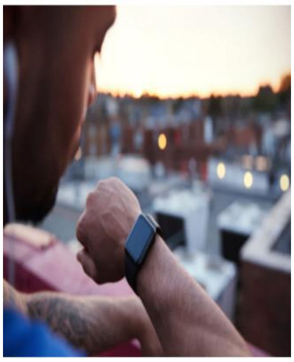
Let's see what each of these entails.

Paid media involves marketing you pay for, such as pay-per-click marketing and influencer marketing.

Earned media, as the namesuggests, are the things you earn from your customers, such as reviews and comments.

Owned media presents the media you own: like your website and social media profiles.

.Example: Domino's Helps People Order from Anywhere



The ubiquitous pizza chain named their ordering software "AnyWare" to highlight the ease of ordering wherever a customer may be. The key to making it work was the Pizza Profile, established to save customer information and expedite ordering. With this data, people could order online, by text, via tweet, or even using a smartwatch. Getting the word out about AnyWare involved an integrated marketing strategy encompassing press releases and television as well as digital and social advertising, with a goal of one-half of all orders being made digitally (which they reached handily).

3. Internal marketing

So far, we spoke about the relationship between the customer and the business and the unified message the business needs to send to their customers, but what about the people who make this happen?

Internal marketing is all about the employees and the reason for it is good customer experience. According to this marketing form, the customer's opinion of a business isn't influenced only by the products.

It is also influenced by all the interactions they have with the business, which are mostly employee-customer interactions, hence the importance of internal marketing.

So, by providing intensive training to employees, a business ensures that they know everything they need to when a customer has a question or needs help with something.

Apple – a great example of internal marketing

Think of Apple and its employees. If you're having issues with your Apple product, you can take it to their store and their highly capable employees with solving them.

If this weren't the case and they hired just anyone and didn't train them properly, you would think twice before purchasing another product of theirs.

How companies adopt the same:

- Educating employees on the company goals and values
- Encouraging employee input on corporate policies and leadership, allowing open dialogue and accepting any criticisms
- Nurturing communication and collaboration among employees
- Ensuring employees know that their contributions matter and are essential to the success of the company.
- Opening up the product or services to employees to use and get involved in

4. Socially responsible marketing

Even though you probably don't know it by name, you've seen dozens of examples of this marketing type.

Socially responsible marketing aims to attract customers who want to make a difference with their purchases. Think of products where a part of the proceeds goes to a good cause or products that are made responsibly.

There are 4 marketing-related concepts that are involved in this specific type of marketing: social marketing, environmental marketing, cause-related marketing, as well as socially responsible buying – all concepts that are related to the environment and well-being of the society.

Objectives of Societal Marketing:

- Changing attitude, beliefs, and expectations of the people; so that people should care about the environment,
- Companies should adopt such marketing strategies that would make people change their behavior.
- Societal marketers should change the traditional marketing mix (product, price, place, and promotion) and use it in their marketing campaign, which would increase the impact of it.
- Marketing of the company's product should also spread awareness about the environment in which companies are operating their businesses.
- societal marketing campaign messages should be so effective that people and businesses start taking responsibility about the environment.
- The marketing share and consumer base should increase with the societal marketing campaign

Advantages of Societal Marketing:

- Societal marketing helps companies and businesses to send a good message that they care about the environment.
- An eco-friendly approach would provide you a competitive edge over competitors.
- If a company provides eco-friendly products and services to its customers, then it would increase the customer retention ratio.
- When customers are loyal to a certain brand, then the sale of products and services would also increase.
- When the sale increases, then businesses would have the opportunity to expand and grow their operations.
- Societal marketing system would properly use the economic resources of the company.
- The usage of economic resources would generate employment opportunities and the living standard of the people would also rise.

2.7 Marketing Vs Selling

Selling : The selling theory believes that if companies and customers are dropped and detached, then the customers are not going to purchase enough commodities produced by the enterprise.

The notion can be employed argumentatively, in the case of commodities that are not solicited, i.e. the commodities which the consumer doesn't think of buying and when the enterprise is functioning at more than 100% capacity, the company intends at selling what they manufacture, but not what the market requires.

In the sales process, a salesperson sells whatever products the production department has produced. The sales method is aggressive, and customer's genuine needs and satisfaction is taken for granted.

Marketing: The marketing theory is a business plan, which affirms that the enterprise's profit lies in growing more efficient than the opponents, in manufacturing, producing and imparting exceptional consumer value to the target marketplace.

Marketing is a comprehensive and important activity of a company. The task generally comprises recognising consumer needs, meeting that need and ends in customer's feedback.

In between, activities such as production, packaging, pricing, promotion, distribution and then the selling will take place. Consumer needs are of high priority and act as a driving force behind all these actions. Their main focus is a long run of business ending up with profits.

It depends upon 4 elements, i.e. integrated marketing, target market, profitability customer and needs. The idea starts with the particular market, emphasises consumer requirements, regulates activities that impact consumers and draws gain by serving consumers.

Top 8 Difference Between Selling and Marketing

Selling	Marketing
Definition	
The selling theory believes that if companies and customers are dropped detached, then the customers are not going to purchase enough commodities produced by the enterprise. The notion can be employed argumentatively, in the case of commodities that are not solicited.	The marketing theory is a business plan, which affirms that the enterprise's profit lies in growing more efficient than the opponents, in manufacturing, producing and imparting exceptional consumer value to the target marketplace.
Related to	
Constraining customer's perception of commodities and services.	Leading commodities and services towards the consumer's perception.
Beginning point	
Factory	Marketplace
Concentrates on	
Product	Consumer needs
Perspective	
Inside out	Outside in
Business Planning	
Short term	Long term
Orientation	
Volume	Profit
Cost Price	
Cost of Production	Market ascertained

Summary

As stated in an earlier section, the process of marketing involves creating a market offering, to satisfy the needs and wants of the present and potential buyers. The real question is how to create a market offering. We can say a profitable business opportunity is seen by some firm in the field of producing soft drinks.

To develop and market a new brand of soft drinks, a number of important decisions will have to be taken for example whether to go for any collaboration with a foreign manufacturer of soft drinks, whether to produce for the local market or for a wider market, what will be the features of the new product, and so on. There are large number of factors affecting marketing decisions. These can broadly be divided into two categories: (i) controllable factors, and (ii) non-controllable factors. Controllable factors are those factors which can be influenced at the level of the firm. In the previous illustration, for example, whether the drink will be packed in glass bottles or plastic cans; what will be the name (brand name) of the drink; at what price it will be sold, (at par with the price at which other competitive brands are sold or below it or above it); what distribution network will be used to make the product available (e.g., hotels, restaurants, groceries shops, kiosks selling cigarette, paan, etc.) to the buyers whether the new soft drink will be promoted by putting up advertisements in newspaper or magazine or on radio or television; or say if newspaper, whether in a local newspaper or a national daily; whether in a paper of regional language or an English daily, etc. is decided at the level of marketing manager of the firm.

Keywords

Marketing, Selling, Promotion, strategies, Environment, Relationship Marketing, integrated marketing, Societal marketing.

Self Assessment

1. Marketing is managing profitable customer relationships, so the goal of marketing is to :

A. Generate profit
B. Attract new customers
C. Keep and Grow current customers
D. Both B and C

2. American Marketing Association (2007) defined Marketing as "the activity , set of institutions and processes for creating , _____________,delivering and exchanging offerings that have value for ______,clients, partners and society at large".

A. Communicating and customers
B. Profit and customers
C. Sales and Employees
D. Attracting and customers

3. _________concept focussed on improving production and mass distribution

A. Production Concept
B. Product Concept
C. Selling Concept
D. Marketing Concept

4. __________ concept is Used with goods which buyers usually don't think of buying (Unsought Goods) Such as insurance.

A. Production Concept
B. Product Concept
C. Selling Concept
D. Marketing Concept

5. __________ concept is useful when demand of product exceeds the supply.

A. Production Concept
B. Product Concept
C. Selling Concept
D. Marketing Concept

6. _________ concept focus in on creating , communicating and delivering customer value.

A. Production Concept
B. Product Concept
C. Selling Concept
D. Marketing Concept

7. If the business environment is competitive, then you should follow the marketing concept because it would be favorable in such an environment

A. Production Concept
B. Product Concept
C. Selling Concept
D. Marketing Concept

8. Marketing means ________ consumer needs while making profit

A. Fulfilling
B. Completing
C. Creating
D. Occupying

9. What can be marketed?

A. Goods and services
B. Events and Experience
C. People and properties
D. All the above

10. The process of holistic marketing takes into account the considerations of stakeholders, customers, employees, suppliers, and the community as a whole when creating and implementing marketing strategies.

A. stakeholders
B. customers
C. employees
D. all the above

11. If a business implements the holistic marketing concept correctly, it greatly contributes to four very important things which are Consistency, _______, _________and Efficiency.

A. Need and demand
B. Brand building and consistency
C. Efficiency and Effectiveness
D. Both B and C

12. The four components of Holistic marketing are : relationship marketing, integrated marketing, internal marketing and ………….

A. Socially responsible marketing
B. Demand based marketing
C. Price sensitive marketing
D. International marketing

13. ____________ marketing, targets activities on existing customers to create a strong, emotional, and everlasting customer connections.

A. relationship marketing
B. integrated marketing
C. internal marketing
D. Socially responsible marketing

14. Activities within ____________including advertising, public relations, direct marketing, online communications, and social media marketing, work in sync with one another to ensure the company's customers and business partners have the same experience with and perception of the company.

A. relationship marketing
B. integrated marketing
C. internal marketing
D. Socially responsible marketing

15. ____________is aimed at catering to the specific needs of the business's own employees and ensures that employees are satisfied with the work they perform each day as well as the philosophy and direction of the organization as a whole.

A. relationship marketing
B. integrated marketing
C. internal marketing
D. Socially responsible marketing

Answers for Self Assessment

1.	D	2.	A	3.	A	4.	C	5.	A
6.	D	7.	D	8.	A	9.	D	10.	D
11.	D	12.	A	13.	A	14.	B	15.	C

Review Questions

1. Briefly explain what is marketing mix? What is the importance of marketing mix?
2. Give examples of each of the seven elements of the marketing mix
3. What promotional strategies are used by organization to promote their products? Explain in brief any two pricing techniques?
4. What is relationship marketing, and how it is beneficial to the organisation?

5. What do you mean by Holistic Marketing? Giving example discuss its relevance.

Further Readings

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Unit 03: Marketing Mix

CONTENTS

Objectives

- Understand importance and relevance of 7P's and 7 C's.
- Analyze importance of Customer value

Introduction

Marketing is the process of getting the right goods or services or ideas to the right people at the right place, time, and price, using the right promotion techniques and utilizing the appropriate people to provide the customer service associated with those goods, services, or ideas. This concept is referred to as the "*right*" *principle* and is the basis of all marketing strategy. We can say that marketing is finding out the needs and wants of potential buyers (whether organizations or consumers) and then providing goods and services that meet or exceed the expectations of those buyers. Marketing is about creating exchanges. An exchange takes place when two parties give something of value to each other to satisfy their respective needs or wants. In a typical exchange, a consumer trades money for a good or service. In some exchanges, nonmonetary things are exchanged, such as when a person who volunteers for the company charity receives a T-shirt in exchange for time spent. One common misconception is that some people see no difference between marketing and sales. They are two different things that are both part of a company's strategy. Sales incorporates actually selling the company's products or service to its customers, while marketing is the process of communicating the value of a product or service to customers so that the product or service sells.

To encourage exchanges, marketers follow the "right" principle. If a local Avon representative doesn't have the right lipstick for a potential customer when the customer wants it, at the right price, the potential customer will not exchange money for a new lipstick from Avon. Think about the last exchange (purchase) you made: What if the price had been 30 percent higher? What if the store or other source had been less accessible? Would you have bought anything? The "right" principle tells us that marketers control many factors that determine marketing success.

Most successful organizations have adopted the marketing concept. The marketing concept is based on the "right" principle. The marketing concept is the use of marketing data to focus on the needs and wants of customers in order to develop marketing strategies that not only satisfy the needs of the customers but also the accomplish the goals of the organization. An organization uses the marketing concept when it identifies the buyer's needs and then produces the goods, services, or ideas that will satisfy them (using the "right" principle). The marketing concept is oriented toward pleasing customers (be those customers organizations or consumers) by offering value. Specifically, the marketing concept involves the following:

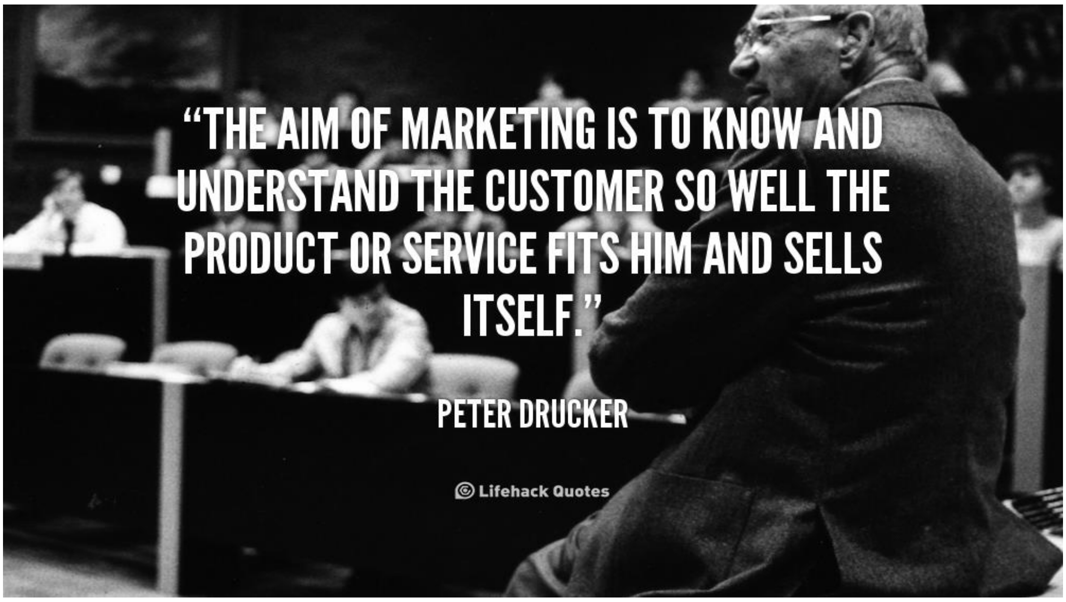
Focusing on the needs and wants of the customers so the organization can distinguish its product(s) from competitors' offerings. Products can be goods, services, or ideas.

Integrating all of the organization's activities, including production and promotion, to satisfy these wants and needs

Achieving long-term goals for the organization by satisfying customer wants and needs legally and responsibly

Today, companies of every size in all industries are applying the marketing concept. Enterprise Rent-A-Car found that its customers didn't want to have to drive to its offices. Therefore, Enterprise began delivering vehicles to customers' homes or places of work. Disney found that some of its patrons really disliked waiting in lines. In response, Disney began offering FastPass at a premium price, which allows patrons to avoid standing in long lines waiting for attractions. One important key to understanding the marketing concept is to know that using the marketing concept means the product is created *after* market research is used to identify the needs and wants of the customers. Products are not just created by production departments and then marketing departments are expected to identify ways to sell them based on the research. An organization that truly utilizes the marketing concept uses the data about potential customers from the very inception of the product to create the best good, service, or idea possible, as well as other marketing strategies to support it.

Food For Thought:



The marketing function is the study of market forces, factors and the development of a company's position to optimize its benefits from them. It is all about getting the right product or services to the customers at right price, in the place , at the right time.

Successful Marketing depend upon :

- What a company is going to produce
- How much it is going to charge
- How it is going to deliver its products or services to the customers
- How it is going to tell its customers about its product and services.
- These considerations are known as 7P's of marketing and it is also known as marketing mix.

Marketing is most successful when the philosophy, tasks and manner of implementing available technology are coordinated and complementary.**"Find and keep customers"** is the main motive of marketing.

3.1 7 P's of Marketing

When it comes to the ideal framework for planning any marketing campaign in today's time, 7 P's of marketing play a key role in sketching out Marketing Campaign

It entails a variety of strategies to promote, advertise, and market the products and services of the company in a way that attracts the viewers and changes them into viable customers.

Marketing is an evolving principle, just like everything else in the world.

As the world advances, the methods to improve marketing in the organization also improve. Different tactics and paths are taken up by the marketers and marketing officials.

They take into consideration the external factors and internal factors of the company to develop a strategy. There may be a multi-fold strategy to attack different aspects. The end goal is the same, that is, to increase the awareness of the brand and improve productivity.

It is a continually maturing discipline. Companies have to update to this constantly; otherwise, they will be left behind in a competitive environment.

The most fundamental change that has occurred in the marketing world was the refurbishment of the basic Marketing Mix principles. Originally there were only 4 P's combining the marketing mix, but now it is more accepted to have 7 P's of the marketing mix.

History of 7 P's

In recent years, the importance of marketing has grown manifold.

Every company or organization has a particular marketing strategy to either target a specific audience or to gain more traffic. Thus, marketing strategy solely depends on the type of organization, the budget, the products that need to be marketed, and many more.

Apart from creating an effective marketing strategy, it is also essential to continuously monitor and evaluate the strategy's effect. And this brings us to the 7 Ps of marketing.

These 7 Ps include the various fundamental factors that need to be looked into from time-to-time to understand the full effect of your marketing strategy.

(a) 1960

E. Jerome McCarthy introduced the concept of the 4 P's of Marketing. It was and still is a widely used tool for businesses to understand the products or their brand offerings. The original 4 P's were – Product, Place, Price, Promotion.

(b) 1981

Due to a full acknowledgment, it was accepted that the marketing mix should be updated from only 4 P's of Marketing to 7 P's of Marketing.

The extended 7 p's of service marketing included People, Processes, and Physical Evidence.

These 3 are a beacon to show that marketers are involving changes in communication such as social networking sites, new avenues for selling the products and services, and the expectations of customers in a constantly evolving commercial environment.

Why use the 7P's of Marketing?

After understanding each of the seven important components of marketing, it is crucial to know why these aspects are essential. Each element of marketing has a role to play. And all these summed up together construct a successful marketing policy for any firm or business.

There are numerous reasons why the 7P's of marketing are essential for every company. Some of the rights are listed below-

1) Rise in the living standards-

The seven elements mentioned above also play a role in the standard of living, not only a company's employees but also the entire company. Through the recurrent selling and marketing of goods at an affordable rate, there is a considerable increase in the standard of living of the whole human community.

2) Increase in employment opportunities-

Marketing, in general, is a compact phenomenon involving various processes. By implementing the 7P's in your marketing policies, the sales of the products increase. Hence, their demand increases, which leads to employing more people. This is one of the few ways through which employment is generated.

3) A drastic influx of income-

Marketing has become part and parcel of every company. A successful marketing policy brings in a lot of revenue and income. This excess profit can be saved for future utilities or investments. As mentioned above, a successful marketing policy depends entirely on how well a company implements the seven elements. The more established a company is in implementing those 7P's the more profit it incurs from the business.

4) Progress in the exchange of goods and services-

As mentioned earlier, each of the seven factors helps to shape a successful marketing policy. And invariably, a successful marketing policy significantly increases the sales of a company. And hence, there is progress in the sales of goods and services.

The 7 p's of marketing mix can be used in any combination to satisfy the wants of the customers. They are affected by internal and external environmental factors. Now, we will be covering the key details of 7 P's of Marketing one by one, so without any further ado, let us get started-

3.2 Product in 7 P's of Marketing

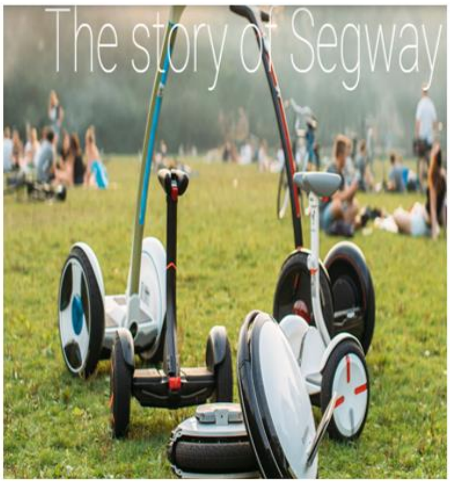
The product refers to what the company is selling and includes the features, gains, and benefits given to the customers.

When they purchase goods and services, they will enjoy the perks. Product marketing focuses on the key features and benefits, which include quality, accessories, style, repairs, and updates. It is a core part of what the business offers to the customers.

If the product is not up to the mark, the marketing will not work. The attributes provided along with the product helps to establish the competitive scenario for Digital Marketing strategy formulation.

The company must evaluate whether the product is suitable for the current population, whether the product or service offered is a necessity, is it providing more than the contemporaries, and whether the company is superior to its competitors in at least one aspect. All such factors will help you understand the product more.

- There is no point in developing a product or service that no one wants to buy, yet many businesses decide what to offer first, and then hope to find a market for it afterwards.
- In contrast , the successful company will find out what customers need or want and then develop the right product with the right level of quality to meet those needs now and in the future.



3.3 Price in 7 P's of Marketing

It is the amount people pay and the avenue for revenue inflow into the organization.

The pricing strategy identifies the price customers are ready to pay, the mark-up for overheads, profit margins, and other costs. It also determines the payment method.

To maintain a competitive advantage, the customers can be attracted with the help of discounts and seasonal pricing.

The price has a direct relationship with the customer's satisfaction level. Often, paying a higher price satisfies the customer more. Many people consider it to be a proxy for quality.

To monetize products is more comfortable than to monetize services because they are intangible. Price is essential for service consumption after service recognition.

A company needs to analyze whether the price range of the product is justified or not. Sometimes, the production and the resources required to manufacture the product are too costly, but the selling price is too low. Sometimes, a company can spread the costs over months and bring in special discounts and offers to enhance the selling of the product.

Types of Pricing:

1) Premium pricing

It is a type of pricing which involves establishing a price higher than your competitors to achieve a premium positioning. You can use this kind of pricing when your product or service presents some unique features or core advantages, or when the company has a unique competitive advantage compared to its rivals. For example, Audi and Mercedes are premium brands of cars because they are far above the rest in their product design as well as in their marketing communications.

2) Penetration pricing

It is a commonly used pricing method amongst the various types of pricing is designed to capture market share by entering the market with a low price as compared to the competition. The penetration pricing strategy is used in order to attract more customers and to make the customer switch from current brands existing in the market. The main target group is price sensitive customers. Once a market share is captured, the prices are increased by the company.

However, this is a sensitive strategy to apply as the market might be penetrated by yet another new entrant. Or the margins are so low that the company does not survive. And finally, this strategy never creates long term brand loyalty in the mind of customers. This strategy is used mainly to increase brand awareness and start with a small market share.

3) Economy pricing

This type of pricing takes a very low-cost approach. Just the bare minimum to keep prices low and attract a specific segment of the market that is highly price sensitive. Examples of companies focusing on this type of pricing include Walmart, Lidl and Aldi.

4) Skimming price

Skimming is a type of pricing used by companies that have a significant competitive advantage and which can gain maximum revenue advantage before other competitors begin offering similar products or substitutes. It can be the case for innovative electronics entering the marketing before the products are copied by close competitors or Chinese manufacturers.

After being copied, the product loses its premium value and hence the price has to be dropped immediately. Thus, to get maximum margins from their products, innovative companies keep launching new variants so that customers are always in the discovery phase and paying the required premium.

5) Psychological pricing

It is a type of pricing which can be translated into a small incentive that can make a huge impact psychologically on customers. Customers are more willing to buy the necessary products at $4,99 than products costing $5. The difference in price is actually completely irrelevant. However, it makes a great difference in the mind of the customers. This strategy can frequently be seen in the supermarkets and small shops.

3.4 Place in 7 P's of Marketing Mix

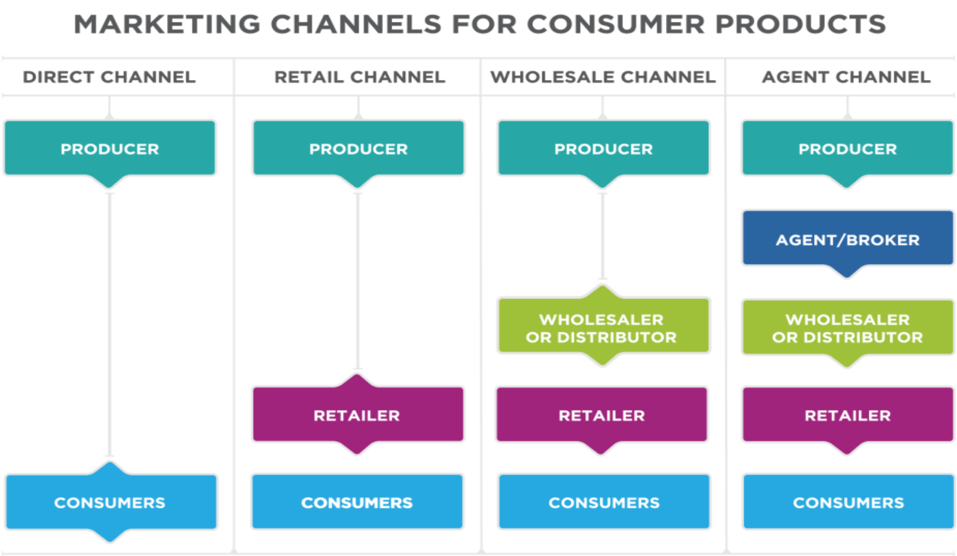
It is where the goods, products, services, assistance, etc. are showcased, sold, and distributed.

Unless the consumers have access to what the business deals in, they cannot purchase or rent it. It is a crucial point to ensure that the customers find the goods and services. Marketing strategies for this include unique designs for retail spaces and different visual merchandising techniques.

Finding the right location for the business is an essential aspect of spreading the market. The utility is a high priority while choosing a place for the company.

If it is closer to the customer, there is a higher chance of being bought.

The organization must always be in the habit of reviewing the exact location where a product is sold. Sometimes, a change of location can significantly increase the sales of the product. There are many different ways of selling a product, but they all depend on the type of product that a company is manufacturing.



3.5 Promotion in 7 P's of Marketing

Promotion is the process of finding a target audience, recognition of the brand, establishing the quality of services being offered to the customers.

There has to be perfect or close to perfect between promotion and positioning. Different promotional events are used by organizations to increase awareness of the goods and services offered.

The tools often used are digital advertising, endorsements, and exhibitions, special events, sales tactics, direct marketing, etc.

The promotional activities make the customers aware of the goods and services the company deals with.

The promotion of a product includes how a company chooses to promote, market, or advertise the product to the customers. While evaluating your marketing strategy, a firm needs to make small changes in their advertising strategies and bring in new marketing methods.

3.6 People in 7 P's of Marketing

People refer to those who help is making all the marketing strategies come to life.

They carry out all the procedures and ensure that the plan is actually implemented and executed well.

When customer service offered by a company is positive, it leaves the customers feeling satisfied and happy, and there is a higher chance that they will come back. It is a marketing technique, and different companies have different approaches for interacting with customers.

The customers spread the word about their positive experience and lead to brand awareness. The customers also win referrals.

The people make the organization what it is. They are the foundation and hiring the right people, appropriate selection and recruitment, correct training, imbibing the necessary marketing skills, and retaining of the staff create a growing environment. It improves the chances of business development.

The people are the crux of service delivery.

One of the most important habits of a company will always be to analyze the requirements of the people inside and outside the firm. In simple terms, a company must always safeguard the interests of the clients as well as the employees while devising a marketing strategy.

Processes in 7 P's of Marketing Mix

The processes are what help to deliver the service with a certain quality.

It refers to the mechanism which is put into place to deliver the goods and services to the customers. A standard process determined by the company ensures that the customer will receive the same standard of quality services repeatedly.

It increases the efficiency of the organization and helps in saving time and money.

A set way of working encourages the customers of the assured benchmark set the first time.

The process mapping ensures that the target audience can be dependable on the services being discerned.

Physical Evidence in 7 P's of Marketing Mix

Physical evidence, as the word suggests, is what the customers see. The actions and words put across by the company should match what they can see when they interact with the business.

It entails a few parameters such as the physical environment where the goods and services are provided, the layout of the business, interior design, the branding, packaging, the office, staff, and how they dress and act.

People believe what they see, and it should be convincing enough for them to invest their time and money in it.

It affects customer satisfaction.

Now, let us go through another facet of 7 P's of Marketing which is 7 P's of Service Marketing and we will understand this with their respective examples, so you can comprehend the associated concept adeptly.

3.7 Purposes Served by the Marketing Organization

A marketing organization is definitely created to serve certain purposes for the company. It helps the firm serving quite a few purposes. Among the purposes served by the marketing organization of a company, three are noteworthy. Let us now look at them in brief:

1. Marketing Organization Facilitates Effective Response to Market Needs

A firm needs to identify the changes taking place in the market and a competitive environment and respond accordingly.

There are many ways of identifying changes and responding to them at a firm's disposal. The firm should decide which of the available alternatives to identifying and responding to changes should be followed. For example, a firm may identify changes using its marketing intelligence system or by conducting marketing research or so.

Regarding response, it may respond to changes in competitors' strategies by developing and launching a new product or modifying its existing product. The option that a firm will select by the type of its marketing organization and people in it.

2. Marketing Organization Helps to Carry Out Activities with Optimum Efficiency

Specialization, along with coordination and control, helps the firm achieve internal efficiency.

Many specialization options are available to a firm, such as customer, geographic, and product specialization. We shall discuss them in detail later in this lesson. Coordination becomes more important as a firm becomes more flexible in its organizational structure.

Control here is related to authority and responsibility structures. If it is found that progress does not conform to the standards set, the responsible executive must be made aware of this, and he must have the authority to take necessary action. It is also his responsibility to monitor the progress of his subordinates closely.

3. Marketing Organization Helps Represent Customers' Interests within the Company

The importance of customers takes a new meaning in the firm if the management takes a marketing approach. The marketing concept suggests that a firm's existence depends on sensing and satisfying customers' needs in a way better than the competitors do.

For ensuring customer needs and problems receiving proper representation inside the corporate domain, some parts of the organization must take this as one of the fundamental responsibilities.

Customer orientation is provided in some firms by charging every employee from the president down to the very junior staff to maintain a customer perspective in all functions and responsibilities.

On the contrary, other firms respond to customer interests more tangibly, but somewhat passively, via complaint departments or attitude surveys carried out by marketing research personnel.

But when carried to its fullest, this responsibility goes beyond research or complaints departments and includes an inhouse customer advocate with a top management position's authority and independence.

The overall purpose of a marketing organization is to help attain marketing objectives. The organization is not an end in itself but rather a means to coordinate and direct many people's varied work to achieve a unified and successful result.

Role of Marketing Organization – Marketing's Place in an Organization

A production-oriented company concentrates either on improving production efficiency or on producing high-quality, technically improved products.

Here, objectives and planning are determined by the executives in the production and engineering departments. The company emphasizes simplified and mass production and tries to keep the unit cost low. Marketing plays no role in the true sense in such a situation.

Price is dictated by production and finance departments, and the function of the sales department is to sell the organization's output. Thus, there is a notable absence of consumer consciousness.

With the expansion of the market, manufacturers recognized the importance of other marketing functions and started changing their company structures.

In a sales-oriented organization, there is a general belief that personal selling and advertising are the primary tools used to generate profits and that most products – regardless of consumers' needs – can be sold if the right quantity and quality of personal selling and advertising are employed.

Thus, the sales and advertising managers are at the same level in the company's hierarchy: the production, personnel, and finance managers, and all participate in top-level management.

Higher-level sales and advertising executives and other executives at the same level are involved with setting the company's overall policies and objectives.

The marketing concept suggests that marketing starts with the customers and works back to producing desired products in the right amounts and with the right specifications. As the figure below shows, the marketing manager is in a position equal to that of the personnel, production, and finance managers in a marketing-oriented organization.

This structure allows the marketing manager to participate in top-level decision making. Note, too, that the marketing manager is responsible for various activities (not shown in this figure), several of which are under the jurisdiction of other functional managers in production or sales-oriented firms.

Relationships between marketing and other functional areas such as personnel, production, finance, and marketing's importance to management heavily depend on its basic orientation.

Marketing encompasses the greatest number of business functions in a marketing-oriented firm, and it occupies an important position in the organization.

Relations That Exist Between Marketing and Other Departments When a Firm is Marketing Led:

In a marketing-oriented company, the marketing department coordinates intra-department activities and coordinates with the activities of other departments to get a synergistic result. Becoming marketing-oriented means carrying out both internal and external marketing.

By internal marketing, we mean successfully hiring, training, and motivating employees to serve the customers well and satisfy them. Internal marketing is to be carried out first because unless a company is not ready to provide customer satisfaction, it cannot go for external marketing.

In a marketing-oriented firm, the focus is on customers' needs rather than selling. The executive responsible for marketing is named marketing manager, marketing director, or marketing vice president.

3.8 Customer Value

Customer value is the satisfaction the customer experiences (or expects to experience) by taking a given action relative to the cost of that action.

The given action is traditionally a purchase, but could be a sign-up, a vote or a visit, while the cost refers to anything a customer must forfeit in order to receive the desired benefit, such as money, data, time, knowledge.

Think about the following definition of marketing:

Marketing creates, communicates, and delivers value to customers.

The internal chain of sourcing, operations, processes, sales, marketing, and customer service all contribute to the creation of value. So do your support operations such as HR and accounting. All of these components affect your customers directly or indirectly in some way, informing their perception of you.

And this leads to the fundamental point: The results of your efforts to create value are measured in the customers' perception of that value.

People do not buy things because *you* like them. They buy them because **they** like them or need them.

More importantly, in this world of choice:

Customers compare their perceived value of similar products when making a decision.

Whether you are deciding on a restaurant to visit, your next car, or which digital marketing agency you want to use, there are choices available, and many factors play a part in forming that decision.

In a nutshell, customer value means:

1. A product or service's worth in the customer's eye.
2. A comparison of cost and benefits of a product or service.
3. The level of satisfaction a customer gets after using a product or service.

Why Is Customer Value Important? 3 Major Reasons

Obviously, customer value is crucial because you can only retain customers if you give them the value they want or paid for. Apart from that, here are other top 3 reasons why is customer value important:

1. **Generate More Resources.** If you give more and more value to your customer, you will generate more financial resources. Then, you can use these resources for further customer acquisition and ultimately lead to sustainable growth.
2. **Better Product Assortment.** Once you know who your ideal customers are, you will be able to evaluate your best-selling products. This way, you can assort your product according to your customers' preferences.
3. **Access to Capital.** The bigger the customer value, the better the lifetime value of a customer acquisition cost ratio is.

Components of customer value:

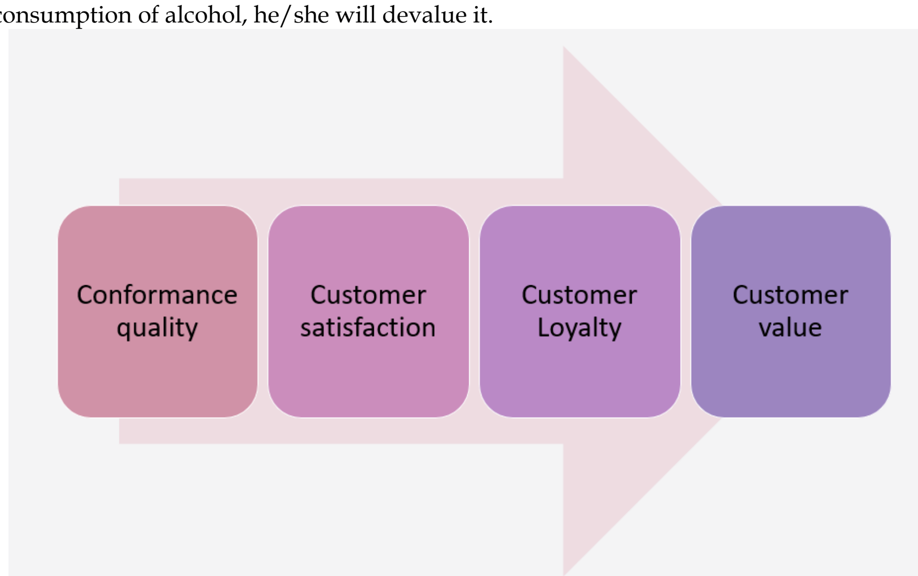
It is the customer's perception that defines the value of a product or service. Customer value is a combination of four components:

Functional Value	Social Value	Psychological Value	Monetary Value
A value that the customer gets in terms of solutions or remedies for his/her problem/issue. The functional value increases with the increase in the intensity of a problem.	It's the calculation of perceptual benefits derived from a product or service concerning social class, social status, or a particular social category.	It is a value your product or service gives in terms of psychological benefits such as pleasure, satisfaction, etc.	It's the value a consumer derives after weighing the price he/she paid against the perceived worth of the product or service. It is that point where all of the non-monetary costs also kick in.

3.9 Customer Value Drivers

The bitter truth about customer value is you cannot control it. However, there are specific ways to influence it. Here are some customer value drivers that can help you in making your product or service more valuable.

- **Price.** It is a monetary element, is one of the main factors that a customer considers before buying any offering. It has a massive impact on customer's buying decisions.
- **Function Of the Product or Service.** A customer buys an offering as a solution to a particular problem. Therefore, a product's functional features are an essential driver for a customer. If your offering is giving more features than a customer's expectation, your product will have more perceived value.
- **Positioning.** Positioning means how unique your offering is in a customer's mind. It includes the sentiments, emotions, feelings, traits, etc., attached to your offering.
- **Quality.** The extent or degree to which your product or service meets the expectations and needs of your customers. If your offering exceeds customer expectations, you are selling a high-quality product or service.
- **Service.** Service means how do you facilitate your customer during the purchasing process. It includes the pre-purchase and post-purchase phases as well.
- **Current And Previous Customer Relationship**. A firm's relationship with a customer is also a major driving factor when it comes to creating value. If your customer had a pleasing experience, the intensity of perceived value would be higher and vice versa.
- **Branding And Marketing.** A company's branding or marketing strategies play a vital role in developing or influencing the perceived value in the customer's mind. Empathetic and problem-solving marketing campaigns get better results.
- **Personal Attributes/Preferences.** A customer's personal, religious, or cultural believes also drive him/her to buy a certain product. If someone's culture doesn't appreciate the consumption of alcohol, he/she will devalue it.



3.10 Measuring Customer Value

There are many equations and models for measuring customer value. The simplest is this:

Perceived Value = Perceived Benefits / Cost

In other words, for a given set of benefits, as the cost rises, the perceived value drops.

- Total Customer value=Customer Benefits (Economic + Functional + psychological)

Minus

Customer Costs(Cost of evaluation + cost of obtaining +cost of using + cost of disposing)

This is an important point. Value does not refer to price. It refers to the perceived benefits stood to be gained in the context of price. Cost is only part of the equation. Literally.

Two identical products with identical exposure can only compete on cost. Two differentiated products do not have to compete on cost. Products are not just differentiated by their features. They can also be differentiated because of their brand. If Toyota brings out a car, you may presume it's reliable because one of its key brand features is reliability. If another carmaker releases a near-identical car, they may struggle to compete because they do not share the same customer perceptions.

The same applies to content marketing. For example:

Perceived Value of "The Web Marketers Guide to Reddit" = Learning / Time

The perceived value of your latest blog post can be measured by the reader's perceived benefit of reading the content (e.g. learning) relative to the time it took for them to gain that benefit.

The Drivers of Value

Take this list:

Product function

Points of differentiation

Quality

Service

Marketing

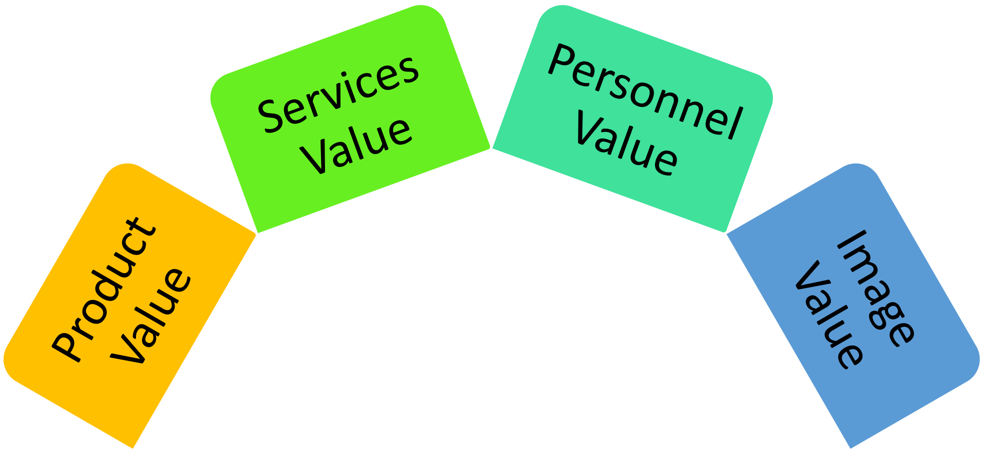
Branding

Price

Existing relationships or experience

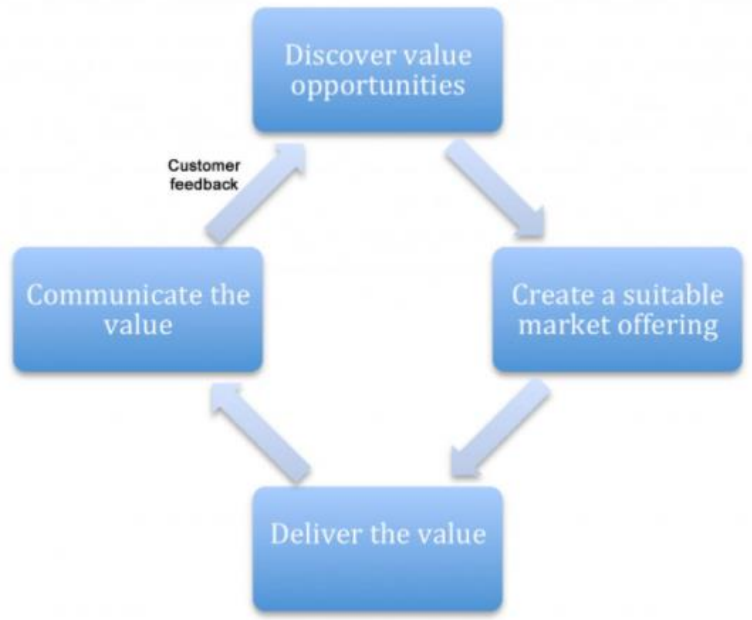
Personal bias from experience and upbringing

Total customer benefits is the summation of:



These are drivers that impact a customer's perception of value. Some you can control, some you cannot. For any individual customer they will rank differently in importance. Some people love brands. Some people only buy cheap. Some favor short form content. Some people treasure personal relationships.

I've previously talked about audience segmentation. The fragmentation of customer value is one of the primary reasons for segmentation. By identifying groups of people with shared values you can start to create products and messages that resonate.



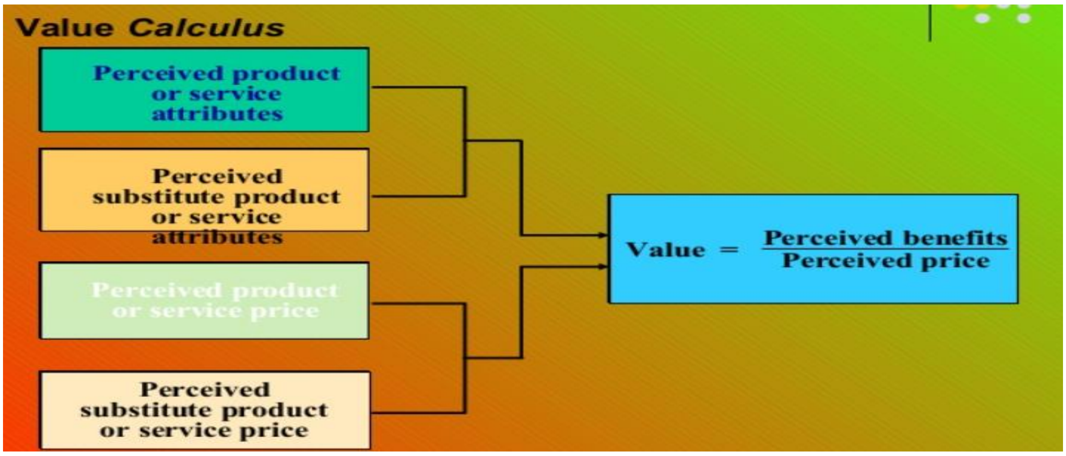
Customer Cost:

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

- Total Customer cost is the summation of:
- Monetary cost
- Time Cost
- Energy cost
- Psychic cost

Value:

- Perceived product or services attributes
- Perceived substitute or service attribute
- Perceived product or service price
- Perceived substitute product or service price value= Perceived benefits/perceived price



3.11 Tips For Increasing Customer Value

As mentioned earlier, you have no control over customer value, but you can make things better. Here is how:

1.Asses the Customer Experience

If you want to better the customer value, the first thing to work on is your customer experience. You can make a customer journey map that covers all the steps from buying your product to the point of friction/conflict. This way, you can better the process and add value to your offerings.

2.Keep Your Focus on Other Things Rather Than Just Price

Yes, prices are a vital factor when you are competing in a competitive market. Sometimes, a business cannot lower its product prices due to static costs of production. However, you always have the option to add some value to your product. There are non-monetary benefits that can add value to what you are offering.

3.Be Loyal to Your Loyal Customers

You might be thinking that why work hard on a “loyal customer”? Well, if you don’t make your loyal customers feel special, you may end up losing them. Yes, you are already serving them with your valuable products, but you can reward their loyalty with additional steps.

For instance, you can start a customer loyalty program or greet them with gifts and warm wishes on special occasions. This approach can help you in certain ways. A loyal customer is your most robust marketing tool because word-of-mouth is still one of the most influential marketing channels.

Statistically, **93 percent of consumers** make their purchase decisions based on the reviews given to a certain product or brand. So, please your customers and get new ones smoothly.

Summary:

In the past, management accounting concentrated on internal information. It put excessive emphasis on control of production costs. The modern business idea presumes that cost reduction must be found in the "value-added" process; that is, selling price less the cost of raw material or the cost of work-in-process items. There are other inputs such as engineering, maintenance, distribution and service, so purely following a value-added approach can be misleading. The traditional value-added approach starts too late as it ignores linkages with suppliers, but it also stops too early as it ignores linkages with customers. The modern value chain approach incorporates external and internal data, applies appropriate cost drivers for all major value-creating processes, exploits linkages throughout the value chain and offers continuous monitoring of a company's strategic competitive advantage. It involves the inputs of other strategic partners, such as material suppliers, finished goods wholesalers, and final customers. The goal is to perform value chain activities more efficiently, and ultimately surpass industrial competitors.

Keywords

Channel , Value, Satisfaction , Loyalty, Intensity , Promotion , product value , service value

Self Assessment

1. According to nature of contact, information , process for purchasing and delivery , marketing is of three types Mass marketing, Direct Marketing and ______.

a. Internet marketing
b. Demand Marketing
c. Price sensitive Marketing
d. Distributive Marketing

2. According to geographic area, extent of distribution, network, marketing variation commitment to country, marketing types are:

a. Local and regional
b. National and International
c. Global
d. All the above

3. The perfect __________must provide value for the customer.

a. Cost
b. Demand
c. Product
d. Price

4. ___________is the way a company communicates what it does and what it can offer customers. It includes activities such as branding , advertising , PR, corporate identity, sales management, special offers and exhibitions.

a. Promotion
b. Marketing
c. Selling
d. Advertising

5. Out of all 7 P's ___________ represent the business

a. Price
b. People
c. Product
d. Promotion

6. _____________ means the customers' evaluation of the difference between all the benefits and all the costs of the product.

a. Customer perceived value
b. Value
c. Price
d. Demand

7. Total Customer value=Customer Benefits (Economic + Functional +_____)Minus Customer Costs(Cost of evaluation + ______+cost of using + cost of disposing)

a. Psychological and cost of obtaining
b. Demographic and cost of product
c. Demographic and cost of replacing
d. Economic and cost of owing

8. Organizations should be strong in both __________and process.

a. Product

b. Price

c. Market share

d. Purpose

9. ______________ is the match between customer expectations of the product and the products actual performance.

a. Customer Satisfaction

b. Performance

c. Loyalty

d. Price war

10. _____________is the activity that a selling organization undertake in order to reduce customer dissatisfaction

a. Advertising
b. Customer Retention
c. Gift Coupons
d. Promotion

11. Porter's Value Chain Analysis is a business management concept that was developed by ________.

a. Henry Ford
b. Michael Porter
c. Phillip Kotler
d. Henry Ford

12. There are two types of competitive advantages i.e. cost advantage and ____________.

a. Differentiation Advantage
b. Decorative Advantage
c. Industrial Advantage
d. Customer Advantage

13. ___________have an immediate effect on the production, maintenance, sales and support of the products or services to be supplied.

a. Primary Activities
b. Secondary activities
c. Alternate activities
d. Main activities

14. ________-Logistics are all processes that are involved in the receiving, storing, and internal distribution of the raw materials or basic ingredients of a product or service.

a. Inbound
b. Outbound
c. External

d. Internal

15. __________logistics are all activities that are related to delivering the products and services to the customer. These include, for instance, storage, distribution (systems) and transport.

a. Inbound
b. Outbound
c. External
d. Internal

Answers for Self Assessment

1.	A	2.	D	3.	C	4.	A	5.	B
6.	A	7.	A	8.	D	9.	A	10.	B
11.	A	12.	A	13.	A	14.	A	15.	B

Review Questions

1. You are shopping for food at the supermarket and go to the fruit section. While there, you are looking at both apples and oranges. You notice that each apple that you would purchase would be "worth" $1.00 to you while each orange would be worth $1.25 to you (Note that what something is "worth" to you is synonymous with the value you receive from it for purposes of this question). You then look at the prices and see that the prices of apples and oranges are $0.50 and $0.60 each, respectively. Given this information, would you be more likely to purchase apples or oranges? Your answer should discuss the "customer value" that you would get from each apple and orange.
2. List and describe the three ways that a company can establish customer value to its customer base? For each of the way, provide a real-world example of where this method was applied and explain how it was applied. Your answer should discuss why you believe the example you provided matches with the respective method.
3. Consider a situation where you are opening a new ice cream shop. Explain the importance of customer value in setting the prices of the ice cream that you plan to sell.
4. Discuss 7 P's, Elaborating importance's of each.
5. Discuss the interrelation of 4 P's of marketing?

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Unit 04: Marketing Environment

CONTENTS

Objective

- Significance of Scanning Marketing Environment

Introduction

The marketing environment refers to all internal and external factors, which directly or indirectly influence the organization's decisions related to marketing activities. Internal factors are within the control of an organization; whereas, external factors do not fall within its control. The external factors include government, technological, economic, social, and competitive forces; whereas, organization's strengths, weaknesses, and competencies form the part of internal factors. Marketers try to predict the changes, which might take place in future, by monitoring the marketing environment. These changes may create threats and opportunities for the business. With these changes, marketers continue to modify their strategies and plans. Definition of Marketing Environment:

The marketing firm operates within a complex and dynamic external environment. It is the task of the marketing-oriented organisation to link the resources of the organisation to the requirements of customers. This is done within the framework of opportunities and threats in the external environment.

According to Philip Kotler:"A company's marketing environment consists of the internal factors & forces, which affect the company's ability to develop & maintain successful transactions & relationships with the company's target customers."

Features of Marketing Environment

Today's marketing environment is characterized by numerous features, which are mentioned as follows:

1. Specific and General Forces: It refers to different forces that affect the marketing environment. Specific forces include those forces, which directly affect the activities of the organization. Examples of specific forces are customers and investors. General forces are those forces, which indirectly affect the organization. Examples of general forces are social, political, legal, and technological factors.

2. Complexity: It implies that a marketing environment include number of factors, conditions, and influences. The interaction among all these elements makes the marketing environment complex in nature.

3. Vibrancy: Vibrancy implies the dynamic nature of the marketing environment. A large number of forces outline the marketing environment, which does not remain stable and changes over time. Marketers may have the ability to control some of the forces; however, they fail to control all the forces. However, understanding the vibrant nature of marketing environment may give an opportunity to marketers to gain edge over competitors.

4. Uncertainty: It implies that market forces are unpredictable in nature. Every marketer tries to predict market forces to make strategies and update their plans. It may be difficult to predict some of the changes, which occurs frequently. For example, customer tastes for clothes change frequently. Thus, fashion industry suffers a great uncertainty. The fashion may live for few days or may be years.

5. Relativity: It explains the reasons for differences in demand in different countries. The product demand of any particular industry, organization, or product may vary depending upon the country, region, or culture.

4.1 Types of Marketing Environment

The sale of an organization depends on its marketing activities, which in turn depends on the marketing environment. The marketing environment consists of forces that are beyond the control of an organization but influences its marketing activities. The marketing environment is dynamic in nature. Therefore, an organization needs to keep itself updated to modify its marketing activities as per the requirement of the marketing environment. Any change in marketing environment brings threats and opportunities for the organization. An analysis of these changes is essential for the survival of the organization in the long run.

A marketing environment mostly comprises of the following types of environment:

1. Micro Environment

2. Macro Environment

The discussions of these environments are given below:

1. **Micro Environment:** Microenvironment consists of the actors close to the company that affect its ability to serve the company, suppliers, marketing intermediaries, customer markets, competitors, and publics and its customers,.

These actors are shown in diagram below:

- Company
- Suppliers
- Intermediaries
- Competition
- Publics
- Customers

4.2 Actors of Marketing Environment

The Company In designing marketing strategies, marketing division must take other company's divisions into account. (R&D, Purchasing, operations, finance, production etc.). All of these interrelated groups form the internal environment. All groups should work in harmony to provide superior customer value and relationships.

Suppliers: Suppliers are other business organisations and individuals who provide the organisation with raw materials, parts, components, supplies or services required to produce and supply products to customers. Suppliers form an important link in the organisations overall customer value delivery system. Supplier problems can seriously affect marketing. Marketing managers must watch supply availability—supply shortages or delays, labor strikes, and other events can cost sales in the short run and damage customer satisfaction in the long run.

Intermediaries: Many organizations rely on marketing intermediaries to ensure that their products reach the final consumer. Marketing intermediaries help the company to promote, sell, and distribute its products to final buyers. Some organizations supply directly to the retailer whilst others use a complex "chain" including intermediaries such as wholesalers, agents and distributors. Marketers recognize the importance of working with their intermediaries as partners rather than simply as channels through which they sell their products. It must partner effectively with marketing intermediaries to optimize the performance of the total system. Like suppliers, marketing intermediaries form an important component of the organization overall value delivery system

Competition: The marketing concept states that to be successful, an organization must provide greater customer value and satisfaction than its competitors. Marketers must gain strategic advantage by positioning their offerings strongly against competitors' offerings in the minds of consumers.

Publics: The organization's micro environment also includes various publics. A public is any group that has an actual or potential impact on an organization's ability to achieve its objectives. The range of public is as follows:

• Financial publics - influence the company's ability to obtain funds. • Media publics - carry news, features, and editorial opinion.

• Government publics - Management must take government developments into account

. • Citizen-action publics - A company's marketing decisions may be questioned by consumer organizations, environmental groups, etc.

• Local publics - include neighborhood residents and community organizations.

• General public - The general public's image of the company affects its buying.

• Internal publics - include workers, managers, volunteers, and the board of directors.

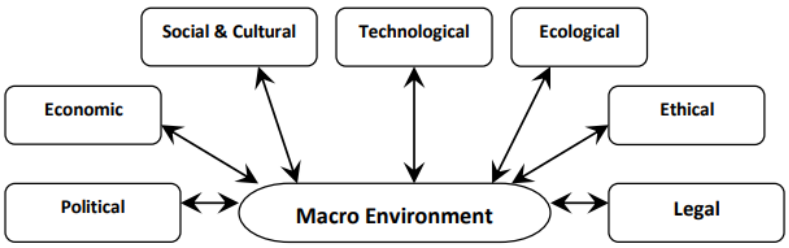
Customers As discussed previously, Customers are crucial and most important actors in the organization's micro environment. In a commercial environment, no customers means no business. An organisation should be concerned about the constantly changing requirements of its customers and should keep in touch with these changing needs by designing and implementing an appropriate information gathering system. The organisation can only influence their decisions by offering products and services that would delight them. Thus, identifying, anticipating and satisfying/delighting their requirements are a crucial issue for marketers

2. **Macro Environment**: The macro environment includes the major societal forces that affect not only the organisation, but also on its competitors and on elements in the micro-environment. The macro environment tends to be harder to influence than the micro environment, but this does not mean that organisations must simply remain passive; the inability to control does not imply the inability to influence. Figure below shows the main forces in the organisations macro-environment.

It is commonly denoted by the mnemonic PESTEEL forces.

- Political Environment
- Economic Environment
- Social and Cultural Environment
- Technological Environment
- Ecological Environment
- Ethical Environment
- Legal Environment

Macro Environment Forces



Political Environment The political environment can be one of the less predictable elements in an organization's marketing environment. Marketers need to monitor the changing political environment because political changes can profoundly affect a firm's marketing. The political environment consists of laws, government agencies, and pressure groups that influence and limit various organizations and individuals in a given society.

Economic Environment The economic environment consists of factors that affect consumer purchasing power and spending patterns and is basically about the level of demand in the economy and is the most visible aspect in the macro environment. Economic factors are of concern to marketers because they are likely to influence, among other things, demand, costs, prices and profits. Some of the key aspects of the economic environment are as Income distribution, Inflation level, Economic Boom and Recession, Investment Policy, Interest Rates, saving habits etc.

a. Inflation: It influences the customers' demand for different products. For example, higher petrol prices lead to a fall in demand for cars.

b. Interest Rates: It determines the borrowing activities of the organization. For example, increase in interest rates for loan may lead organizations to cut their important activities.

c. Unemployment: It leads to a no income state, which affects the purchasing power of an individual. d. Customer Income: It regulates the buying behavior of a customer. The change in the customer's income leads to changed spending patterns for the products, such as food and clothing.

e. Monetary and Fiscal Policy: It affects all the organizations. The monetary policy stabilizes the economy by controlling the interest rates and money supply in an economy; whereas, fiscal policy regulates the government spending in various areas by collecting the revenue from the citizens by taxing their income

Social and Cultural Environment Of all the elements making up the macro environment, perhaps socio-cultural factors are the most difficult to evaluate, and hence pose the greatest challenge to the marketing organisation. Social and cultural change manifests itself in changing tastes, purchasing behaviour and priorities of consumers and marketers need to understand and identify these changing trends. Some of the socio-cultural forces are as follows:

Demographic forces: This refers to the structure of population in term of factors such as age, family size, ethnicity, income distribution and wealth concentration. These variables will determine the marketing mix strategies.

• Socio Cultural factors: are those areas that involve the shared beliefs, attitudes and behaviour prevalent within the society in which the organisation operates. Changes in taste and fashion are also components of the social-cultural environment.

• Social Responsibility and Ethics: Derived in part from culture, ethical, beliefs about how marketers should operate affect the ways in which people respond to marketing initiatives.

• Changes in attitude towards health: Today, people are more concerned of health than they were a few decades ago. An individual interest in health and physical fitness in recent years seems to have cut across most segments of our society. Participation in fitness activities from aerobics to yoga is on the increase and thus marketers have responded with a wide range of products and services for the health conscious population.

Technological Environment The technological environment is perhaps the most dramatic forces that create new technologies, creating new product and market opportunities. The pace of technological change is becoming increasingly rapid and marketers need to understand how technological development might affect them. Aspects to be considered:

a**. Pace of Technological Change:** It leads to product obsolescence at a rapid pace. If the pace of technological change is very rapid then organizations need to modify their products as and when required. On the other hand, if the technology is not changing at a rapid pace then there is no need for the organization to bring constant changes in the product.

b. Research and Development: It helps in increasing growth opportunities for an organization. Many organizations have developed a separate team for R&D to bring innovation in its products. Pharmaceutical organizations, such as Ranbaxy and Cipla, have started putting greater force in R&D and these efforts have led to great opportunities in global market.

c. Increased Regulation: It refers to government guidelines to ban unsafe products. Marketers should be aware of these regulations to prevent their violation. Every pharmaceutical organization takes the approval of the Drugs Controller of India, which lays down the standards for drugs manufacturing.

Ecological Environment Ecological Environment is concerned of issues as to how the organisation interacts with and affects the natural environment or the ecology.

Ecological Environment issues relevant to marketing as follows:

• Resources Depletion: the impact of the use of certain materials to develop products which would lead to the depletion of natural resources.

• Pollution Concerns o Noise Pollution o Environmental Pollution o Eye pollution

Ethical Environment Marketing Ethics are moral philosophies/principles that define right or wrong behaviour in marketing. The most basic ethical issues have been formalized through laws and regulations to conform to the standards of society. At the very least, marketers are expected to obey these laws and regulations. However, it is important to realise that marketing ethics go beyond legal issues; ethical marketing decisions foster mutual trust among individuals and in marketing relationships. Ethical decisions related to marketing would be on the Product, price, promotion and distribution issues.

Legal Environment Changes in the political environment often lead to changes in legal environment and in the existing laws enforced. The legal environment sets the basic rules for how a business should operate in society.

Some of the laws an organisation should be aware of are as follows:

- Protection of intellectual rights
- Consumer Protection act
- Companies Act
- Regulatory commission
- Environmental protection laws
- Code of takeovers and mergers.
- Laws with regard to media freedom and advertising
- Exchange control

4.3 Need for Analyzing the Marketing Environment

The business environment is not static. It is continuously changing with fast speed. The marketing environmental analysis will help the marketer to:

i. Become well acquainted with the changes in the environment.

ii. Gain qualitative information about the business environment; which will help him to develop strategies in order to cope with ever changing environment.

iii. iii. Conduct marketing analysis in order to understand the markets needs and wants so as to modify its products to satisfy these market requirements

iv. Decide on matters related to Government-legal-regulatory policies in a particular country so as to formulate its strategies successfully amidst these policies

v. Allocate its resources effectively and diversify either into a new market segment or totally into a new business which is outside the scope of its existing business.

vi. Identify the threats from the environment in terms of new competitors, price wars, competitor's new products or services, etc.; and prepare its strategies on the basis of that.

vii. Identify the opportunities in the environment and exploit these opportunities to firm's advantage. These opportunities can be in terms of emergence of new markets; mergers, joint ventures, or alliances; market vacuum occurred due to exit of a competitor, etc.

viii. Identify its weaknesses such as lower quality of goods or services; lack of marketing expertise; or lack of unique products and services; and prepare strategies to convert its weaknesses into strengths

ix. Identify its strengths and fully exploit them in firm's advantage. These strengths can be in terms of marketing expertise, superior product quality or services, or giving unique innovative products or services.

Summary

A number of forces over which it has little or no control affect a company's marketing activities. Taken together, they make up its **external marketing environment**, which includes regulatory and political activity, economic conditions, competitive forces, changes in technology, and social and cultural influences.

Successful marketing often hinges on understanding **consumer behavior**—the decision process that individuals go through when purchasing or using products. Several psychological and social variables influence buyers' decisions. They go through a series of steps in reaching the decision to buy a product: need recognition, information search, evaluation, purchase, and post purchase evaluation.

Key Words

Environment

Macro Environment

Micro Environment

Technological

Socio -Cultural

Technological

Political.

Self Assessment

1. Which of the following is part of an organisation's marketing environment?

A. The organisation's micro-environment

B. The organisation's macro-environment

C. Any internal or external force that affects the organisation's ability to create, communicate, deliver and exchange offerings of value

D. All of the options listed are part of an organisation's marketing environment

2. The process of breaking the marketing environment into smaller parts in order to gain a better understanding of it is known as

a) The internal environment

b) Environmental analysis

c) The micro-environment

d) The macro-environment

3. When using the PESTL framework, marketers are investigating

a) Internal forces

b) Macro-environmental forces

c) Micro-environmental forces

d) Competitive force

4. Which of the following statements is correct?

A. The internal environment includes those factors that are not controllable by the organisation

B. Weaknesses are internal factors that marketers seek to minimise

C. The internal environment includes factors that are controllable by the organisation

D. Both b and c

5. Choose the best answer from the options below to complete the following sentence. An organisation chart can be a useful tool to help analyse an organisation's

a. Market perception
b. Marketing mix
c. External environment
d. Internal environment

6. An organisation that cuts its marketing budget during an economic downturn could be more likely to view marketing as

a. Cost
b. An investment
c. Essential
d. Both b and c

7. Which of the following is not a part of an organisation's external environment?

a. Customer
b. Competitors
c. The Micro Environment
d. All of the options are apart of organizations external environment

8. Primary produces such as wheat farmers, construct dams in an attempt to influence their businesses:

a. Internal Environment
b. External environment
c. Micro Environment
d. Macro Environment

9. Which of the following would not be part of an organisations micro environment?

a. Competitors
b. Customers
c. The economy
d. Partners such as suppliers and retailers

10. Working for the Aldi supermarket chain, you are very aware of the activities of your company's competitors; Coles and Woolworths, and find that you frequently make changes

to your businesses in response to actions they have taken. You also notice that they react when you make changes to your business offering. This competition is occurring within the:

a. Internal environment
b. Micro environment
c. Macro environment
d. The competitive environment

11. In an attempt to overcome legal regulations, an industry body may attempt to influence which aspect of its marketing environment?

a. Sociocultural
b. Political
c. Competitive
d. Economic

12. The influences in a society and/or its culture/s that affect people's attitudes, beliefs, behaviours, preferences, customers and lifestyles are known as

a. Sociocultural
b. Political
c. Competitive
d. Economic

13. The global financial crisis was an example of what type of macro-environmental force?

a. Political
b. Sociocultural
c. Competitive
d. Economic

14. A devaluation of the Australian dollar makes exports cheaper and imports more expensive. Within the macro-environment, this is known as a(n):

a. Political Forces
b. Economic Force
c. Sociocultural Forces
d. Technological Forces

15. A new housing estate with landscaping convenants opens in the vicinity of a garden nursery business. In term of a SWOT analysis, this would represent

a. A Strength
b. An Opportunity
c. A threat
d. A weakness

Answers for Self Assessment

1.	D	2.	B	3.	D	4.	A	5.	D
6.	A	7.	D	8.	B	9.	C	10.	B
11.	B	12.	A	13.	D	14.	B	15.	B

Review Questions

1. What is the role of information in marketing and marketing planning?
2. How do changes in marketing practice change the relative importance of different types of information to the marketing manager?
3. How can efficient management of information and knowledge lead to enhanced performance and competitive advantage?
4. How can models be used to describe and measure the information environment?
5. What is the relationship between the Information Environment Model and the Integrated Model of Marketing Planning?

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Unit 05: Consumer Behavior

CONTENTS

Objective

1. Understand the complex nature of consumer decision making
2. understand need to study consumer behavior
3. analyze consumer roles
4. elaboratively discuss buying motives.
5. understand consumer buying decision process and buying influencers
6. understand business buying behavior,
7. steps involved in the process,
8. analyze how it is different from consumer behavior.

Introduction

"Consumer behavior is the actions and the decision processes of people who purchase goods and services for personal consumption" – according to Engel, Blackwell, and Mansard,

Consumer buying behavior refers to the study of customers and how they behave while deciding to buy a product that satisfies their needs. It is a study of the actions of the consumers that drive them to buy and use certain products.

Study of consumer buying behavior is most important for marketers as they can understand the expectation of the consumers. It helps to understand what makes a consumer to buy a product. It is important to assess the kind of products liked by consumers so that they can release it to the market. Marketers can understand the likes and dislikes of consumers and design base their marketing efforts based on the findings.

Consumer buying behavior studies about the various situations such as what do consumers buy, why do they buy, when do they buy, how often do consumers buy, for what reason do they buy, and much more.

For example, consumer buying behavior is studied by consumer researchers and their aim is to know why women buy moisturizers (to reduce skin problems), the most preferred brand (Olay, L'Oréal), how often do they apply it (twice a day, thrice a day), where do the women prefer to buy it (supermarkets, online) and how many times do they buy it (weekly, monthly).

Importance of Consumer Behavior

Understanding consumer behavior is essential for a company to find success for its current products as well as new product launches. Every consumer has a different thought process and attitude towards buying a particular product. If a company fails to understand the reaction of a consumer towards a product, there are high chances of product failure.

Due to the changing fashion, technology, trends, living style, disposable income, and similar other factors, consumer behavior also changes. A marketer has to understand the factors that are changing so that the marketing efforts can be aligned accordingly. Consumer behavior is considered the most indispensable part of organizations because of following reasons:

1. Consumer Differentiation:

In marketing, consumer differentiation is a way to distinguish a consumer from several other consumers. This helps to make a target group of consumers with the same or similar behavior. Each group of consumers are different and their needs and wants differ from other groups. When a marketer is knowledgeable about differentiation of each group of consumers, he can design separate marketing programes.

Consumer differentiation will help to tailor your strategies to the needs of varying customer groups. When consumer differentiation is done, you can expand the width and breadth of your services. You will be able to effectively serve a wider group of people.

2. Retention of Consumers:

"Consumer behavior is of most importance to marketers in business studies as the main aim is to create and retain customers" says Professor Theodore Levitt (Kumar, 2004).

Consumer behavior is not just important to attract new customers, but it is very important to retain existing customers as well. When a customer is happy about a particular product, he/she will repeat the purchase. Therefore, marketing the product should be done in such a way that it will convince customers to buy the product again and again.

Thus, it is very evident that creating customer and retaining them is very important. This can be done only by understanding and paying attention towards the consumer's buying behavior.

3. Design Relevant Marketing Program:

Understanding consumer behavior allows you to create effective marketing campaigns. Each campaign can speak specifically to the separate group of consumers based on their behavior.

For example, while targeting kids market, you may have to look out for venues such as TV ads, school programes and blogs targeting young mothers. You will need to take different messaging approaches for different consumer groups.

A study of consumer behavior enables the marketers to understand what motives consumers to make purchases. Furthermore, the same motive can be utilized in advertising media to stir the desire to make a purchase. Moreover, marketers should take decisions regarding the brand logo, coupons, packing and gifts on the basis of consumer behavior.

4. Predicting Market Trend:

Consumer behavior analysis will be the first to indicate a shift in market trend. For example, the recent trend of consumers is towards environment friendliness and healthy food. This changing market trend was observed by many brands including McDonalds. Based on the consumer behavior, McDonald's brought healthy food options.

By conducting consumer behavior study, a company saves a lot of resources that might otherwise be allocated to produce a product that will not be sold in the market. For example, in summer a brand will not waste its resources for producing a product that will not sell in summer. Based on consumer behavior the company decides on production strategy which will save on warehouse costs and marketing costs.

5. Competition:

One of the most important reasons to study consumer behavior is to find out answers to some of the questions:

Is the customer buying from your competitor?

Why is a consumer buying from your competitor?

What features attracts a consumer to your competitor products?

What gaps are your consumers identifying in your products when compared to your competitors?

Studying consumer behavior facilitates in understanding and facing competition. Based on consumers' expectations, your brand can offer competitive advantages.

6. Innovate New Products:

We all know some of the big names such as New Coke, Crystal Pepsi, Colgate Kitchen Entrées, Earring Magic Ken Doll, and Wheaties Dunk-a-Balls Cereal. Can you see the similarities in these products? Yes, they all failed!!

The sad truth is that most new products and new ideas end up in failure. There is an estimate of new product failures – they range from 33% to 90% based on the kind of industry.

Companies consistently strive hard to improve the success rate of their new products or new ideas. One of the most important ways is to conduct sound and thoughtful consumer behavior study.

With the help of consumer behavior analysis, Nike realized that most of its target audience is not professional athletes, but many of them were striving to be more like them. So at the 2012 Olympics in London, Nike introduced a campaign to encourage athletics called 'Find Your Greatness'. It aimed to promote the aspirations of being an athlete, not just with high-performing athletes, but wanted to include all people regardless of their physical capability. The campaign was well planned and was data-driven, of course, carefully analyzed before taking any action. This message inspired many consumers and had enormous appeal for target consumers.

7. Stay Relevant in the Market

When the world is changing as rapidly as it is happening today, the biggest challenge we all face is staying relevant to our target market. And do you know what is the main reason behind the rapid changes? It is the ever-changing behavior of our customers.

Today's consumers have greater choices and opportunities, which means they can easily switch to a company that offers better products and services.

Losing relevance will only cost the company its market share. Haven't we seen Sony Walkman failing to stay relevant in the digital music era, and the taxi industry doom with no preparedness to battle the UBER uprise!!

8. Improve Customer Service

Consumers require different levels of customer service, and understanding the differences within your customer base will help you provide the most appropriate service for individual needs.

For example, if you own an electronics store, high school or college students who buy a new laptop are more likely to understand the features they're looking for than a person buying his first computer. With the first demographic, your service goal will be to provide information about the latest trends in technology, while with the second demographic, you'll need to spend more time educating the customer, finding out what his specific needs are, and even teaching him how to use the features of his new electronic device.

5.1 Buying Role

Buying roles refer to the activities that one or more person(s) might perform in a **buying** decision. Initiator: the person who first suggests or thinks of the idea of **buying** the particular product or service. Influencer: a person whose views influence other members of the **buying** center in making the final decision.

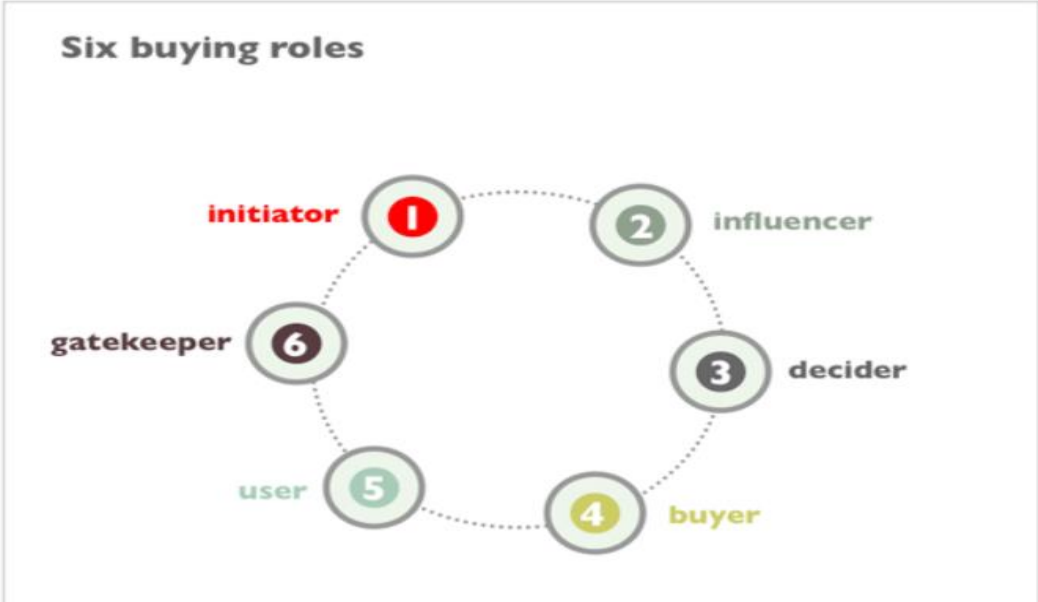
The six main **roles** in a **buying** centre are the users, influencers, **buyers**, deciders, and gatekeepers. In a generic situation, one could also consider the **roles** of the initiator of the **buying** process (who is not always the user) and the end users of the item being purchased.

Furthermore, what are the different roles that a customer can play in service purchases? Any marketplace transaction requires at least three **customer roles** :

(1) **buying**, that is selecting a product or **service** ;

(2) paying for it, and

(3) using or consuming it. Thus, a **customer can** be a buyer, a payer, or a user/**consumer**.



1. Initiator

First identifies the need to buy a particular product or service to solve an organisational problem.

2. Influencer

Their views influence the buying centre's buyers and deciders. This can be discussed through an Example like parents decide where small children should go and have fun .

3. Decider

Ultimately approves all or any part of the entire buying decision, whether to buy, what to buy, how to buy and where to buy. For example, in some cases, the parents to succumb to the child's pressure.

4. Buyer

Holds the formal authority to select the supplier and to arrange terms of condition. The parent that pays for the meal.

5. User

Consumes or uses the product or service. Example, Pulses bought at the store the whole family becomes the user.

6. Gatekeeper

Controls information or access (or both) to decision-makers and influencers.

5.2 Need to understand Consumer Behavior

The modern marketing management tries to solve the basic problems of consumers in the area of consumption. To survive in the market, a firm has to be constantly innovating and understand the latest consumer needs and tastes. It will be extremely useful in exploiting marketing opportunities and in meeting the challenges that the market offers.

Need To Study Consumer Behavior

1. The study of consumer behavior for any product is of vital importance to marketers in shaping the fortunes of their organizations.
2. It is significant for regulating consumption of goods and thereby maintaining economic stability.
3. It is useful in developing ways for the more efficient utilisation of resources of marketing. It also helps in solving marketing management problems in more effective manner.
4. Today consumers give more importance on environment friendly products. They are concerned about health, hygiene and fitness. They prefer natural products. Hence detailed study on upcoming groups of consumers is essential for any firm.
5. Consumers’ tastes and preferences are ever changing. Study of consumer behaviour gives information regarding colour, design, size etc. which consumers want. In short, consumer behaviour helps in formulating of production policy.
6. For effective market segmentation and target marketing, it is essential to have an understanding of consumers and their behaviour.

5.3 Buying Motives

It is the buying motives which induce a consumer to buy a particular product.

A lady may buy a sari for physical protection or for wearing something to look beautiful or as a status symbol.

This buying motive is a strong feeling, desire or emotion that makes the buyer to buy a product. Buying motives are those influencers or considerations which provide the impulse to buy , induce action or determine choice in the purchase of goods and services.

In short , a buying motive is the reason why buyers buy.

Types of Buying Motives:

1. ***Emotional and Rational Motives:*** When a consumer decides to buy without much logical thinking , his decision is said to be emotional. Emotional Buying motives are the motives which are affected by the feelings of the heart. Types of Emotional and Rational Motives are:
   A. Sex and Romance motives
   B. Love of others (Affection Motive)
   C. Social acceptance motive
   D. Recreational or relaxation motive
   E. Vanity Motive

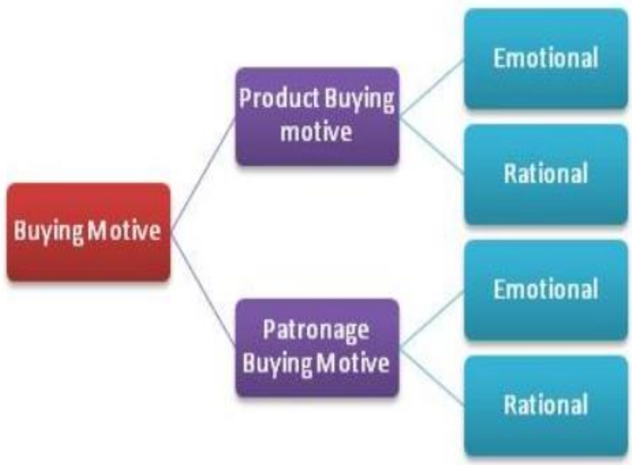
2. ***Rational Motives:*** When a buyer decides to buy after careful consideration or logical thinking, his decision is said to be rational. Buying with head and mind. In making rational purchases, the consumer considers prices, durability, dependability, efficiency, conveniences etc.

A. Monetary Motives
B. Efficiency in Operational and Use
C. Dependability Motive

3. **Product and Patronage Motives:** It refers to those influencers and reasons which make the consumer buy a certain product in preference to another.

a. Primary Product Motives: Basic need like hunger, thirst, sleeps etc.
b. Selective Product Motives: determine particular brand or item

4. **Patronage motives:** Patronage Motives are the reasons or considerations which makes a buyer to prefer one particular retailer, outlet or service provider over others.
   Example: Certain consumers' preference to buy Samsung Mobile phones over Apple's iPhone. Behind every buying decision made by the customer there is a motive. This motive could be rational or emotional. The Buyer's Motives are classified as below



Emotional Patronage buying motives

When a consumer patronages a particular retailer or outlet without any reasoning then he is said to be influenced by emotional patronage buying motives. Those motives are include

• Appearance of the store

• Display of goods inside the store

• Recommendations from Influencers

• Prestige

• Habits

• Imitation

Rational Patronage buying motives

When a consumer patronages a particular retailer by considering the possible benefits through logical reasoning then he is said to be influenced by rational buying motives. Those motives include

• Convenience

• Low price offered at the shop

• Availability of credit facilities

• Sale person efficiency

• Availability of wide options

• Reputation of the shop

• Previous experience in dealing with same shop/retailer

5.4 Consumer Decision making Process:

Many people think that the most important stage in a sale is when a customer hands over the money. But actually, when it comes to how to influence consumer behavior, every single step in the consumer decision-making process plays an important role. For businesses to maximize profit, it's imperative that they pay attention to every stage in the buying process.

Consumers don't just decide to buy. Their buying behavior is determined by many different factors. And too many businesses focus on optimizing certain steps — improving checkout, acquiring customers through SEO etc. — without looking at the big picture.

The consumer decision making process is the process by which consumers become aware of and identify their needs; collect information on how to best solve these needs; evaluate alternative available options; make a purchasing decision; and evaluate their purchase.

Understanding the consumer decision making process is important to any business, but ecommerce businesses have a unique opportunity to optimize it. Because online shoppers generate so much more data than those in brick-and-mortar stores, online retailers can use that data to implement conversion strategies for every stage of the process.

The 5 Stages of the Consumer Decision Making Process — And How to Optimize

It's important to note that the consumer decision making process has many different names, including but not limited to the buyer journey, buying cycle, buyer funnel, and consumer purchase decision process. But all the names essentially refer to the same thing: The journey a customer goes through when making a purchase.

So, here's a breakdown of what happens in each step:

Need recognition (awareness): The first and most important stage of the buying process, because every sale begins when a customer becomes aware that they have a need for a product or service.

Search for information (research): During this stage, customers want to find out their options.

Evaluation of alternatives (consideration): This is the stage when a customer is comparing options to make the best choice.

Purchasing decision (conversion): During this stage, buying behavior turns into action – it's time for the consumer to buy!

Post-purchase evaluation (re-purchase): After making a purchase, consumers consider whether it was worth it, whether they will recommend the product/service/brand to others, whether they would buy again, and what feedback they would give.

Now, to show you how these stages of the buying decision process play out in real life, here are consumer buying process examples that outline each of the steps and ways for your eCommerce brand to maximize results during each stage.

1. Need recognition (awareness)

The need recognition stage of the consumer decision making process starts when a consumer realizes a need. Needs come about because of two reasons:

Internal stimuli, normally physiological or emotional needs, such as hunger, thirst, sickness, sleepiness, sadness, jealousy, etc.

External stimuli, like an advertisement, the smell of yummy food, etc.

Even if the core cause is vanity or convenience, at the most basic level, almost all purchases are driven by real or perceived physiological or emotional needs. The causes for these stimuli can be social (wanting to look cool and well dressed) or functional (needing a better computer to do work more effectively), but they speak to the same basic drivers.

We buy groceries because without food in the house, we'll be hungry. We buy new clothes because we'll be cold, or we feel like everyone else has the latest handbag of the season, and we don't want to be left out.

Example: Looking for a New Camera

Think about it: Why does someone start looking for a new camera? Likely, their old camera isn't working well anymore, or they simply want a nicer camera. Maybe they have a vacation coming up. Or maybe they want to give the camera as a present to their sister, who just had her first child.

How in the world is this related to a physiological need? Simple. Without a camera, they won't be able to document special moments; therefore, they have an emotional desire to save these moments so that they are happy and not sad.

This emotional desire is the internal stimuli in this situation. Sure, a camera isn't a life necessity keeping them from surviving, but it does solve a core emotional need.

What happens after someone identifies a need? They begin looking for a solution! Which brings us to the next step in the customer journey: searching for information.

2. Search for information (research)

As soon as a consumer recognizes a need and begins to search for an answer, you must be there to help! And where do consumers generally go to look for answers today? Google!

Now that the customer has realized a need to get a new camera, it's time to find solutions to his problem. In this stage, it's imperative that you are visible to the consumer searching for an answer.

Here are some things a consumer may be searching for:

Best cameras 2020

What is the best affordable camera?

Which cameras are top-rated?

The amount of information a customer needs to search for depends on how much he already knows about the solutions available, as well as the complexity of choices. For example, let's say there's someone looking for a camera as a gift, and he has no idea which type of camera he wants, or what features he needs.

He will need more information than someone who already knows exactly the type of camera he wants to buy, but just needs to find the right product and the right way to purchase it.

The amount of searching necessary is entirely dependent on the situation, and it can vary widely.

So how do customers search for information? By using internal information (their previous knowledge of a product or brand) as well as external information (information about a product or brand from friends or family, reviews, endorsements, press reviews, etc.).

The biggest way you can optimize your online business during the need recognition and awareness stage is by making sure you show up in search results — and that what the consumer sees makes an impression.

Strategies to optimize during the research stage

First, make sure you're optimizing your ecommerce storefront to rank for the keywords that matter to your brand. For a complete guide on ecommerce SEO, check out our guide.

Once you know how to strategize your SEO, you'll want to make sure your results are well optimized to convert. User-generated reviews can help you to build brand awareness during the research stage. In fact, it's one of the most effective ways to do it.

3. Evaluation of alternatives (consideration)

Now that the consumer has done research, it's time to evaluate their choices and see if there are any promising alternatives. During this phase, shoppers are aware of your brand and have been brought to your site to consider whether to purchase from you or a competitor.

Consumers make purchase decisions based on which available options best match their needs, and to minimize the risk of investing poorly, they will make sure there are no better options for them.

Their evaluation is influenced by two major characteristics:

Objective: Features, functionality, price, ease of use

Subjective: Feelings about a brand (based on previous experience or input from past customers)

Example: Comparison shopping for a camera

If you're a camera seller or brand, your goal in the consideration stage is to convince customers your camera is the best choice. And the most effective way to do that is to keep them on your site longer and find ways to earn their trust.

Consumers will first weigh the objective characteristics of your camera. Does it have all the features I want? Is it easy to use? Is it in my budget? Then, the subjective consideration will kick in: Do *other people* think it has all the features it should? Has anyone else who bought it expressed any difficulty with learning how to use it? Is it generally considered a good value for the money?

You only have one shot – so you need to make the most of it. Of course, it's important that your site is informative, your prices are competitive, your value is clear, etc. But if you're identical to a competitor in every single way, the word of previous customers is what will set you apart.

4. Purchasing decision (conversion)

Alright, now it's money time. This is the stage when customers are ready to buy, have decided where and what they want to buy, and are ready to pull out their credit cards.

But wait! Not so fast. You can still lose a customer at this stage. This is the stage when the purchasing experience is key – it's imperative to make it as easy as possible.

Example: Abandoning checkout for a camera

Let's say your potential customer has gotten to the checkout stage of his purchase, and has second thoughts: What if the recipient wants a different camera? What if this camera is missing a key feature that the recipient would want? How difficult will it be for the recipient to return the camera if it doesn't meet their needs?

This shopper will likely abandon his cart, and go back to the research stage. Maybe he'll end up back on your site, but maybe he won't. Your goal at this stage is to get him to complete the purchase *now*, so you don't lose him forever.

5. Post-purchase evaluation (re-purchase)

In this stage of the consumer purchase decision process, consumers reflect on their recent purchase. They think about how they feel about it, if it was a good investment, and most importantly, if they will return to the brand for future purchases and recommends the brand to friends and family.

In this stage, you need to have a post-purchase strategy to increase the likelihood that customers will engage with your brand again in the future.

Example: Getting feedback and encouraging repeat purchases

In the camera example, the customer has already bought from your brand and they're evaluating their purchase. This is usually when they will leave a review about their experience. This is also when they are at their most engaged with your brand, and they can be susceptible to strategies that encourage long term engagement.

At this stage, you want to ensure that customers buy again, and you want to encourage them to leave UGC that helps other buyers in the future.

5.5 Organizational Buyer Behavior

Those who supply goods and services to consumer markets are themselves in need of goods and services to lUn their business. These organizations-producers, resellers, and government-make up vast marketing organizations that buy a large variety of products, including equipment, raw material, and labor and other services. Some organizations sell exclusively to other organizations and never come into contact with consumer buyers. Despite the importance of organizational markets, far less research has been conducted on factors that influence their behavior than on factors that influence consumers. However, we can identify characteristics that distinguish organizational buying from consumer buying and typical steps in the organizational buying process.

Five characteristics mark the organizational buying process:

1. In organizations, many individuals are involved in making buying decisions,

2. The organizational buyer is motivated by both rajonal and quantitative criteria dominant in organizational decisions; the decision makers are people, subject to many of the same emotional criteria used in personal purchases.

3. Organizational buying decisions frequently involve a range of complex technical dimensions. A purchasing agent for Volvo Automobiles, for example, must consider a number of technical factors before ordering a radio to go into the new model. The electronic system, the acoustics of the interior, and the shape of the dashboard are a few of these considerations.

4. The organizational decision process frequently spans a considerable time, creating a significant lag between the marketer's inItial contact with the customer and the purchasing decision. Since many new factors can enter the picture during this lag time, the marketer's ability to monitor and adjust to these changes is critical.

5. Organizations cannot be grouped into precise categories. Each organization has a characteristic way of functioning and a personality

The first item in this list of characteristics has important implications. Unlike the consumer buying process, organizational buying involves decision making by groups and enforces rules for making decisions.

These two characteristics greatly complicate the task of understanding the buying process. For example, to predict the buying behavior of an organization with certainty, it is important to know who will take part in the buying process, what criteria each member uses in evaluating prospective suppliers, and what influence each member has. It is also necessary to understand something not only about the psychology of the individuals involved but also how they work as a group. Who makes the decision to buy depends in part on the situation. Three types of buying situations have been distinguished: the straight rebuy, the modified rebuy, and the new task. The straight rebuy is the simplest situation: The company reorders a good or service without any modifications. The transaction tends to be routine and may be handled totally by the purchasing department. With the modified rebuy, the buyer is seeking to modify product specifications, prices, and so on. The purchaser is interested in negotiation, and several participants may take part in the buying decision. A company faces a new task when it considers buying a product for the first time. The number of participants and the amount of information sought tend to increase with the cost and risks associated with the transaction. This situation represents the best opportunity for the marketer.

The Types of product are :

1. Raw material

2. Fabrication parts &material

3. Installation of machinery

4. Accessories Equipment's

5. Operating Suppliers

- **Three important buying decision :**

1. Authority to purchase.

2. Determine the product specification.

3. Choice of supplier.

- **Three types of industrial buying situations:**

Straight Rebuy: buying in routine e.g. : stationery, wood , energy.

Modified Rebuy: modify parts specification or price change e.g.: Spare parts, technology

New Task: Buying for the first time for a new task, highest level of uncertainty e.g.: Plant, building

5.6 Stages in Organizational Buying

The organizational buying process contains eight stages, or key phrases. Although these stages parallel those of the consumer buying process, there are important differences that have a direct bearing on the marketing strategy. The complete process occurs likely in the case of a new task. Even in this situation, however, the process is far more formal for the industrial buying process than for the consumer buying process. Most of the information an industrial buyer receives is delivered through direct contacts such as sales representatives or information packets.

It is unlikely that an industrial buyer would use information provided through a trade ad as the sole basis for making a decision.

1. Problem recognition. The process begins when someone in the organization recognizes a problem or need that can be met by acquiring a good or service. Problem recognition can occur as a result of internal or external stimuli. External stimuli can be a presentation by a salesperson, an ad, or information picked up at a trade show.

2. General need description. Having recognized that a need exists, the buyers must add further refinement to its description . Working with engineers, users, purchasing agents, and others, the buyer identifies and prioritizes important product characteristics. Armed with extensive product knowledge, this individual is capable of addressing virtually all the product-related concerns of a typical customer. To a lesser extent, trade advertising provides valuable information to smaller or isolated customers.

Noteworthy is the extensive use of direct marketing techniques (for example, toll-free numbers and information cards) in co. Junction with many trade ads. Finally, public relations play a significant role through led placement of stories in various trade journals.

3. Product specification. Technical specifications come next. '!'his is usually the responsibility of the engineering department. Engineers design several alternatives, depending on the priority list established earner.

4. Supplier search. The buyer now tries [0 identify the most appropriate vendor. The buyer can examine trade directories, perform a computer search, or phone other companies for recommendations. Marketers can participate in this stage by contacting possible opinion leaders

and soliciting support or by contacting the buyer directly. Personal selling plays a major role at this stage

5. Proposal solicitation. Qualified suppliers are next invited to submit proposals. Some suppliers send only a catalog or a sales representative. Proposal development is a complex task that requires extensive research and skilled writing and presentation. In extreme cases, such proposals are comparable to complete marketing strategies found in the consumer sector.

6. Supplier selection. At this stage, the various proposals are screened and a choice is made. A significant part of this selection is evaluating the vendor. One study indicated that purchasing managers felt that the vendor was often more important than the proposal. Purchasing managers listed the three most important characteristics of the vendor as delivery capability, consistent quality, and fair price. Another study found that the relative importance of different attributes varies with the type of buying situations. For example, for routine-order products, delivery, reliability, price, and supplier reputation are highly important. These factors can serve as appeals in sales presentations and in trade ads.

7. Order-routine specification. The buyer now writes the final order with the chosen supplier, listing the technical specifications, the quantity needed, the warranty, and so on.

8. Performance review. In this final stage, the buyer reviews the supplier's performance. This may be a very simple or a very complex process.

Summary

Leading companies such as The Coca-Cola Company and Barclays, have constantly improved its existing products and focused on developing new products. The Coca-Cola Company aligns its corporate strategy of 'refreshing everyone who is touched by our business', by conducting market research to identify consumer behavior. Similarly, Barclays conducted consumer behavior study to better understand the needs of this target market.

Consumer behavior analysis has emerged as an important tool to understand your customers. By looking into consumer psychology and the forces behind customer buying behavior, companies can craft new products, marketing campaigns and increase profitability.

Companies should talk to consumers, watch out for frustrations, and most importantly, identify their needs and expectations!

Keywords

Consumer, Customer, Behavior, Stages, Awareness, Potential Customers, Marketing, Value, Research

Self Assessment

1. All those factors particular to a time and place that do not follow from knowledge of the stable attributes of the consumer and the stimulus and that have an effect on current behavior are known as _____.

A) situational influence

B) motivators

C) consumption triggers

D) consumption influencers

2. Which of the following also includes a situation-specific component?

A) personality
B) self-concept
C) involvement
D) demographics

3. At the top of Maslow's hierarchy of needs are ________ needs.

A) esteem
B) self-actualization
C) social
D) safety

4. ________ refers to a set of distinguishing human psychological traits that lead to relatively consistent and enduring responses to environmental stimuli.

A) Image
B) Personality
C) Psychological transformation
D) Lifestyle

5. The relatively homogeneous and enduring divisions in a society, which are hierarchically ordered and whose members share similar values, interests, and behavior constitute ________.

A) a culture
B) a subculture
C) a social class
D) a family

6. A person's ________ consist(s) of all the groups that have a direct (face-to-face) or indirect influence on his/her attitudes or behavior.

A) subculture
B) family
C) social class
D) reference groups

7. The headline for the Rockport shoes ad reads, "I'm comfortable being the greatest that ever was or will be. Be comfortable. Uncompromised. Start with your feet." The ad shows a picture of Muhammad Ali, world famous boxer. In terms of Maslow's hierarchy, this ad was designed to appeal to the consumer's _______________.

A) Psychological needs

B) Need for esteem

C) Safety needs

D) Self-actualization need

8. Which of the following is NOT a situation in which consumer behavior occurs?

A) communications situation

B) purchase situation

C) usage situation

D) all of the above are situations in which consumer behavior occurs

9. In terms of consumer behavior; culture, social class, and reference group influences have been related to purchase and _______________.

A) Economic situations

B) Situational influences

C) Consumption decisions

D) Physiological influence

10. Which of the following is an example of a social influence on consumer behavior?

A) The fashion editor of Seventeen magazines writes that any teen who wants to be well-dressed for the first day of school must wear a shirt that shows her bellybutton

B) The manufacturer of a line of aromatherapy candles markets them at very exclusive stores

C) When Arne went to the store to buy a new dress for Easter, she decided not to buy anything because of the crowded conditions of the store

D) Billie purchased a pair of Honey brand clogs instead of the Birkenstocks she wanted because the Birkenstocks were too expensive.

11. When preparing Thanksgiving dinner last year, Marissa worried that her parents would hate the fact that she served bought pumpkin pies rather than making her own. In terms of social influences on her behavior, Marissa was most concerned with_________________.

A) A primary reference group

B) A subculture influence

C) A secondary reference group

D) Cultural values

12. As the mother of the groom, Ann was willing to wear the subdued-colored, tailored suit that the bride had selected for the wedding until the sales clerk showed Ann a red offthe-shoulder cocktail dress. Because the sales clerk kept telling Ann how great the dress

looked and because the price of the dress was substantially lower than the suit Ann bought the dress to wear to the wedding. Assuming Ann really likes her son's fiancée and does not want to do anything to damage her relationship with him or his bride, Ann's decision to buy the red dress was a result of ________________ influences.

A) Economic
B) Marketing
C) Reference group
D) Cultural

13. As the mother of the groom, Ann was willing to wear the subdued-colored, tailored suit that the bride had selected for the wedding until the sales clerk showed Ann a red offthe-shoulder cocktail dress. Because the sales clerk kept telling Ann how great the dress looked and because the price of the dress was substantially lower than the suit Ann bought the dress to wear to the wedding. Assuming Ann really likes her son's fiancée and does not want to do anything to damage her relationship with him or his bride, Ann's decision to buy the red dress was a result of ________________ influences.

A) Economic
B) Marketing
C) Reference group
D) Cultural

14. Marketing strategies are often designed to influence _______________ and lead to profitable exchanges.

A) Consumer decision making
B) Sales strategies
C) Advertising strategies
D) Export strategies

15. One of the key tasks of marketers is ____________ and to create consumer perceptions that the product is worth purchasing.

A) To make products easily visible and available
B) To promote sales of products
C) To differentiate their products from those of competitors
D) To do marketing surveys

16. One of the key tasks of marketers is ____________ and to create consumer perceptions that the product is worth purchasing.

A) To make products easily visible and available

B) To promote sales of products

C) To differentiate their products from those of competitors

D) To do marketing surveys

Answers for Self Assessment

1.	A	2.	C	3.	B	4.	B	5.	A
6.	D	7.	C	8.	D	9.	C	10.	A
11.	A	12.	B	13.	B	14.	A	15.	C
16.	C								

Review Questions

1. Discuss why an understanding of consumer needs is important for marketing strategy. Explain specific ways in which an understanding of needs can be used to influence consumers. Provide an example to illustrate your answers.
2. How does the family influence the consumer socialization of children? What role does television play in consumer socialization?
3. Explain the scope of Consumer Behaviour.
4. What are the different applications of Consumer Behaviour in different areas?
5. Explain the basic components of consumer behaviour.

Further Readings

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Unit 06: Segmentation Decisions

CONTENTS

Objective

Understand characteristics, types and benefits of market Segmentation.

Introduction

The segmentation concept was first developed by Smith in 1957, and is concerned with grouping consumers in terms of their needs. The aim of segmentation is to identify a group of people who have a need or needs that can be met by a single product, in order to concentrate the marketing firm's efforts most effectively and economically. For example, if a manufacturer produces a standardised product by a mass-production method, the firm would need to be sure that there are sufficient people with a need for the product to make the exercise worthwhile.

The assumptions underlying segmentation are:

- Not all buyers are alike.
- Sub-groups of people with similar behaviour, backgrounds, values and needs can be identified.
- The sub-groups will be smaller and more homogeneous than the market as a whole.
- It is easier to satisfy a small group of similar customers than to try to satisfy large groups of dissimilar customers.

Reasons for Segmenting Markers

In general, customers are willing to pay a premium for a that meets their needs more specifically than does a competing product. Thus marketers who successfully carry out market segmentation and adapt their products to the needs of one or more smaller segments stand to gain in terms of increased profit margins and reduced competitive pressures. There are several important reasons why market segmentation needs to be done carefully. Some of the reasons are outlined below.

Better matching of customer needs – Customer needs differ. Creating separate offers for each segment makes sense and provides customers with a better solution.

Enhanced profits for business – Customers have different disposable income. They are, therefore, different in how sensitive they are to price. By segmenting markets, businesses can raise average prices and subsequently enhance profits.

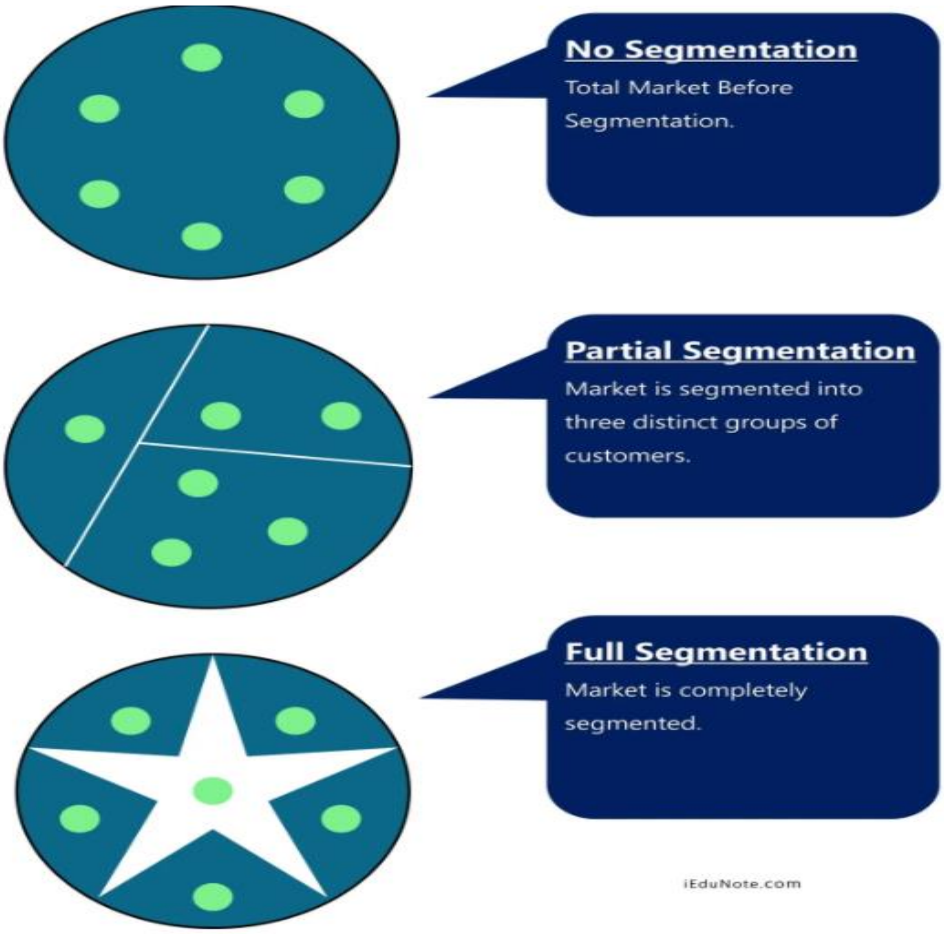
Better opportunities for growth – Market segmentation can build sales. For example, customers can be encouraged to "trade-up" after being introduced to a particular product with an introductory, lower-priced product

Retain more customers – Customer circumstances change, for example they grow older, form families, change jobs or get promoted, change their buying patterns. By marketing products that appeal to customers at different stages of their life ("life-cycle"), a business can retain customers who might otherwise switch to competing products and brands

Target marketing communications – Businesses need to deliver their marketing message to a relevant customer audience. If the target market is too broad, there is a strong risk that

(1) the key customers are missed and

(2) the cost of communicating to customers becomes too high / unprofitable. By segmenting markets, the target customer can be reached more often and at lower cost



Gain share of the market segment – Unless a business has a strong or leading share of a market, it is unlikely to be maximizing its profitability. Minor brands suffer from lack of scale economies in production and marketing, pressures from distributors and limited space on the shelves.

Each consumer is an individual with individual needs and wants. On the face of it, this creates a major problem for the marketer, since it would clearly be impossible to tailor-make or customize each product to the exact requirements of each individual. Before the Industrial Revolution most products were individually made. This proved to be expensive, and essentially inefficient once mass-production techniques had come into being.

Unfortunately, mass-production (taken to the extreme) means a reduction in the available choice of product, since the best way to keep production costs low is to have long production runs, which means standardizing the product. Every adaptation costs money in terms of re-tooling and re-packaging the product. In some economies, particularly those in parts of Eastern Europe and in the Third World, there is not sufficient wealth or investment in industry to allow for the production of many different types of product. These economies still rely heavily on mass production, and mass marketing. Mass marketing (or undifferentiated marketing) in which a standard product is produced for all consumers will only be effective if the consumers concerned have little choice and do not already own a product that meets the main needs.

For example, in 1930s Germany few families owned cars. Hitler promised the German people that every family would own a car, so Porsche was commissioned to develop the Volkswagen (literally 'people's car') as a basic vehicle, which could be cheaply produced for the mass market. This approach is less effective in economies where most consumers already own the core benefits of the product. Once car ownership was widespread and the core benefit of personal transportation was owned by most families, consumers demanded choices in features and design of their vehicles. Segmentation deals with finding out how many people are likely to want each benefit, roughly how much they will be willing to pay for it, and where they would like to buy it from

6.1 Evolving Marketing Strategies

Mass marketing: an attempt to appeal to an entire market with one basic marketing strategy utilizing mass distribution and mass media. Also known as undifferentiated marketing.

Product variety: an attempt to appeal the entire market with a huge variety of products produced in mass is made.

Target Marketing: is a market segmentation and market coverage strategy whereby a product is developed and marketed for a very well defined, specific segment of the consumer population

6.2 Advantages of Segmentation

Advantage	Explanation
Customer analysis	By segmenting, the firm can get to understand its best customers better.
Competitor analysis	It is much easier to recognise and combat competition when concentrating on one small part of the overall market.
Effective resource allocation	Companies' scarce resources can be concentrated more effectively on a few consumers, rather than spread thinly across the masses.
Strategic marketing planning	Planning becomes easier once the firm has a clear picture of its best customers.
Expanding the market	Good segmentation can increase the overall size of the market by bringing in new customers who fit the profile of the typical customer, but were previously unaware of the product.

6.3 Market Segmentation

Market segmentation is sub dividing of customers into homogenous sub set of customers where any sub set may conceivably selected as market target to be reached with distinct marketing mix

Segmentation refers to a process of bifurcating or dividing a large unit into various small units which have more or less similar or related characteristics.

Features of Market Segmentation

1. Market segmentation is a marketing concept which divides the complete market set up into smaller subsets comprising of consumers with a similar taste, demand and preference.
2. A market segment is a small unit within a large market comprising of like minded individuals.
3. One market segment is totally distinct from the other segment.
4. A market segment comprises of individuals who think on the same lines and have similar interests.
5. The individuals from the same segment respond in a similar way to the fluctuations in the market.

6.4 Basis of Market Segmentation

Gender

The marketers divide the market into smaller segments based on gender. Both men and women have different interests and preferences, and thus the need for segmentation.

Organizations need to have different marketing strategies for men which would obviously not work in case of females.

A woman would not purchase a product meant for males and vice a versa.

The segmentation of the market as per the gender is important in many industries like cosmetics, footwear, jewellery and apparel industries.

Age Group

Division on the basis of age group of the target audience is also one of the ways of market segmentation.

The products and marketing strategies for teenagers would obviously be different than kids.

Age group (0 - 10 years) - Toys, Nappies, Baby Food, Prams
Age Group (10 - 20 years) - Toys, Apparels, Books, School Bags
Age group (20 years and above) - Cosmetics, Anti-Ageing Products, Magazines, apparels and so on

Income

Marketers divide the consumers into small segments as per their income. Individuals are classified into segments according to their monthly earnings.

The three categories are:

- High income Group
  Mid Income Group
  Low Income Group

Stores catering to the higher income group would have different range of products and strategies as compared to stores which target the lower income group.

Pantaloon, Carrefour, Shopper's stop target the high income group as compared to Vishal Retail, Reliance Retail or Big bazaar who cater to the individuals belonging to the lower income segment.

Marital Status

Market segmentation can also be as per the marital status of the individuals. Travel agencies would not have similar holiday packages for bachelors and married couples.

Occupation

Office goers would have different needs as compared to school / college students.

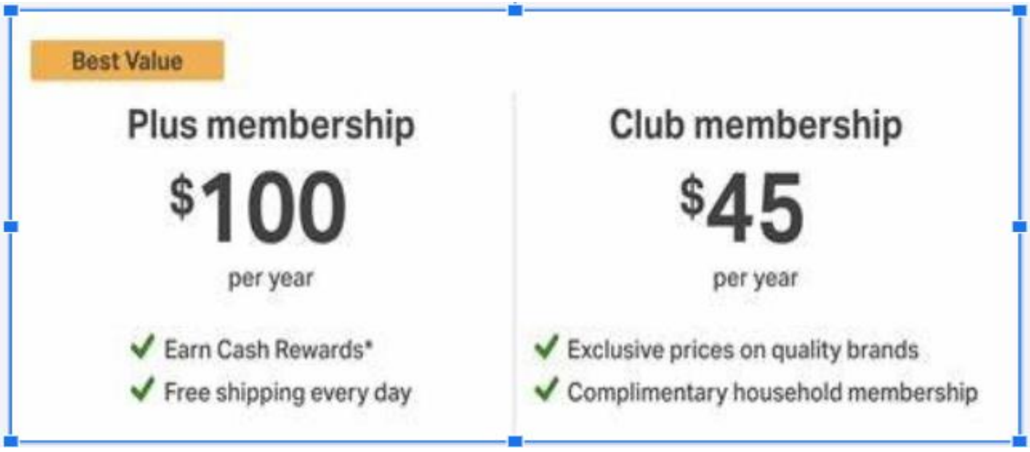
A beach house shirt or a funky T Shirt would have no takers in a Zodiac Store as it caters specifically to the professionals.

6.5 Types of Market Segmentation

- **Psychographic segmentation**

The basis of such segmentation is the lifestyle of the individuals. The individual's attitude, interest, value help the marketers to classify them into small groups. Psychographic segmentation classifies consumers according to their personalities.

As the reliability of measures has improved, more evidence has come to light of links between personality and consumer behaviour,5 but psychographic segmentation remains problematical because of the difficulties of measuring consumers' psychological traits on a large scale. This type of segmentation therefore often fails on the grounds of accessibility. For example, researchers might find out that there is a group of people who relate the brand of coffee that they buy to their self-esteem. The problem then is that there is no obvious medium in which to advertise this feature of the coffee: if there were a magazine called Coffee Makes Me Feel Good Monthly there would be no problem. The advertisers are therefore left with the mass media, such as TV advertising, which may be far too expensive for the purpose. Some of the most creative ideas in marketing have revolved around ways of gaining access to such segments.



- **Geographic Segmentation**

Geographic segmentation refers to the classification of market into various geographical areas. A marketer can't have similar strategies for individuals living at different places.

Nestle promotes Nescafe all through the year in cold states of the country as compared to places which have well defined summer and winter season.

McDonald's in India does not sell beef products as it is strictly against the religious beliefs of the countrymen, whereas McDonald's in US freely sells and promotes beef products.

Geographic segmentation may be carried out for a number of reasons.

• The nature of the product may be such that it applies only to people living within a specific area, or type of area. Clothing manufacturers know that they will sell more heavy-weather clothing in cold coastal areas than in warm inland areas.

• If the company's resources are limited, the firm may start out in a small area and later roll out the product nationally.

• It might be that the product itself does not travel well. This is true of sheet glass, wedding cakes and most personal services such as hairdressing. Markets may be segmented geographically according to the type of housing in the area. Firms that supply products specifically aimed at elderly people in retirement areas. Products aimed at young people might be heavily marketed in university towns, and so forth.

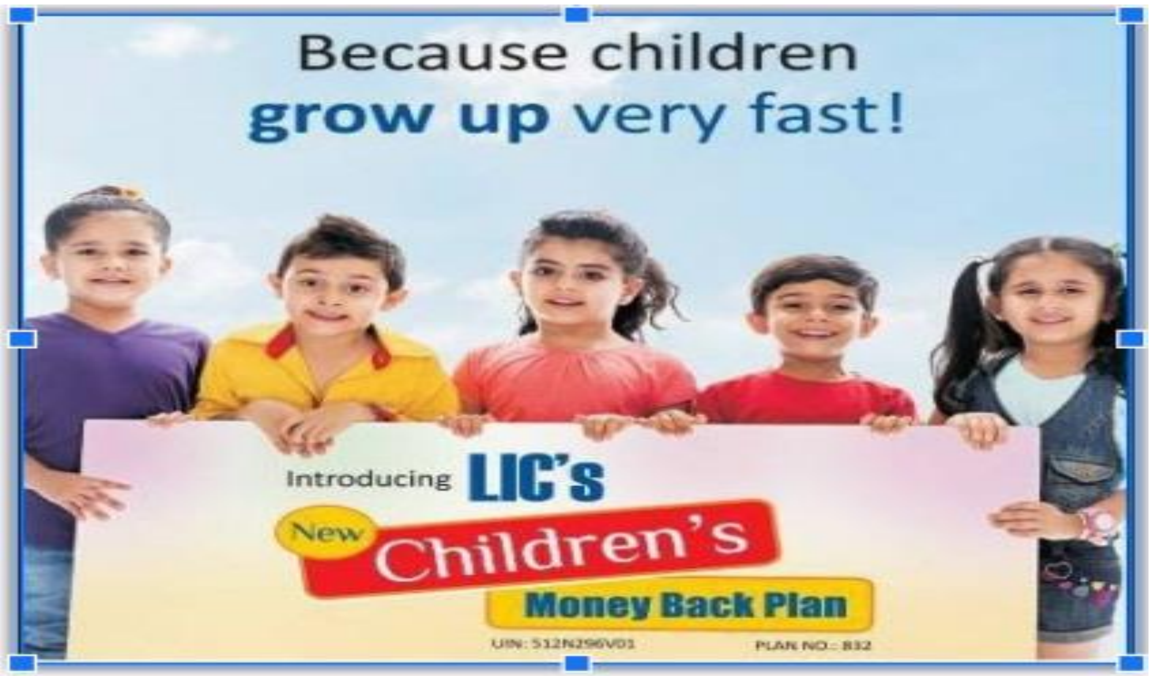
Segmentation of consumer based on factors like climate zone, continents/country, region , state , district and urban/rural area.

Demographic Segmentation

Demographic segmentation is the most commonly used method of segmenting markets, probably because it is easy to pick up the relevant information from Segmentation variables 79 government statistics. Demographics is the study of how people differ in terms of factors such as age, occupation, salary and lifestyle stage.

Typically, demographic segmentation revolves around age. While this is relevant in many cases, it is often difficult to see the difference between, say, a 20-year-old's buying pattern and a 30-year-old's buying pattern. Equally, it cannot be said with much reliability that all 10-year-olds share the same tastes. There are undoubtedly 10-year-olds who would not want to visit Disneyland or Luna Park, and 10-year-olds who would prefer simple burger to a hamburger. Age is, of course, relevant but it should be included as part of a range of measures, not relied upon on its own.

Demographic variables are shifting over time, as the birth rate falls and the average age of the population rises. In addition, the number of single-person households is rising as people marry later and divorce rates increase: in 2001, single-person households represented 30% of UK households.



The implications of this one change for marketers are far-reaching; here are some of the possibilities: • Increase in sales of individual packs of food.

• Increase in sales of recipe products and ready meals.

• Decrease in sales of gardening equipment and children's items.

• Increase in sales of mating-game items.

• Decrease in family-sized cars, packs of breakfast cereal, cleaning products, etc.

In Australia, immigration from South-East Asia is causing major changes in eating habits, religious observances and the linguistic structure of the country. In some cases, marketing activities have themselves contributed to a cross-fertilization of cultural behavior, so that individuals from one ethnic group behave in ways more usually associated with another group.

This culture swapping means that ethnic and racial segmentation is no longer possible in most cases. Overall, demographic change means that new segments are emerging, some of which offer greater opportunities to marketers than do the segments they replace. Marketers need to monitor these changes in the demography if they are to remain able to segment the market effectively. Not all segmentation variables will be appropriate to all markets. A pizza company might segment a market geographically (locating in a town centre) but would not segment by religion; the situation would be reversed for a wholesale kosher butcher. This is despite the fact that both firms are in the food business. Single-variable segmentation is based on only one variable, for example size of firm. This is the simplest way to segment, but is also the most inaccurate. To achieve multivariable segmentation, several characteristics are taken into account. The more characteristics are used, the greater the accuracy and effectiveness, but the smaller the resulting markets.

- ## Behavioristic Segmentation

The loyalties of the customers towards a particular brand help the marketers to classify them into smaller groups, each group comprising of individuals loyal towards a particular brand.Behavioural segmentation can be a useful and reliable way of segmenting. At its most obvious, if the firm is marketing to anglers they are not interested in how old the anglers are, what their views are on strong drink, or where they live. All the firm cares about is that they go fishing, and might therefore be customers for a new type of rod. Accessing the segment would be easily undertaken by advertising in the angling magazines.

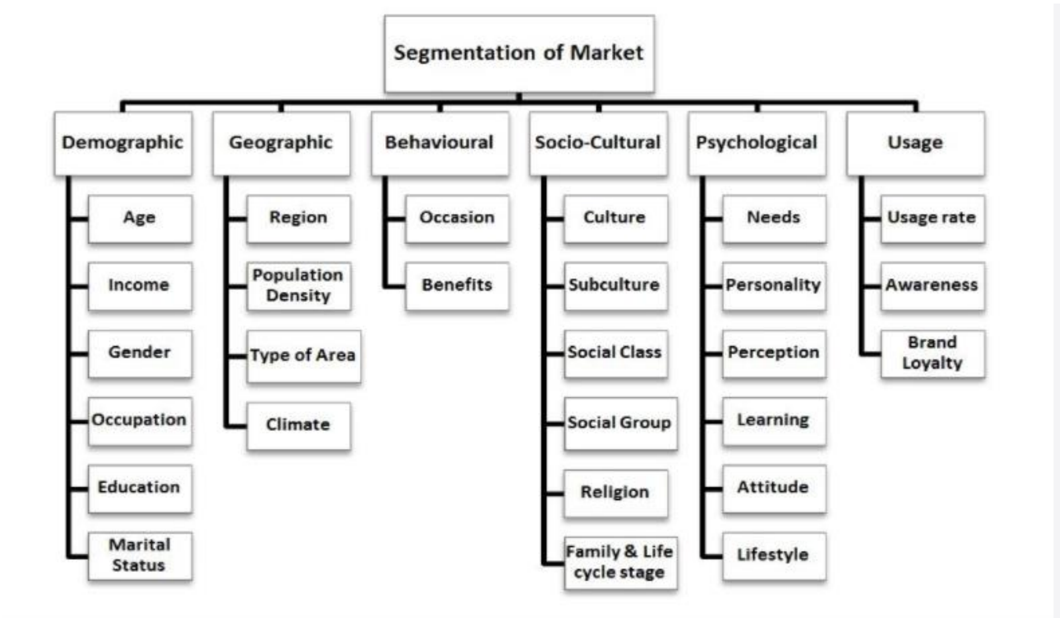
At a deeper level the firm might be interested in such issues as where they buy their fishing tackle, how much they usually spend on a rod, what kind of fish they are after, and so forth, but this information is easily obtained through questionnaire-type surveys. Lifestyle analysis has been widely used for the past 30 years or so, and seeks to segment markets according to how consumers spend their time, what their beliefs are about themselves and about specific issues, and the relative importance of their various possessions (e.g. cars, clothes, homes). The attraction of this approach is that it takes account of a wide range of characteristics of the segment,6 encompassing some psychographic features and some behavioural features. The customers can be divided into certain segments on the basis of their knowledge, use or response to a product. Such behavioural variables are:

1. **Occasion** :

2. **Benefit Sought:**

3. **User Status :**

Overall Bases of Segmentation:



6.6 Segmenting Industrial Markets

Industrial or organisational markets can be, and are, segmented by marketers according to the following criteria:

• Geographic location. Probably the commonest method, since most organisational markets are serviced by salespeople, and geographical segmentation enables the salesperson to make best use of drive time. Often firms in the same industry will locate near each other, perhaps because of availability of raw materials, or for traditional reasons to do with availability of local skilled workers.

• Type of organisation. IBM segments its market according to the industry the customer is in. This means that some IBM salespeople specialise in banking, others in insurance, others perhaps in local government applications of the equipment.

• Client company size. Many companies have separate salesforces to deal with large accounts.

• Product use. Oil companies have separate strategies (and sometimes separate subsidiaries) for marketing household central-heating oil, for the plastics industry, for petrochemicals and for automotive sales.

• Usage rate. Customers who use large quantities of a given product will expect (and get) different treatment from customers who buy only in small quantities. This is partly because their needs are different, and partly because the supplier will tend to value the large buyer over the small buyer.

For example, a glass manufacturer might begin by segmenting according to type of industry (window glass for construction, toughened glass for cars, bottles and jars for food packaging). Within the food packaging market the industry might break down further to pickles and sauces, wines and beers, and soft drinks. The wine and beer bottle market may further break down into major brewers and bottlers who buy in large quantities, and small privately owned vineyards who buy on a once-a-year basis. Some of the brewers may buy by tender, some may prefer to use a regular supplier, and some may have special requirements in terms of bottle shape or design.

As in consumer markets, it is not necessarily the case that buyers act from wholly rational motives so it would be unreasonable not to Segmenting industrial markets 81 include the buyers' personal characteristics in the segmentation plan somewhere. This is likely to be the province of the salesforce since they are dealing with the buyers on a day-to-day basis

6.7 Levels of Marketing Segmentation

Levels of market segmentation are;

1. Mass Marketing or Undifferentiated Marketing.
2. Product-Variety Marketing or Differentiated Marketing.
3. Concentrated Marketing or Niche Marketing.
4. Micro Marketing.

To understand market segmentation levels, we need to see what a market looks like with no, partial and full segmentation. Let see a hypothetical six buyers the market and how they are segmented;

1. Mass Marketing or Undifferentiated Marketing – Target the entire market with just one marketing campaign.

Mass marketing is the process of communicating a product to the entire market with one marketing strategy, using the power of mass distribution and mass media.

Also, know as undifferentiated marketing because this strategy does not target individual market segments. Different market segments are marketed with the same blanket approach, usually to maximize sales volume.

Most businesses try combining mass and niche marketing strategies.

Advantages of Mass Marketing

- Economies of scale can be obtained in mass markets because of enormous size. Thus, the average cost of bringing the product to the market will be lower, and hence, profit margins higher.
- Only one marketing plan is required, and no specific market segment is targeted. One marketing campaign targets the whole market, facilitating marketing economies of scale.
- Providing products for a mass market enables establishing a more extensive base of customers. This will generally increase profitability.

Limitations of Mass Marketing

- In mass marketing, the competition is usually broad and extreme.
- There are very high barriers to entry for mass markets. Often incumbent competition has invested in capital equipment, large-scale factories, offshore centers, efficient supply chain management processes, etc. Huge competition can make it extremely difficult to compete in a mass-market as a new firm successfully.
- Mass marketing is less focussed, requires more resources.
- The company can suffer a high loss if the marketing strategy fails.

2. Product-Variety Marketing or Differentiated Marketing – Target the Entire market with different products and marketing mix

In Product-Variety Marketing or Differentiated Marketing, the marketer divides the market into different segments depending on the consumer's buying behavior, requirements, purchasing power, location, and age level.

In product-variety marketing, the seller produces two or more products that have different features, styles, quality, and so on. Subsequently, Kohinoor produced several kinds of toothpaste bearing different brands with other packages. They were designed to offer variety to consumers rather than creating various appeals to different market segments.

Differentiated marketing helps the marketer to connect to each type of customer in the best possible way. Most companies use different market segments for marketing its entire list of products which caters to different market levels.

The promotional and advertising activities for a particular focus only to the target market for that product.

For example, Unilever sells different brands of soap-like—Lux, Lifebuoy, wheel, etc.

In differentiated marketing, firms promote several products with different marketing mixes for serving smaller market segments.

By providing increased satisfaction for each of many target markets, a company produces more sales, increases production, inventory, and promotional costs.

A company can remain competitive and profitable despite the higher marketing costs. The increased marketing cost actually comes back as ROI with a high number of sales and a huge loyal customer base.

3. Niche Marketing or Concentrated Marketing – Target a few well-defined segments of the market

Niche marketing targets specific and well-defined market segments and concentrates all marketing efforts on a small but specific and well-defined segment of the population.

Niches are 'created' by identifying needs, wants, and requirements addressed poorly or not at all by other firms, and developing and delivering goods or services to satisfy them.

As a strategy, niche marketing aims to be a big fish in a small pond instead of being a small fish in a big pond.

A niche may be identified by dividing a segment into sub-segments or by defining a group with a different set of characteristics who may look for a unique combination of benefits of attributes in the product

The main requirements or characteristics of Niche Marketing are

Customers have a distinct set of needs and want from the service or product.

The seller of the service provider needs more skill or niche skills.

Premium prices for higher quality and specialized niche services.

Advantages of Niche Marketing

When a specific market segment is targeted in a firm's marketing, marketing tends to be more focused and likely to have a greater appeal within the targeted segment. Mass marketing is not as focused and, as such, tends to focus on the 'average' consumer.

Businesses can become highly specialized in finding out the needs and wants of a niche market they are targeting. With needs and wants being better met, customer loyalty can ensue.

Competitive rivalry within a niche market is less than that for broader markets. Less competition can translate into increased pricing power for a firm's differentiated products, which, in turn, can lead to increased profitability.

Limitations of Niche Marketing

Niche markets, by their definition, are small. The number of total potential customers in the market is limited. Niche marketing strategies may miss potential customers and depress sales revenues.

Economies of scale may not be obtained in niche markets due to their limited size. Thus, the average cost of bringing the product to the market will be higher, leading to higher prices and or lower profit margins.

Profitable niche markets with low barriers to entry are likely to attract new competitors into the industry. Niche markets are small and cannot sustain a relatively high number of competitors.

Rather than market its products separately to several segments, a firm opt for a concentrated marketing approach.

With concentrated marketing or niche marketing, a firm focuses on profitably satisfying only one market segment. It may be a small segment but a profitable segment.

This approach can appeal to a small firm that lacks the financial resources of its competitors and to a company that offers highly specialized goods and services. Along with its benefits, concentrated marketing has its dangers.

Since this approach ties a firm's growth to a particular segment, changes in the size of that segment or customer buying patterns may result in severe financial problems.

Sales may also drop if new competitors appeal successfully to the same segment. Niche marketing leaves the fortunes of a firm to depend on one small target segment.

4. Micro Marketing – Target at a very basic level of the market segment

Micro-marketing looks at the activities individual in marketers in the entire economic sector. This approach is still more narrowly focused than concentrated marketing. Micro-marketing involves targeting potential customers at a very basic level, such as postal code, specific occupation, or lifestyle.

Ultimately, micromarketing may even target individuals themselves. It is referred to as marketing to segments of one. The internet allows marketers to boost the effectiveness of micromarketing.

With the ability to customize (individualization attempts by the firm) and to personalize (individualization attempts by the customer), the internet offers the benefit of mass customization – by reaching the mass market with individualized offers for the customers.

Several types of micro marketing;

- Local Marketing.
- Individual Marketing

Local marketing

In Local marketing, the seller or the marketer only concentrates on the local market. The products also have the local appeal or the local usages, and the promotional activities are planned based o the location only with local flavor.

Here the cost remains high due to lower production, and competition is also less. Marketers can concentrate on mom in the local market to reach all the customers in the region. The best example would be the marketing of regional chain of hotels or restaurants, locally produced food products, etc.

Local marketing can be studied from both the retailer and manufacturer perspective. For the retailer, local marketing implies the optimization of the store's marketing mix.

For the manufacturer, local marketing implies optimizing the product's marketing mix at the store level. We focus on the interaction between manufacturers and retailers, how manufacturers and retailers optimize the marketing mix for a product (category) at the store level.

Individual Marketing

Individual marketing focuses on satisfying the needs and wants of individual customers it's also known as one-to-one marketing and customized marketing; it's the segmentation level where the seller offers a customized product to the consumer.

In simple words, making and selling product(s) according to the needs and preferences of the consumer.

For example, a Fabrics company will cut your cloths according to the needs of the individual customers.

Individual Marketing happens when several specific attributes are "fulfilled" will the personal message be automatically triggered by one person.

The more attributes included triggering the message, the more relevant it becomes for the person. Let's look at the type of attributes.

Customer profile attributes: A simple message commonly used is the birthday month promotion.

New and renewal: Sending automatic messages triggered to the person based on the new, active, lapsing, or inactive customers (or members) group. The content will be relevant based on their activity level.

Buying behavior: The spending history (the type of product, average spend, frequency, changing spending patterns) is used to trigger a message.

Channel behavior: the channel interactions (web, mobile, e/m-commerce, social media, visits) is used to trigger a message.

Customer sentiments: may include feedback forms, service cases, likes on social media.

Location: These are often real-time messages being sent when a person is close to, outside, or inside a particular location.

However, many triggers may be using multiple attributes across categories to send the message.

Example of individual marketing:

A person has recently bought shirts on your e-commerce site.

Based on his previous spending pattern, he usually also buys ties to go with the shirts. You have recently launched a new set of ties in one of your stores. Three days later, as he walks down the street outside your store, your beacon detects that he is very close by.

Based on this information, the following push message with a picture is automatically created and sent via your mobile app to the customer: "Within the next 2 hours you have 10% off our new ties that have just arrived".

Summary

Because the market and its buyers are vastly diverse, most companies cannot compete in an entire market. So a company must identify the parts of the market that it can serve profitably.

Companies, nowadays, are shifting from mass marketing and product-variety marketing and micro-marketing toward target marketing. Target marketing is more useful to sellers in locating their marketing opportunities.

Sellers can develop the most appropriate product for each target market and mold their prices, distribution channels, and advertising to reach the target market efficiently.

While sellers adopt the "shotgun" approach (scattering marketing efforts) in mass marketing and product-variety marketing, they adopt the "rifle" approach (focusing on the buyers who have greater purchase interest) in target marketing.

With the increasing fragmentation of mass markets into many micro-markets, each with different needs and preferences, target marketing is increasingly assuming the form of micromarketing.

Adopting micromarketing, companies develop their marketing programs to the needs and wants of narrowly defined geographic, demographic, psychographic, or behavior segments.

Target marketing finally takes the form of customized marketing. In customized marketing, the company adapts its product and marketing program to the needs of a specific customer or buying organization.

Keywords

Segmentation, Mass Marketing , Individual Marketing , Niche Marketing , Geographic Segmentation, Demographic Segmentation, psychographic Segmentation

Self Assessment

1. ___________marketing is an attempt to appeal to an entire market with one basic marketing strategy

A. Mass marketing

B. Counterfeit Marketing

C. Direct Marketing

D. Profitable marketing

2. ___________is sub dividing of customers into homogenous sub set of customers where any sub set may conceivably selected as market target to be reached with distinct marketing mix

A. Mass Marketing
B. Collective marketing
C. Distributive Segmentation
D. Market Segmentation

3. Segmenting consumer based on factors like climate zone, continents/country, region , state , district and urban/rural area.

A. Demographic Segmentation
B. Geographic segmentation
C. Psychographic Segmentation
D. Behavioural Segmentation

4. __________ segmentation Groups customers according to their life-style and buying psychology.

A. Demographic Segmentation
B. Geographic segmentation
C. Psychographic Segmentation
D. Behavioural Segmentation

5. The customers can be divided into certain segments on the basis of their knowledge, use or response to a product. This type of segmentation is known as :

A. Demographic Segmentation
B. Geographic segmentation
C. Psychographic Segmentation
D. Behavioural Segmentation

6. Effective Market Segmentation is

A. Measurable and Accessible
B. Sustainable
C. Differentiable and actionable
D. All the above

7. The products are made to cater the needs and wants of all the people. This type of marketing is known as :

A. Mass marketing
B. Segmentation
C. Niches
D. Individualized Marketing

8. Porsche concentrates only on the sports car market. This type of marketing is known as :

A. Mass marketing
B. Segmentation
C. Niches
D. Individualized Marketing

9. Plus Size clothing is an example of which type of marketing :

A. Mass marketing
B. Segmentation
C. Niches
D. Individualized Marketing

10. A __________ is a more narrowly defined customer group. It is identified by dividing a segment into sub segments.

A. Mass marketing
B. Segmentation
C. Niches
D. Individualized Marketing

11. The Ultimate level of segmentation leads to segments of one, also called ______.

A. Mass marketing
B. Segmentation
C. Niches
D. Individualized Marketing

12. Lenskart marketing of AI enabled social media sharing is an example of :

A. Mass marketing
B. Segmentation
C. Niches
D. Individualized Marketing

13. The companies that target market very narrowly is called:

A. mass marketing
B. segment marketing
C. Niche Marketing
D. micro marketing

14. Niche marketing helps more in

A. smaller firms
B. larger firms

C. business giants
D. retail stores

15. Toyata corporation which produces several several different brands of cars is an example of

A. Mass marketing

B. Segmentation

C. Niches

D. Individualized Marketing

Answers for Self Assessment

1.	A	2.	D	3.	B	4.	C	5.	D
6.	D	7.	A	8.	B	9.	C	10.	C
11.	D	12.	D	13.	D	14.	A	15.	B

Review Questions

1. What are the five key areas of segmentation?
2. What are the 6 requirements for effective segmentation?
3. How many ways of segmenting are there? elaboratively explain all
4. What criteria are used for segmenting a market? Giving examples explain all.
5. What are the benefits of segmentation in marketing?

Further Readings

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Unit 07: Targeting and Positioning

CONTENTS

Objective

Understand importance and need of targeting

Analyze factors considered important for choice of target market.

Introduction

It is not possible for a marketer to have similar strategies for product promotion amongst all individuals. Kids do not get attracted towards products meant for adults and vice a versa. Every segment has a different need, interest and perception. No two segments can have the same ideologies or require a similar product.

Target Marketing refers to a concept in marketing which helps the marketers to divide the market into small units comprising of likeminded people. Such segmentation helps the marketers to design specific strategies and techniques to promote a product amongst its target market. A target market refers to a group of individuals who are inclined towards similar products and respond to similar marketing techniques and promotional schemes.

Kellogg's K Special mainly targets individuals who want to cut down on their calorie intake. The target market in such a case would be individuals who are obese. The strategies designed to promote K Special would not be the same in case of any other brand say Complan or Boost which majorly cater to teenagers and kids to help them in their overall development. The target market for Kellogg's K Special would absolutely be different from Boost or Complan.

Jordan, a college student went to a nearby retail store to purchase a shirt for himself. The retailer tried hard to sell a nice formal shirt to him, but somehow could not convince Jordan. Jordan left the store sad and empty handed.

Where do you think is the problem?

The problem is neither with Jordon nor the shirt. The retailer in this case failed to understand that Jordan, being a college student, was not the target audience for the formal shirt. No amount of convincing helped as the retailer was targeting the wrong audience. The target market for a formal shirt would be office goers or professionals. Funky T shirts, casual shirts would have worked better for Jordon.

The target market for Zodiac Clothing Company Limited or Louis Philippe would be the office goers whereas the target market for Levi's would be the school and college kids.

The target market for Cat moss or Giny and Jony would be kids.

In simpler words, target market consists of like-minded individuals for whom an organization can afford to have similar strategies, promotional schemes and advertisements to entice them and prompt them to purchase the product. Once a company decides on its target audience, it implements various promotional strategies to make a brand popular amongst them.

7.1 Identify Target Market

Basis of Target Marketing

- Age
- Gender
- Interests
- Geographic location
- Need
- Occupation

ACTIVITY: Discuss the bases of Segmentation for the following Products:

Why target marketing? (Need of Target Marketing)

- Organizations can use similar kind of strategies to promote their products within a target market.
- They can adopt a more focused approach in case of target marketing. They know their customers well and thus can reach out to their target audience in the most effective way.

How to create Target Market

- The organization must first decide who all individuals would fit into a particular segment. A male and a female can't be kept in the same segment. The first and the foremost step is to decide on the target market.
-
- out what the target market expects from the product.
- Once the target market is decided, organizations can decide on the various strategies helpful to promote their product.

7.2 Selecting Target Markets

After you segment buyers and develop a measure of consumer insight about them, you can begin to see those that have more potential. Now you are hunting with a rifle instead of a shotgun. The question is, do you want to spend all day hunting squirrels or ten-point bucks? An attractive market has the following characteristics:

- **It's sizeable enough to be profitable given your operating cost**. Only a tiny fraction of the consumers in China can afford to buy cars. However, because the country's population is so large (nearly 1.5 billion people), more cars are sold in China than in Europe (and in the United States, depending on the month). Three billion people in the world own cell phones. But that still leaves three billion who don't.
- **It's growing.** For example, the middle class of India is growing rapidly, making it a very attractive market for consumer products companies. People under thirty make up the majority of the Indian population, fueling the demand for "Bollywood" (Indian-made) films.
- **It's not already swamped by competitors, or you have found a way to stand out in a crowd.** IBM used to make PCs. However, after the marketplace became crowded with competitors, IBM sold the product line to a Chinese company called Lenovo.
- **Either it's accessible or you can find a find a way to reach it.** Accessibility, or the lack of it, could include geographic accessibility, political and legal barriers, technological barriers, or social barriers. For example, to overcome geographic barriers, the consumer products company Unilever hires women in third-world countries to distribute the company's products to rural consumers who lack access to stores.
- **You have the resources to compete in it.** You might have a great idea to compete in the wind-power market. However, it is a business that is capital intensive. What this means is that you will either need a lot of money or must be able to raise it.
- **It "fits in" with your firm's objectives and mission.** Consider Terra Cycle, which has made its mark by selling organic products in recycled packages. Fertilizer made from worm excrement and sold in discarded plastic beverage bottles is just one of its products. It wouldn't be a good idea for Terra Cycle to open up a polluting, coal-fired power plant, no matter how profitable the market for the service might be.

7.3 Target-Market Strategies

Choosing the Number of Markets to Target

Henry Ford proved that mass marketing can work—at least for a while. Mass marketing is also efficient because you don't have to tailor any part of the offering for different groups of consumers, which is more work and costs more money. The problem is that buyers are not all alike. If a competitor comes along and offers these groups a product (or products) that better meet their needs, you will lose business.

Multi segment Marketing

Most firms tailor their offerings in one way or another to meet the needs of different segments of customers. Because these organizations don't have all their eggs in one basket, they are less vulnerable to competition. Marriott International is an example of a company that operates in a multi segment market. The company has fifteen different types of facilities designed to meet the needs of different types of market segments, including the following:

Marriott Courtyard. Targeted at over-the-road travelers.

Ritz-Carlton Hotels. Targeted at luxury travelers.

Marriott Conference Centers. Targeted at businesses hosting small- and midsized meetings.

Marriott Execute Stay. Targeted at executives needing month-long accommodations.

Marriott Vacation Clubs. Targeted at travelers seeking to buy timeshares.

A multi segment marketing strategy can allow you to respond to demographic and other changes in markets. For example, the growing number of people too old to travel have the option of moving into one of Marriott's "Senior Living Services" facilities, which cater to retirees who need certain types of care. A multi segment strategy can also help you weather an economic downturn by allowing customers to trade up or down among your brands and products. Suppose you take a pay cut and can't afford to stay at Marriott's Ritz-Carlton hotels anymore. A room at a JW Marriott—the most luxurious of the Marriott-brand hotels but cheaper than the Ritz—is available to you.

Concentrated Marketing

Some firms—especially smaller ones with limited resources—engage in concentrated marketing. Concentrated marketing involves targeting a very select group of customers. Concentrated marketing can be a risky strategy because you really do have all of your eggs in one basket. The auto parts industry is an example. Traditionally, many North American auto parts makers have supplied parts exclusively to auto manufacturers. But when General Motors, Ford, Chrysler, and other auto companies experienced a slump in sales following the recession that began in 2008, the auto parts makers found themselves in trouble. Many of them began trying to make and sell parts for wind turbines, aerospace tools, solar panels, and construction equipment. Bernad Simon, "Alternative Routes For Survival,"

Niche marketing involves targeting an even more select group of consumers. When you're engaging in niche marketing, your goal is to be a big fish in a small pond instead of a small fish in a big pond."Niche Marketing,"

Micro targeting, or narrowcasting, is a new effort to isolate markets and target them. It was originally used to segment voters during elections, including the 2004 U.S. presidential election. Micro targeting involves gathering all kinds of data available on people—everything from their tax and phone records to the catalogs they receive. Clearly, micro targeting has ethical implications.

7.4 Targeting Global Markets

Firms that compete in the global marketplace can use any combination of the segmenting strategies we discussed or none at all. If you're a seller of a metal like iron ore, you might sell the same product across the entire world via a metals broker. The broker would worry about communicating with customers around the world and devising different marketing campaigns for each of them.

Targeting Strategies Used in Global Markets:

Most companies, however, tailor their offerings to some extent to meet the needs of different buyers around the world. For example, Mattel sells Barbie dolls all around the world—but not the same Barbie. Mattel has created thousands of different Barbie offerings designed to appeal to all kinds of people in different countries.

Pizza Hut has franchises around the world, but its products, packaging, and advertising are tailored to different markets. Squid is a popular topping in Asia, for instance. Companies tailor products not only for different countries but also for different customers in different countries.

For example, Procter & Gamble's China division now offers products designed for different local market segments in that country. P&G has an advanced formulation of laundry detergent for the premium segment, a modified product for the second (economy) segment, and a very basic, inexpensive product created for the third (rural) segment. Dan Sewell, "P&G May Make Changes as it Faces Challenges,"

Sellers are increasingly targeting consumers in China, Russia, India, and Brazil because of their fast-growing middle classes. Take the cosmetics maker Avon. Avon's largest market is no longer the United States. It is Brazil. Brazilians are extremely looks-conscious and increasingly able to afford cosmetic products as well as plastic surgery.

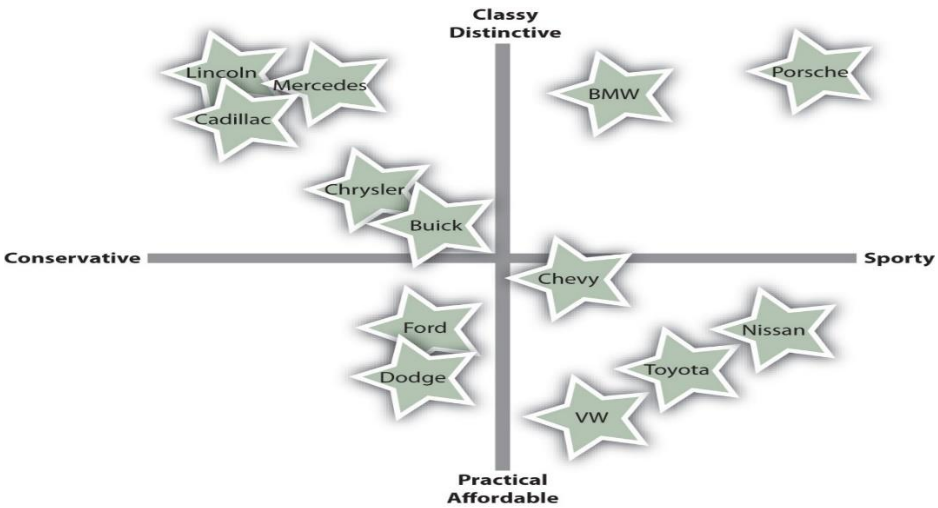
Other strategies for targeting markets abroad include acquiring (buying) foreign companies or companies with large market shares there. To tap the Indian market, Kraft made a bid to buy the candy maker Cadbury, which controls about one-third of India's chocolate market. Likewise, to compete against Corona beer, the Dutch brewer Heineken recently purchased Mexico's Femsa, which makes the beer brands Dos Equis, Tecate, and Sol. Michael However, some countries don't allow foreign firms to buy domestic firms. They can only form partnerships with them. Other regulatory and cultural barriers sometimes prevent foreign firms from "invading" a country. IKEA, the Swedish home-furnishings maker, eventually left Russia because it found it too hard to do business there. By contrast, McDonald's efforts to expand into Russia have been quite successful. Having saturated other markets, the hamburger chain is hoping to continue to grow by opening hundreds of new stores in the country.

7.5 Positioning

Why should buyers purchase your offering versus another? If your product faces competition, you will need to think about how to "position" it in the marketplace relative to competing products. After all you don't want the product to be just another "face in the crowd" in the minds of consumers. Positioning involves tailoring your product so that it stands out from the competition and people want to buy it.

One way to position your product is to plot customer survey data on a perceptual map. A perceptual map is a two-dimensional graph that visually shows where your product stands, or should stand, relative to your competitors, based on criteria important to buyers. The criteria can involve any number of characteristics—price, quality, level of customer service associated with the product, and so on. An example of a perceptual map is shown in "An Example of a Perceptual Map". To avoid head-to-head competition with your competitors, you want to position your product somewhere on the map where your competitors aren't clustered.

An Example of a Perceptual Map



Many companies use taglines in their advertising to try to position their products in the minds of the buyer—where they want them, of course. A tagline is a catchphrase designed to sum up the essence of a product. You perhaps have heard Wendy's tagline "It's better than fast food." The tagline is designed to set Wendy's apart from restaurants like McDonald's and Burger King—to plant the idea in consumers' heads that Wendy's offerings are less "fast foodish," given the bad rap fast food gets these days.

Sometimes firms find it advantageous to reposition their products—especially if they want the product to begin appealing to different market segments. Repositioning is an effort to "move" a product to a different place in the minds of consumers. The i-house, a prefab house built by Clayton Homes, a mobile home manufacturer, is an example. According to the magazine *Popular Mechanics*, the i-house "looks like a house you'd order from IKEA, sounds like something designed by Apple, and consists of amenities—solar panels, tankless water heaters and rainwater collectors—that one would expect to come from an offbeat green company out of California selling to a high-end market

Summary

A market worth targeting has the following characteristics:

(1) It's sizeable enough to be profitable, given your operating costs;

(2) it's growing;

(3) it's not already swamped by competitors, or you have found a way to stand out in the crowd;

(4) it's accessible, or you can find a way to reach it;

(5) you have the resources to compete in it; and

(6) it "fits in" with your firm's mission and objectives.

Most firms tailor their offerings in one way or another to meet the needs of different segments of customers. A multi segment marketing strategy can allow a company to respond to demographic and other changes in markets, including economic downturns. Concentrated marketing involves targeting a very select group of customers. Niche marketing involves targeting an even more select group of consumers. Micro targeting, or narrowcasting, is a new, effort to "super target" consumers by gathering all kinds of data available on people—everything from their tax and phone records to the catalogs they receive. Firms that compete in the global marketplace can use any combination of these segmenting strategies or none at all. Sellers are increasingly targeting consumers in China, Russia, India, and Brazil because of their fast-growing middle classes. Firms are creating low-cost products to capture large markets in developing countries such as these and then selling the products in developed countries. Other strategies for targeting markets abroad include acquiring foreign companies or forming partnerships with them.

If a product faces competition, its producer will need to think about how to "position" it in the marketplace relative to competing products. Positioning involves tailoring a product or its marketing so that it stands out from the competition and people want to buy it. A perceptual map is a two-dimensional graph that visually shows where a product stands, or should stand, relative to its competitors, based on criteria important to buyers. Sometimes firms find it advantageous to reposition their products. Repositioning is an effort to "move" a product to a different place in the minds of consumers.

Self Assessment

1. __________ Consists of a set of buyers who share common needs or characteristics that the company decides to serve.

A. Target market
B. Positioning
C. Consumer
D. Customer

2. Which of the following is not the criteria for targeting :9W's?

A. Who buys our product?
B. Who does not buy it?
C. What need or function does it serve?
D. When is your birthday?

3. What are the factors considered important in the selection of Target Market Strategy:

A. Company Resources
B. Product Homogeneity

C. PLC

D. All the above

4. Factors that govern the attractiveness of a segment

A. Segment Size and Segment Growth

B. Profitability of the Segment

C. Current and potential Competition

D. All the above

5. ___________is the act of designing the company offering and image to occupy a distinctive place in the target customers mind.

A. Targeting
B. Marketing
C. Advertising
D. Positioning

6. Fevi Kwick positions itself based on :

A. Features
B. Benefits
C. Usage
D. Manufacturing Process

7. __________ is what the customer believes based on his/her experiences and evidence, rather than just the awareness created by advertising or promotion.

A. Pricing

B. Promotion

C. Product Positioning

D. Place

8. Positioning should be:

A. Simple

B. Creative

C. Unique

D. All the above

9. Self image enhancement positioning concepts are:

A. Ego identification

B. Belongingness and social meaningfulness

C. Affective fulfillment

D. All the above

10. Setting the competitive positioning for the product and creating a detailed marketing mix is called:

A. mass marketing.
B. target marketing.
C. market segmentation.
D. marketing positioning.

11. When companies divide large, heterogeneous markets into smaller segments that can be reached more efficiently with products and services that match their unique needs, they are conducting a __________________ process.

A. marketing aggregation
B. marketing positioning
C. marketing target
D. marketing segmentation

12. Which of the following marketers epitomized the mass marketing strategy?

A. Henry Ford
B. Bill Gates
C. F.W. Woolworth
D. Thomas A. Edison

13. Individual marketing is known by a variety of names. All of the following would appropriately be called individual marketing EXCEPT:

A. mono-marketing.
B. one-to-one marketing.
C. customized marketing.
D. markets-of-one marketing.

14. _____________ is the process through which firms interact one-to-one with

masses of customers to create customer-unique value by designing products and services tailor-made to individual needs.

A. Mass marketing
B. Detail marketing
C. Mass globalization
D. Mass customization

15. ______________ involves tailoring brands and promotions to the needs and wants of specific small groups such as cities, neighborhoods, and even specific stores.

A. Niche marketing
B. Local marketing
C. Detail marketing
D. Individual marketing

Answers for Self Assessment

1.	A	2.	D	3.	D	4.	D	5.	D
6.	B	7.	C	8.	D	9.	D	10.	D
11.	D	12.	A	13.	B	14.	D	15.	B

Review Questions

1. Why do companies position products?
2. Explain what a tagline is designed to do.
3. Why might an organization reposition a product?
4. What factors does a firm need to examine before deciding to target a market?
5. Which of the segmenting strategies discussed in this section is the broadest? Which is the narrowest?
6. Why might it be advantageous to create low-cost products for developing countries and then sell them in nations such as the United States? Do you see any disadvantages of doing so?

Further Readings

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Unit 08: Product Decisions

CONTENTS

Objective

Understand product and its classification

- To examine the basic concepts of "the product" and the importance of this concept in marketing
- To give an understanding of the features of product design and the factors which shape the "standardisation" versus "adaptation" decisions

Understand and analyze new product development.

- To describe the production process and how value can be added in the process
- To describe the major product strategies.

Introduction

Decisions regarding the product, price, promotion and distribution channels are decisions on the elements of the "marketing mix". It can be argued that product decisions are probably the most crucial as the product is the very epitome of marketing planning. Errors in product decisions are legion. These can include the imposition of a global standardized product where it is inapplicable, for example large horsepower tractors may be totally unsuitable for areas where small scale farming exists and where incomes are low;

devolving decisions to affiliated countries which may let quality slip; and the attempt to sell products into a country without cognizance of cultural adaptation needs. The decision whether to sell globally standardized or adapted products is too simplistic for today's market place. Many product decisions lie between these two extremes. Cognizance has also to be taken of the stage in the international life cycle, the organization's own product portfolio, its strengths and weaknesses and its global objectives. Unfortunately, most developing countries are in no position to compete on the world stage with many manufactured value-added products. Quality, or lack of it, is often the major letdown. As indicated earlier, most developing countries are likely to be exporting raw materials or basic and high value agricultural produce for some time to come.

8.1 Basic Concepts

A product can be defined as a collection of physical, service and symbolic attributes which yield satisfaction or benefits to a user or buyer. A product is a combination of physical attributes say, size and shape; and subjective attributes say image or "quality". A customer purchases on both dimensions. As cited earlier, an avocado pear is similar the world over in terms of physical characteristics, but once the label CARMEL, for example, is put on it, the product's physical properties are enhanced by the image CARMEL creates. In "post modernisation" it is increasingly important that the product fulfills the image which the producer is wishing to project. This may involve organizations producing symbolic offerings represented by meaning laden products that chase stimulation-loving consumers who seek experience - producing situations. So, for example, selling mineral water may not be enough. It may have to be "Antarctic" in source, and flavored. This opens up a wealth of new marketing opportunities for producers.

Anything that can be offered to a market for attention , acquisition, use or consumption and that might satisfy want or a need

Includes: Physical objects, services, events, persons, places, organizations, ideas or combination of thereof.

8.2 Types of Product

A product's physical properties are characterised the same the world over. They can be convenience or shopping goods or durables and nondurables; however, one can classify products according to their degree of potential for global marketing:

i) local products - seen as only suitable in one single market.

ii) international products - seen as having extension potential into other markets.

iii) multinational products - products adapted to the perceived unique characteristics of national markets.

iv) global products - products designed to meet global segments.

Quality, method of operation or use and maintenance (if necessary) are catchwords in international marketing. A failure to maintain these will lead to consumer dissatisfaction. This is typified by agricultural machinery where the lack of spares and/or foreign exchange can lead to lengthy downtimes. It is becoming increasingly important to maintain quality products based on the ISO 9000 standard, as a prerequisite to export marketing.

"Set of tangible offering made available to the consumer to satisfy his/her needs".

"Product is cluster of psychological satisfaction".

"A product is a bundle of utilities consisting of various features and accompanying services".

"A product is a bundle of physical services and symbolic particulars expected to the yield satisfaction or benefits to the buyer".

Consumer beliefs or perceptions also affect the "world brand" concept. World brands are based on the same strategic principles, same positioning and same marketing mix but there may be changes in message or other image. World brands in agriculture are legion. In fertilizers, brands like Norsk Hydro are universal; in tractors, Massey Ferguson; in soups, Heinz; in tobacco, BAT; in chemicals, Bayer. These world brand names have been built up over the years with great investments in marketing and production. Few world brands, however, have originated from developing countries. This is hardly surprising given the lack of resources. In some markets product saturation has been reached, yet surprisingly the same product may not have reached saturation in other similar markets. Whilst France has long been saturated by avocadoes, the UK market is not yet, hence raising the opportunity to enter deeper into this market.

8.3 Features of Product

The main characteristics or essential features of a product are as follows:

1. Tangible Attributes: The first and foremost important feature of a product is its tangibility.

It means that it may be touched, seen and its physical presence felt, like, cycle, book, pencil, table etc

2. Intangible Attributes: Alternatively, the product may be intangible in the form of service, such as banking, insurance or repairing services

3. Exchange value: The third characteristics of a product are that it must have exchange value. Every product, whether tangible or intangible, should have an exchange value and should be capable of being exchanged between the buyer and seller for a mutually agreed consideration.

4. Utility Benefits: Another important characteristic of a product is that it should have a utility like a bundle of potential utility or benefits.

5. Differential Features: Another important feature from the marketing point of view is that the product should have differential features, i.e., it can be differentiated from other products.

Different types of packaging and branding can help create the image of product differentiation in the consumer.

6. Consumer Satisfaction: Another feature from the marketing viewpoint is that the products should have the ability to deliver value satisfaction to consumers for whom they are intended.

7. Business Need Satisfaction: The last also equally important characteristics of a product is that in order to be a product, it should also have the attribute to satisfy a business need.

8.4 Importance of Product

Product decisions are taken first by the marketers and these decisions are the centre to all other marketing decisions, such as price, promotion, distribution etc.

Product is the engine that pulls the rest of the marketing programmes and fills in the needs of society. It represents a bundle of expectations to consumers and society.

It is Rightly Said , "If the first commandment in marketing is: know the customer, the second is know the product."

1. Product is the Centre of all Marketing Activities

Product is the pivot and all the marketing activities cluster around iIt is the product which is purchased, sold, advertised, distributed etc.

In short, the product is the engine that pulls the marketing activities, programmes etc

2. Starting Point of Marketing Planning

To the marketer, products are the building blocks of a marketing plan.

Marketing planning is done on the basis of the nature, quality and the demand of the product. Product policies decide other policies.

3. Product is the Key to Market Success

Product is the key to market success. That is why the marketing manager emphasizes and insists on the need for range of product for getting success in his business.

It is said, "If the first commandment in marketing is knowing your customer, the second is know the product." If the product is faulty, its market will have a very short life span and will ultimately fall.

4. Centre of Consumption and Satisfaction

From the consumers' point of view, the product is the centre of their consumption and satisfaction.

It is the philosophy of the modern marketing concept.

Various policy decisions are taken by the marketing management so as to provide better consumption, benefits utilities and satisfaction to the consumers in case the product fails to fulfil this very object, it invites the intervention of the government and other agencies to safeguard the interests of the consumers.

5. Importance from social Viewpoint

From a social viewpoint also, the product satisfies the needs of society.

On the one hand, product satisfies the need of consumers and on the other, it provides employment and standard of living to millions of people.

6. Corporate Need Satisfaction

The basic corporate need for profits is satisfied by-products.

It is the product through which a company exploits market opportunities and generates sales volume and revenue.

Adequate sales volume and revenue ensure corporate profitability essential for business survival and growth.

7. A Competitive Weapon

Product is the competitive weapon of very great potential.

Whenever competitive pressures develop in the market, consumer preference changes or otherwise there emerges a need for change in the components of the product.

For example, competitive advantage may be gained by changing the package, colour, size, quality, innovation or even trading terms.

In short, the product is the soul and centre of all our marketing activities.

8.5 Levels of Product

1. **Basic Product Level/ Core:** This core level of product explains the reason for which a given customer has made purchase. This layer mainly includes the generic ingredients of a product.

The core product is the core, problem solving benefits that consumers are really buying when they obtain a product or service. It answers the question what is the buyer really buying?

Car for transportation

Mobile for communication

2. **Generic Product Level:** The actual product may have as many as five characteristics that combine to deliver core product benefits. They are:

   a). Quality level.

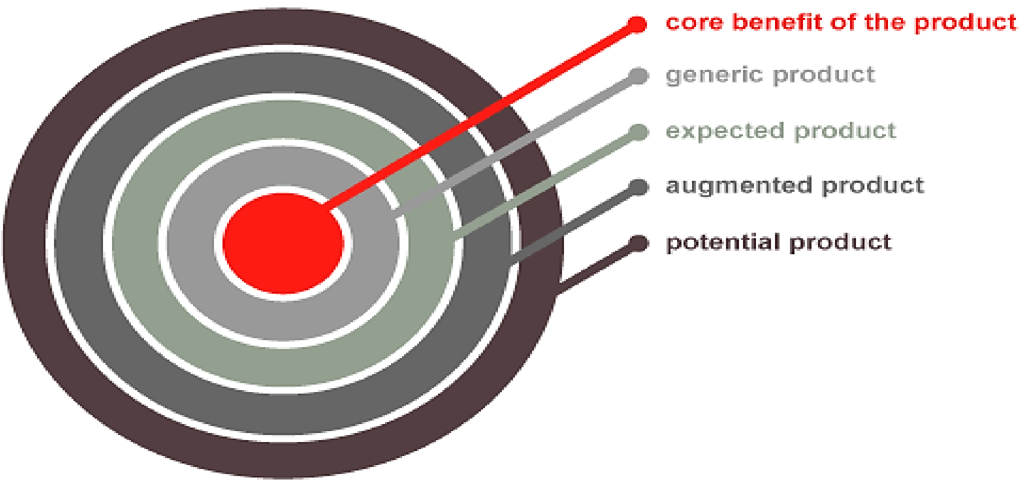
   b). Features.

   c). Design.

   d). Brand name.

   e). Packaging.

3. Expected Product: This refers to all benefits consumer expects to get when they purchase a product.



4. **Augmented Product:** It refers to the additional factors which set the product apart from competition, that is, its brand identity and image. to augment the product means to create the bundle of benefits that will best satisfy consumer's desires for an experience.

- Home delivery
- Installations
- After sales service
- Customer education and training etc.

5. Potential Product: This refers to the augmentation and transformation that the product may undergo in future.

Example: Coca Cola

1. Core Benefit

The core benefit of Coca-Cola is to quench a thirst.

2. Generic Product

The generic product is a burnt vanilla smelling, black, carbonated, and sweetened fizzy drink.

3. Expected Product

The expected product is that the customer's Coca-Cola is cold. If this isn't the case then expectations won't be met and the drink will not taste its best in the mind of the customer.

8.6 New Product Development:

Clocky (Clockie) the only bedside alarm clock that will run away, hide, roll, wheel, beep, and jump (up to a 3 feet nightstand).

He is cool, fun, annoying, unique, a bit crazy and guaranteed to get you up on time. Moves (on carpet or wood), shakes, runs, changes directions.

Examples of New Product:

Air Charger : 

Every New Product Development journey starts with an idea, which forms the foundation for further development. These new project development journeys have the potential to cause a digital disruption when the new product successfully meets a need in a way that is unique, untried, and out-of-the-box. When a product solves the end user's problems, the business achieves product-market fit.

There are plentiful New Product Development examples for taking inspiration from, such as Trello for task management and tracking, Zoom for video communication, Dropbox for cloud storage, Figma for designers working remotely, Air Table for relational data management, and so on.

Beginning the New Product Development process takes tact and planning. According to Gartner, many organizations believe in involving customers at an early stage of the New Product Development process. These organizations give precedence to involving the customers at an early stage of the New Product Development process to gain a better understanding of their problems before strategizing around processes, tools, and technology.

What is New Product Development (NPD)?

New product development is the process of converting an idea into a workable software product.

The New Product Development (NPD) process is about grabbing the market opportunity that revolves around customer needs, checking the idea's feasibility, and delivering working software.

On the other hand, Product Development is an umbrella term that sticks to the six stages of software development lifecycle and works on launching products that already have a Proof of Concept (POC). The New Product Development approach revolves around working on an entirely new idea, where the uncertainty around its development and subsequent adoption is high.

The seven stages of the New Product Development process include — idea generation, idea screening, concept development, and testing, building a market strategy, product development, market testing, and market commercialization.

8.7 Seven Stages of New Product Development Process

Building new products and services can be a process filled with uncertainty. However, following the systematic New Product Development process can help businesses gain clarity and confidence in what they are building.

Stage 1: Idea Generation

The goal should be to generate many worthy ideas that can form the foundation for the New Product Development strategy. The major focus for stage 1 should be to arrange brainstorming sessions where solving customer problems is given precedence.

This phase is not about generating foolproof ideas that are ready for implementation. Instead, raw and unproven ideas that can be shortlisted later should be discussed.

Here's how a business can do that:

1. Emphasize on Customer Problems

The problem that is well described is a problem half-solved. Here's how to identify the issues that the target audience is facing:

a. Personal Problems

It is a good idea to look at problems that the business is itself facing to come up with the idea. All a business needs to do is focus on that specific problem and build a solution that can be tagged a "one for all" solution to the common problem.

He was associated with three business companies in the past, and all of them lacked one thing — Productivity.

When he was driven to start again with something of his own, he knew that he needed to cover up the communication gaps as these were, in his experience, the biggest hurdles on the path to productivity.

That is when product innovation happened in the form of Twilio. The product building and launching had its ups and downs, but his conviction to have this product led to a great business idea.

Stage 2: Idea Screening

This New Product Development stage revolves around choosing the one idea that has the highest potential for success. Put all the ideas available on the table for internal review. That is, turn to people with industry knowledge and experience in the field for idea screening.

For a new product development idea, having a proof of concept (POC) should hold precedence as it helps check the feasibility of the idea. There is no point in zeroing in on an idea that is not technically feasible to build.

Consult the Agile Development team. Their expertise can help with understanding the technical side of things, which, in turn, can assist with shortlisting ideas worth building a PoC for.

SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis can be another good practice to consider when shortlisting New Product Development ideas.

Stage 3: Concept Development & Testing

Before starting with the New Product Development process, building a detailed version of the idea and the user stories should be given priority.

This value proposition evaluation is the first step towards concept development and testing. At the very least, it ensures that problems in the approach are discovered sooner and the team can course-correct earlier. That helps to ensure that technical debts will not accumulate.

The easy-to-follow concept development steps include:

1. Quantifying Gain/Pain Ratio

A business needs to create an insightful picture of the product from the user's perspective. This can be achieved by calculating the gain/pain ratio, where:

Gain = Benefits of the product for the customer. What is in it for them? **Pain** = The efforts made by the customer to understand and use the product.

2. Conducting a Competitor Analysis

Knowing about existing market players is a critical strategic step to consider. Understanding the competition makes it easier to infer:

Where the competitor lacks

Where is the scope for improvement

Existing white space in the market

3. Enlisting the Major Product Features

The user stories involved in the New Product Development software project will make or break a business. When creating a list of such features, it is imperative to know — **how is it an innovative feature, and how is it going to solve a problem?**

4. Create a Value Proposition Chart

Even after being convinced of the wisdom & the utility of an idea, being able to state it clearly to the end-user, in their context, is quite a different story altogether. The end-user needs to be given a clear picture of what the new product is capable of doing.

5. Concept Testing

Once the value proposition is ready, it is time to present it to the set of selected customers. How they perceive the idea is the test of the efforts so far. If the idea doesn't look promising, it is wise to repeat the idea screening steps to develop a new product.

Meaningful insight can be gained by focusing on four critical aspects:

Identification of the focus group, i.e., people who would benefit from the new product under development.

Assessment of other alternatives that can be presented to the focus group.

Development of a foolproof plan for the New Product Development that includes all stages from feature development, marketing, pricing, and distribution.

Positioning of the product's unique features into the customers' minds to enhance findability and discoverability.

Stage 4: Market Strategy/Business Analysis

Marketing strategy is all about drafting a way to reach out to the targeted audience. Perhaps the best and most straightforward method is to follow McCarthy's 4Ps of marketing for a New Product Development project.

Category	Meaning	Purpose
Product	Finalizing the software product based on the concept testing report	• Product Design • Branding Strategy • Level of services offered
Price	Strategizing around product licensing cost, estimating profit margins, and creating an unbeatable marketing strategy	• Pricing Strategy • Discounting Policies • Payment Modes
Promotion	Distinguishing the new solution from others by highlighting the hero point or unique feature	• Balancing advertising, marketing, and public relations strategy • The mediums to reach out to the target audience • Maintaining a fair to-and-fro customer communication frequency limit
Placement	Communicating how it solves the key problems of the customer	• Finalizing product distribution strategies • Defining the product's scope, i.e., local vs Global

Stage 5: Product Development

When the New Product Development idea is in place, the market strategy is documented, and the business analysis is completed, it is time to move on with the product development cycle.

The New Product Development starts with developing the prototype followed by MVP.

1. Prototype

This focuses on creating the UI/UX for the product, which is then shared with the stakeholders. This helps in visualizing how the product will look and whether it complies with ergonomics best practices.

2. Minimum Viable Product (MVP)

This focuses on working on the user stories in Agile for the New Product that will set it apart from others. Once the design, development, and testing are done, the MVP is launched in the market with minimal features. The future iterations depend on the initial response.

The best way to approach New Product Development is to rely on Agile Product Development that focuses on incremental and iterative development while promoting collaboration and communication.

Stage 6: Market Testing

This step in New Product Development aims to reduce the uncertainty revolving around the success of the software product. In other words, this step revolves around checking the viability of the new product or its marketing campaign.

There are two market testing strategies to follow:

1. Alpha Testing

The test engineers deployed in the organization use and judge the product based on performance. After checking the product's performance, the test engineers map the marketing mix results with the product created.

If any issues are found, changes are planned and implemented before the final go-ahead.

2. Beta Testing

The target groups or customers use the product and give their unbiased feedback to the organization.

This strategy is about listening to the voice of customers (VOC). If any issues are reported, they are moved back to the development team for fixtures.

8.8 Product Design

Changes in design are largely dictated by whether they would improve the prospects of greater sales, and this, over the accompanying costs. Changes in design are also subject to cultural pressures. The more culture-bound the product is, for example food, the more adaptation is necessary. Most products fall in between the spectrum of "standardisation" to "adaptation" extremes. The application the product is put to also affects the design. In the UK, railway engines were designed from the outset to be sophisticated because of the degree of competition, but in the US this was not the case. In order to burn the abundant wood and move the prairie debris, large smoke stacks and cowcatchers were necessary. In agricultural implements a mechanized cultivator may be a convenience item in a UK garden, but in India and Africa it may be essential equipment. As stated earlier "perceptions" of the product's benefits may also dictate the design. A refrigerator in Africa is a very necessary and functional item, kept in the kitchen or the bar. In Mexico, the same item is a status symbol and, therefore, kept in the living room.

Factors encouraging standardisation are:

i) economies of scale in production and marketing
ii) consumer mobility - the more consumers travel the more is the demand
iii) technology
iv) image, for example "Japanese", "made in".

The latter can be a factor both to aid or to hinder global marketing development. Nagashima[1] (1977) found the "made in USA" image has lost ground to the "made in Japan" image. In some cases "foreign made" gives advantage over domestic products. In Zimbabwe one sees many advertisements for "imported", which gives the product advertised a perceived advantage over domestic products. Often a price premium is charged to reinforce the "imported means quality" image. If the foreign source is negative in effect, attempts are made to disguise or hide the fact through, say, packaging or labelling. Mexicans are loathe to take products from Brazil. By putting a "made in elsewhere" label on the product this can be overcome, provided the products are manufactured elsewhere even though its company maybe Brazilian.

Factors encouraging adaptation are:

i) Differing usage conditions. These may be due to climate, skills, level of literacy, culture or physical conditions. Maize, for example, would never sell in Europe rolled and milled as in Africa. It is only eaten whole, on or off the cob. In Zimbabwe, kapenta fish can be used as a relish, but wilt always be eaten as a "starter" to a meal in the developed countries.

ii) General market factors - incomes, tastes etc. Canned asparagus may be very affordable in the developed world, but may not sell well in the developing world.

iii) Government - taxation, import quotas, non tariff barriers, labelling, health requirements. Non tariff barriers are an attempt, despite their supposed impartiality, at restricting or eliminating competition. A good example of this is the Florida tomato growers, cited earlier, who successfully got the US Department of Agriculture to issue regulations establishing a minimum size of tomatoes marketed in the United States. The effect of this was to eliminate the Mexican tomato industry which grew a tomato that fell under the minimum size specified. Some non-tariff barriers may be legitimate attempts to protect the consumer, for example the ever stricter restrictions on horticultural produce insecticides and pesticides use may cause African growers a headache, but they are deemed to be for the public good.

iv) History. Sometimes, as a result of colonialism, production facilities have been established overseas. Eastern and Southern Africa is littered with examples. In Kenya, the tea industry is a colonial legacy, as is the sugar industry of Zimbabwe and the coffee industry of Malawi. These facilities have long been adapted to local conditions.

v) Financial considerations. In order to maximise sales or profits the organisation may have no choice but to adapt its products to local conditions.

vi) Pressure. Sometimes, as in the case of the EU, suppliers are forced to adapt to the rules and regulations imposed on them if they wish to enter into the market.

8.9 Production Decisions

In decisions on producing or providing products and services in the international market it is essential that the production of the product or service is well planned and coordinated, both within and with other functional area of the firm, particularly marketing. For example, in horticulture, it is essential that any supplier or any of his "outgrower" (sub-contractor) can supply what he says he can. This is especially vital when contracts for supply are finalised, as failure to supply could incur large penalties. The main elements to consider are the production process itself, specifications, culture, the physical product, packaging, labelling, branding, warranty and service.

Production process

The key question is, can we ensure continuity of supply? In manufactured products this may include decisions on the type of manufacturing process - artisanal, job, batch, flow line or group technology. However in many agricultural commodities factors like seasonality, perishability and supply and demand have to be taken into consideration

These include input supplies (or lack of them), finance and credit availability, variety (choice), sowing dates, product range and investment advice. Many of these items will be catered for in the contract of supply.

Specification

Specification is very important in agricultural products. Some markets will not take produce unless it is within their specification. Specifications are often set by the customer, but agents, standard authorities (like the EU or ITC Geneva) and trade associations can be useful sources. Quality requirements often vary considerably. In the Middle East, red apples are preferred over green apples. In one example French red apples, well boxed, are sold at 55 dinars per box, whilst not so attractive Iranian greens are sold for 28 dinars per box. In export the quality standards are set by the importer. In Africa, Maritim (1991)[2], found, generally, that there are no consistent standards for product quality and grading, making it difficult to do international trade regionally.

Culture

Product packaging, labeling, physical characteristics and marketing have to adapt to the cultural requirements when necessary. Religion, values, aesthetics, language and material culture all affect production decisions. Effects of culture on production decisions have been dealt with already in chapter three.

Physical product

The physical product is made up of a variety of elements. These elements include the physical product and the subjective image of the product. Consumers are looking for benefits and these must be conveyed in the total product package. Physical characteristics include range, shape, size, color, quality, quantity and compatibility. Subjective attributes are determined by advertising, self image, labelling and packaging. In manufacturing or selling produce, cognizance has to be taken of cost and country legal requirements.

Again a number of these characteristics is governed by the customer or agent. For example, in beef products sold to the EU there are very strict quality requirements to be observed. In fish products, the Japanese demand more "exotic" types than, say, would be sold in the UK. None of the dried fish products produced by the Zambians on Lake Kariba, and sold into the Lusaka market, would ever pass the hygiene laws if sold internationally. In sophisticated markets like seeds, the variety and range is so large that constant watch has to be kept on the new strains and varieties in order to be competitive.

Packaging

Packaging serves many purposes. It protects the product from damage which could be incurred in handling and transportation and also has a promotional aspect. It can be very expensive. Size, unit type, weight and volume are very important in packaging. For aircraft cargo the package needs to be light but strong, for sea cargo containers are often the best form. The customer may also decide the best form of packaging. In horticultural produce, the developed countries often demand blister packs for mangetouts, beans, strawberries and so on, whilst for products like pineapples a sea container may suffice. Costs of packaging have always to be weighed against the advantage gained by it.

Increasingly, environmental aspects are coming into play. Packaging which is non-degradable - plastic, for example - is less in demanded. Bio-degradable, recyclable, reusable packaging is now the order of the day. This can be both expensive and demanding for many developing countries.

Labelling

Labelling not only serves to express the contents of the product, but may be promotional.The EU is now putting very stringent regulations in force on labelling, even to the degree that the pesticides and insecticides used on horticultural produce have to be listed. This could be very demanding for producers, especially small scale, ones where production techniques may not be standardised. Government labelling regulations vary from country to country. Bar codes are not widespread in Africa, but do assist in stock control. Labels may have to be multilingual, especially if the product is a world brand. Translation could be a problem with many words being translated with difficulty. Again labelling is expensive, and in promotion terms non-standard labels are more expensive than standard ones. Requirements for crate labelling, etc. for international transportation will be dealt with later under documentation.

Summary

The marketing mix, which is the means by which an organisation reaches its target market, is made up of product, pricing, distribution, promotion and people decisions. These are usually shortened to the anacronym "5P's". Product decisions revolve around decisions regarding the physical product (size, style, specification, etc.) and product line management.

Product decisions are based on how much the organisation has to adjust the product on the standardisation - adaptation continuum to differing market conditions. This results in the evolution of five basic strategic alternatives - extension; extension, adaptation; adaptation, extension; adaptation and invention. Extension is the nearest to a standardised product, communications strategy and Invention at the other end of the continuum, that is, an adaptation strategy. The more adaptive the policy the more costly it will be for the organisation.

Keywords

New product Development, levels, generic, Product strategies, Protype

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Self Assessment

1. ____________ can be offered to a market for attention, acquisition, use or consumption and that might satisfy want or a need

A. Product
B. Price
C. Place
D. Promotion

2. Features of Product are:

A. Tangible and intangible attributes
B. Exchange Value
C. Customer Satisfaction
D. All the above

3. _____________level of product explain the reason for which a given customer has made purchase. This layer mainly includes the generic ingredients of a product.

A. Core Level
B. Generic Level
C. Expected Level
D. Augmented Level

4. A ________can be defined as a collection of physical, services and symbolic attributes which yield satisfaction or benefits to a user or buyer.

A. Product
B. Goods
C. Services
D. Price

5. Number of products in asingle product line denotes:

A. Width
B. Depth
C. Consistency
D. Product Mix

6. ___________ is defines how closely related the product lines are in end use.

A. Width
B. Depth
C. Consistency
D. Product Mix

7. Types of new product are:

A. New to the World
B. New to the Firms products
C. Repositioning
D. All the above

8. _________ stage of product development where company comes up with many different and unique ideas based on both internal and external sources.

A. Idea Generation
B. Idea Screening
C. Concept Development
D. Test Marketing

9. ___________ stage provides an insight into how the product will be introduced into the market, advertised, produced, packaged, distributed, and eventually sold to the customers, and therefore any optimizations if required can be made by the company.

A. Idea Generation
B. Idea Screening
C. Concept Development
D. Test Marketing

10. _______ is the science, art and technology of enclosing or protecting products for distribution, storage, sale, and use.

A. Packaging
B. Labelling
C. Transportation
D. Distribution

11. __________first envelops the product and hold it.This usually is the smallest unit of distribution or use and is the package which is in direct contact with its contents.

A. Primary Packaging
B. Secondary Packaging
C. Tertiary Packaging
D. Packaging

12. Purpose of packaging is :

A. Product protection and attraction
B. Product identification
C. Product Convenience
D. All the above

13. In ________ stage of PLC product is highest priced and high expenses beard on promotion

A. Introduction
B. Growth
C. Maturity
D. Decline

14. Decision to adopt rapid / slow Skimming or Rapid /Slow Penetration is taken in which stage:

A. Introduction
B. Growth
C. Maturity
D. Decline

15. Services are

A. Tangible
B. Intangible
C. Constant
D. Both A and B

Answers for Self Assessment

1.	A	2.	D	3.	A	4.	A	5.	B
6.	C	7.	D	8.	A	9.	D	10.	A
11.	A	12.	D	13.	A	14.	A	15.	B

Review Questions

1. What factors are important in the standardisation versus adaptation product decision process?
2. Describe the principle elements of "the product". Give examples.
3. Describe, with examples, the five major product strategies available to global marketers.
4. Discuss various levels of Product?
5. Elaborate New Product Development?

Further Readings

1. Stanton, Etzel and Walker- Fundamentals of marketing (TMH)
2. Philip Kotler- Marketing Management (PHI)
3. Philip Kotler and Armstrong- Principles of marketing (PHI)
4. Ramaswamy and Namakumari- Marketing management (Macmillan

Unit 09: Pricing Decisions

CONTENTS

Objective

- understand Pricing Objectives
- analyze Price Sensitivity and factors affecting Price of a Product.
- understand Ethical and Unethical Issues in Pricing,
- analyze unethical marketing practices.

Introduction

Pricing can be defined as the process of determining an appropriate price for the product, or it is an act of setting price for the product. Pricing involves a number of decisions related to setting price of product. Pricing policies are aimed at achieving various objectives. Company has several objectives to be achieved by the sound pricing policies and strategies. Pricing decisions are based on the objectives to be achieved. Objectives are related to sales volume, profitability, market shares, or competition. Objectives of pricing can be classified in five groups as shown in figure 1.

1. Profits-related Objectives:

Profit has remained a dominant objective of business activities.

Company's pricing policies and strategies are aimed at following profits-related objectives:

i. Maximum Current Profit:

One of the objectives of pricing is to maximize current profits. This objective is aimed at making as much money as possible. Company tries to set its price in a way that more current profits can be earned. However, company cannot set its price beyond the limit. But, it concentrates on maximum profits.

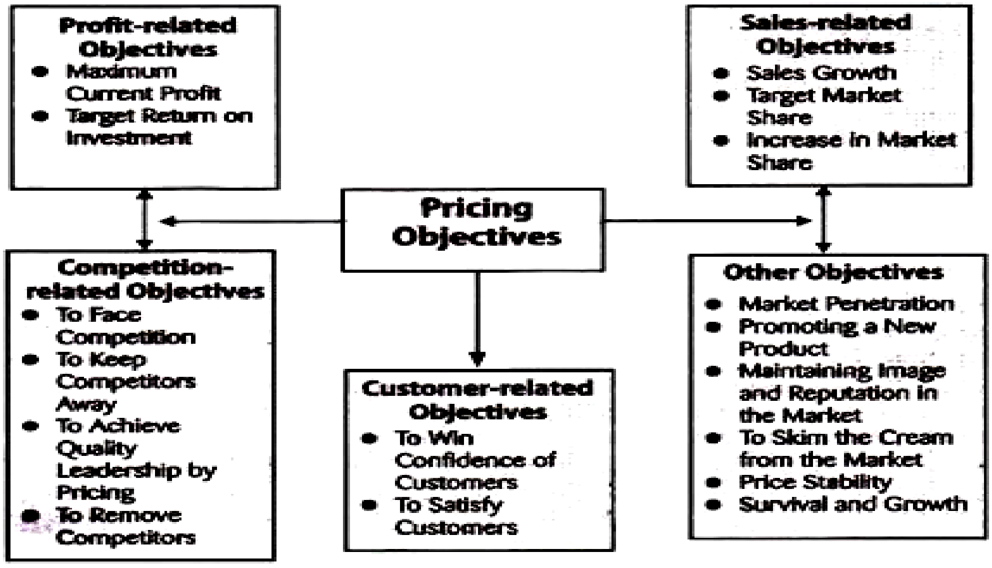

Figure 1: Pricing Objectives

ii. Target Return on Investment:

Most companies want to earn reasonable rate of return on investment.

Target return may be:

(1) fixed percentage of sales,

(2) return on investment, or

(3) a fixed rupee amount.

Company sets its pricing policies and strategies in a way that sales revenue ultimately yields average return on total investment. For example, company decides to earn 20% return on total investment of 3 crore rupees. It must set price of product in a way that it can earn 60 lakh rupees.

2. Sales-related Objectives:

The main sales-related objectives of pricing may include:

i. Sales Growth:

Company's objective is to increase sales volume. It sets its price in such a way that more and more sales can be achieved. It is assumed that sales growth has direct positive impact on the profits. So, pricing decisions are taken in way that sales volume can be raised. Setting price, altering in price, and modifying pricing policies are targeted to improve sales.

ii. Target Market Share:

A company aims its pricing policies at achieving or maintaining the target market share. Pricing decisions are taken in such a manner that enables the company to achieve targeted market share. Market share is a specific volume of sales determined in light of total sales in an industry. For example, company may try to achieve 25% market shares in the relevant industry.

iii. Increase in Market Share:

Sometimes, price and pricing are taken as the tool to increase its market share. When company assumes that its market share is below than expected, it can raise it by appropriate pricing; pricing is aimed at improving market share.

3. Competition-related Objectives:

Competition is a powerful factor affecting marketing performance. Every company tries to react to the competitors by appropriate business strategies.

With reference to price, following competition-related objectives may be priorized:

i. To Face Competition:

Pricing is primarily concerns with facing competition. Today's market is characterized by the severe competition. Company sets and modifies its pricing policies so as to respond the competitors strongly. Many companies use price as a powerful means to react to level and intensity of competition.

ii. To Keep Competitors Away:

To prevent the entry of competitors can be one of the main objectives of pricing. The phase 'prevention is better than cure' is equally applicable here. If competitors are kept away, no need to fight with them. To achieve the objective, a company keeps its price as low as possible to minimize profit attractiveness of products. In some cases, a company reacts offensively to prevent entry of competitors by selling product even at a loss.

iii. To Achieve Quality Leadership by Pricing:

Pricing is also aimed at achieving the quality leadership. The quality leadership is the image in mind of buyers that high price is related to high quality product. In order to create a positive image that company's product is standard or superior than offered by the close competitors; the company designs its pricing policies accordingly.

iv. To Remove Competitors from the Market:

The pricing policies and practices are directed to remove the competitors away from the market. This can be done by forgoing the current profits – by keeping price as low as possible – in order to maximize the future profits by charging a high price after removing competitors from the market. Price competition can remove weak competitors.

4. Customer-related Objectives:

Customers are in center of every marketing decision.

Company wants to achieve following objectives by the suitable pricing policies and practices:

i. To Win Confidence of Customers:

Customers are the target to serve. Company sets and practices its pricing policies to win the confidence of the target market. Company, by appropriate pricing policies, can establish, maintain or even strengthen the confidence of customers that price charged for the product is reasonable one. Customers are made feel that they are not being cheated.

ii. To Satisfy Customers:

To satisfy customers is the prime objective of the entire range of marketing efforts. And, pricing is no exception. Company sets, adjusts, and readjusts its pricing to satisfy its target customers. In short, a company should design pricing in such a way that results into maximum consumer satisfaction.

5. Other Objectives:

Over and above the objectives discussed so far, there are certain objectives that company wants to achieve by pricing.

They are as under:

i. Market Penetration:

This objective concerns with entering the deep into the market to attract maximum number of customers. This objective calls for charging the lowest possible price to win price-sensitive buyers.

ii. Promoting a New Product:

To promote a new product successfully, the company sets low price for its products in the initial stage to encourage for trial and repeat buying. The sound pricing can help the company introduce a new product successfully.

iii. Maintaining Image and Reputation in the Market:

Company's effective pricing policies have positive impact on its image and reputation in the market. Company, by charging reasonable price, stabilizing price, or keeping fixed price can create a good image and reputation in the mind of the target customers.

iv. To Skim the Cream from the Market:

This objective concerns with skimming maximum profit in initial stage of product life cycle. Because a product is new, offering new and superior advantages, the company can charge relatively high price. Some segments will buy product even at a premium price.

v. Price Stability:

Company with stable price is ranked high in the market. Company formulates pricing policies and strategies to eliminate seasonal and cyclical fluctuations. Stability in price has a good impression on the buyers. Frequent changes in pricing affect adversely the prestige of company.

vi. Survival and Growth:

Finally, pricing is aimed at survival and growth of company's business activities and operations. It is a fundamental pricing objective. Pricing policies are set in a way that company's existence is not threatened.

9.1 Pricing Strategies

Pricing model is dictated by company product. The pricing strategy is based on the market of the product. While there are some pricing models and strategies that won't align, the two don't have to be related at all.

Three companies could offer similar products but use completely different pricing models and strategies. For example, one could use a price skimming strategy with a flat rate model. Another could use a tiered pricing model with a penetration pricing strategy, and the third could use a freemium strategy with a pay-as-you-go model.

The pricing model should be built around the core offering of company product or service, and market pricing strategy is based on how company's product compares to your competitors and the demand for it.

Price skimming is when you have a very high price that makes your product only accessible upmarket.

Price skimming is typically associated with luxury items and only works if you have a product or service that is highly valuable or perceived as highly valuable. Brands like Rolex, Mercedes-Benz and Louboutin use a price skimming model, and the high price reinforces their luxury perception.

Regardless of actual quality, a higher price can be associated with a higher value, so if you have a unique, innovative product or a valued brand, a price skimming strategy can be used to gain a higher profit from fewer sales.

A price skimming strategy does limit the market segments you can appeal to, so if you want to grow and expand your business over time, you'll probably have to eventually incorporate other pricing strategies so you can sell down-market.

For products, you could continue to use a price skimming strategy with new releases and lower the price of previous versions. Or product and service providers can offer "economy" versions of their solution to appeal down-market.

However, if there is more demand for your solution than there is supply and you have brand equity, it is possible to grow while keeping your high price. For example, the marketing agency Ogilvy morphed a price skimming strategy into a prestige pricing strategy.

Penetration Pricing

Penetration pricing is the opposite of price skimming. Instead of going to market with a high price, companies using a penetration pricing strategy have a low-priced solution in order to capture as much market share as possible.

For example, expense management software Expensify uses a penetration pricing model in combination with product-led growth. Their low price draws initial users, and then more users within a company will adopt the tool due to its functionality.

Penetration pricing only works if the solution can achieve economies of scale since high volume has to compensate for the low per-unit price. Or, penetration pricing can be used only as part of the go-to-market strategy in hopes of gaining brand loyalty that'll last when the price eventually rises.

Freemium

Freemium is a portmanteau of "free" and "premium," and a freemium business model involves offering a free version of your product or service and then upselling users into a paid version.

The music streaming platform Spotify uses this model, offering a free version that allows users to listen to music, but if they want to download files to listen to offline, skip songs unlimitedly or adjust their audio quality, they have to upgrade to a paid account.

Freemium can be a part of your go-to-market, or it can be used to break into new markets or introduce new products.

Slack used a freemium model from the start and has had unprecedented success with a 30% conversion rate. Freemium worked well for Slack because they were able to delight users with their free version while still providing additional useful features in the upgraded paid product.

Conversely, HubSpot did not start out using a freemium strategy. They started as a paid marketing automation tool, but as they've expanded their product offering into the marketing, sales and service growth suite, they've added freemium features like their CRM.

Price Discrimination

A price discrimination strategy is when you set a different price for the same product based on the market status of the buyer.

For example, movie theaters sell discounted tickets for children and seniors. Even though their tickets cost less, people in those demographics can see the same movies and sit in the same seats as customers paying full-price for their tickets. The purchased experience is the same, but the price is different based on their demographics.

In B2B, you typically see price discrimination used for startups. HubSpot and Drift are both examples of software that offer their product at a heavy discount to startup companies. This enables companies who would not otherwise be able to afford those tools access, and then as the startups grow, they'll have developed a loyalty to those tools and be willing to pay more.

This strategy does require having a way to segment your buyers based on market status and then verify that status before a sale is finalized.

Value-Based Pricing

Value-based pricing is a strategy that uses the value customer's gain from the product or service as the basis for the cost, ignoring the cost of production.

This strategy works well when your product or service is innovative and can't be easily swapped with an alternative.

The early years of iPhones are a great example of this: the cost to manufacture the phones are significantly less than the market price, but because none of the existing smartphones at the time had a similar functionality, Apple was able to set a high price and establish what the "value" of touch screen smartphones was.

Value-based pricing can also be used when your product or service is significantly better than alternatives that can accomplish the same function.

For example, the true cost of production for software development is really minimum wage for the developer plus the cost of the equipment and software involved in the development process. However, app programmers are paid more than that because they have a highly desirable skill set and hiring someone else to do the work is more effective and efficient than learning to code and trying to create an app by yourself.

Time-based pricing

A time-based pricing strategy is typically used by companies whose product or service has high-seasonality or last-minute purchases.

Airlines exemplify this: it's more expensive to book flights during peak seasons and cheaper if you're traveling during off-seasons. Additionally, the closer you book to the travel date, the more expensive the ticket will be.

For time-based pricing to work, you need to have a system in place tracking the factors at play and adjusting prices accordingly, especially if buyers can make a purchase without talking to sales.

For example, a transcription service can charge more for a same-day transcription than it does for transcribing a document within a week. Because of the immediate turnaround, the price is higher.

Or, if you try to hire service during a high-demand time for that service, they can charge more even if you hire them well in advance. An accounting firm can charge more for work done during tax season then they can at other times because of the high demand for accounting work at that time of year.

9.2 Pricing Strategies

The pricing of any product is extremely complex and intense as it is a result of a number of calculations, research work, risk taking ability and understanding of the market and the consumers. The management of the company considers everything before they price a product, this everything includes the segment of the product, the ability of a consumer to pay for the products, the conditions of the market, action of the competitor, the production and the raw material cost or you can say the cost of manufacturing, and of course the margin or the profit margins.

Pricing Strategies Definition

The main aim of the management of every organization is to maximize profits by effectively getting the products of the shelf; let's define and explain this better.

Pricing strategy is a way of finding a competitive price of a product or a service. This strategy is combined with the other marketing pricing strategies that are the 4P strategy (products, price, place and promotion) economic patterns, competition, market demand and finally product characteristic. This strategy comprises of one of the most significant ingredients of the mix of marketing as it is focused on generating and increasing the revenue for an organization, which ultimately becomes profit making for the company. Understanding the market conditions and the unmet desires of the consumers along with the price that the consumer is willing to pay to fulfill his unmet desires is the ultimate way of gaining success in the pricing strategy of a product or a service.

Do not forget the ultimate goal of the company is to maximize profit being in competition and sustaining the competitive market. However to maximize profits along with retaining your consumer you have to make sure you choose the right pricing strategy. The correct strategy will help attain your objectives as an organization.

Pricing Strategies in Marketing

Following are the different pricing strategies in marketing:

1. Penetration Pricing or Pricing to Gain Market Share

A few companies adopt these strategies in order to enter the market and to gain market share. Some companies either provide a few services for free or they keep a low price for their products for a limited period that is for a few months. This strategy is used by the companies only in order to set up their customer base in a particular market. For example France telecom gave away free telephone connections to consumers in order to grab or acquire maximum consumers in a given market. Similarly the Sky TV gave away their satellite dishes for free in order to set up a market for them. This gives the companies a start and a consumer base.

In the similar manner there are few companies that keep their product cost low as their introductory offer that is a way of introducing themselves in the market and creating a consumer base. Similarly when the companies want to promote a premier product or service they do raise the prices of the products and services for that particular time.

2. Price Skimming: Price skimming, also known as skim pricing, is a pricing strategy in which a firm charges a high initial price and then gradually lowers the price to attract more price-sensitive customers. The pricing strategy is usually used by a first mover who faces little to no competition. Price skimming is not a viable long-term pricing strategy, as competitors eventually launch rival products and put pricing pressure on the first company.

Price skimming is used to maximize profits when a new product or service is deployed. Therefore, the pricing strategy is largely effective with a breakthrough product, where the firm is the first to enter the marketplace. In such a strategy, the goal is to generate the maximum profit in the shortest time possible, rather than to generate maximum sales. This enables a firm to quickly recover its sunk costs before increased competition and pricing pressure arise.

Consider the diffusion of innovation, a theory that explains the rate at which a product spreads throughout a social system. Innovators are those who want to be the first to get a new product or service. They are risk-takers and price insensitive. A price skimming strategy tries to get the highest possible profit from innovators and early adopters. As the demand from these two consumer segments fills up, the price of the product is reduced, to target more price-sensitive customers such as early majorities and late majorities.

Advantages of Price Skimming

Perceived quality: Price skimming helps build a high-quality image and perception of the product.

Cost recuperation: It helps a firm quickly recover its costs of development.

High profitability: It generates a high profit margin for the company.

Vertical supply chain benefits: It helps distributors earn a higher percentage. The markup on a $500 product is far more substantial than on a $5 item.

Disadvantages

Deterrence: If the firm is unable to justify its high price, then consumers may not be willing to purchase the product.

Limitation of sales volume: A firm may not be able to utilize economies of scale if a skim price generates too few sales.

Inefficient long-term strategy: Price skimming is not a viable long-term pricing strategy, as competitors will eventually enter the market with rival products and exert downward pricing pressure.

Consumer loyalty: If a product that costs $1,000 at launch has a follow-on price of $200 in a couple of months, innovators and early adopters may feel ripped off. Therefore, if the firm has a history of price skimming, consumers may wait a couple of months before purchasing the product.

3. Economy pricing or No Frill Low Price

The pricing Strategies of these products are considered as no frill low prices where the promotion and the marketing cost of a product are kept to a minimum. Economy pricing is set for a certain time where the company does not spend more on promoting the product and service. For example the first few seats of the airlines are sold very cheap in budget airlines in order to fill in the airlines the seats sold in the middle are the economy seats where as the seats sold at the end are priced very high as that comes under the premium price strategy. This strategy sees more economy sales during the time of recession. Economy pricing can also be termed as or explained as budget pricing of a product or a service.

3. Use of Psychological Pricing Strategies

Psychological pricing Strategies is an approach of gathering the consumer's emotional respond instead of his rational respond. For example a company will price its product at Rs 99 instead of Rs 100. The price of the product is within Rs 100 this makes the customer feel that the product is not very expensive. For most consumers price is an indicating factor for buying or not buying a product. They do not analyze everything else that motivates the product. Even if the market is unknown to the consumer he will still use price as a purchase factor. For example if an ice cream weighted 100 gms for Rs 100 and a lesser quality ice cream weighted 200 gms is available at Rs 150, the consumer will buy the 200 gms ice cream for Rs 150 because he sees profit in buying the ice cream at lower cost ignoring the quality of the ice cream. Consumers are not aware price is also an indicator of quality.

4. Pricing Strategies of Product Line

Products line pricing is defined as pricing a single product or service and pricing a range of products. Let us take and understand this with the help of an example. When you go for a car wash you have an option of choosing a car wash for Rs 200 or a car wash and a car wax for Rs 400 or the entire package including a service at Rs 600. This strategy reflects a strategic cost of making a product popular and consumed by the consumer with a fair increment over the range of the product or the service. In another example if you buy a pack of chips and chocolate separately you end up paying a separate price for each product; however of you buy a combo pack of the two you end up paying comparatively less price for both and if you buy a combo of both in a higher quantity you end up paying even lesser.

For the manufactures of the product manufacturing and marketing of larger pack is much more expensive as it does not fetch them good amount of profit, however they do the same to attract more consumers and keep them interest in their products. On the other hand manufacturing smaller packs and lesser quantity is more beneficial and fetches more profit for the manufacturer of the product.

5. Pricing Optional Products

It is a general approach, if the companies decrease the price of a product or a service they do increase their price for their other available optional services. Let's take a very simple and a common example of a budget airline. The prices of their airfare are low however they will charge you extra if you want to book a window seat, if you want to travel with your family and want to book an entire row together you might have to end up paying extra charges as per the their guidelines, in case you have too much of luggage to carry you will end up paying extra on the same, in fact you will end up paying extra charges even if you need extra leg space in a budget airlines. You can say that even if the price of the air fare is low you will end up paying more for the extra yet mandatory services that you will require as you travel.

6. Pricing of Captive Products

Captive products have products that complement the products without which the main product is of no use or is useless. For example, an inkjet printer is of no use without its cartridge it will not work and have no value and a plastic razor will have no value without its blades. If the company is manufacturing the inkjet printer it will have to manufacture its cartridges and if the company is manufacturing a plastic razor it will have to manufacture blades for the same. For a simple reason that any other company cartridge will not fit into the inkjet printer and neither will any other companies blade fit into the plastic razor. The consumer has no other option but to buy the complementary products from of the same company. This increases the sales and the profit margin of the company anyways.

7. Pricing for promotions

Promotional pricing is very common these days. You will find it almost everywhere. Pricing for promoting a product is another very useful and helpful strategy. These promotion offers can include, discount offers, gift or money coupons or vouchers, buy one and get one free, etc. to promote new and even existing products companies do adopt such strategies where they roll out these offers to promote their products. An old strategy yet it is one of the most successful pricing strategies till date. Reason of its success is that the consumer considers buying the product and service for the offer that the consumer receives.

8. Pricing as Per Geographic Locations

For simple reasons such as the geographic location the companies do vary or change the price of the product. Why does location of the market affect the price of the product? The reasons can be many well some are scarcity of the product or the raw material of the product, the shipping cost of the product, taxes differ in a few countries, difference in the currency rate for products, etc.

Let's take a few pricing strategies examples, when a few fruits are not available in a country they are imported from another country, these fruits are exotic fruits, they are also scarce this increases their value in the country they are imported to, scarcity, the shipping cost of the imported product along with its quality increase its price, where as it is much cheaper where it is originally grown. Similarly the government implies heavy taxes on a few products such as petrol or petroleum products and alcohol to increase their revenue; hence such products are expensive in a few countries or part of the country compared to the other parts. Geographic location does create a huge impact on the pricing strategy of a product as the company has to consider every aspect before they price a product. Hence the price needs to be perfect and appropriate.

9. Value Pricing a Product

Let me first be clear about what value pricing means, value pricing is reducing the price of a product due to external factors that can affect the sales of the product for example competition and recession; value pricing does not mean that the company has added something or increased the value of a product. When the company is afraid of factors such as competition or recession affecting their sales and profits the company considers value pricing.

For example McDonalds the famous food chain has started value meals for their consumer since they have started facing competition with other fast food chains. They offer a meal or a combination of a few products as a lower price where the consumer feels emotionally content and continues to buy their products.

10. Pricing of Premium Products

Well this strategy works just the other way round. Premium products are priced higher due to their unique branding approach. A high price for premium products is an extensive competitive advantage to the manufacturer as the high price for these products assures them that they are safe in the market due to their relatively high price. Premium pricing can be charged for products and services such as precious jewelry, precious stones, luxurious services, cruses, luxurious hotel rooms, business air travel, etc. The higher the cost the more will be the value of the product amongst that class of audience.

11. Marginal cost Pricing

Marginal cost –the cost of producing one extra or One fewer item of production

MC Pricing –allows flexibility

Particularly relevant in transport where fixed costs may be relatively high.MC=Total Cost/Output

9.3 Methods of Pricing

In an organisation, price is one significant factor in attaining high market share. Profit maximization, high market share, to attain a status quo by stable price and meeting competition in the market are the main objective of pricing objective.

So, methods of pricing and pricing strategies is one of the critical tasks for a marketer.

Majorly there are three methods of pricing determination strategy

- Cost based Pricing
- Demand Based Pricing
- Competition-based pricing
- Other popular methods

Pricing Strategies

1. Mark-up Pricing
2. Full Cost Pricing
3. Marginal Cost Pricing
4. Break-Even Concept
5. Skimming Pricing
6. Penetration Pricing
7. Charging What the Traffic Will Bear
8. Discount Pricing
9. Premium Pricing
10. Going Rate Pricing
11. Perceived Value Pricing Method
12. Value Pricing Method
13. Sealed Bid Pricing

14. Psychological Pricing
15. Odd Pricing
16. Geographical Pricing
17. Discriminatory Pricing

Price setting is influenced by market conditions and changes as per marketing conditions and also with changing environmental factors.

Price is the amount of money paid by the buyer for acquiring a product or service. Marketing management is about placing the right product, at the right price, at the right place, at the right time.

Methods of Pricing

Below is the list of all the **Types of Pricing Strategy**:

Cost based Pricing

- Using the cost of production as the basis for pricing a product.
- Here the selling price of product a will be the cost to produce it.
- It includes:- Direct and indirect costs & Additional amount to generate profit.

Below price method/strategies are commonly used under cost-based pricing

Mark-up Pricing

In mark-up pricing, the selling price of the product is fixed by adding a particular margin or mark up to its cost.

Generally, distributive trade and marketing firms, who do not have any manufacturing of their own, prefer this method. The slower the turnaround of the product, the larger is the mark-up and vice-versa. It is also known as Cost Plus Pricing.

Full Cost Pricing

Full Cost Pricing is based on the estimated unit cost of the product with the normal level of production and sales and usually adopted by manufacturer firms. A profit margin is added to this unit cost.

These methods of pricing use standard costing techniques and work out the variable cost and fixed costs involved in manufacturing, selling and administering the product. The selling price of the product is decided by adding the required margin towards profit to such total costs. It is also known as Absorption Cost Pricing.

The advantage of full-cost pricing is that as long as the market consume the production at the determined price, the firm is assured of its profits.

The disadvantages of full-cost pricing is that the method does not take cognizance of the demand factors at all and relies excessively on standard costing and normal level of production and sales.

Marginal Cost Pricing

Marginal-cost pricing involves basing the price on the variable costs of producing a product, not on the total costs.

Fixed costs: capital equipment repayments, factory rental, and permanent staff salaries, short or medium term, remain unchanged regardless of the level of output achieved.

Variable costs: wages and electricity, raw material purchases which vary directly according to the level of output achieved.

Total costs = Fixed costs + variable costs

The major difference between full cost pricing and marginal cost pricing is that the marginal gives the flexibility not to recover a portion of the fixed costs depending upon the market situation.

Break-Even Concept

The break-even analysis concept is aimed at a level where the total costs exactly equal to the total revenues, the result is zero profit and zero loss. At a level were the revenues exceed the costs, profits are earned and at the other level, losses are incurred.

Many firms prefer the break-even concept in their methods of pricing. The firm uses the concept for price fixation and also to determine the level of production which is required for achieving the desired profits.

Demand Based Pricing

Pricing that is determined by how much customers are willing to pay for a product or service.

This method results in a high price when demand is strong and a low price when demand is weak.

May be differentiated based on considerations such as time of purchase, type of customer or distribution channel.

Below are the methods of pricing that are commonly used under demand based pricing

Skimming Pricing

One of the most commonly used strategies is the skimming strategy. In this strategy, the firm skim the market by selling at a premium price. Skimming method skims the market in the first instance through high price and then settles down for a lower price.

In the introduction stage firm keep a higher price means higher profit. This method is usually favorable for pricing of a new luxury product. It also helps the firm to get the feel of the demand of the product and then make appropriate changes in the pricing strategy.

Penetration Pricing

Penetration Pricing keeps a low price for a new product or service during its initial offering. The objective of penetration price strategy is to gain grip in a highly competitive market. Market share or market penetration are the two most important objective.

The problem with this strategy is that it often heralds a price war within the industry which could, in turn, prove fatal to all the firm's profit.

It points out demand price. Cost of service and value of service principle are the two principles in pricing. The second term is charging what the traffic can bear. Professionals like lawyers, doctors, chartered accountants etc., adopt this principle. They charge their fees on the basis of ability to pay and the cost factor comes secondary in their charges.

Competition-based pricing

Marketers will choose a brand image and desired market share as per competitive reaction. It is necessary for the marketer to know what the rival organization is charging. Level of competitive pricing enables the firm to price above, below, or at par and such a decision is easier in many cases

Below are the methods of pricing that are commonly used under Competition-based pricing

Discount Pricing

Traders or buyers were offered price concessions in the form of deductions from the list price of from the amount of a bill or invoice. These are forms of indirect price competition.

The common forms of discount pricing are:

- **Trade Discount:** It is given to the buyers buying for resale, for example, wholesaler or retailer.

- **Cash Discount:** It is a rebate or a concession given to the trader or consumer to encourage him to pay in full by cash or cheque within a short period of the date of the bill or invoice.

- **Quantity Discount:** These are given to the customer to encourage to make bulk or large purchases at a time.

- **Quantity Discount:** These are given to the customer to encourage to make bulk or large purchases at a time.

- **Seasonal Discount:** Additional seasonal discount for example 10%, 15% are offered to a dealer or a customer.

Premium Pricing

Premium pricing is the practice in which a high-end product is sold at higher than that of competing brands to give it a snob appeal through an aura of exclusivity. It also referred to as skimming, image pricing or prestige pricing.

The firm may decide to charge a high initial price to take advantage of the fact that some buyers are willing to pay a much higher price than others as the product is of high value to them.

The skimming pricing is followed to cover up the product development cost as early as possible before competitors enter the market.

Going Rate Pricing

Going Rate Pricing is also known as Parity Pricing. In this method, the firm bases its price on the average price of the product in the industry or prices charged by competitors. This method assumes that there will be no price war within the industry. It is commonly used in the oligopolistic market.

9.4 Unethical practices in HR:

Some ethical issues are extremely easy to understand: don't steal, treat others with respect, and always put down the toilet seat for your lady friends. However, when it comes to the market, the concept of what is right and wrong is a bit blurrier. Of course you can't exploit children for a labor force, but Is it a business's right to price however they want? After all, if the number is too high or the marketing too egregious, then consumers won't buy right?

Well, not exactly. Over the years, governments have put laws on the books for the most heinous of fraudulent pricing strategies, but even then some tactics are considered quite unethical, and you may be committing these missteps without even knowing or starters, ethics is a critical issue in pricing because ethics and legality are not synonyms. An unethical price is not always an illegal price. In many cases, it's up to you to decide where the line is—is this price strategy or that one too far over the line? Are we pricing our products to best serve our customers? Where are the risks?

As we said, there's a lot of grey. You need to decide what constitutes predatory and which practice is a concern for your business, not just legally, but ethically.

You can begin by watching out for these five unethical pricing strategies.

Ethics is a critical issue in pricing because ethics and legality are not synonyms; an unethical price is not always an illegal price.

1. Price Fixing

According to the U.S. Federal Trade Commission, price fixing is defined as "an agreement (written, verbal, or inferred from conduct) among competitors that raises, lowers, or stabilizes prices or competitive terms."

From a legal perspective, price fixing often runs afoul of antitrust laws. Your business is supposed to set prices independently from your competitors—you shouldn't agree to certain prices with your competitors as a way to control the market. The goal here is to protect consumers and ensure that prices are based on a free market, not a fixed one.

In simple terms, price fixing can be when your business and one or more competitors agree to:

Raise prices on a specific product

Keep prices on a specific product steady

Not allow retailers to discount products

And other examples

One possible sign of price fixing is collusion. Have two or more companies worked together to price the same product in a way that is beneficial for just those businesses? If you're setting prices based on supply and demand, you're likely safe from price fixing.

Price fixing is also about reducing competition. It removes the ability for consumers to go to a competitor to find a better deal on a specific product, as those competitors have colluded to fix the price.

2. Price Discrimination

Another common unethical pricing strategy is price discrimination. Price discrimination is when a retailer sells the exact same product or service at different prices to different people. Instead of the same price across all markets, retailers adjust prices based on what they think the consumer will pay.

Price discrimination can be ethical or unethical, depending on how it is used. For example, many goods cost more in Hawaii due to the costs of shipping and selling on islands isolated from common supply lines. It's typically fine—legally and ethically—to price products higher depending on the manufacturing and distribution costs for serving a particular market.

Where price discrimination gets unethical is in how it is deployed. It is a public relations nightmare if your business hides price discrimination from consumers. It can't be seen as a ploy or a trick to get unsuspecting shoppers to pay more. Price discrimination can be ethical and legal if marketing and sales make it clear why—and to whom—prices are different.

3. False Advertising

Speaking of marketing and sales, false advertising is a similar pitfall for unethical prices. False advertising can take many forms when it comes to pricing, including:

Labeling a price as a "discount" when it's actually the normal price

Running a promotion when there was never any intention to sell the product at full price

Or, running a promotion where it's actually more cost-effective to buy the product in a different bundle

Advertising a sale or discount when the product has never been in stock

False advertising is pretty easy to spot internally. You should know if your company is misleading shoppers. Again, not all of these are illegal. They're just unethical.

4. Yo-Yo Pricing

What is yo-yo pricing? Yo-yo pricing is when a business prices a product higher for a limited time—typically when supply is also low—then decreases prices and increases supply immediately after. It's often a tactic to drive sales at that higher price.

However, it's not always unethical. In many cases, yo-yo pricing is just dynamic pricing: adjusting prices automatically based on supply, demand, or other market conditions. Where it gets unethical is in how it is used.

Yo-yo pricing shouldn't be used to trick shoppers into spending more money because they don't know a better deal is right around the corner. It shouldn't be done artificially, as in a high price simply to generate a higher margin when it's already planned to roll out a lower, more steady price soon after.

Instead, it should be done if there's high demand, like with a new product launch, or when supply is low, like with event tickets. For example, airplane ticket prices yo-yo all the time, typically lower the earlier you book and higher the closer to your flight.

5. Predatory Pricing

Predatory pricing is pricing a product lower than the competition in the hopes of driving that competition out of business. Pricing strategies don't usually rise to the level of predatory unless they are so low they are below the cost of manufacturing. Or, they are done with the goal to hurt the competition. Simply offering a slightly lower price or a good deal is not predatory pricing.

This form of pricing can also be illegal, again problematic for antitrust laws. The concept is that a business that engages in predatory pricing could force its competitors to close and thus create a monopoly. Either way, it's unethical in part because it is pricing to hurt competitors, not to help consumers.

Summary

Pricing completely depends on the 4P pricing strategy in marketing which is very important and it needs to be considered before pricing any product. The management of the company needs to price their products and services very effectively as they do not want to enter into any situation where their sales take a hit due to relatively high price when compared with their competitors, neither would the company want to keep a price too low to maximize profits or enter into losses. Hence pricing needs to be done very smartly and effectively making sure the management of the organization considers every aspect before they price a product.

To set the price of the product , manager should put himself customers' shoes if ever in doubt whether a price is ethical or unethical. In most of these cases, unethical pricing occurs when pricing is to only earn profit—either to hurt the competition, skirt a law or regulation, or discriminate against or deceive consumers.

On the contrary, your prices are ethical when they are done with the customers' best interests in mind or price decisions are made based on market conditions, specifically supply and demand. The best part? Ethical prices are a long-term solution—they set business up for extended success. Unethical prices are a quick fix or a cheap win. They're not worth the risk.

Keywords

Pricing , predatory pricing , skimming , penetration , cost based , target return , psychological pricing , ethical and unethical pricing .

Self Assessment

1. A price is a value in monetary terms that one party pays to another in a transaction in exchange for some goods or services.

A. Price
B. Pricing
C. Price Management
D. Cost

2. Pricing objectives are :

A. Long Run Profit
B. Company Growth

C. Discourage new entrants
D. All the above

3. Find the factor that doesn't directly impact Pricing Decision ?

A. Cost : Fixed and Variable

B. Competition

C. Company's internal factors: Objectives

D. Customer Age

4. ___________ Strategy is suitable for the products that have short life cycle or which will face competition at some point in future.

A. Marketing Skimming

B. Value Pricing

C. Psychological Pricing

D. Going Rate (Price Leadership)

5. According to _____________ strategy , Price charged according to the Customers Perception.

A. Marketing Skimming

B. Value Pricing

C. Psychological Pricing

D. Going Rate (Price Leadership)

6. _____________ Strategy is used when Goods/services deliberately sold below cost to encourage sales elsewhere. Typical in supermarkets, e.g at Christmas, half rate of products.

A. Absorption Cost Pricing

B. Destroyer Pricing

C. Influence of Elasticity

D. Loss Leader Pricing

7. Cost of Product INR 999.99,which pricing strategy is used ?

A. Marketing Skimming

B. Value Pricing

C. Psychological Pricing

D. Going Rate (Price Leadership)

8. Where competition is limited, ______________pricing may be applicable-banks, petrol, supermarkets, electrical goods-find very similar prices in all outlets.

A. Marketing Skimming

B. Value Pricing

C. Psychological Pricing

D. Going Rate (Price Leadership)

9. In __________ the selling price of the product is fixed by adding a particular margin or mark up to its cost.

A. Mark-up Pricing

B. Full Cost Pricing

C. Marginal Cost Pricing

D. Break-Even Concept

10. ___________is based on the estimated unit cost of the product with the normal level of production and sales and usually adopted by manufacturer firms.

A. Mark-up Pricing

B. Full Cost Pricing

C. Marginal Cost Pricing

D. Break-Even Concept

11. __________ involves basing the price on the variable costs of producing a product, not on the total costs.

A. Mark-up Pricing

B. Full Cost Pricing

C. Marginal Cost Pricing

D. Break-Even Concept

12. The _________ concept is aimed at a level where the total costs exactly equal to the total revenues, the result is zero profit and zero loss.

A. Break even analysis

B. Skimming Pricing

C. Penetration Pricing

D. Charging What the Traffic Will Bear

13. Pricing that is determined by how much customers are willing to pay for a product or service. Which method is adopted ?

A. Cost based Pricing

B. Demand Based Pricing

C. Competition-based pricing

D. Other popular methods

14. _____________involves an agreement between a group of people on the same side of a market to buy or sell a good or service at a fixed price.

A. Price Fixing
B. Bid Rigging : Favoritism
C. Price Discrimination : Anti Favoritism
D. Price Skimming : Discriminating Through Time

15. __________ involves promising a commercial contract to one group, even though you make it look like multiple parties had the opportunity to submit a bid.

A. Price Fixing
B. Bid Rigging
C. Price Discrimination
D. Price Skimming

16. ___________is when the price for a product is first sold at a very high price and then gradually lowered

A. Price Fixing
B. Bid Rigging
C. Price Discrimination
D. Price Skimming

Answers for Self Assessment

1.	A	2.	D	3.	D	4.	A	5.	B
6.	D	7.	C	8.	D	9.	A	10.	B
11.	C	12.	A	13.	B	14.	A	15.	B
16.	D								

Review Questions

1. "Pricing is not an end in itself but a means to achieving certain objectives of the marketing department of a firm." Discuss.
2. "Economic conditions and government regulations play a vital role in determining product price." Comment.
3. Explain the different types of consumer products and how they are priced
4. Discuss different types of pricing strategies
5. Elaboratively discuss various methods of pricing .

Further Readings

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Unit 10: Distribution Planning

CONTENTS

Objective

Understand channels of distribution, its concept and importance.

Understand different types of distribution middlemen and their functions selection.

Understand the ways and need of motivating channel members.

Introduction

A distribution channel is a path by which all goods and services must travel to arrive at the intended consumer. Conversely, it also describes the pathway payments make from the end consumer to the original vendor. Distribution channels can be short or long, and depend on the number of intermediaries required to deliver a product or service.

Goods and services sometimes make their way to consumers through multiple channels—a combination of short and long. Increasing the number of ways a consumer is able to find a good can increase sales. But it can also create a complex system that sometimes makes distribution management difficult. Longer distribution channels can also mean less profit each intermediary charges a manufacturer for its service.

We can define formally the distribution channels as the set of interdependent marketing institutions participating in the marketing activities involved in the movement the flow of goods or services from the primary producers to ultimate consumers.

A channel of distribution is a path traced in the direct or indirect transfer of ownership of a product as it moves from producers to consumers.

A channel is pipeline through which a flows on its way to the consumers. The manager put his products into the pipeline marketing channels and it moves towards various marketing people and reaches the ultimate consumer which is the other end of the channels.

A distribution channel is the set of steps it takes for a product to get in the hands of the key customer or consumer. Distribution channels can be direct or indirect. Distribution can also be physical or digital, depending on the kind of business and industry.

Activity:

10.1 Functions of Distribution Channel

The functions of distribution channels can be studied under the following heads:-

1. Transactional Functions

2. Logistical Functions

3. Facilitating Functions.

Some of the functions of distribution channels are:- 1. Financing 2. Assists in Merchandising 3. Provides Market Intelligence 4. Assortment of Products 5. Price Stability 6. Promotion 7. Provides Salesmanship 8. Title 9. Helps in Production Function 10. Matching Demand and Supply

11. Pricing 12. Standardising Transactions 13. Matching Buyers and Sellers 14. Information Provider 15. Time and Place Utility and a Few Others.

The main function of distribution channel is to assemble the goods from different manufacturer and make it available to the consumer. Apart from this, the channel members also perform a number of other functions like buying, carrying inventory, selling, transporting, financing, etc. These functions enable products and information flow from manufacturer to user in a timely and efficient manner.

The main functions performed by the distribution channels can be divided into following categories:

1. Transactional Functions:

These functions relate to the various transactions performed for moving the goods from one channel end to other. It includes functions like buying, selling and risk bearing. These functions are performed by channel members. The goods are sold by the producer or manufacturer to various intermediaries who in turn sell it to the ultimate consumer. Movement of goods also include change in the title of goods from one to another.

2. Logistical Functions:

These include functions like assembling, storage, grading and transportation for physical movement of the goods from one place to another. It is very necessary that the goods are properly assorted and stored at the right place. Channel members have to ensure that stored goods are transported at right time, so that it is made available to the consumers.

3. Facilitating Functions:

These functions facilitate the performance of different functions by the channel members. With these functions, activities by the channel members can be performed smoothly. It includes financing, credit facilities, after-sale services, maintenance, etc. Purchase of most of the goods these days are accompanied by various services like loan facility, credit facilities, free servicing, etc. which facilitates the channel members.

To elaborate it further, the major distribution channel functions are as given below:

Function # 1. Financing:

Intermediaries usually make advance payments for goods and services, thereby, providing necessary working capital to the manufacturers for their day-to-day operations. Though the manufacturers may extend credit, payment is made in advance, even before the product is bought, consumed and paid by the ultimate consumer.

Function # 2. Assists in Merchandising:

Through merchandising, they help reinforce the awareness about the product among customers. While visiting a retail shop, customer's attention can be allured by an attractive display of the product/brand increasing his awareness and interest. Merchandising, especially display, complements the selling efforts of the company and acts as a silent salesman at the retail outlet.

Function # 3. Provides Market Intelligence:

Market intelligence and feedback to the principal are rendered by channels. In the nature of things, channels are in a good position to perform this task, since they are in constant and direct contact with the customers. They feel the pulse of the market all the time.

Function # 4. Assortment of Products:

It leads to the customer convenience as channels of distribution help the consumers to buy goods in convenient unit lots, packs and assorted varieties of the products. In order to use the economics of scale and to minimise the overall production cost, goods and services are produced in bulk.

But these goods and services consumed in smaller quantity so there is essentially the need of breaking the bulk. It is carried out by channel intermediaries.

Function # 5. Price Stability:

A middleman also works to maintain price stability in the market. Many a time the middlemen absorb an increase in the price of the products and continue to charge the customer the same old price. This is because of the intra-middlemen competition. He also maintains price stability by keeping his overheads low.

Function # 6. Promotion:

Sales incentive programmes are designed by middlemen aiming to building customers traffic at the other outlets. Channels of distribution perform promotional activities like advertising, personal selling and sales promotion etc., so as to be useful to the producer in achieving greater market share in sales and market coverage of the products.

Function # 7. Provides Salesmanship:

Salesmanship is provided by marketing channels. As they help in introducing and establishing new products in the market. Under some cases, buyers go by the recommendations of the dealers. The dealers establish the products in the market through their persuasive selling and person-to-person communication. They also provide pre-sale and after-sale service to the buyers.

Function # 8. Title:

The title to the goods, services and trade are taken by middlemen under their own names. It helps in eliminates the risks between the manufacturer and middlemen, also enabling middlemen to be in physical possession of the goods, which in turn helps. Then to meet customer demand at very moment it arises.

Function # 9. Helps in Production Function:

Leaving the marketing problem to middlemen who specialise in the profession the producer can concentrate on the production function. Their services can best utilised for selling the product. The finance, required for organising marketing can profitably be used in production where the rate of return would be greater.

Function # 10. Matching Demand and Supply:

The major function of intermediaries is to assemble the goods from many producers in such a manner that a customer can affect purchases with ease. The goal of marketing is the matching of segments of supply and demand.

Function # 11. Pricing:

While pricing a product, the producer should invite the suggestions from the middlemen as they are very close to the ultimate users and know what they can pay for the product. Pricing may be different for different markets or products depending upon the channel of distribution.

Function # 12. Standardizing Transactions:

Standardising transactions is another function of marketing channels. Like the milk delivery system, the distribution is standardised throughout the marketing channel so that consumers do not need to negotiate with the sellers on any aspect, whether it is price, quantity, method of payment or location of the product. By standardising transactions, marketing channels automate most of the stages in the flow of products from the manufacturer to the customers.

Function # 13. Matching Buyers and Sellers:

The most critical activity of the marketing channel members is to match the needs of buyers and sellers. Usually, most sellers do not know where they can reach potential buyers and similarly, buyers do not know where they can reach potential sellers. From this perspective, the role of the marketing channel to match the buyer's and seller's needs becomes very vital. For instance, a painter of modern art may not know where he can reach his potential customers, but an art dealer would surely know.

Function # 14. Information Provider:

Middlemen plays an important role in providing information about the market to the manufacturer. Changes in customer demography, psychographic, media habits and the entry of a new competitor or a new brand and changes in customer preferences are the developments that are the information manufacturers needed. As, these middlemen are present in the market place and close to the customer they can provide this information at no additional cost.

Function # 15. Time and Place Utility:

They assist consumers to buy goods at the time and place they require them. They create time and place utilities to the buyer. Thereby reducing the spatial discrepancy (distance between the producer and the consumer) in the buying space.

10.2 Functions of Channel of Distribution

There are several reasons why companies use channels of distribution. Opposite of the distribution strategy that employs intermediaries is direct distribution or direct selling. Imagine the difficulty firms like HUL would encounter in selling their products like Lux toilet bar and Dove shampoo to all customers who want to use them.

These consumers are large in number and are geographically dispersed. The company would face a herculean task of managing customer contact, which would run into crores of transactions. Managing these would burden the company and divert its focus towards distribution.

One of the efficient ways to reach out to a large number of customers is to use intermediaries. By the use of intermediaries the customer also benefits because contacts required to obtain products of their needs also stands reduced. This results in economy of efforts and saving of precious resources such as time, energy, and money for both the producer and consumer. This is one of the reasons why channels of distribution are commonly used to servicing consumer needs.

The use of intermediaries becomes imperative because the supply side (i.e., marketing firms) is governed by considerations that are different from consumer priorities. It is nearly impossible for companies to undertake all the tasks or activities that would match the service level desired by consumers.

Consumers expect product availability at the right time, in the right quantity, at the right place, and in the right assortment. If a company seeks to achieve all this on its own the operations would be highly inefficient and ineffective. Intermediaries are used as they perform a number of functions that help marketers service customer needs efficiently.

Function # 1. Information Provision:

There are middlemen like retailers who exist in close proximity with customers. This closeness of position allows them to get first-hand information on customer feedback and emergent changes in tastes and preferences. Middlemen can also provide valuable information about competitor activity.

In an international marketing scenario, a firm can get customer and competitor insights from middlemen who operate in that market. Middlemen can influence consumer decision in favour of certain brands simply by providing relevant product and company information.

Consider how retailers influence brand purchase by informing consumers of merits and demerits of brands under consideration. Less informed customers trust middlemen at the end of distribution channel to help them take the correct buying decision.

Function # 2. Match Discrepancy:

Consumers do not buy directly from product manufacturers because customer demand does not match with what is supplied by manufacturer. Consumers typically buy products in very small quantities but their producers produce them in large quantities. Therefore, there exists a discrepancy between demand and supply.

For instance, a producer of cement like ACC or shoes like Nike manufactures products in large numbers but individual buyers need them in smaller quantities. This mismatch in quantity is synchronized by middlemen who make products available in numbers that are desired by customers.

Second, middlemen match the discrepancy of assortment. Manufactures usually follow a specialization model and produce one type of product. For instance, a customer who is engaged in construction of a house needs cement, bricks, steel, and sand simultaneously.

However, ACC only produces cement. Therefore, there is a discrepancy of assortment demanded by customer and what is supplied by ACC. In this connection, middlemen like hardware dealers sell assortment of products that match with customer needs to solve their problem.

Function # 3. Bulk Breaking and Sorting:

Commodities such as candles and almonds are sold in large quantities to middlemen by their producers. For instance, almonds are sold in big gunny bags to middlemen by the producers from states such as Himachal Pradesh and Kashmir. The produce so obtained in bulk is broken down into smaller quantities as it moves down the channel of distribution.

The producers send gunny bags filled with almonds in truck loads to their agents who divide this quantity into bags of quintals and sell them to wholesalers. The wholesalers then further break the big bags into smaller bags of 20 kg. These bags are further divided into packs of one and two kilograms by the retailer.

Middlemen also sort produce into different quality categories. For instance, fruits like apples received by a commission agent from the source are divided into different grades. These graded fruits are further divided into different quality categories by the retailers.

Function # 4. Storing and Transportation:

Once goods are produced they need storage till the time they are sold to customers. This requires storage and warehousing facilities. One of the most important functions of middlemen is to store products in their facilities in order to cater to changes in customer demand.

There are specialist channel partners whose primary job is to store products. This does away with the need to invest in creating one's own storage system for the producers. Goods ultimately have to move to markets where they are bought by customers. Transportation and logistics partners come to the rescue of producers in this movement. Big e-tailers such as Flipkart and Amazon partner with logistics companies like FedEx to make shipment of sold products to end consumers.

Function # 5. Take Risk:

Owning products and taking their custody is a risky job. Holding stocks of goods in warehouses or while in transit involves risks linked with damage and destruction. Some of the middlemen take the title of products in the course of their journey to consumers. Transfer of title transfers risk.

The practice of financing consumer purchases by extending credit is not uncommon. The retailers offer credit to end consumers and wholesalers provide credit facilities to retailers. This credit ties up working capital of the financer and exposes him to the risk of non-recovery of money.

Function # 6. Place and Time Utility:

Place utility implies contribution made by middlemen in enhancing attractiveness of a product by altering its point of availability. A product available at an inconvenient location has lesser value. For instance, a bottle of Coca-Cola available at a distant store has lesser value compared to when it is available at a kiosk at a small distance.

Imagine the place utility created by small kiosks and roadside vendor partners in distribution of cigarettes and cold drinks. Intermediaries are prime instruments of increasing attractiveness of a product by making them available at convenient locations.

Another way an intermediary adds value is through creation of time utility. Production time and consumption time may not always coincide. That is, a product may be manufactured at a point in time that is different from its consumption time. By making products available at the time when they are needed for consumption, intermediaries create time utility. For instance, stores that offer medicines throughout the night create time utility.

Main Functions of Distribution Channel can be clubbed under following heads:

- **Sorting:** Middlemen obtain the supplies of goods from various suppliers and sort them out into similar groups on the basis of size, quality etc.
- **Accumulation:**In order to ensure a continuous supply of goods, middlemen maintain a large volume of stock.
- **Allocation:**It involves packing of the sorted goods into small marketable lots like 1Kg, 500 gms, 250 gms etc.
- **Assorting:**Middlemen obtain a variety of goods from different manufacturers and provide them to the customers in the combination desired by them. For example, rice from Dehradun & Punjab.
- **Risk Taking:**Middlemen have to bear the risk of distribution like risk from damage or spoilage of goods etc. when the goods are transported from one place to another or when they are stored in the god-owns.

10.3 Importance of Distribution Channel

Following are the major points of importance:

1. **Timely Delivery of Products**: This is one of the important function of distribution channels. Distribution channel helps in the delivery of products to customers on the right time. If products are not available at the right time to customers, it may disappoint him. It has removed all distance barriers for businesses while performing their operations. Distribution channels have made it possible for businesses to serve customers even at far distant places.
2. **Maintain Stock of Products:**Distribution channel has an efficient role in maintaining sufficient stocks of goods. It helps in maintaining the supply of goods as per the demands in the economy. Distribution channels performs functions of storing the products in warehouses & supplying them according to demand in the market. It avoids all cases of shortage of supply of goods in market.
3. **Provide Market Information :**Distribution channel is served as the medium through which business acquire all required information from the market. It takes all information like demand, price & nature of competition in the market from its different intermediaries involved in its distribution channel. Also, customers provide information & various suggestions to producers through these channels. It helps in formulating strategies according to that.

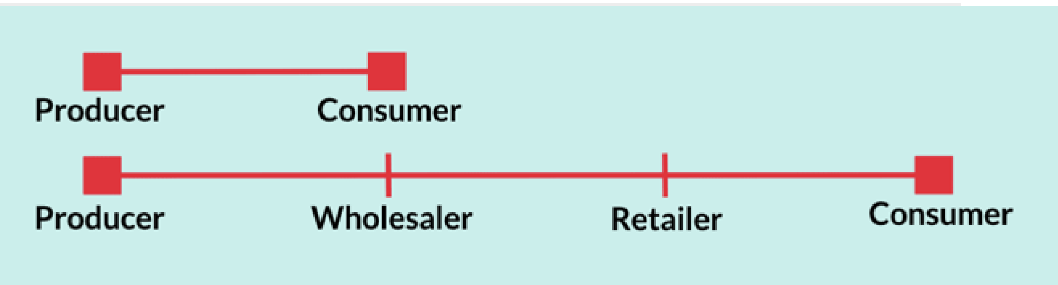
4. **Promotion of Goods:** Distribution channels helps in marketing & promotion of products. There are several middlemen's who are involved in the distribution system of businesses. These intermediaries inform the customers about the product. They introduce them with new products & explain them to its specifications. Customers are induced & motivated to buy these products by intermediaries. Hence, the distribution channel has an efficient role in promotion & marketing of goods.

   Provide Finance: Business gets financial assistance from the distribution channel. Intermediaries involved in distribution channel buys goods in bulk from producers. These intermediaries give payment to producers while purchasing. Then these middlemen sell these goods to customers in quantities demanded by them. They even provide credit facilities to the customers. However, producers get timely payment & are saved from blocking of their funds through credit selling. Therefore distribution channel regulation the funds' movement of businesses.
5. **Generate Employment:**Distribution channel generates employment in the economy. There are huge number of peoples who are involved in the distribution system of businesses. These people are wholesaler, retailers & different agents. All these people earn their livelihood through working in these distribution channels. Therefore, distribution channels are creating employment opportunities for peoples.
6. **Distribution of Risk:** Risk is something which is associated with each & every business. Distribution channels save the producers from the risk of delivering products to customers safely & timely. It becomes the duty of intermediaries that are involved in the channel to deliver it to customers timely. Producers focus only on their production activities & don't need to consider issues about delivering products

10.4 Types of distribution channels

At a higher level, distribution channels can be broken down, in direct channels, and indirect channels. This primarily depends on how long is a chain between who makes the product and the final consumer.

The number of steps it takes will make the distribution channel direct or indirect. Let's visualize a distribution chain to understand the difference between direct and indirect strategy:



Where in a direct distribution strategy a producer can access the consumer, in an indirect distribution strategy, the producer will meet its consumer demands via third-parties wholesalers or retailers.

Thus, a direct approach makes the value chain shorter and at the same time allows more control by the producer on how the final customer experiences the product or service offered.

At the same time, a direct to consumer strategy is quite expensive and not always effective enough to allow proper distribution. Therefore, companies often use a mixture of direct and indirect distribution strategies, which determine their marketing mix.

Between the direct-to-consumer and entirely indirect distribution strategy (where the producer sells to a wholesaler), there are several indirect variations, based on how many steps it takes to reach the final consumer and how long is the value chain.

Channels of distribution can be divided into the direct channel and the indirect channels. Indirect channels can further be divided into one-level, two-level, and three-level channels based on the number of intermediaries between manufacturers and customers.

Direct Channel or Zero-level Channel (Manufacturer to Customer)

Direct selling is one of the oldest forms of selling products. It doesn't involve the inclusion of an intermediary and the manufacturer gets in direct contact with the customer at the point of sale. Some examples of direct channels are peddling, brand retail stores, taking orders on the company's website, etc. Direct channels are usually used by manufacturers selling perishable goods, expensive goods, and whose target audience is geographically concentrated. For example, bakers, jewellers, etc.

Indirect Channels (Selling Through Intermediaries)

When a manufacturer involves a middleman/intermediary to sell its product to the end customer, it is said to be using an indirect channel. Indirect channels can be classified into three types:

- **One-level Channel (Manufacturer to Retailer to Customer):** Retailers buy the product from the manufacturer and then sell it to the customers. One level channel of distribution works best for manufacturers dealing in shopping goods like clothes, shoes, furniture, toys, etc.
- **Two-Level Channel (Manufacturer to Wholesaler to Retailer to Customer):** Wholesalers buy the bulk from the manufacturers, breaks it down into small packages and sells them to retailers who eventually sell it to the end customers. Goods which are durable, standardised and somewhat inexpensive and whose target audience isn't limited to a confined area use two-level channel of distribution.
- **Three-Level Channel (Manufacturer to Agent to Wholesaler to Retailer to Customer):** Three level channel of distribution involves an agent besides the wholesaler and retailer who assists in selling goods. These agents come handy when goods need to move quickly into the market soon after the order is placed. They are given the duty to handle the product distribution of a specified area or district in return of a certain percentage commission. The agents can be categorised into super stockists and carrying and forwarding agents. Both these agents keep the stock on behalf of the company. Super stockists buy the stock from manufacturers and sell them to wholesalers and retailers of their area. Whereas, carrying and forwarding agents work on a commission basis and provide their warehouses and shipment expertise for order processing and last mile deliveries. Manufacturers opt for three-level marketing channel when the userbase is spread all over the country and the demand of the product is very high.

Dual Distribution

When a manufacturer uses more than one marketing channel simultaneously to reach the end user, he is said to be using the dual distribution strategy. They may open their own showrooms to sell the product directly while at the same time use internet marketplaces and other retailers to attract more customers.

A perfect example of goods sold through dual distribution is smartphones.

Distribution Channels for Services

Unlike tangible goods, services can't be stored. But this doesn't mean that all the services are always delivered using the direct channels.

With the advent of the internet, online marketplaces, the aggregator business model, and the on-demand business model, even services now use intermediaries to reach to the final customers.

The Internet as a Distribution Channel

The internet has revolutionised the way manufacturers deliver goods. Other than the traditional direct and indirect channels, manufacturers now use marketplaces like Amazon (Amazon also provide warehouse services for manufacturers' products) and other intermediaries like aggregators (Uber, Instacart) to deliver the goods and services. The internet has also resulted in the removal of unnecessary middlemen for products like software which are distributed directly over the internet.

10.5 Factors Determining the Choice of Distribution Channels

Selection of the perfect marketing channel is tough. It is among those few strategic decisions which either make or break a company.

Even though direct selling eliminates the intermediary expenses and gives more control in the hands of the manufacturer, it adds up to the internal workload and raises the fulfilment costs. Hence these four factors should be considered before deciding whether to opt for the direct or indirect distribution channel.

Market Characteristics

This includes the number of customers, their geographical location, buying habits, tastes and capacity and frequency of purchase, etc.

Direct channels suit businesses whose target audience lives in a geographically confined area, who require direct contact with the manufacturer and are not that frequent in repeating purchases.

In cases of customers being geographically dispersed or residing in a different country, manufacturers are suggested to use indirect channels.

The buying patterns of the customers also affect the choice of distribution channels. If customers expect to buy all their necessaries in one place, selling through retailers who use product assortment is preferred. If delivery time is not an issue, if the demand isn't that high, the size of orders is large or if there's a concern of piracy among the customers, direct channels are suited.

If the customer belongs to the consumer market, longer channels may be used whereas shorter channels are used if he belongs to the industrial market.

Understanding consumer behavior is essential for deciding the most effective marketing channel for the business.

Short Channels	Long Channels
The offering is targeted to business users.	The offering is targeted to consumers and non-business users.
The customers are geographically concentrated.	The customers are geographically dispersed.
Customers require extensive technical knowledge.	Customers don't require extensive technical knowledge.
Regular servicing is required for the offering to operate.	Regular servicing is not required for the offering to operate.
The order quantity is large.	The order quantity is small.

Product Characteristics

Product cost, technicality, perishability and whether they are standardised or custom-made play a major role in selecting the channel of distribution for them.

Perishable goods like fruits, vegetables and dairy products can't afford to use longer channels as they may perish during their transit. Manufacturers of these goods often opt for direct or single level channels of distribution. Whereas, non-perishable goods like soaps, toothpaste, etc. require longer channels as they need to reach customers who reside in areas which are geographically diverse.

If the nature of the product is more technical and the customer may require direct contact with the manufacturer, direct channels are used. Whereas, if the product is fairly easy to use and direct contact makes no difference to the number of sales, longer channels are used.

The per unit value of the product also decides whether the product is sold through a direct channel or through an indirect channel. If the unit value is high like in the case of jewellery, direct or short channels are used, whereas products like detergents whose unit value is low use longer channels of distribution.

Short Channels	Long Channels
Product is perishable.	Product is durable.
Product is complex.	Product is standardised.
Product is expensive.	Product is inexpensive.

Competition Characteristics

The choice of the marketing channel is also affected by the channel selected by the competitors in the market. Usually, the firms tend to use a similar channel as used by the competitors. But some firms, to stand out and appeal to the consumer, use a different distribution channel than the competitors. For example, when all the smartphones were selling in the retail market, some companies partnered with Amazon and used the scarcity principle to launch their smartphone as Amazon exclusive.

Short Channels	Long Channels
The competitor uses the direct channels and the manufacturer is satisfied with its performance.	The competitor uses the indirect channels and the manufacturer is satisfied with its performance.
The competitor uses indirect channels and the manufacturer thinks choosing short channels would be more beneficial.	The competitor uses the direct channel and the manufacturer thinks choosing indirect or long channels would be more beneficial.

Company Characteristics

Financial strength, management expertise, and the desire for control act as important factors while deciding the route the product will take before being available to the end user.

A company having a large amount of funds and good management expertise (people who have sufficient knowledge and expertise of distribution) can create the distribution channels of its own but a company with low financial stability and management expertise has to rely on third-party distributors.

The companies who want to have tight control over the distribution prefer direct channels. Whereas, those companies to whom such control doesn't matter or those who are just interested in the sales of their products prefer indirect channels.

Short Channels	Long Channels
Company believes that it's important to control the channels.	Company believes that channel control isn't important.
Company has a broad product line.	Company has a narrow product line.

Short Channels	Long Channels
Company has adequate resources to perform channel functions.	Company lacks adequate resources to perform channel functions.

For instance, in the scenarios in which a producer sells to a wholesaler, the wholesaler sells to retailers, who reach the final consumers. However, in some other cases, the distribution channels might be shorter.

A manufacturer may plan to sell his/her products either directly or indirectly to the customers.

In case of indirect distribution, a manufacturer has again an option to use a short channel consisting of few intermediaries or involve a large number of middlemen to sell his/her goods.

Therefore, there are various forms of channel networks having different number and types of middlemen.

10.6 Motivating Channel Members

Marketing channel/trade channel/distribution channel are sets of independent organizations involved in the process of making a product/services available for use or consumption.

They are a set of pathways a product/service follows after production culminating in purchase and use by the final end user. Channel members are the people or intermediaries through which goods and services go through before they reach the consumer.

Intermediaries can be –wholesalers, retailers, brokers and sales agent etc.

Finding Out the Needs and Problems of Channel Members

Before the channel manager can successfully motivate channel members, an attempt must be made to learn what the members want for the channel relationship. Manufacturers are often unaware of or insensitive to the needs and problems of their channel members.

Marketing Channels Approaches for Learning about Channel Member Needs and Problems All marketing channels have a flow of information running through them as part of the formal and informal communications systems that exist in the channel. Ideally, such systems would provide the manufacturer with all of the information needed on channel member needs and problems. However, most marketing channel communication systems have not been formally planned and carefully constructed to provide a comprehensive flow of timely information. Consequently, the channel manager should not rely solely on the regular flow of information coming from the existing channel communication system for accurate and timely information on channel member needs and problems.

There is a need to go beyond the regular system and make use of one or all of the following four additional approaches.

A) **Research Studies of Channel Members** Most manufacturers never conduct research of channel member needs and problems. Estimates indicate that less than one percent of manufacturers' research budgets are spent on channel member research.

B) **Research Studies by Outside Parties** Research designed and executed by a third party is sometimes necessary if complete and unbiased data on channel member needs and problems are to be obtained. The use of outside parties to conduct research on channel member needs and problems provides higher assurance of objectivity.

C) **Marketing Channel Audits** The basic thrust of this approach should be to gather data on how channel members perceive the manufacturer's marketing program and its component parts, where the relationships are strong and weak, and what is expected of the manufacturer to make the channel relationship viable and optimal. For example, a manufacturer may want to gather data from channel members on what their needs and problems are in areas such as:

♣ Pricing policies, margins, and allowances

♣ Extent and nature of the product line

♣ New products and their marketing development through promotion

♣ Servicing policies and procedures such as invoicing, order dating, shipping, warehousing and others

♣ Sales force performance in servicing the accounts Further, the marketing channel audit should identify and define in detail the issues relevant to the manufacturer–wholesaler and/or manufacturer–retailer relationship.

Whatever areas and issues are chosen, they should be cross-tabulated or correlated as to kind of channel members, geographical location of channel members, sales volume levels achieved, and any other variables that might be relevant. Finally, for the marketing channel audit to work effectively, it must be done on a periodic and regular basis so as to capture trends and patterns. Emerging issues are more likely to be spotted if the audit is performed on a regular basis.

D) **Distributor Advisory Councils** Three significant benefits emerge from the use of a distributor advisory council. First, it provides recognition for the channel members. Second, it provides a vehicle for identifying and discussing mutual needs and problems that are not transmitted through regular channel information flows. And third, it results in an overall improvement of channel communications, which in turn helps the manufacturer to learn more about the needs and problems of channel members, and vice versa.

Channel Support:

Offering Support to Channel Members Support for channel members refers to the manufacturer's efforts in helping channel members to meet their needs and solve their problems. Such support for channel members is all too often offered on a disorganized and ad hoc basis. The attainment of a highly motivated cooperating "team" of channel members in an interorganizational setting requires carefully planned programs. Such programs can generally be grouped into one of the following three categories:

(1) cooperative,

(2) partnership or strategic alliance, and

(3) distribution programming.

1) Cooperative Arrangements Cooperative arrangements between the manufacturer and channel members at the wholesale and retail levels have traditionally been used as the most common means of motivating channel members in conventional, loosely aligned channels. The underlying rationale of all such cooperative programs, from the manufacturer's point of view, is to provide incentives for getting extra effort from channel members in the promotion of the products.

2**) Partnerships and Strategic Alliances** Partnerships or strategic alliances stress a continuing and mutually supportive relationship between the manufacturer and its channel members in an effort to provide a more highly motivated team, network, or alliance of channel partners. Webster points to three basic phases in the development of a "partnership" arrangement between channel members.

♣ An explicit statement of policies should be made by the manufacturer in such areas as product availability, technical support, pricing and any other relevant areas.

♣ An assessment should be done of all existing distributors as to their capabilities for fulfilling their roles.

♣ The manufacturer should continually appraise the appropriateness of the policies that guide his or her relationship with channel members. Webster's basic guidelines can be used for establishing partnerships or strategic alliances in marketing channels. 3) Distribution Programming Key Term and Definition

♣ Distribution programming: "A comprehensive set of policies for the promotion of a product through the channel." The essence of this approach is the development of a planned, professionally managed channel.

The first step in developing a comprehensive distribution program is an analysis by the manufacturer of marketing objectives and the kinds and levels of support needed from channel members to achieve these objectives.

Further, the manufacturer must ascertain the needs and problem areas of channel members. Nevertheless, virtually all of the policy options available can be categorized into three major groups:

a. Those offering price concessions to channel members

b. Those offering financial assistance

c. Those offering some kind of protection for channel members Providing Leadership to Motivate

Channel Members Control must still be exercised through effective leadership on a continuing basis to attain a well-motivated team of channel members. Seldom is it possible for the channel manager to achieve total control, no matter how much power underlies his or her leadership attempts. For the most part, a theoretical state, where the channel manager were able to predict all events related to the channel with perfect accuracy, and achieve the desired outcomes at all times, does not exist or is not achievable in the reality of an interorganizational system such as the marketing channel.

Summary

Distribution channels may vary depending on a particular manufacturer's product type and their sales targets. It is why it is pivotal to choose the right distribution channel.

The following factors must be looked at into detail by a company in order to determine which distribution method would be ideal for it to maximize profit generation via sales, value addition, and consumer reach:

- Market characteristics
- Product characteristics
- Competitor characteristics
- Company characteristics

Keywords

Distribution Channel , Retailers , wholesalers, Distributors, competitors, channel support, powers

Answers for Self Assessment

1. The ___________refers to the path or route through which product moves from producer to ultimate customer.

A. Channel of Distribution
B. Distribution Network
C. Network
D. None of the above

2. Functions of distribution Channels are :

A. Sorting
B. Accumulation
C. Allocation
D. All the above

3. Middlemen obtain a variety of goods from different manufacturers and provide them to the customers in the combination desired by them. This is known as :

A. Assorting
B. Allocation
C. Accumulation
D. Sorting

4. Importance of Distribution Channel is:

A. Timely Delivery of Products
B. Maintain Stock of Products
C. Provides Market Information
D. All the above

5. All the above An Institution that buys goods from manufacturers, takes title to goods, stores them and resells and ships them.

A. Retailer
B. Merchant Wholesaler
C. Distributor
D. Stockist

6. Retailers Role are:

A. Wide Choice to consumers
B. Availability of goods in small quantities
C. Home delivery
D. All the above

7. Factors Determining Choice of Channel of Distribution are:

A. Product Related Factors
B. Company Characteristics
C. Competitive Factors
D. All the above

8. _____________ such as economic conditions and legal regulations also play a vital role in selecting channels of distribution.

A. Environmental factors
B. Economic Factors
C. Technological factors
D. Socio Cultural factors

9. Intermediaries can be :

A. Wholesalers

B. Retailers

C. Brokers

D. All the above

10. Importance of Intermediaries are:

A. Information

B. Promotion

C. Contact

D. All the above

11. To stimulate channel members to bring their best company should understand their ________ and _________-.

A. Needs and Wants
B. Cost and Price
C. Demand and Cost
D. Market and suppliers

12. Intermittent interactions between manufacturer and channel members, this is which means to motivate Channel Members.

A. Cooperative arrangements
B. Partnership and Strategic Alliances
C. Distribution Programming
D. None of the above

13. Facilities provided to retailers in cooperative arrangements are:

A. Demonstrations
B. Free Goods
C. Payment for window Display
D. All the above

14. Manufacturer should make ____ statement of policies in areas such as product availability, technical support, pricing etc.

A. Clear
B. Strong
C. Visible
D. Vague

15. __________defined as the ability to alter channel members behavior so that they take actions they would not have taken otherwise

A. Power
B. Position

C. Channel Power

D. None of the above

16. ________power can be effective but its exercise produces resentment and can generate conflict among the parties.

A. Coercive Power

B. Reward Power

C. Legitimate Power

D. Expert Power

Answers for Self Assessment

1.	A	2.	D	3.	A	4.	D	5.	B
6.	D	7.	D	8.	A	9.	D	10.	D
11.	A	12.	A	13.	D	14.	A	15.	C
16.	A								

Review Questions

1. Discuss the importance and relevance of Distribution Channel
2. Elaborate main functions of Distribution channel
3. Elaborate the types of Distribution channel available in India and why the different channels are required?
4. How are distributors and retailers motivated by organizations?
5. Discuss various types of powers used by organizations to motivate middlemen?

Further Readings

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Unit 11: Distribution Planning

CONTENTS

Objectives

- understand decisions Involved in Setting up the Channel and Strategies adopted to manage Channel
- understand Distribution Logistics – its Concept, Importance and Major Logistics Decisions.
- understand Channel Integration and Systems,
- analyze the Ethical Issues in Distribution Decisions.

Introduction

Whether a firm be a one-person operation or one that employs thousands of people and generates billions in sales, all are in business to serve the needs of markets. In order to do this, these firms must be assured that their products are distributed to their intended markets. Most producing and manufacturing firms are not in a favourable position to perform all the tasks that would be necessary to distribute their products directly to their final user markets. In many instances, it is the expertise and availability of other channel institutions that make it possible for a producer/manufacturer to even participate in a particular market. Other channel members can be useful to the producer in designing the product, packaging it, pricing it, promoting it, and distributing it through the most effective channels.

Channel choice begins with two questions: to whom shall we sell this merchandise immediately? And, who are our ultimate users and buyers? The immediate and ultimate customers may be identical or quite separate, depending on the type of product, functions performed in the channel, and location in the channel. There is a need to know what the customer needs, where they buy, when they buy, why they buy from certain outlets, and how they buy. It is best that we first identify the traits of the ultimate user, since the results of this evaluation might determine the other channel institutions we would use to meet these needs. For example, the buying characteristics of the purchaser of a high-end electronics device might be as follows:

Purchased only from a well- established, reputable dealer.

Purchased only after considerable shopping to compare prices and merchandise characteristics.

Purchaser willing to go to some inconvenience (time and distance) to locate the most acceptable brand.

Purchased only after extended conversations involving all interested parties – including dealer, users, and purchasers.

Purchase may be postponed.

Purchased only from a dealer equipped to render prompt and reasonable product service.

Knowing the buying specifications of consumers, the channel planner can decide on the type or types of wholesalers and/or retailer through which a product should be sold. This requires that a manufacturer contemplates distribution through particular types of retailers become intimately familiar with the precise location and performance characteristics of those being considered.

In much the same way that buying specifications of ultimate users are determined, the manufacturers must also discover buying specifications of resellers. Of particular importance is the question, "from whom do my retail outlets prefer to buy? " The answer to this question determines the type of wholesaler – if any – that the manufacturer should use. Although many retailers prefer to buy directly from the manufacturers, this is not always the case. Often, the exchange requirements of manufacturers – e.g., infrequent visits, large order requirements, and stringent credit terms – are the opposite of those desired by retailers. Such retailers would rather buy from local distributors who have lenient credit terms and offer a wide assortment of merchandise.

Channel choice is also greatly influenced by channel objectives. Channel objectives are based on the requirements of the purchasers and users, the overall marketing strategy, and the long-run goals of the corporation. In cases when a company is just getting started, or an older company is trying to carve out a new market niche, the channel objectives may be the dominant force on channel choice. The following areas encompass the major categories of channel objectives:

Growth in sales – by reaching new markets and/or increasing sales in existing markets.

Maintenance or improvement of market share – educate or assist channel components in their efforts to increase the amount of product they handle.

Achieve a pattern of distribution – structure the channel in order to achieve certain time, place, and form utilities.

Create an efficient channel – improve channel performance by modifying various flow mechanisms.

After the distribution objectives are set, it is appropriate to determine the specific distribution tasks or functions to be performed in that channel system. The channel manager must be very specific in describing the tasks and must define how these tasks will change depending upon the situation. An ability to do this requires the channel manager to evaluate all phases of the distribution network. Tasks must be identified fully, and costs must be assigned to these tasks.

11.1 Basis for Channel Management Decision

Marketing channel intensity takes into account both the variance and number of channels an organization may use to deliver goods and services to consumers.

Channel Distribution Intensity

As organizations develop their marketing channel strategies, an important question arises regarding distribution intensity. There is some freedom in most industries for a firm to determine which channels they will use, and how much volume each channel will receive. Weighing the pros and cons of various channels, both in terms of the number of channels and the volume within each channel, can have a significant strategic impact on a firm's position in a market.

Generally, there are three ways to frame the distribution intensity decision:

Intensive

This is the highest in both number of channels and volume within each channel. An intensive distribution approach will take advantage of as many sales outlets, distributors, and direct selling opportunities the organization can identify and justify (at a given volume). This is common for goods such as soda, snacks, household items, and other common low-cost goods. In short, many channels and high volume.

Selective

Selective distribution focuses on narrowing down the number of channels within the distribution strategy, but not the overall volume of goods sold through those channels. This strategy focuses on fewer channels yet retains a desire for higher volumes to capture scale economies in production. Common channels in these circumstances are channels where the firm can maintain strategic control of how the products are sold, at what price, and in which regions.

Exclusive

Finally, some firms opt for a low volume approach with very few channels selected. This is ideal for differentiated organizations with a strong brand and a desire for scarcity. If everyone had the same high fashion item, it would no longer be a high fashion item. If everyone on the road had a beautiful, unique sports car, much of the allure and justification for a high price point would be gone. Exclusive distribution strategies work best for firms that focus on low volume, high margin sales.

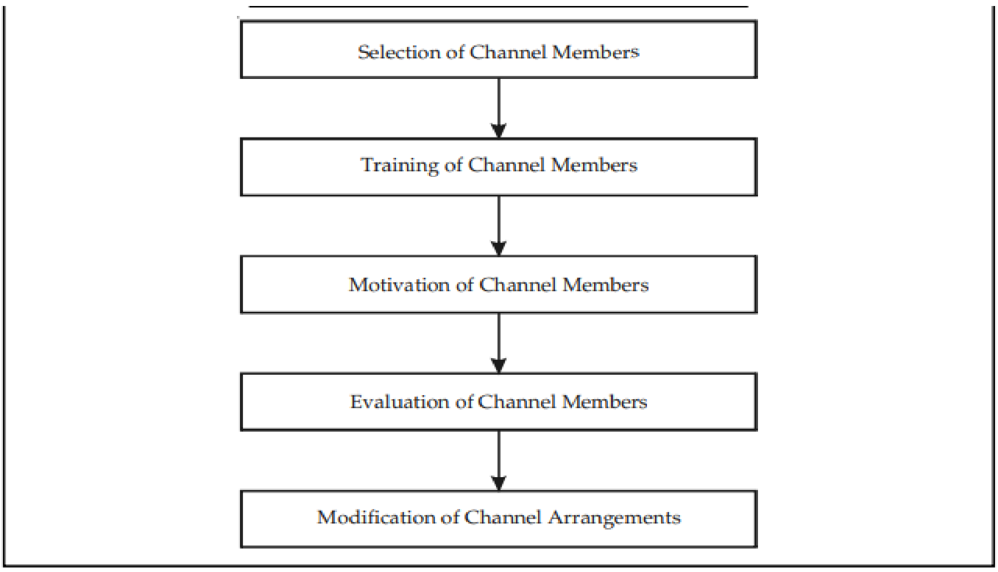
Technology and Channels

Technology has disrupted some of the logic behind these channel decisions, as digital storefronts have grown to be highly influential, easily accessible to global markets, and substantially cheaper than retail space. As the rise of digital purchasing continues, and the cost of shipping decreases, globalization will drive organizations more and more towards channel strategies that optimize online exposure.

Considering the vastness of the internet, however, being found by consumers who are not yet aware of your product becomes difficult. This creates an interesting relationship, similar to the retail relationship in traditional channel marketing, whereas certain digital storefronts are highly valuable strategic partners. Amazon, for example, sells a huge number of brands on their website. Being highly rated and promoted on Amazon will greatly increase the efficacy of that particular channel. Understanding how online marketplaces work, and how to build a presence in this new digital age, is a critical skill set for a strategic marketer looking at channel strategy.

11.2 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



Selection of Channel Members:

The ability to recruit and use intermediaries varies from producer to producer. Some powerful brand owners can always go for stronger distributors and deeper distribution. New producers often find it difficult to include their product assortments with established retailers. The marketing managers should identify what characteristics distinguish better intermediaries. Selecting marketing channels can be a complicated process, particularly if part of the channel is outside the producer's direct control. In addition, there is not an endless supply of available intermediaries sitting around waiting for producers to give them a call. The elements that managers examine as they define channel strategies can be grouped into market factors, product factors and producer factors

Market Factors Analyzing and understanding the target market is the first step in selecting marketing channels. There are several factors that an analysis of the market should explore, ranging from customers to types of competitive presence.

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.

Generally all the companies advertise through newspapers and trade magazines to look out for channel partners. If the company is known and successful, it becomes quite easy for the company to find them. But in the case of a new company launching a new product, then finding a channel partner can be tough. In both the cases, the parameters for choosing a channel partner should be very clear for the company as well as the channel partner.

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 those 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.
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.

11.3 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.

11.4 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 not much product differentiation between the new product and its close substitutes, the marketing Notes 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.

When Intex started their operations in 1996, they had just one product – Ethernet card. Now the product has expanded to 26 product groups with more than 300 stock keeping units. Now their marketing channel consist of 2 mother warehouses, 2 regional offices, 28 branches, 57 service centres, 183 service franchises and more than 2000 channel partners.

Similarly with the growing usage of Internet, all the retailers are trying to follow a brick and click model, where they sell their merchandise in their stores and they sell it online also. Kishore Biyani's Future group is a good example of the same.

They target their customers through a brick model with Big Bazaar, Pantaloons, E-Zone, Home Town etc. and follow the customers online through their click model i.e. www(dot)future bazaar(dot)com and www(dot) ezone online(dot)com .

From time to time, a company needs to track the changes in the market and on this basis; they need to modify their channel members.

11.5 Logistics

Logistics management is basically an integrative process that optimizes the flow of materials and supplies through the organization and its operations to the customer.

Logistics function is to support corporate goals by delivering products to the consumer at a time and place of his choosing.

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.

Some authors view logistics as the transporting, sorting, and handling of goods to match target Notes 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 dispatching 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

11.6 Market Logistics Objectives and Decisions:

Some of the major market logistics objectives of a company are as follows:

(a) Logistics Decisions

(b) Market Logistics and Cost

(c) Market Logistics Decisions.

Many companies state their market logistics objectives as "getting the right goods to the right places at the right time for the least cost." This means a market logistics system has to simultaneously provide maximum customer service at the minimum distribution cost.

a) Logistics Decisions:

Market logistics activities involve strong trade-offs, decisions must be made on a total system basis. Customers are interested in on-time delivery, suppliers desire to meet emergency needs and also have willingness to take back defective goods and re-supply them quickly at their costs. A company must then research the relative importance of these service outputs. For example, for a photo copier machine, the least service-repair time is very important.

Xerox Corporation, USA, have developed a service-delivery standard that put a defective machine anywhere in USA back into operation within 3 hours of receiving the complaint. In this case, the company has to consider the competitors' service standards and either match with this standard or exceed the competitor's service level, with the objective of maximizing profits, and not sales.

b) Market Logistics and Cost:

Let us consider, a machine manufacturer has established the following service standards:

i. To deliver at least 95 percent of the dealer's orders within 7 days of order receipt.

ii. To fill the dealer's orders with 99 percent accuracy.

iii. To answer dealer inquiries on orders with 99 percent accuracy.

iv. To answer that damage to merchandise in transit does not exceed one percent.

(c) Market Logistics Decisions:

Four major decisions must be made with regard to market logistics:

(i) How should orders be handled? (Order Processing).

(ii) Where should stocks be located? (Warehousing).

(iii) How much stock should be held? (Inventory).

(iv) How should goods be shipped? (Transportation).

11.7 Channel Integration

Channel integration is essentially the idea of combining efforts across different customer channels such as: Industry experts define channel integration as either the physical or the logical "integration" of channels, or, in other words, the practice of creating consistent messaging and utility across all of these channels.

Distribution channels don't stand still. We'll look at the recent growth of vertical, horizontal, and multichannel marketing systems. After considering some e-commerce and m-commerce issues, we next examine how these systems cooperate, conflict, and compete.

Horizontal Marketing Systems

The channel development is the horizontal marketing system, in which two or more unrelated companies put together resources or programs to exploit an emerging marketing opportunity. Each company lacks the capital, know-how, production, or marketing resources to venture alone, or it is afraid of the risk. The companies might work together on a temporary or permanent basis or create a joint venture company. For example, many supermarket chains have arrangements with local banks to offer in-store banking. Citizens Bank has more than 500 branches in supermarkets, making up roughly one-third of its branch network. Citizens's staff members in these locations are more sales oriented, younger, and more likely to have some retail sales background than staff in the traditional brick-and-mortar branches.

Joining of two or more corporations on the same level for the purposes of pursuing a new marketing opportunity.

Established to make use of combined resources . Bring synergy effect.

Ex: Nestle & coke In Europe

Collaboration under this market system takes place in following ways: –

Two or more Manufacturers- This collaboration is made with the objective of efficient utilization of all scarce resources.

Two or more Wholesalers- It is done with the motive of covering a wider area for distributing goods and services.

Two or more Retailers- Retails collaborates with one another for providing products in a particular area in bulk quantities.

Fiat brand in India was earlier represented through a joint venture company called Fiat India Automobiles Pvt Ltd., FIAPL (Name changed to Fiat India Automobiles Ltd., FIAL later) founded in the year 1997 with Fiat S.p.A. and Tata Motors as the two partners coming together to produce cars for both brands in a plant set up through joint investments

Johnson and Johnson, a reputed healthcare company has joined hands with Google. The collaboration is done with the aim of having a robotic-assisted surgical platform. It will enable in enhancing the overall quality of health-care services by integration of advanced technologies.

Nike and Apple, both of these big brand have associated with each other for producing such as advanced footwear of Nike+ in which apple iPod can be connected. Shoe will play music and along with it display all information such as calories burned, distance covered and heart pace on iPod screen.

Advantages of HMS:

- ✓ HMS of related business allows them to achieve economies of the scale by selling more of the same product through geographic expansion.
- ✓ It includes economies of the scope through synergies achieved by sharing of resources common to different products, reduction in the cost of international trade by operating factories in foreign countries.

Vertical Marketing Systems

A conventional marketing channel consists of an independent producer, wholesaler(s), and retailer(s). Each is a separate business seeking to maximize its own profits, even if this goal reduces profit for the system as a whole. No channel member has complete or substantial control over other members.

The concept behind vertical marketing systems is quite similar to vertical integration. In vertical integration, a company assumes control over several of the production steps in the creation of its product or service in a particular market. In other words, companies purchase a part of the production or sales process that was previously outsourced to get it done in-house.

A vertical marketing system (VMS), by contrast, includes the producer, wholesaler(s), and retailer(s) acting as a unified system. One channel member, the channel captain, sometimes called a channel steward, owns or franchises the others or has so much power that they all cooperate. Stewards accomplish channel coordination without issuing commands or directives by persuading channel partners to act in the best interest of all.

A channel steward might be the maker of the product or service (Procter & Gamble or American Airlines), the maker of a key component (microchip maker Intel), the supplier or assembler (Dell or Arrow Electronics), or the Urban Outfitters carefully studied the European market to ensure its blend of fashion merchandise would appeal to consumer tastes Within a company, stewardship might rest with the CEO, a top manager, or a team of senior managers

Channel stewardship has two important outcomes. First, it expands value for the steward's customers, enlarging the market or increasing existing customers' purchases through the channel. Second, it creates a more tightly woven and yet adaptable channel in which valuable members are rewarded and the less valuable are weeded out.

VMSs arose from strong channel members' attempts to control channel behavior and eliminate conflict over independent members pursuing their own objectives. These systems achieve economies through size, bargaining power, and elimination of duplicated services. Business buyers of complex products and systems value the extensive exchange of information they can offer.60 VMSs have become the dominant mode of distribution in the U.S. consumer marketplace, serving 70 percent to 80 percent of the market. There are three types: corporate, administered, and contractual.

Corporate VMS A corporate VMS combines successive stages of production and distribution under single ownership. For years, Sears obtained more than half the goods it sells from companies it partly or wholly owned. Sherwin-Williams makes paint but also owns and operates 3,500 retail outlets.

Administered VMS An administered VMS coordinates successive stages of production and distribution through the size and power of one of the members. Manufacturers of dominant brands can secure strong trade cooperation and support from resellers. Thus, Frito-Lay, Procter & Gamble, and Campbell Soup command high levels of cooperation from their resellers in the matter of displays, shelf space, promotions, and price policies. The most advanced supply-distributor arrangement for administered VMSs relies on distribution programming, which builds a planned, professionally managed, vertical marketing system that meets the needs of both manufacturer and distributors.

Contractual VMS A contractual VMS consists of independent firms at different levels of production and distribution integrating their programs on a contractual basis to obtain more economies or sales impact than they could achieve alone. Sometimes thought of as "value-adding partnerships" (VAPs), contractual VMSs come in three types

1**. Wholesaler-sponsored voluntary chains—**Wholesalers organize voluntary chains of independent retailers to help standardize their selling practices and achieve buying economies in competing with large chain organizations.

2**. Retailer cooperatives**—Retailers take the initiative and organize a new business entity to carry on wholesaling and possibly some production. Members concentrate their purchases through the retailer co-op and plan their advertising jointly, sharing in profits in proportion to their purchases. Nonmember retailers can also buy through the co-op but do not share in the profits.

3. **Franchise organizations—** A channel member called a franchisor might link several successive stages in the production-distribution process. Franchising has been the fastest-growing retailing development in recent years.

Although the basic idea is an old one, some forms of franchising are quite new. The traditional system is the manufacturer-sponsored retailer franchise. Ford licenses independent businesspeople to sell its cars who agree to meet specified conditions of sales and services. Another system is the manufacturer-sponsored wholesaler franchise. Coca-Cola licenses bottlers (wholesalers) in various markets that buy its syrup concentrate and then carbonate, bottle, and sell it to retailers in local markets. A newer system is the service-firm-sponsored retailer franchise, organized by a service firm to bring its service efficiently to consumers. We find examples in auto rental (Hertz and Avis), fast food (McDonald's and Burger King), and the motel business (Howard Johnson and Ramada Inn). In a dual distribution system, firms use both vertical integration (the franchisor actually owns and runs the units) and market governance (the franchisor licenses the units to other franchisees).

Multichannel Distribution System:

A multi-channel distribution system is a system in which a single firm sets up two or more marketing channels to reach one or more customer segments. It is also called a hybrid distribution system (Teltzrow et al., 2003).

The popularity of a brick-and-mortar store may also work against it. For example, a butcher shop may frustrate customers with long lines after the workday or over weekends. Providing a second channel like home delivery could give those same customers another, more convenient channel

Advantages of Multichannel

- ✓ Increase Market Coverage
- ✓ Lower Channel Cost
- ✓ More Customized Selling

Disadvantages:

- ✓ More channel conflict
- ✓ Problem in controlling
- ✓ Non cooperation

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. 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.

Keywords

Agent, Distribution System, horizontal marketing system, retailer, Middlemen, wholesaler, Vertical Distribution system , Omni channel Distribution system .

Self Assessment

1. Major Channel management decisions are:

A. Selecting Channel Members
B. Training Channel Partners
C. Motivating Channel Members
D. All the above

2. Opening a McDonald's franchisee, the __________becomes more important than in any other business.

A. Location
B. Cost
C. Expected Footfalls
D. Time of the year

3. Once the channel partner is selected, they need to be _______as they are the face of the company.

A. Motivated
B. Trained
C. Bargained
D. None of the above

4. The training tries to facilitate

A. performance
B. improve knowledge
C. skills and attitude of its dealers and sales staff
D. all the above

5. With the changing times, the company needs to ______ its channel arrangements.

A. Expand
B. Modify
C. Change
D. Limit

6. __________is basically an integrative process that optimizes the flow of materials and supplies through the organization and its operations to the customer.

A. Logistic Management
B. Inventory Management
C. Management
D. Programming

7. Logistics means having

A. The right thing
B. At right place
C. At right time
D. All the above

8. _______ is the process of planning, implementing and controlling the efficient , effective flow and storage of goods, services and related information from point of origin to point of consumption for the purpose of conforming the customer requirement.

A. Logistics
B. Training
C. Inventory
D. Warehousing

9. _______ is concerned with the smooth and cost-effective inflow of materials and other inputs.

A. Inbound Logistics
B. Outbound Logistics
C. Both the above
D. None of the above

10. Significance Of Logistics management is :

A. Cost reduction and Profit Maximization
B. Efficient Flow of manufacturing operations
C. Competitive Edge
D. All the above

11. __________is essentially the idea of combining efforts across different customer channels

A. Channel integration
B. Channel Connection
C. Channel attachment
D. Channel interaction

12. Integrating Marketing Channel Helps in:

A. Bridge The Gap

B. Streamline The Physical Information

C. Reduces the levels of opportunism

D. All the above

13. Joining of two or more corporations on the same level for the purposes of pursuing a new marketing opportunity is ____________ marketing Channel.

A. Horizontal
B. Vertical
C. Multi
D. Hybrid

14. A ____________ is one in which the main members of a distribution channel—producer, wholesaler, and retailer—work together as a unified group in order to meet consumer needs.

A. Horizontal Marketing systems. (HMS)

B. Vertical Marketing System. (VMS)

C. Multi-channel Distribution System/Hybrid Marketing System

D. None of the above

15. A __________ is a system in which a single firm sets up two or more marketing channels to reach one or more customer segments.

A. Horizontal Marketing systems. (HMS)

B. Vertical Marketing System. (VMS)

C. Multi-channel Distribution System/Hybrid Marketing System

D. None of the above

16. Key Decisions of Logistics Management are:

A. Network Design

B. Order Processing

C. Procurement

D. All the above

Answers for Self Assessment

1.	D	2.	A	3.	A	4.	D	5.	B
6.	A	7.	D	8.	C	9.	A	10.	D
11.	A	12.	D	13.	A	14.	B	15.	C
16.	D								

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?

Further Readings

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Unit 12: Distribution Decisions

CONTENTS

Objective

understand retail theories,

elaborate retailing and wholesaling and different types of retail formats.

understand types of non-store retailing strategies.

developments in Retailing and Wholesaling in Indian Perspective

Introduction

The word retail has been derived from the French word 're-tailler' which means 'to cut, trim or divide'. This was basically used in the context of tailoring. Thus retailing means, to sell goods in small quantities. A retailer buys goods in large quantities from a wholesaler, divides the goods in the smallest quantities possible and sells it to final customers.

The term retailing has a much wider scope than it seems. Retailing not only covers the sale of goods which are tangible but also includes the sale of services to individual customers. The examples of service retailers can be dry cleaners, beauty salons, health centres, spas, tailor's shop, etc.

In the absence of retailers, there would be absolute confusion and it would be very difficult for the manufacturer to make the products available to a large number of customers. Thus, retailers facilitate smooth running of goods and services to the ultimate customers.

It is essentially the marketing concept of a customer-centered, company-wide approach to developing and implementing a strategy. It provides the guidelines, which must be followed by all retailers irrespective of their size, channel design, and medium of selling.

The retail concept covers four broad areas and is an essential part of the retailing strategy:

(i) **Customer Orientation** – The retailer makes a careful study of the needs of the customer and attempts to satisfy those needs.

(ii) **Goal Orientation** – The retailer has clear cut goals and devises strategies to achieve those goals.

(iii) **Value Driven Approach** – The retailer offers good value to the consumer with merchandise having the price and quality appropriate for the target market.

(iv) **Coordinated Effort** – Every activity of the firm is aligned to the goal and is designed to maximize its efficiency and deliver value to the consumer.

The retailing concept, though simple to adopt is not followed by many retailers who neglect one or more of the points enumerated above. There must be a proper balance of all the aspects of this concept for the retailer to achieve success. The retailing concept, while important is limited by its nature as it does not cover the firm's internal capabilities or the competitiveness of the external environment.

It however remains an important strategic guide. The retailing concept can be used to measure the retailers' performance through three parameters – the total retail experience, customer service, and relationship retailing. The total retail experience refers to all the ingredients of a customer's interaction with the retailer. This includes all activities from parking to billing.

If some parts of the retail experience are unsatisfactory, the shopper may decide not to patronize that particular outlet. Therefore, it is necessary for a retailer to ensure that every element in the experience must aim at fulfilling customer expectations. This experience means different aspects for different types of retailers — for an upper-end clothing retailer this might imply the presence of plush interiors and air conditioning while a discount store needs to have adequate stock.

One of the biggest challenges for the retailer today is to devise new ways of attracting customer attention to be able to position themselves differently from competitors. Many novelties in retailing, for example, the theme restaurants, have emerged and there is a battle to snare the customer's attention. Sometimes though, elements of the retail experience can be beyond the control of the retailer, like the levying of sales tax or the speed of online shopping.

12.1 Retail Theories

Like every other industry new retail firms have brought innovative approaches in retailing. Retail development can be looked at from different theoretical perspectives, as no one theory is universally acceptable. The reason for this unacceptability is mainly because of different market conditions and different socio-economic conditions in the market.

The theories are:

1. Wheel of Retailing

2. Retail Accordion Theory

3. Theory of Natural Selection

4. Retail life cycle

1. Wheel of Retailing:

This theory talks about the structural changes in retailing. The theory was proposed by Professor Malcolm P. McNair. This theory describes how retail institutions change during their life cycle. In the first stage when new retail institutions start business they enter as low status, low price and low margin operations.

As the retail firms achieve success they look in for increasing their customer base. They begin to upgrade their stores, add merchandise and new services are introduced. Prices are increased and margins are raised to support the higher costs. New retailers enter in the market place to fill the vacuum created by these retailers who move on to second stage of life cycle and continues to move ahead as a result of the success.

A new format emerges when the store reaches the final stage of the life cycle. When the retail store started it started serving low and price sensitive customers but when market grew their margins and price changed to higher side they moved on to serve upscale customers.

The theory has been criticized because they do not advocate all the changes that happen in the retail sector and in the present scenario not all firms start low to enter the market.

2. Retail Accordion Theory:

This theory describes how general stores move to specialized stores and then again become more of a general store. Hollander borrowed the analogy 'accordion' from the orchestra.

He suggested that players either have open accordion representing the general stores or closed accordions representing narrow range of products focusing on specialized products. This theory was also known as the general-specific-general theory. The wheel of retailing and the accordion theory are known as the cyclical theories of retail revolution.

3. Theory of Natural Selection:

According to this theory retail stores evolve to meet change in the microenvironment. The retailers that successfully adapt to the technological, economic, demographic, political and legal changes are the ones who are more likely to grow and prosper.

This theory is considered as a better one in comparison of Wheel of retailing because it talks about the macro environmental variables as well, but the drawback of this theory is that if fails to address the issues of customer taste, expectations and desires.

4. Retail Life Cycle:

Like products, and brands retail organizations also pass through identifiable stages of innovation, accelerated development, maturity and decline. This is commonly known as the retail life cycle. Any organization when in the innovation stage is nascent and has few competitors.

They try to create a distinctive advantage to the final customers. Since the concepts are new at this stage organizations try to grow rapidly and the management tries to experiment. Profits will be moderate and the stage may last for a couple of years. When we talk about our country's e-buying or online shopping it is in the innovation stage.

In the accelerated growth phase the organizations face rapid increase in sales, competitors begin to emerge and the organizations begin to use leadership and their presence as a tool for stabilizing their position. The investment level will be high as there are others who will be creating a lot of competition.

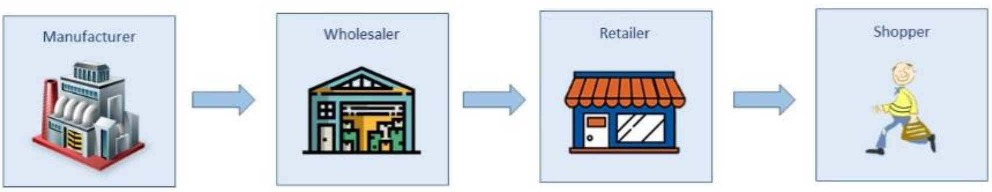
This level may go up to eight years. Hypermarkets, Dollar stores are in this stage. In the maturity stage as competition intensifies newer forms of retailing begin to emerge, the growth rate starts to decline.

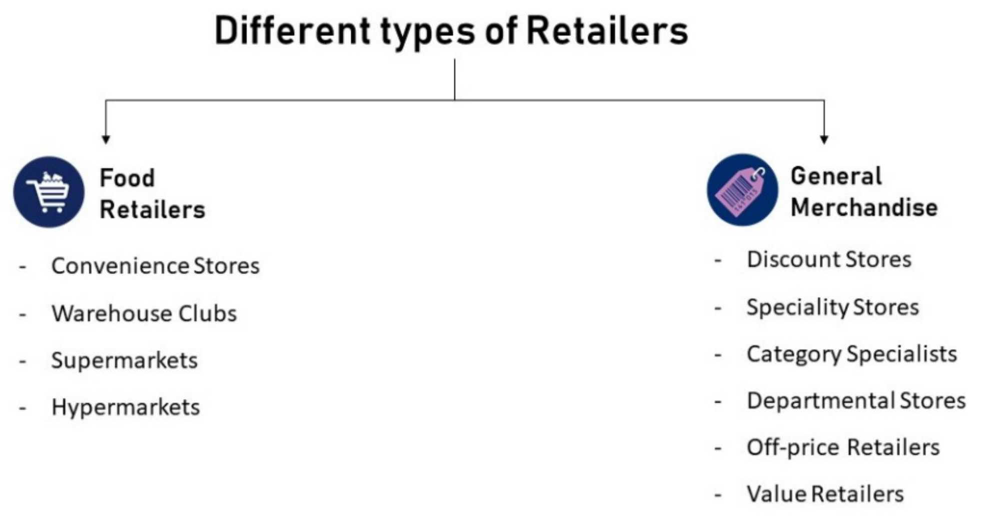
At this stage firms should start recrafting strategies and reposition themselves to survive in the market place. Supermarkets, cooperative stores are in this stage. The final stage of the retail life cycle is the declining phase where firms begin to loose their competitive advantage. Profitability starts to decline further and the overheads starts to rise.

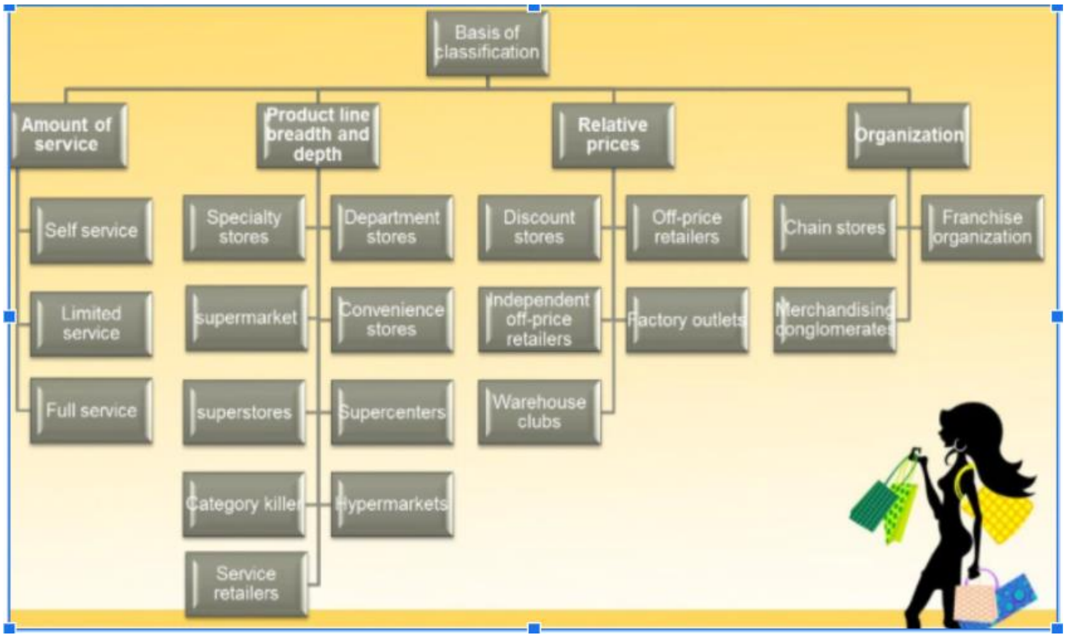
Thus we see that organizations need to adopt different strategies at each stage of life cycle in order to sustain in the marketplace.

12.2 Types of Retailers

Retailers are important for any brand. **In the 4Ps, retailers form a crucial part of the third P, i.e. Place.** If you are a traditional brand which does not have any online sales channel then its most likely that retailers are the only touch points that you have with the customers







The Broad Basis of classification are:

1. Amount Of service
2. Product Breadth and depth
3. Relative Price
4. Organization

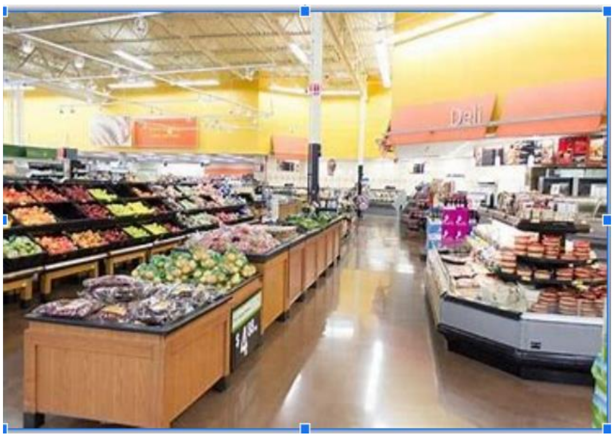
1. **Amount of Service:**

Self Service **Limited-Service** **Full Service**

2. Product Breadth and Depth

Specialty Store:

Supermarket:



Departmental Stores:

These types of stores usually have many subsides which house a wide range and category of products. The departmental stores might sell jewelry, clothing, home appliances and electronics, hardware products, sporting goods, stationery items, and many more under one roof. All these consumer goods are categorized under different sections and are found in various divisions of the same store.

The Departmental store was founded on the basic concept of providing the customers with a one-stop-shop for the purchase of goods belonging to various categories. The idea of Departmental stores flourished in the nineteenth century after the industrial revolution. The first-ever Departmental store was opened in London in the year 1796 by the name Howell & Co. Some of the most popular departmental stores globally are Galleries Lafayette and Le Bon Marche in Paris, Selfridges and Harrods in London, and Isetan in Tokyo.

Supermarket:

A Supermarket is a big self-service retail market that generally sells foods and household items. It can be called a larger version of a grocery store.

Supermarkets typically have a more extensive selection range than that of a traditional grocery store. The items are categorized and placed in aisles so that the customers can walk through them and take what they want. The aisles in the Supermarket typically contain fresh fruits, dairy products, baked items, meat, canned and packaged foods, and all sorts of non-food items such as kitchen items, household items, pharmacy products, toiletries, etc.

Hypermarket

A **hypermarket** is basically a combination of a departmental store and a supermarket. It was invented much later in the year 1931. The first one in the US is the Fred Myer chain. However, the term came into existence at a later date. A hypermarket is generally referred to as the stores that have the facilities of a departmental store as well as a supermarket.

They have everything for customers, such as grocery items, furniture, electronics, etc.

They have become quite common these days and can be seen in rural areas as well apart from busy, urban regions. They are the go-to places for daily necessities. Some of the hypermarkets are large enough to house cafes, parlors, spas, etc. People prefer to visit them as they can eat at a restaurant, but necessary items, and even get treatments done – all under one roof.

12.3 Discount Prices

Discount stores are retailers who offer their customers prices below retail. They accomplish this in three ways:

1. Buying in massive quantities,
2. Buying discontinued or out of season merchandise
3. Cutting out the middlemen

The two types of discount stores are full-line discount stores and off-price retailers. The value position of discount stores comes from the perceived bargain that the customers are getting.

Full-line discount stores, such as Walmart, K-mart, and Target, carry the full range of products that might be found in a department store plus some items that might not like electronics, gardening supplies, and auto accessories. These stores cover large footprints with large stock areas. Their profit counts on turning stock over fast at a high volume. While they do not offer much customer service, they successfully fight off the online threat by being perceived as one-stop shopping destinations, or supercentres.

Related to full-line discount stores are **off-price retailers**. These retailers offer familiar brand name products at regularly discounted prices. **Single-sector discount retailers** include stores like TJ Maxx or Home Goods, which focus on one sector of goods. They operate in large freestanding stores with large stock space to accommodate moving a high volume of merchandise very quickly.

Off-price retail stores also include outlets, frequently operated by manufacturers themselves. **Outlet stores** have become a profitable way to deal with merchandise that would otherwise languish in warehouses or have gone out of season. Cutting out the middlemen allows manufacturers to sell these products at substantial discounts. Malls featuring only outlets stores have been popping up steadily.

4. **Organization Based:**

1. **Wholesalers:**

Wholesalers are those who happen to be engaged in wholesaling or wholesale trade. In a broad sense, any individual or business firm selling goods in relatively large quantities to buyers other than the ultimate consumers may be called a wholesaler. Thus manufacturers who sell their products directly to retailers may be regarded as wholesalers. However, in a more specific sense the term wholesaler may be defined as a merchant middleman engaged in buying and reselling of goods to retailers and other merchants, or to industrial or commercial users. Wholesalers do not sell the products to ultimate consumers. The wholesalers belong to the category of merchant middlemen who acquire title to the goods they handle. Agents or brokers may also act as wholesale middlemen but they do not acquire the title to goods. Wholesalers act as middlemen between producers or importers of goods on the one hand, and retailers or industrial users on the other. The goods traded by wholesalers may include agricultural commodities, forest products, minerals as well as manufactured goods. Manufacturing companies often do not have adequate capital to employ salesmen to contact the large number of retailers. Many small retailers run their business in remote areas and to contact them may be too expensive. Moreover, small retailers generally prefer to buy products in small quantities due to their limited capital, lack of market information and sources of supply. The wholesalers solve the problems of manufacturers as well as small retailers. A wholesaler can place sufficiently large order with the manufacturer keeping in view the requirements of a number of small retailers in his area. In that process, the wholesaler is in a position to meet the small orders of retailers. From the society's point of view, distribution of goods may be efficient because of the specialised knowledge and skill of wholesalers. On the other hand, manufacturers can concentrate on efficient production of goods. Naturally, they do not undertake the distribution of their products because their efficiency in manufacturing would suffer on account of divided attention.

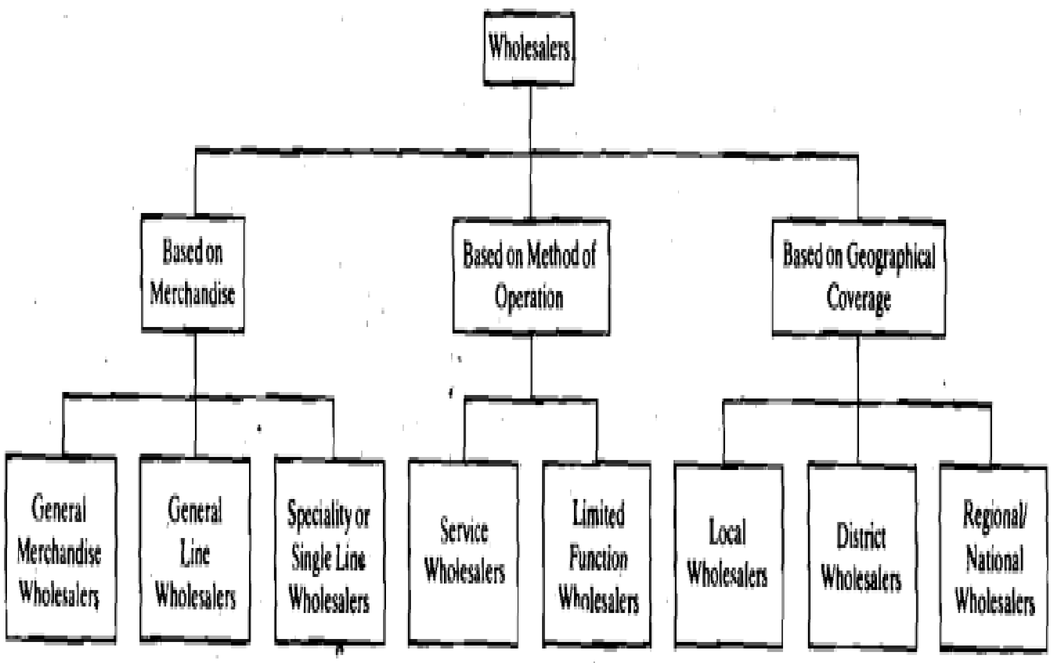
Classification:

Wholesalers may deal in a large or limited variety of products, restrict their activities mainly to wholesaling or perform various functions incidental to their trade, and may operate in small or large geographical territories. Accordingly, wholesalers may be classified on three different bases:

(1) merchandise dealt with,

(2)method of operation, and

(3) coverage of geographical area.



Functions of Wholesaling:

In the preceding section we have learnt that wholesalers perform limited functions or undertake a variety of functions. Actually, the functions of a wholesaler depend upon the nature of the products dealt with and the business policy of that particular wholesaler. Of course, every wholesaler must carry out the minimum functions of buying, storing and supplying one or more products. Besides these primary activities, several other functions may also be performed by wholesalers.

The wholesalers perform the following important functions of marketing:

1) **Assembling**: The wholesaler collects varieties of products from different manufacturers and keeps them in stock for sale to the retailers at the time when they

2) **Dispersion:** The products assembled and stocked by the wholesalers are supplied to the retailers who may be widely scattered.

3) **Warehousing:** The goods purchased by the wholesalers from the manufacturers and producers have to be stocked in warehouse pending their sale to the retailers. The arrangement for such storage is the responsibility of the wholesalers.

4) **Transportation:** The wholesaler has to move the goods from the various factories to his own warehouse and from there to the retail stores. He may do so either by employing his own, vans or by hiring public carriers.

5) **Financing:** The wholesaler in most cases provides goods on credit to the retailers.

6) **Risk-assuming:** The wholesaler assumes the risk arising out of the changes in prices and demand as also loss due to spoilage or destruction of goods in his warehouse.

7) **Grading and Packaging:** The wholesaler has to sort out different grades of Products according to quality and other considerations and pack the goods

8) **Price fixation**: The prices of goods which consumers have to pay depend upon the prices fixed by wholesalers and charged from retailers. This is an important function performed by wholesalers because a number of factors including prices of competing goods, effect of prices on demand, etc., have to be taken into account.

2. Retailers:

In simple words retailing refers to all transactions which involve sale of goods to the ultimate consumers for personal consumption. If the buyer uses the goods for reselling purposes it will not be treated as a retailing transaction. Any individual or business unit or shop primarily engaged in retail selling is known as a retailer or retail store. In a general sense, even a manufacturer or wholesaler may sometimes engage iq sale of goods to the ultimate consumers. But they are not called retailers as retailing is not the major activity of such a manufacturer or wholesaler. Thus a retailer or retail store is one whose business consists primarily of sale of goods to consumers for their own use, but not for resale in business.

Retail business may include other types of transactions also. It will be treated as a retailing business if more than half of its total sales revenue is from A retailer is a middleman because retailing involves procuring goods from suppliers (generally wholesalers) and selling them to consumers for the personal use. Retailers perform the very important task of making goods available to consumers, which after all is the objective that underlies the production of goods.

Retailers thus form a vital link in the channel of distribution of products. Since the retailers deal with a large number of consumers of many different categories, the role of retailers in the physical distribution of goods is clearly of vital importance. The retailers act as a link between the producers or wholesalers on the one hand and the consumers on the other. Without retailers, neither the products would sell in distant places, nor would it be possible for consumers to buy goods of their choice in shops located nearby. Due to large-scale manufacture of a wide variety of consumer goods and the necessity of making them available to individuals living in distant villages, cities and towns. retailers are now regarded as the most important middlemen in the chain of distribution of goods.

12.4 Functions of Retailers

Like the wholesalers, retailers also perform a variety of functions connected with the buying and selling of goods. They, in brief, perform the following functions.

1**) Estimating the demand:** All retailers -big or small -have to make an estimate of the demand for different products and have to determine the nature of products that consumers need to be 'supplied.

2) Procurement of goods: Most retailers dealing a variety of products. So they may ha= to procure goods from different wholesalers. Besides, they must decide to buy from those wholesalers who supply goods suited to the requirements of consumers as to quality and price.

3) Transportation: Usually the retailers are to arrange the transportation of goods procured from the wholesalers' place. Sometimes delivery is also arranged by the wholesalers on the basis of orders placed with their salesmen.

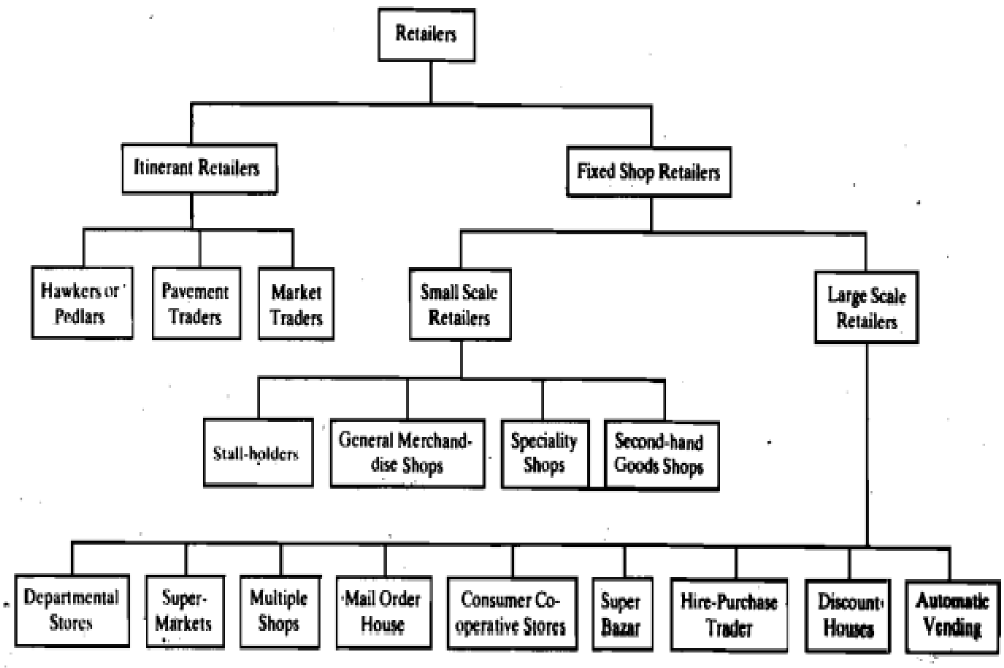
4) Storing goods: Small-scale retailers have limited space for the goods to be kept in stock. Large retail stores often have godowns to store different varieties of goods in adequate quantities. But in all cases, goods have to be held in stock so as to meet the customers, needs. For this purpose storage of goods must be so arranged that customers may be searched without delay. They must be given an opportunity to select goods of their choice. This is often done by display of goods on shelves and in show cases.

5) Grading and packaging: Large-scale retailers have to sort out goods according to the quality and price to be charged. They also make convenient packages of goods for the benefit of customers. For instance, fruit vendors purchase apples in containers [boxes), sort out on the basis of size and charge different rates for different sizes. Spices which are procured in bags, may be divided into small packets of 100 or 200 grams each.

6) Risk-bearing: Since goods are held in stock, the retailers are to bear the risk of loss on account of deterioration of quality, fire, theft, etc. Large retail stores are insured to cover the risks of theft or fire. But losses due to damage or deterioration of quality caused by improper storage cannot be insured.

7) Selling: The main function of retailers is selling the goods to ultimate consumers. They have to satisfy the needs and preferences of different types of customers and deal with them tactfully and politely so as to make them regular buyers.

12.5 Classification of Retailers



12.6 Non Store Retailing

Any sale happening to the end customer which is not happening through a traditional retail channel or through a physical retail space is known as Non-store retailing. Amazon is a perfect example of Non-store retailing. Amazon does not have its own retail space from where it sells the goods to customers. It directly sells from its website and does not sell via a retail space. Hence, it is known as a Non-Store Retailer.

There are different types of Non-store retailers in the market. Some of the non-store retailers are very popular even today whereas others have died down. Let us make it clear that non-store retailing does not mean an average line of business. In fact, Non-store retailing is rising in importance due to the fact that cost of establishment is very low and all expenses are variable and not fixed. We will discuss the benefits of Non-store retailing in some time.

12.7 Direct Selling

One of the oldest forms of non-store retailing is the Direct sales type. The best way to describe this would be Door to Door salesmen who do cold calls to homes and offices to sell their products. They might also do other activities like Standees, promotions, and others to directly sell to the end customer.

This type of non-store retailing involves manual involvement and might involve usage of good selling techniques and personal selling skills. A door to door selling is used for selling technical equipment like Air Conditioners, Vacuum cleaners, Water purifiers and others.Even religious books are nowadays sold door to door. The advantage of this technique is that it is a quick closure type of sale. You will close the sale in 1 or maximum two visits.

The direct sale is a type of non-store retailing which is falling in usage. There are only somewhere it is still applicable. FMCG and Consumer durables are using it to some extent but it is almost absent in other industries. One of the reason is the noise in the market due to continuous advertisement because of which customers are irritated. The second is the growing sense of insecurity and the need for privacy due to which many salesmen are not allowed to enter into societies.

Amway, Tupperware and several other multi-level marketing firms actually use direct selling to good effect. They have chains of distributors and end sellers who sell to the end customers. Because the end seller generally knows the end buyer very well, the sale is high and these companies are case studies in the world of direct selling or non-store retailing.

12.8 Direct Marketing

Unlike Direct selling, Direct marketing is on the rise especially since the adoption of the internet. It was initially used in the form of direct mail services where letters and coupons were sent to the end customer. Later on, once internet started, Email marketing was very successfully used where companies spent a huge amount of designing and sending emails to a large number of customers.

After emails, it went to websites and we could see Amazon, eBay, Alibaba and other websites grow and sell products by the truckloads. None of these sellers had a single store. All of it was online. Finally today, we can see that even small businessmen have their online store and a website and they sell their products not only through a physical presence but regularly take part in non-store retailing via social media or via their own websites.

Direct marketing is a segment which is supposed to grow even more over the years. Whatsapp has penetrated the market to a great extent and there are many "Whatsapp stores" opening up where you can get fashion apparels at a good discount. Already Amazon has surpassed Walmart in terms of its valuation and we see more and more online stores rising up. In fact, traditional retail is now afraid of the powers of direct marketing via the internet.

3) Automatic Vending

Automatic vending machines are being used very smartly in the FMCG segment. We recently wrote an article on the top coffee brands and if you look at that article, you will find brands like Nespresso which are pushing their coffee vending machines into the market because once these vending machines are placed, the sale of coffee to the end customer becomes easier and it is higher in margins because there is no middleman involved.

Similarly, Cold Drink, Newspaper, Beer, Chewing gums, chocolates and even pizza is nowadays sold through an automatic vending machine. These are just straightforward examples of non-store retailing where you don't need a store of 200 square feet to sell a pizza or cold drinks. Automatic vending has now become a prominent business model in FMCG and is being innovatively adopted in other sectors as well.

Besides the above three type – there is also the use of buying services in the form of a non-store retailer. The best example of this is an existing rate contract between government agencies and a seller who can sell products of a company. Because of the rate contract, the government agencies have to buy only from that seller and only at the given price. The seller, in turn, has to deliver the machine to all locations of the government agency.

However, because buying services as a model of non-store retailing is used very less, and because of the vast penetration of internet in our laptops and smartphones, buying services are now considered almost a part of direct marketing. Because practically everything happens online now.

Benefits of Non-Store retailing

There are several benefits of Non-store retailing

The cost of establishment is less – The cost of starting a website is always lesser then starting an offline retail outlet.

Costs are variable in nature – While traditional retail has many fixed costs like rent, salaries etc, the costs of non-store retailing are variable and keep changing.

Scaling up Is easier – Since the usage of internet for non-store retailing, scaling up of a non-store retailing business is easier than store retailing.

12.9 Retail in India

Retailing plays a significant role in economic system of any country. It involves selling goods and services to the ultimate consumers. "Retailing is a part of the continuous process going in between the farm and the factory and household in which goods are changed in form, packed, transported and subdivided".

Retailing is one of the oldest of all business institutions. It has developed along with various stages of civilization, altering its form, or varying its offerings to meet the changing demands of the people it has served.

India's retail market is estimated to reach ~1.5 tn by 2030, from $0.793 tn in 2020, driven by socio-demographic and economic factors such as urbanisation, income growth and rise in nuclear families. On the other hand, the Indian e-commerce industry is expected to cross $350 bn mark by 2030, growing at a CAGR of 23%.

In first half of 2021, e-commerce accounted for nearly a third of several electronic categories, almost half of smartphones sold, and about a fifth of all apparel sales in India. In 2020, e-commerce and consumer internet companies raised more than $8 bn in PE/VC capital across 400 deals (excluding investments in Jio). India will become the 3rd largest online retail market by 2030, with an estimated annual gross merchandise value of $350 bn.

The Indian retail market is largely unorganized. However, the organised Indian retail market has increased by ~50% between 2012-2020 to its current value of nearly 12% of total retail. The modern Indian retail industry is expected to grow at a 15% CAGR to reach 18% by 2025. Major retail categories (by % organised retail penetration) such as apparel & accessories (18%), consumer electronics (6%) and home & living (6%) will drive the increase in organised retail this decade.

12.10 SWOT Analysis of Indian Market

The Indian retail sector is a growing phenomenon, and relaxation in FDI norms has generated even more interest in the Indian retail market. As per retailers' point of view, infrastructure, economic growth and changing demographics, and the inherent strength of the Indian economy are the most important drivers of retail followed by increase in FDIs and growth of real estate.

The Indian retail sector is growing rapidly. The relaxation in FDI norms is bound to generate even more interest in the Indian retail market. To provide a bird's-eye view of the market dynamics, we have given below the SWOT analysis of the sector. This will help investors approach the market with a well-formed strategy.

Strength

The inherent strength of the Indian economy provides a boost to retail. Following are some of the factors that strengthen the economy:

Purchasing Power

An increasing number of Indian consumers are ascending the economic pyramid to form an emerging middle class. Though they still earn modest income between 1.70 and 5 USD per capita, per day, in the coming decade, these consumers will collectively have around 6 trillion USD worth of purchasing power annually.

In 2010, there were about 470 million people in the emerging middle class. As per PwC estimate, this segment will grow to 570 million by 2021. This segment, existing between the lowest-income group and the middle class, will constitute about 42% of India's total population.

Population Demographics

India's working population is expected to be 117 million over the next decade as compared to China's four million. In the following decade, from 2020, the former will add 98 million to its workforce, while China will contract 51 million. This is a big positive for India.

Low Retail Penetration

The penetration of organised retail in India is still very low at 6 to 8%, especially when compared to developed nations such as the US and the UK which have retail penetration of 85% and 80%, respectively. With new policy reforms, increasing purchasing power, and changing spending pattern, we are bound to see a difference in the coming years. As per the Images Retail research, FY15 will witness a jump in the share of organised retail.

Aspiring Middle Class

With a population of 100 million, the tier II and III cities in India are larger than countries such as Germany and the UK. Besides, the untapped rural population holds immense potential for retailers. It is estimated that by 2021, approximately 67% of Indians will still live in rural areas.

Weakness

Despite the positives, there are certain facets of the sector that may dampen growth. Following are the key areas to consider:

Political Uncertainty and Regulatory Requirements

The announcement of FDI in retail has stirred the political pot. The government faces stiff opposition with its allies threatening to withdraw support. In case, this policy is finally implemented, there is another important aspect for the companies to overcome. The way the policy is currently drafted, a retailer can set up stores only in those states which have agreed or will agree in the future to allow FDI in multi-brand retail.

Poor Infrastructure and Supply Chain Management

Apart from the political and regulatory scenario, infrastructure will play an important role in deciding how this sector will evolve and retailers will manage the supply chain. While the FDI regulation states that the retailer will have to invest a substantial amount in building the infrastructure, this will take time. Meanwhile, due to poor infrastructure, multiplicity of taxes, high cost of fuel, dependence largely on the road transportation, etc. logistics still remains a high percentage of the cost of a product, in certain cases going beyond 15 to 20%.

Opportunity

Retailers in India have been experimenting to arrive at a successful formula, but there is no 'one size fits all' strategy. The market is still undergoing a lot of changes, both from the regulatory as well as demand side. Following are some of the winning factors that players could focus on:

Innovation

During PwC's 15th Annual Global CEO Survey, one of the questions posed to the CEOs in the R&C sector was as follows: To what extent do you anticipate changes at your company in any of the following areas over the next 12 months? Nearly 73% indicated that the following two areas will change in the near-term:

- R&D and innovation capacity
- Technology investments

Digital Strategy

Going digital is not only about e-commerce but the way interaction will change in a few major areas including changing business models (e-commerce, e-payments and mobile transactions), employee and customer engagement and investment in technology.

Customers are demanding an improved experience in terms of how to search, browse products and conduct transactions online. R&C organisations need to engage with customers differently, in terms of using a range of channels. However, the overall customer experience should be the same-smooth and seamless.

Social media is also becoming a popular tool for consumers to educate themselves about offerings, seek advice about products and compare brands. For retail companies it is important to define how social media can support sales activities throughout the various channels, especially e-commerce. Social media analytics is the focus area for retailers.

Customer-centric Approach

The retailer is no longer looking at product innovation at the merchandising level only but the entire store today is a product that needs to appeal to the customer. The following are factors that will make a difference:

- Experience design
- Digital change
- Analytical insights

Changing the Regulatory Scenario

Recently, the Indian government made the following two significant announcements that will go a long way in developing the Indian retail sector:

- Permitting foreign investment in multi-brand retail trading
- Simplifying the rules for single brand retail trading to make it more business-friendly

Threat

The retail sector is marred with many issues. The two most important threats are as follows:

Availability of land and real estate

Retail space and rentals are key considerations in multi-brand retail and getting a feasible rate in the desired location is important. There are retailers who have exited cities because of the high rentals that put more pressure on profitability.

Human Capital

With attrition still very high in the industry, human capital management continues to remain one of the top three agenda points for the retailer. The attrition in the industry can be anywhere between 20 and 25% in non-food and grocery business to as high as 60% in the food and grocery segment.

Thus, the Indian retail sector has its own set of strengths and opportunities. However, the challenge lies in overcoming the weaknesses and providing an environment that is conducive to the business, not only for the national players but also the foreign retailers.

Summary

Intermediaries play a significant role in the distribution of goods and services. They create a number of utilities, bring in economy of effort, make shopping convenient for the buyers and help in regulating demand for the products. There are two broad categories of intermediaries - primary and ancillary. The primary participants are those who undertake the negotiatory functions of selling and transferring of title of goods. The ancillary participants such as financial institutions, public warehouses, etc., on the other hand, assist the channel members (primary participants) in performing the distribution task.

The primary participants may again be divided into two categories:

1) merchant middlemen (retailers and wholesalers)

2) merchant agents (brokers,-commission agents, del credere agents, auctioneers, etc.).

Wholesalers are defined as merchant middlemen who are engaged in buying and reselling goods to retailers, other merchants, industrial and commercial users, but not to ultimate consumers. Wholesalers may be classified on the basis of merchandise dealt with methods of operation, and geographical coverage of their dealings. The functions performed by wholesalers include assembling, storage, grading and packaging, transportation, financing retail traders, price-fixation, risk-bearing and making advances to manufacturers. Wholesalers render valuable services to manufacturers as well as retail traders. A retailer is one whose business consists primarily of selling goods to customers for their own use, not for use in their business. If manufacturers sell goods to consumers, they are not treated as retailers as retailing is not the major activity of a manufacturer. The retailers perform several functions such as estimating demand, procuring goods, arranging transport, holding stocks, grading and packaging, and selling. They render valuable service to consumers, wholesalers and indirectly also to the producers of Retailers may be divided 'into two broad categories: itinerant retailers and fixed-shop retailers. Itinerant retailers (hawkers, peddlers, pavement traders, and market traders) either move from house to house or change their place of business according to convenience. Fixed-shop retailers locate their stores at fixed places where customers can easily come and make their purchases.

Fixed shop retail trading may consist of two types:

1) Small-scale retailing (stall-holders, general merchandise shops, specialty ' shops, and second-hand goods sellers) who deal in a limited range of products or .

2) Large-scale retailers establish stores (departmental stores, super markets, multiple shops, mail-order houses, consumer co-operative stores, super-bazars, hire-purchase trading, disc

Keywords

Supermarket , Hypermarket, Discount Store, Value, Retailing , wholesaling , Chain Store , Store99, Convenience Store, Specialty Store.

Self Assessment

1. Expected high growth rate Retail industries in India are:

A. Apparel retailing

B. Luxury Retailing

C. Food and Grocery Retailing

D. All the above

2. Challenges of retailing are :

A. Poor Logistic and Infrastructure

B. Low Per Capita Income

C. .Complicated Tax Regime

D. All the above

3. FDI stands for

A. Foreign Direct Investment
B. Free Direct Investment
C. Foreign daily Investment
D. Free Daily Investment

4. Which is not the step to promote Organized Retail

A. Understand Demographic of target market

B. Development of Infrastructure

C. Education and Training

D. Provision of Real Estate

5. Select the necessary steps to promote Organized Retail .

A. Education and Training

B. Provision of Real Estate

C. Educate People in Consumption Habits

D. All the above

6. ___________ is a form of retailing in which a firm sells its products without a physical retail store/space.

A. E commerce
B. E Retail
C. Non store Retailing
D. Easy Day

7. Types of Non store Retailing are :

A. Direct selling

B. Telemarketing

C. Online retailing

D. All the above

8. __________allows a firm to interact directly with a customer.

A. Direct selling

B. Telemarketing

C. Online retailing

D. Automatic vending

9. __________retailing is more of online retailing as sellers interact with the customers on digital platforms.

A. Electricity
B. Electronic
C. E Commerce
D. None of the above

10. Disadvantages Of Non store Retailing are :

A. Lack of Customer trust
B. Huge Advertising Cost
C. Security and legal Requirements
D. All the above

11. Retail Concept is about :

A. Customer Orientation
B. Goal Orientation
C. Value Driven Approach
D. All the above

12. ___________ theory talks about the structural changes in retailing. The theory was proposed by Professor Malcolm P. McNair.

A. Wheel of Retailing
B. Retail accordion Theory
C. Theory Of Natural selection
D. Retail Life cycle

13. ____________This theory describes how general stores move to specialized stores and then again become more of a general store. Hollander borrowed the analogy 'accordion' from the orchestra.

A. Wheel of Retailing
B. Retail accordion Theory
C. Theory Of Natural selection
D. Retail Life cycle

14. According to _________theory retail stores evolve to meet change in the microenvironment. The retailers that successfully adapt to the technological, economic, demographic, political and legal changes are the ones who are more likely to grow and prosper.

A. Wheel of Retailing
B. Retail accordion Theory
C. Theory Of Natural selection
D. Retail Life cycle

15. Like products, and brands retail organizations also pass through identifiable stages of innovation, accelerated development, maturity and decline. This is commonly known as the ____________.

A. Wheel of Retailing
B. Retail accordion Theory
C. Theory Of Natural selection
D. Retail Life cycle

Answers for Self Assessment

1.	D	2.	D	3.	A	4.	A	5.	D
6.	C	7.	D	8.	D	9.	C	10.	D
11.	D	12.	D	13.	B	14.	C	15.	D

Review Questions

1. What do you understand by the term 'Retail'?

2. Which activities of the retailer creates value addition or utility to the customers?

3. What are the essential requirements of a retailer?

4. List down the retailer's services to the customer

5. Which reform in the retail sector has led to the beginning of an organised sector?

6. Departmental stores are a combination of decentralised buying and centralised selling. Explain in detail.

Further Readings

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Unit 13: Promotion Decisions

CONTENTS

Objectives

- understand Role of Promotion in Marketing and Promotion Mix.
- understand integrated marketing communication concept.
- understand about choice of elements of promotion mix.
- interpret communication process

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 servicesThe 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

Marketing Communication:

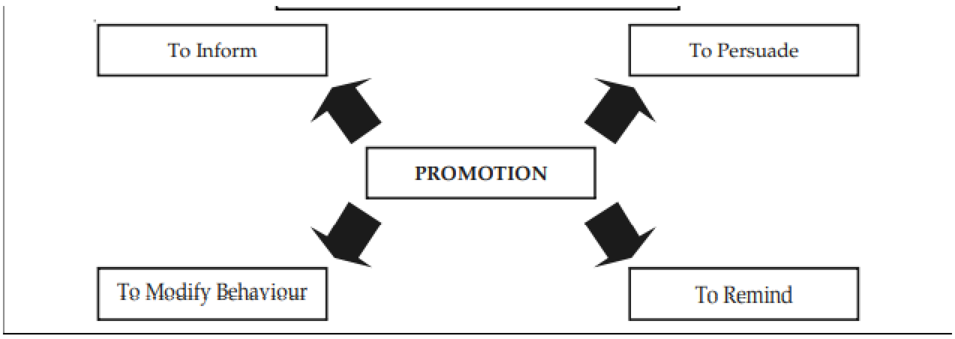
Marketing communications is one of the four major elements of the company's marketing mix. Marketers must know how to use advertising, sales promotion, direct marketing, public relations, and personal selling to communicate the product's existence and value to the target customers. The communication 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. 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.

13.1 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.

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

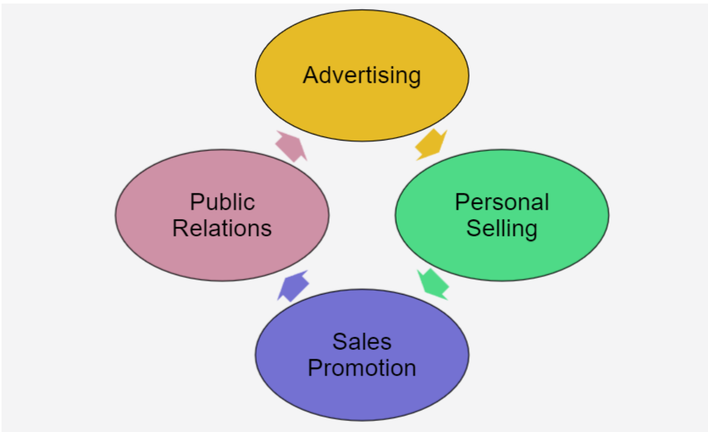
Objectives of Promotion:



13.2 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.

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.



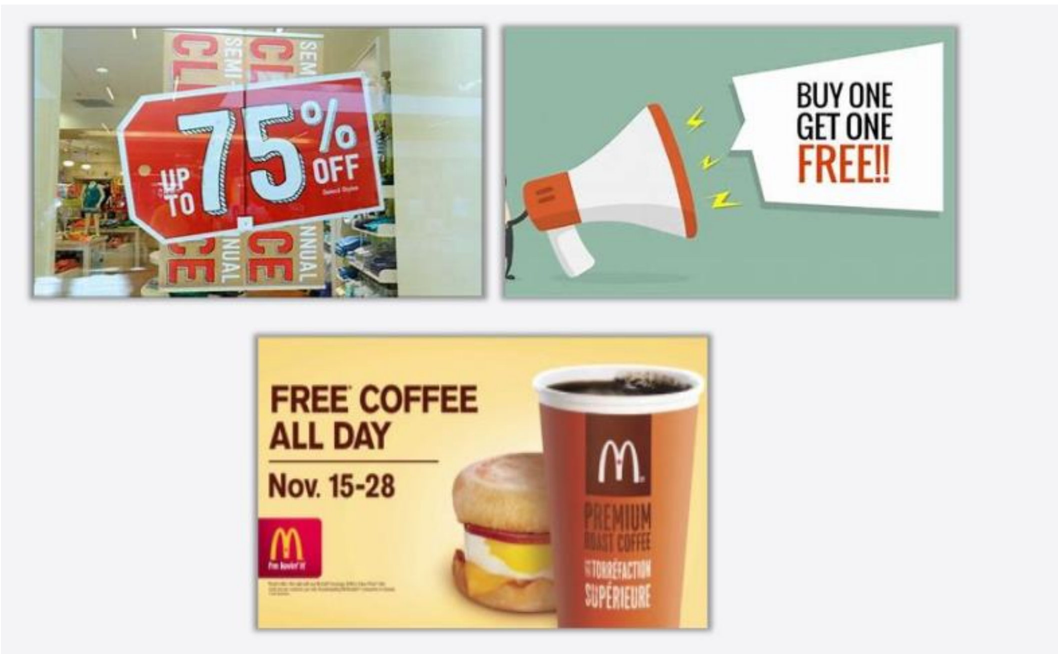
Advertising: Advertising is any paid form of non-personal mass communication through various media to present and promote products, services, and ideas, etc. by an identified sponsor.

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.

- It is impersonal form of promotion
- It is most Visible form of promotional tools-posters, banners, television ads, radio, internet
- Identified Sponsor-who bears the cost

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.

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.

13.3 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 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.

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

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

13.4 Integrated Marketing Communication Process:

For many years, the promotional function in most companies was dominated by mass media advertising. Companies relied primarily on their advertising agencies for guidance in nearly all areas of marketing communication. Most marketers did use additional promotional and marketing communication tools, but sales promotion and direct marketing agencies were generally viewed as auxiliary services, and often used on a project basis.

Public relations agencies were used to manage the organization's publicity, image, and affairs with the relevant publics on an ongoing basis, but were not viewed as integral participants in the marketing communications process. These companies fails to recognise that the wide range of marketing and promotional tools must be co-coordinated to communicate effectively and present a consistent image to target markets.

During the 1990s, many companies came to see the need for more of a strategic integration of their promotional tools. These firms began moving toward the process of integrated marketing communications (IMC), which involves coordinating the various promotional elements and other and marketing activities that communicate with a firm's customers. As marketers embraced the concept of integrated marketing communications, they began asking their ad agencies to coordinate the use of a variety of promotional tools rather than relying primarily on media advertising.

A number of companies also began to look beyond traditional advertising agencies and use other types of promotional specialists to develop and implement various components of their promotional plans. A task force from the American Association of Advertising Agencies (the "4As"), developed one of the first definitions of integrated marketing communications: A concept of marketing communications planning that recognizes 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.

The 4As' definition focuses on the process of using all forms of promotion to achieve maximum communication impact. It requires that firms develop a total marketing communications strategy that recognizes how all of a firm's marketing activities, not just promotion, communicate with its customers. Consumers' perceptions of a company and/or its various brands are a synthesis of the bundle of messages they receive or contacts they have, such as media advertisements, price, package design, directmarketing efforts, publicity, sales promotions, websites, point-of-purchase displays, and even the type of store where a product or service is sold. The integrated marketing communications approach seeks to have a company's entire marketing and promotional activities project a consistent, unified image to the marketplace. It calls for a centralized messaging function so that everything a company says and does communicates a common theme and positioning. The IMC approach helps company identify the most appropriate and effective methods for communicating and building relationships with their customers as well as other stakeholders such as employees, suppliers, investors, interest groups and the general public.

Integrated marketing communications (IMC) is the strategy that takes your marketing department from disparate functions to one interconnected approach. IMC takes your various marketing collateral and channels — from digital, to social media, to PR, to direct mail — and merges them with one dependable message.

Integrated marketing communications are beneficial to multiple audiences. First, it helps your consumer better trust your company and its values. Next, it's beneficial for the stakeholders in your organization. Integrated marketing is an approach to creating a unified and seamless experience for consumers to interact with the brand/enterprise; it attempts to meld all aspects of marketing communication such as advertising, sales promotion, public relations, direct marketing, and social media, through their respective mix of tactics, methods, channels, media, and activities, so that all work together as a unified force.

It is a process designed to ensure that all messaging and communications strategies are consistent across all channels and are centered on the customer.

Examples of IMC

1. **Always #LikeAGirl**

Feminine care brand Always wanted to target the next generation of consumers. The company noticed an opportunity to support girls as they transition from puberty to young women, according to a case study from Design and Art Direction (D&AD), a British charity that promotes excellence in design and advertising.

“We set out to champion the girls who were the future of the brand,” Judy John, CEO and chief creative officer of advertising firm Leo Burnett Canada, told D&AD. “Girls first come in contact with Always at puberty, a time when they are feeling awkward and unconfident-a pivotal time to show girls the brand’s purpose and champion their confidence.”

Research discovered that more than one-half of women claimed they experienced a decline in confidence at puberty. The Always creative team was drawn to the derogatory phrase “like a girl” and developed an integrated marketing campaign to transform it to a phrase of empowerment. The campaign uses television, print and social media, but the centerpiece of #LikeAGirl is a video created by documentary filmmaker Lauren Greenfield. It led to the following results, according to D&AD.

The film generated more than 85 million views on YouTube from more than 150 countries.

Prior to watching the film, 19 percent of 16- to 24-year-olds had a positive association toward “like a girl.” After watching, 76 percent no longer saw the phrase negatively.

Two out of three men who watched the film said they’d now think twice before using “like a girl” as an insult.

The campaign won D&AD awards across eight categories and generated considerable global awareness.

2. **Dominos Anyware:**

Pizza restaurant chain Domino’s created the “AnyWare” campaign to help people order food in more convenient ways. Domino’s AnyWare allows customers to order with a tweet, a text, Ford Sync, smart televisions and smart watches.

The idea was possible because two years prior to AnyWare, Domino’s established Pizza Profiles, which save customers’ payment information, addresses and an Easy Order. The Easy Order is a customer’s favorite food order that includes preferred payment method, order type (delivery or carryout) and address or favorite store.

Domino’s deployed press releases, a national television campaign and more to drive customers to AnyWare.Dominos.com, where they can learn about new ways to order. This successful campaign led to the following results, according to Shorty Awards, a social media awards show.

The AnyWare campaign generated 2 billion earned media impressions, including segments on Jimmy Fallon, Ellen and the Today Show.

The AnyWare website received more than 500,000 visits.

The AnyWare television campaign, which ran during the entire third quarter in 2015, generated 10.5 percent year-over-year sales growth.

The AnyWare campaign helped Domino's achieve its goal of having half of all orders be made digitally.

13.5 Factors Effecting Choice of Promotion Mix:

Everything you need to know about the factors affecting promotion mix. A business's total marketing communications programme is called the "promotional mix".

It consists of a blend of advertising, personal selling, sales promotion and public relations tools. The particular way in which a marketer combines promotional activities is known as promotion mix.

Designing a proper promotion mix is called promotional strategy. There are many factors which influence promotion mix. These factors are called product-market factors.

The factors affecting promotion mix can be studied under the following heads:

1. Product Related Factors

2. Customer Related Factors

3. Organisation Related Factors.

The factors affecting promotion mix are:-

1. Nature of the Product 2. Nature of the Market 3. Stages in the Product Life Cycle 4. Market Penetration 5. Market Size 6. Characteristics of Buyers 7. Distribution Strategy 8. Pricing Strategy

9. Cost of Promotion 10. Availability of Funds 11. Effectiveness of Promotional Tools 12. Nature of Technique 13. Readiness of Buyer 14. Promotional Strategy 15. Co-Ordination with Other Elements of Marketing Mix and a Few Others.

1. Nature of the Product:

Promotion mix will vary according to the nature of the product. Consumer goods require mass advertisement. But industrial goods require personal selling, advertising, displays etc. Complex and technical products like computer need personal selling.

Non-technical products require advertising as promotional device. In case where there is no brand differentiation personal selling should be the method of promotion. Where there is brand differentiation advertising should be emphasized.

2. Nature of the Market:

For industrial market, advertising plays an informative role, but for consumer market it plays as informative as well as persuasive role. The promotion strategy varies with the target groups depending on age, sex, education, income, religion etc.

3. Stages in the Product Life Cycle:

The marketing objectives and strategies are different at each stage of the product in its life cycle. During the introductory stage intensive advertising and personal selling are required for effecting product awareness.

During growth stage advertising should be extended to maximize the market share. During maturity stage persuasive advertising and sales promotion techniques are beneficial. But at the declining stage advertisement and sales promotion are reduced to the minimum.

4. Market Penetration:

A product having good market penetration is well-known to the buyers. In that situation, middlemen are motivated to spend more an advertising.

5. Market Size:

It there is limited number of buyers, direct selling is enough. But if the market size is large the promotional tool is mainly advertising.

6. Characteristics of Buyers:

Experienced buyers of industrial product need personal selling. The experience of buyers, the time available for purchase, influence of friends, retailers etc. are the factors affecting promotion mix.

7. Distribution Strategy:

If the products are directly sold by the manufacturer personal selling is the tool of promotion.

Advertising is only a supporting tool. Personal selling and advertising is required for market penetration. If the product passes through a longer channel more importance should be given to advertising and less importance to personal selling.

8. Pricing Strategy:

Pricing influences promotion strategy. If the brand is priced higher than the competitor's price, personal selling is used. If the price is comparatively low only little promotion is needed. If the middlemen are allowed higher profit margin, sales promotion at dealer level is important.

9. Cost of Promotion:

The cost of the media of advertising and sales promotion tools should also be considered while deciding the promotional mix.

10. Availability of Funds:

If the funds are adequate the firm can spend more for advertising and sales promotion. But small firms with limited resources can depend on personal selling.

Designing a proper promotion mix is called promotional strategy. There are many factors which influence promotion mix. These factors are called product-market factors.

These factors are briefly explained below:

Factor # 1. Nature of Product:

Promotion mix will vary according to the nature of the product. Consumer goods like grocery items, drugs etc. require mass advertisement. Industrial goods like machine tools require personal selling, advertisement, publicity, display at industrial fairs, etc. Convenience goods require salespersons to sell. Specialty goods like refrigerators require good amount of personal selling to dealers and retailers. Complex and technical products like computer requires personal selling.

Simple and non-technical products require advertisement. When a producer's brand is not differentiated from that of competitor's (e.g., sugar), the producer has to depend on personal selling. If the product brands are differentiated (e.g., Ponds and Lakme), the producers have to depend upon advertising.

Factor # 2. Nature of Market:

Nature of market and customers determines, to a great extent, the promotional mix of a firm. For instance, if the customers are concentrated in a particular locality, personal selling is likely to be more effective. But if they are scattered widely in different parts of the country, advertising publicity, sales promotion and personal selling—all are necessary to push up a product. Advertisement and publicity are also important to attract the status- conscious customers.

Factor # 3. Stage of Product's Life Cycle:

The stage of a product's life cycle is an important determinant of promotion mix. During the introduction stage, the customers are to be informed about the availability of the product and educated about its benefits and uses. That is why, most of the firms make use of all kinds of promotional activities to launch their products successfully.

After the product has been launched, advertisement and publicity are more important to create continued patronage of the customers, to create a good image of the product and its manufacturer and to meet competition in the market. But during the last stage of the product when its sales are declining, it may be decided to make drastic cuts on promotional efforts.

Factor # 4. Availability of Funds:

The allocation of funds by the top management for the promotional activities must be kept in mind by the marketing manager while determining the promotional mix of a firm. A firm with huge promotional budget can spend on all promotional activities.

But a firm with financial constraints will be selective in the use of promotional activities. Personal selling is cheaper and more effective in the short-run. Advertising in reputed magazines and journals is very costly, but can attract the status conscious customers towards the product of the firm.

Factor # 5. Distribution Strategy:

Companies having market penetration depend on both personal selling and advertising. Companies having market penetration directly depend heavily on personal selling and advertising plays a supporting role. If the product passes through a longer channel of distribution, the marketer will have to give more importance to advertising and less importance to personal selling.

Factor # 6. Pricing Strategy:

Pricing strategy influences the promotion mix in two ways. Firstly in terms of the price of the competitor's brand and secondly in terms of the margin allowed to the middle-men. If the brand is priced higher than the competitors' price, personal selling is adopted.

If the brand is priced lower than the competitors' price, only little promotion is needed. If the middlemen are allowed higher profit margin, the middlemen are motivated to stock and push the brand and very little advertisement may be required. If profit margin is lower, heavy advertisement will be required.

Factor # 7. Effectiveness of Promotional Tools:

Different promotional tools are effective at different stages of buyer readiness. At the awareness stage, advertising and publicity are more effective. At the comprehension stage, advertising and personal selling lay a greater role. During the conviction stage, personal selling is very effective.

Personal selling and sales promotion are highly effective at closing the sale stage. Thus, advertising and publicity are more effective during the early stages of the customer buying decision process, whereas personal selling and sales promotion are more effective during the later stages of the customer buying decision process.

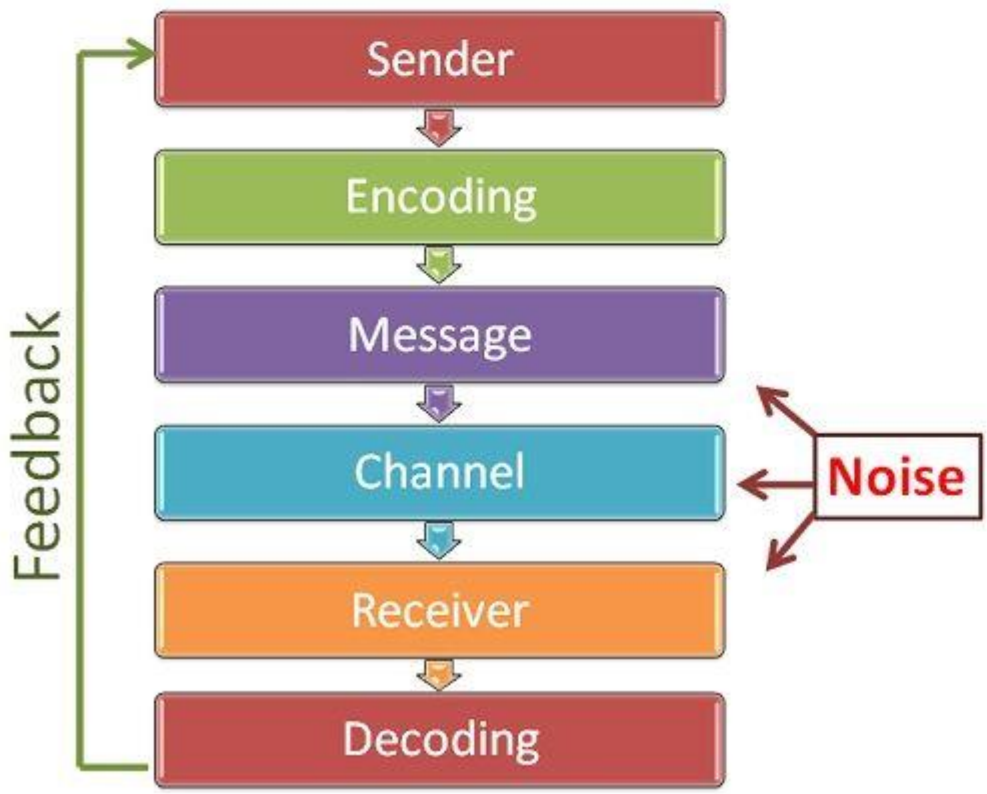
13.6 Communication Process

The Communication is a two-way process wherein the message in the form of ideas, thoughts, feelings, opinions is transmitted between two or more persons with the intent of creating a shared understanding.

Simply, an act of conveying intended information and understanding from one person to another is called as communication. The term communication is derived from the Latin word "Communis" which means to share. Effective communication is when the message conveyed by the sender is understood by the receiver in exactly the same way as it was intended.

Communication Process

The communication is a dynamic process that begins with the conceptualizing of ideas by the sender who then transmits the message through a channel to the receiver, who in turn gives the feedback in the form of some message or signal within the given time frame. Thus, there are Seven major elements of communication process:



Sender: The sender or the communicator is the person who initiates the conversation and has conceptualized the idea that he intends to convey it to others.

Encoding: The sender begins with the encoding process wherein he uses certain words or non-verbal methods such as symbols, signs, body gestures, etc. to translate the information into a message. The sender's knowledge, skills, perception, background, competencies, etc. has a great impact on the success of the message.

Message: Once the encoding is finished, the sender gets the message that he intends to convey. The message can be written, oral, symbolic or non-verbal such as body gestures, silence, sighs, sounds, etc. or any other signal that triggers the response of a receiver.

Communication Channel**:** The Sender chooses the medium through which he wants to convey his message to the recipient. It must be selected carefully in order to make the message effective and correctly interpreted by the recipient. The choice of medium depends on the interpersonal relationships between the sender and the receiver and also on the urgency of the message being sent. Oral, virtual, written, sound, gesture, etc. are some of the commonly used communication mediums.

Receiver: The receiver is the person for whom the message is intended or targeted. He tries to comprehend it in the best possible manner such that the communication objective is attained. The degree to which the receiver decodes the message depends on his knowledge of the subject matter, experience, trust and relationship with the sender.

Decoding: Here, the receiver interprets the sender's message and tries to understand it in the best possible manner. An effective communication occurs only if the receiver understands the message in exactly the same way as it was intended by the sender.

Feedback: The Feedback is the final step of the process that ensures the receiver has received the message and interpreted it correctly as it was intended by the sender. It increases the effectiveness of the communication as it permits the sender to know the efficacy of his message. The response of the receiver can be verbal or non-verbal.

Summary

Advertising and other forms of promotion are an integral part of the marketing process in most organisations. Over the past decade, the amount of money spent on advertising, sales promotion, direct marketing, and other forms of marketing communication has increased tremendously, both in India, and in other foreign markets. To understand the role of advertising and promotion in a marketing program, one must understand the role and function of marketing in an organisation. The basic task of marketing is to combine the four controllable elements, known as the marketing mix, into a comprehensive program that facilitates exchange with a target market. The elements of the marketing mix are the product or service, price, place (distribution), and promotion. For many years, the promotional function in most companies was dominated by mass media advertising. However, more and more companies are recognising the importance of integrated marketing communications, coordinating the various marketing and promotional elements to achieve more efficient and effective communication programs. A number of factors underlie the move toward IMC by marketers as well as ad agencies and other promotional facilitators. Reasons for the growing importance of the integrated marketing communications perspective include a rapidly changing environment with respect to consumers, technology, and media. The IMC movement is also being driven by changes in the ways companies market their products and services. Promotion is best viewed as the communication function of marketing. It is accomplished through a promotional mix that includes advertising, personal selling, publicity/public relations, sales promotion, direct marketing, and interactive/Internet marketing. The inherent advantages and disadvantages of each of these promotional mix elements influence the roles they play in the overall marketing program. In developing the promotional program, the marketer must decide which tools to use and how to combine them to achieve the organisation's marketing and communication objectives. Promotional management involves coordinating the promotional mix elements to develop an integrated program of effective marketing communication.

Keywords

Advertising, promotion , direct selling , communication process, integrated marketing communication ,promotion Mix, personal selling , public relations, publicity

Self Assessment

1. ___________ refers to the use of communication with the twin objectives of informing potential customers about product and persuading them to buy it.

A. Promotion
B. Promotion Mix
C. Advertising
D. Marketing Mix

2. Promotion involves disseminating information about the __________, product line, brand or company.

A. Rivals
B. Promotion
C. Products
D. Discounts

3. Objectives of Promotion is:

A. Build awareness
B. Create Interest
C. Provide Information
D. All the above

4. Specific Combination Of Promotion methods such as print or broadcast advertising , direct marketing, personal selling , point of sale display, merchandising etc used for one product or a family of products. This is called as ____________.

A. Promotion Mix
B. Marketing Mix
C. Product Mix
D. Advertising Mix

5. _________________ is referred to the short term incentives , which are designed to encourage the buyers to make immediate purchase of a product or service.

A. Sales Promotion
B. Advertising Promotion
C. Sales Mix
D. Market Mix

6. __________________ is an approach to creating a unified and seamless experience for consumers to interact with the brand/enterprise; it attempts to meld all aspects of marketing communication such as advertising, sales promotion, public relations, direct marketing, and social media, through their respective mix of tactics, methods, channels, media, and activities, so that all work together as a unified force.

A. Integrated marketing
B. Relationship Marketing
C. Distributive Marketing
D. Promotion Mix

7. Benefits of IMC are :

A. Effective and cost effective
B. Integrated marketing is everywhere
C. It builds a relationship
D. All the above

8. Risks of integrated marketing campaignsare :

A. Reluctance within management teams
B. Restriction of ideas
C. None of the above

D. Both the above

9. Elements of Promotion Mix are :

A. Advertising
B. Sales Promotion
C. Personal selling
D. All the Above

10. Factors affecting choice of Promotion Mix

A. Stage in product Life Cycle
B. Type of product
C. Type of purchase Decision
D. All the Above

11. The _________ in the product life cycle also affects the type and amount of promotion used.

A. Stage
B. Product
C. Mix
D. Elements

12 .Very technical products and very expensive products also known as _____________ often need professional selling so the customer understands how the product operates and its different features.

A. High involvement
B. Low Involvement
C. time consuming
D. Luxury Products

13. Different types of consumers prefer different types of media. In terms of target markets, college-aged students may prefer online, over _______ medium.

A. Offline
B. Direct
C. Indirect
D. Executive

14. Ikea Uses which all elements of Promotion:

A. Hyper Localized Campaigns
B. Guerrilla marketing
C. Freebies
D. All the above

15. A product can be a physical commodity, a service or an experience. It plays important role in the marketing mix, such as:

A. It plays a key role in satisfying the customer's needs
B. Product differentiation is an important part of competitive strategy
C. Both A&B
D. None

16. Integrated marketing communications produces better communications ________ and greater ________ impact.

A. consistency; sales
B. sales; consistency
C. marketing; competitive
D. variety; production

17. While designing the communication, how to say it part is termed as

A. Message strategy

B. Creative strategy

C. Message source

D. None of the above

Answer for Self Assessment

1.	A	2.	B	3.	D	4.	A	5.	A
6.	A	7.	D	8.	D	9.	D	10.	D
11.	A	12.	A	13.	A	14.	D	15.	C
16	A	17	B						

Review Questions

1. Discuss the role integrated marketing communications plays in relationship marketing. Give an example of a company, which is following the strategy of integrated marketing communication.

2. Discuss how the integrated marketing communications perspective differs from traditional advertising and promotional. What are some of the reasons more marketers and more companies are taking an integrated marketing communications perspective in their advertising and promotional programs.

3. Discuss the role of direct marketing, sales promotion, and Internet in the integrated marketing communications program of a company.
4. Why is it important for those who work in the field of advertising and promotion to understand and appreciate various integrated marketing communications tools, not just the area in which they specialize?
5. Define the various tools for integrated marketing communications in brief giving their strengths and limitations.
6. Define The following: (i) relationship marketing (ii) marketing mix (iii) promotional management (iv) developing the integrated marketing communications program
7. Explain the various stages involved in the integrated marketing communication process.

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Unit 14: Trends in Marketing

CONTENTS

Objective

understand basic concepts about service marketing, e marketing, green marketing, CRM.

Understand Rural marketing

Understand Ethics in marketing

Introduction

Sustainable marketing is way of marketing that combines the needs of the customer, the organization 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

14.1 Service Marketing

Services are a special form of product which consists of activities, benefits or satisfactions offered for sale that are intangible and do not result in the ownership of anything. Without doubt, services have grown dramatically in recent years, and are growing quickly in the world economy, becoming more and more important

These characteristics of services can be arranged on a continuum similar to the tangibility spectrum. That is, services tend to be more heterogeneous, more intangible and more difficult to evaluate than goods, but the differences between goods and services are not black and white by any means.

1. Intangibility

The most basic distinguishing characteristic of service in intangibility. Because service are performance or actions rather than objects, they cannot be seen, felt, tasted, or touched in the same manner that you can sense tangible good.

For example health care service are actions performed by providers and directed towards patients and their families. These services cannot be seen or touched by the patient, although the patient maybe able to see and touch certain components of the service

Resulting Marketing Impact, Intangibility presents several marketing challenges. Services cannot be inventoried and therefore fluctuations in demand are often difficult to manage.

2. Heterogeneity

Because services are performances, frequently produced by humans, no two services will be precisely alike. The employees delivering the service frequently are the service in the customer's eye, and people may differ in their performance day to day. Heterogeneity occurs in the case of customers no two customers are the same.

Resulting Marketing Impact, Because service often are produced and consumed at the same time, mass production is difficult. The quality of service and customer satisfaction will be highly dependent on what happens in "real time," including actions of employees, the interactions between employees and customers, the interactions between employee and customers, and interactions among customers themselves.

3. Simultaneous Product and Consumption

This is very different from a manufacturing situation. In most manufacturing operations, there are inventories between each stage of production, and a finished goods inventory which can be increased or decreased as demand fluctuates.

Take, for example, a production process that involves three stages. We start with our raw materials and begin our production process. When we get to the end of stage one we have semi-finished goods that go into an inventory.

We would then do more production of these semi-finished goods (or sub-assemblies). At the end of this stage, they would become finished goods and would go into the finished goods inventory. They would then go to a retail inventory, onto a shelf in a retail outlet, and finally to the consumer. The semi-processed and finished goods might be in inventories for a considerable amount of time (in most operations — one aspect of Lean is to minimize Inventory). There would be a considerable lag between the time the product was produced and the time it was consumed.

In a Service operation, there are no lags as there are in Manufacturing. Indeed, there is almost a co-creation of the product between the manufacturer and the customer.

4. Perish ability

Perish ability is used in marketing to describe the way in which a service capacity cannot be stored for sale in the future. Services cannot be stored, saved, returned, or resold once they have been used. Once rendered to a customer, the service is completely consumed and cannot be delivered to another customer.

Resulting Marketing Impact, A primary issue that marketers face in relation to service perish ability is the inability to inventory. Demand forecasting and creative planning for capacity utilization are there for important and challenging decision areas.

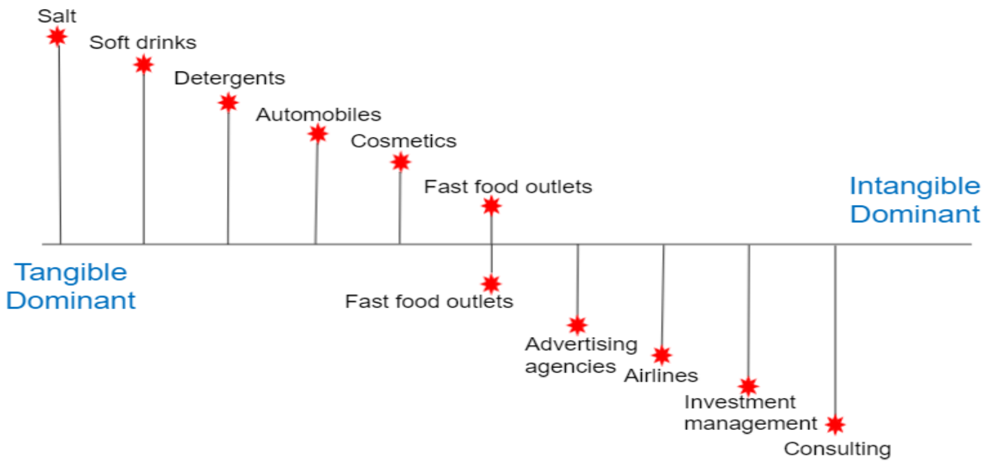
5. Search, Experience and Credence Qualities

One framework for isolating differences in evaluation process between goods and services is a classification of properties of offering proposed by economists. Economists first distinguished between two category of properties of products: search qualities, attribute that a customer can determine before purchasing a product, and experience qualities, attributes that can be discerned only after purchase or during consumption.

6. Service Marketing Mix

The marketing mix concept gained popularity following an article titled "The Concept of the Marketing Mix" by Neil Borden published in 1964. Borden explained how he started using the term inspired by James Culliton who in the 1940s described the marketing manager as a 'mixer of ingredients.' Borden's article detailed these ingredients as product, planning, price, branding, distribution, display, packaging, advertising, promotions, personal selling among many others. "Its elements are the basic, tactical components of a marketing plan". Together, elements in these four categories help develop marketing strategies and tactics.

Tangibility Spectrum:



In the explanation given above about the characteristics of services, we found that intangibility is a main determinant of whether an offering is a service. Though this is a reality, we cannot neglect the fact that very few products are purely intangible or totally tangible. On the other hand, we can say that services tend to be more intangible than manufactured physical products, and manufactured products tend to be more tangible than services.

For example, Domino's, PIZZA HUT and McDonald's belong to the fast-food industry and are classified as services. But these also have many tangible compliments such as the pizza, burger, French fries, soft drinks, etc., which the customer can own, touch, taste and eat. The attractive packaging is another tangible element of fast food service. Motorcycles and cars are classified as manufactured physical products which are tangible. Yet, they include some intangibles like transportation, seating comfort, driving comfort, etc. The tangibility spectrum shown in Figure 1.1 captures this idea. There are very few "pure services" or "pure goods".

14.2 <u>Service Marketing Mix:</u>

The service marketing mix is also different from marketing mix of tangible products. It isn't limited to the 4 ps. A service requires people to perform the tasks which becomes the 5th P. Physical evidence is the 6th P, and the process of the service is the 7th P of the service marketing mix.

Marketing of products has 4 'P' dimensions, viz., Product, Price, Promotion and Place. These are used in specific combination to arrive at the marketing strategy. Services' marketing has three additional dimensions over and above the 4 Ps – People, Physical evidence and Process – making the requirements as 7 'P's. The different elements of services marketing mix are explained below

Product

A product is something which satisfies the needs and wants of the customer. It is the actual item which is held for sale in the market. Product mix constitutes the combination of all the services for sale in the market.

For example, the product mix of a saloon will be the combination haircut service, manicure and pedicure service, facial, shaving etc.

The life cycle of services is same as that of a product as it starts from the day it was first thought until the time it is finally removed from the market.

Price

Price is the amount which the customer pays for the product. But unlike goods pricing, pricing of services are a bit different and a bit difficult. Price of a service include the actual costs of goods used (if any), process costs (labour costs + overheads) and profits.

Just like goods, businesses can decide from one of these practices for pricing

Penetration Pricing (low price kept to capture market share)

Skimming Pricing (high price initially then lowering of price)

Competition Pricing (pricing at par of competition)

Pricing decides the position of the product among the competition.

Place

Place mix is deciding where and how the services will be available to the customers at the right time and at the right place to result in maximum advantage to the business.

Unlike goods, services cannot be separated from its provider and are provided where its provider is. But the same services can be performed by different providers. For example, a different franchise of the same salon provides same services.

Promotion

A business has to convey about its offering and its USP to the customer. It is what keeps it alive in this competitive environment. The promotion mix decides the marketing communication techniques, strategies, and mediums used. The medium includes:

- Advertising
- Branding

- Personal Selling
- Sales Promotion
- Public Relations
- Direct Marketing, and
- Social Media Outreach

People

Services are inseparable from the provider. These providers form the people of the service marketing mix. For example, the chef in the restaurant, a banker in the bank, an air hostess in the flight, etc.

Companies spend much time in selecting and training their staff and every other person who represents the company to the customer.

Physical Evidence

Services are intangible. But they are often provided along with many tangible elements. Physical evidence includes the environment/place where the service is provided and any tangible elements that facilitate the performance or communication of the service. It's the tangible part which is more or less complementary to the service. For example, a physical evidence mix of a premium saloon will include the staff's uniform, a good ambience created by playing nice music and spraying good room freshener, etc

Process

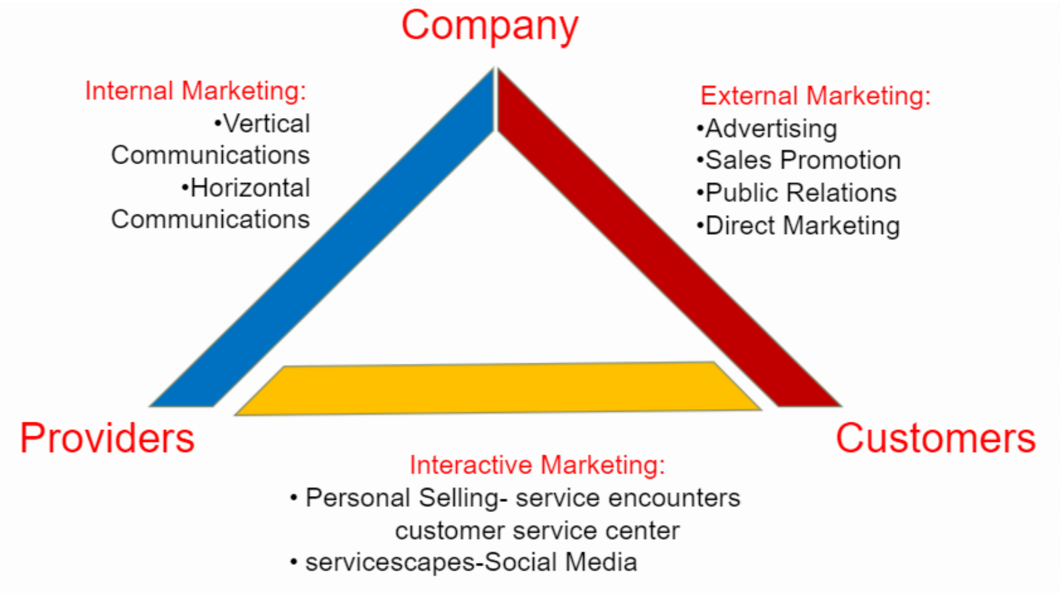
The actual mechanism involved in delivering a service is the process. It's the route of the actual product from the provider to the user. For example, a bank has a definite process for its every operation (to deposit a cheque, to withdraw money, to change your address, etc.).

Since services are diverse, processes involved in carrying out those services are also diverse. Process can be involved in planning and/or in the execution. But it is always involved in carrying out a service.

Process results in uniformity. Hence process is an essential of the services marketing mix.

14.3 Concept of Service Marketing Triangle

Services marketing is about promises – promises made and promises kept to customers. A strange framework known as the services triangle visually reinforces the importance of people in the ability of firms to keep their promises and succeed in building customer relationships.



The triangle shows the three interlinked groups that work together to develop, promote and deliver services. These key players on the points of the triangle are:

1. The Company (or SBU or department or management)

2. The Customers

3. The Providers (employees of the service company, sub-contractors, dealers or outsourced entities who deliver the company's services) Between these three points on the triangle, three types of marketing must be successfully carried out for a service to succeed external marketing, interactive marketing and internal marketing. On the right side of the triangle are the external marketing efforts that the firm engages in to set up its customers' expectations and make promises to customers regarding what is to be delivered. Anything or anyone that communicates to the customers before service delivery can be viewed as part of this external marketing function. But external marketing is just the beginning for services marketers. Promises made must be kept. On the bottom of the triangle is what has been termed interactive marketing or real-time marketing. Here is where promises are kept or broken by the firm's employees, sub-contractors, or agents. People are critical at this stage. If promises are not kept, customers become dissatisfied and eventually leave. The left side of the triangle suggests the critical role played by internal marketing. The management engages in these activities to aid the providers in their ability to deliver on the service promise: recruiting, training, motivating, rewarding and providing equipment and technology. Unless service employees are able and willing to deliver on the promises made, the firm will not be successful and the services triangle will collapse. All the three sides of the triangle are essential to complete the whole, and the sides of the triangle should be aligned. What is promised through external marketing should be the same as what is delivered. The enabling activities inside the organization should be aligned with what is expected of service providers. Many strategies are available for practice by service marketers for aligning the service triangle.

14.4 E-marketing

E-Marketing (Electronic Marketing), also known as Internet Marketing, Web Marketing, Digital Marketing, or Online Marketing, is marketing done through the internet on online channels. E-marketing is the process of marketing a product or service offering using the Internet to reach the target audience on smartphones, devices, social media etc.. E-marketing not only includes marketing on the Internet, but also includes marketing done via e-mail and wireless media. It uses a range of technologies to help connect businesses to their customers.

Like many other media channels, e-marketing is also a part of integrated marketing communications (IMC), which helps a brand grow across different channels. E-marketing has become a pivotal tactic in the marketing strategy adopted by companies using several digital media channels.

Importance of E-marketing

In modern times where most of the work and transactions are happening through online channels, it becomes every important for marketers to reach out to customers through right channels. Smartphones, tablets, smart TVs, laptops are being used globally to run businesses and buy and sell goods. E-marketing helps in reaching out to your audience on these channels along with traditional offline channels as well. Sometimes for some offerings, e-marketing is the only viable option.

E-marketing is very transparent in terms of its effectiveness as compared to offline marketing. One thing which makes e-marketing standout is the ability to measure the impact in real time. Marketers can see the performance and tweak the messaging accordingly which can be very effective when compared to offline marketing.

in the times of pandemic, online marketing becomes even more prominent when the offline or traditional marketing channels cannot deliver the optimum return on value.

Advantages of E-marketing

Certain advantages of e-marketing are discussed as below:

1. Much better return on investment from than that of traditional marketing as it helps increasing sales revenue.

2. E-marketing means reduced marketing campaign cost as the marketing is done through the internet

3. Fast result of the campaign as it helps to target the right customers.

4. Easy monitoring through the web tracking capabilities help make e-marketing highly efficient

5. Using e-marketing, viral content can be made, which helps in viral marketing.

Types of e-marketing

There are several ways in which companies can use internet for marketing. Some ways of e-marketing are:

1. Article marketing

2. Affiliate marketing

3. Video marketing

4. Email marketing/Newsletters

5. Blogging

6. Content marketing

7. Podcasts

8. Webinars

All these and other methods help a company or brand in e-marketing and reaching customer through the internet.

E-Marketing Examples

A good example would be a 360 degree campaign run by companies which include direct and indirect marketing channels for putting across the message. e-Marketing is used in form of newsletters, videos, podcasts and webinars which are directly positioned to the potential customers. Along with that customers also get to know about the company and products through social media connects, content marketing, thought leadership which are indirect marketing channels. All these channels are completely online.

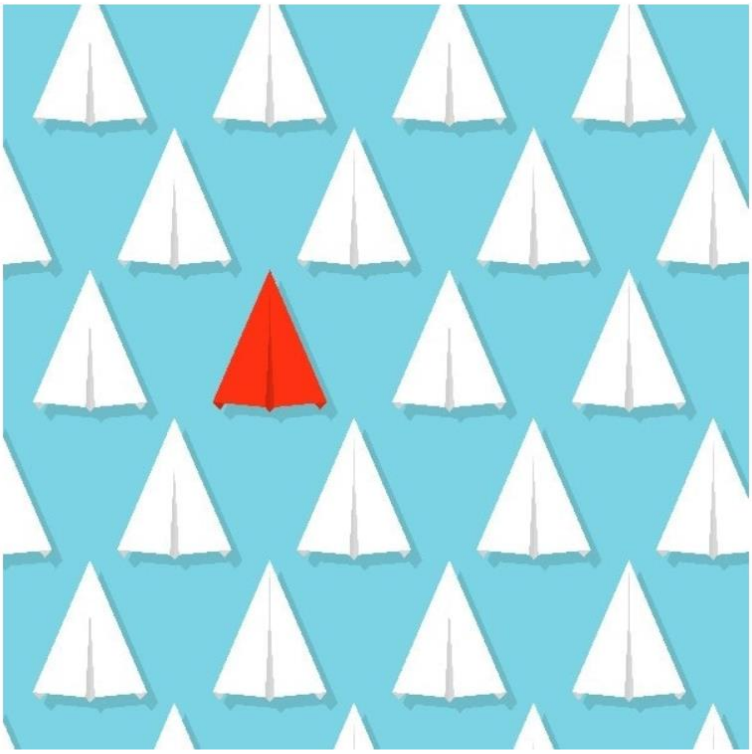
These campaigns might also have offline counterparts which also deliver the same message or may be the entire campaign can be driven by e-marketing. Many companies are now using online channels extensively for marketing their products.

Apple, Samsung and other major phone manufacturers stream their new product launches across the globe showing the new features and pricing of the upcoming phones and other devices. Even gaming industry have many online events where upcoming games are presented to the audience.

14.5 Green Marketing

Green marketing is a category of marketing where products and services are promoted on the basis of their environmental benefits.

Or Green marketing can be defined as the marketing of eco-friendly products which are not harmful to the environment and are also produced using eco-friendly production process.



Green marketing is a unique category of marketing in which products are promoted based on their environmental benefits. The purpose of using the word "Green" is that the production of products is done without causing any damage to the environment, and also ingredients and packaging of products are environmental-friendly.

The green marketing term was first introduced in the late 1980s and early 1990s when industries started showing concern towards the environment in order to attract customers.

And in the present times, green marketing has become one of the most popularly used methods of marketing because of the degrading condition of environment and climate change. With green marketing campaigns, companies show that they are concerned about the environment and are doing their bit to save the environment.

Green marketing is not only limited to advertising, but it consists of various things such as the production of eco-friendly products, using sustainable business practices, using eco-friendly packaging, and creating a marketing campaign that talks about the environment-friendly features of the products. Making all of these changes makes green marketing an expensive type of marketing. But green marketing can prove to be beneficial for the company and can provide a competitive edge over competitors. Because more and more people are becoming concerned about the environment.

Therefore, they prefer environment-friendly products, and they are even ready to pay high prices for these products. It is the right choice of marketing for an organization and has many benefits.

14.6 Importance Of Green Marketing:

1. Improves credibility

The first and most important benefit is the improved credibility of the organization. An organization needs to have an excellent image to draw profits in the long run.

A company with a positive vision in the market will not only attract more customers but also attract business partners who value its credibility. If you, as an organization looking for methods to improve the credibility of your organization, then using green marketing is the best option for you.

2. An opportunity to enter a new market

It opens a new market segment for the organization. In order to produce and sell green products, companies are required to make changes in their production process, replace the material used in production with eco-friendly material, and are required to opt for environmental-friendly packaging for the products.

The green market is quite a new market with less competition. You get an opportunity to enter a new market by adopting green marketing methods.

3. Long-term growth

Opting eco-friendly methods might be expensive initially, but it is worth for long term growth. Green marketing is a good option for long term growth. Because in the present times, more and more people prefer eco-friendly products, and their number is going to increase in the future.

4. Offers a Competitive edge

Not every company can offer to turn into an eco-friendly company and change their processes into eco-friendly processes. Your organization will get a competitive advantage over all those organizations if you decide to opt for the methods.

5. More room for innovation

When you choose to adopt green marketing, then you are required to recreate your production process and change your raw material with eco-friendly raw material. This provides you an opportunity to innovate your product.

Moreover, along with delivering eco-friendly benefits, you can also offer other benefits to your customers, which will be cherry on the top of a cake.

6. More profit

Eco-friendly methods are expensive, and thus it is ok for you to increase the price of your products. People don't mind to pay a little extra as long as they are getting the right quality product and the satisfaction of doing their part to protect the environment.

Your initial cost of adopting green methods can be recovered in the initial few years. You will generate more profit than your competitors as people now prefer to buy environment-friendly products.

7. Good for the environment

The last benefit where the money is not concerned is the benefit of satisfaction that you will get by saving your environment. We will be leaving a better place for our coming generations to live. Our small effort can do huge. Therefore, if you haven't yet adopted green methods, then it is still not too late to do so.

14.7 Customer Relationship Management:

The art of managing the organization's relationship with the customers and prospective clients refer to customer relationship management.

Customer relationship management includes various strategies and techniques to maintain healthy relationship with the organization's existing as well as potential customers. Orgnaizations must ensure customers are satisfied with their products and services for higher customer retention. Remember one satisfied customer brings ten new customers with him where as one dissatisfied customer takes away ten customers along with him.

In simpler words, customer relationship management refers to the study of needs and expectations of the customers and providing them the right solution.

Need For CRM:

- Customer Relationship Management leads to satisfied customers and eventually higher business every time.
- Customer Relationship Management goes a long way in retaining existing customers.
- Customer relationship management ensures customers return back home with a smile.
- Customer relationship management improves the relationship between the organization and customers. Such activities strengthen the bond between the sales representatives and customers.

Steps to Customer Relationship Management

- ✓ It is essential for the sales representatives to understand the needs, interest as well as budget of the customers. Don't suggest anything which would burn a hole in their pockets.
- ✓ Never tell lies to the customers. Convey them only what your product offers. Don't cook fake stories or ever try to fool them.
- ✓ It is a sin to make customers waiting. Sales professionals should reach meetings on or before time. Make sure you are there at the venue before the customer reaches.
- ✓ A sales professional should think from the customer's perspective. Don't only think about your own targets and incentives. Suggest only what is right for the customer. Don't sell an expensive mobile to a customer who earns rupees five thousand per month. He would never come back to you and your organization would lose one of its esteemed customers.
- ✓ Don't oversell. Being pushy does not work in sales. It a customer needs something; he would definitely purchase the same. Never irritate the customer or make his life hell. Don't call him more than twice in a single day.
- ✓ An individual needs time to develop trust in you and your product. Give him time to think and decide.
- ✓ Never be rude to customers. Handle the customers with patience and care. One should never ever get hyper with the customers.
- ✓ Attend sales meeting with a cool mind. Greet the customers with a smile and try to solve their queries at the earliest.

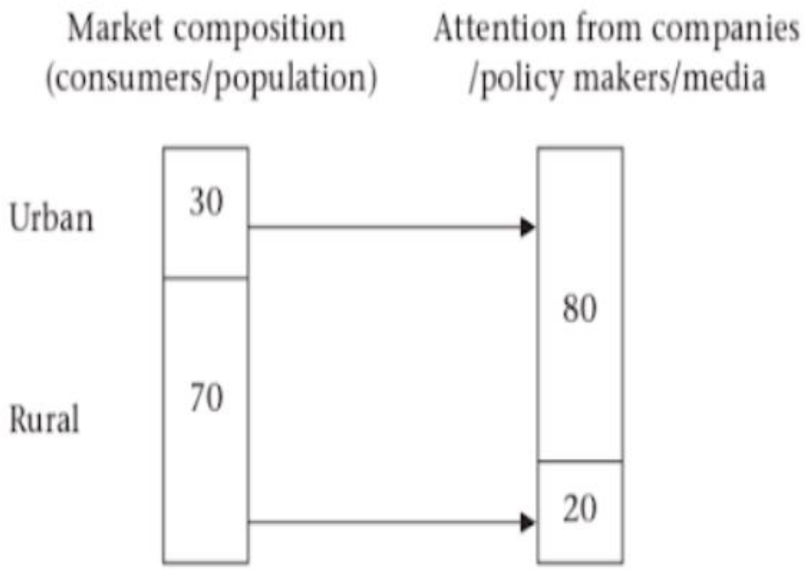
- ✓ Keep in touch with the customers even after the deal. Devise customer loyalty programs for them to return to your organization. Give them bonus points or gifts on every second purchase.

The sales manger must provide necessary training to the sales team to teach them how to interact with the customers. Remember customers are the assets of every business and it is important to keep them happy and satisfied for successful functioning of organization.

14.8 Rural Marketing:

Rural marketing is a process of developing, pricing, promoting, and distributing rural specific goods and services leading to desired exchange with rural customers to satisfy their needs and wants, and also to achieve organizational objectives.

The emergence of rural markets as highly untapped potential emphasizes the need to explore them. Marketers over the past few decades, with innovative approaches, have attempted to understand and tap rural markets. Some of their efforts paid off and many markets still an enigma. Rural marketing is an evolving concept, and as a part of any economy, has untapped potential; marketers have realized the opportunity recently. Improvement in infrastructure and reach, promise a bright future for those intending to go rural. Rural consumers are keen on branded goods nowadays, so the market size for products and services seems to have burgeoned.



The rural population has shown a trend of moving to a state of gradual urbanization in terms of exposure, habits, lifestyles, and lastly, consumption patterns of goods and services. So, there are dangers on concentrating more on the rural customers. Reducing the product features in order to lower prices is a dangerous game to play. Rural buyers like to follow the urban pattern of living. Astonishingly, as per the census report 2003-04, there are total 638365 villages in India in which nearly 70% of total population resides; out of them 35 % villages have more than 1000 population.

Rural per capita consumption expenditure grew by 11.5 per cent while the urban expenditure grew by 9.6 per cent. There is a tremendous potential for consumer durables like two-wheelers, small cars, television sets, refrigerators, air-conditioners and household appliances in rural India.

Concept of Rural Marketing:

The concept of Rural Marketing in India Economy has always played an influential role in the lives of people. In India, leaving out a few metropolitan cities, all the districts and industrial townships are connected with rural markets. The rural market in India generates bigger revenues in the country as the rural regions comprise of the maximum consumers in this country. The rural market in Indian economy generates almost more than half of the country’s income. Rural marketing in Indian economy can be classified under two broad categories.

The concept of rural marketing in India is often been found to forms ambiguity in the mind of people who think rural marketing is all about agricultural marketing. However, rural marketing determines the carrying out of business activities bringing in the flow of goods from urban sectors to the rural regions of the country as well as the marketing of various products manufactured by the non-agricultural workers from rural to urban areas.

To be precise, rural marketing in India Economy covers two broad sections, namely:

i. Selling of agricultural products in the urban areas

ii. Selling of manufactured products in the rural regions

The rural market in India is not a separate entity in itself and it is highly influenced by the sociological and behavioural factors operating in the country. The rural population in India accounts for around 627 million, which is exactly 74.3 percent of the total population.

Conceptually, rural marketing is not significantly different to urban marketing. Marketing manager has to perform the same tasks, but differently in rural marketing. It can be said that marketing is not different, but markets (buyers and users).

In rural marketing, a firm has to undergo marketing efforts to satisfy rural segments, which notably differ from urban segments in some aspects. At the same time, we must note that increasing literacy rate, improved sources of income, awareness due to improved and increased means of communication and transportation, high rate of mobility within and between countries due to liberalization and globalization, and many other such reasons, some customers are likely to be identical.

Define Rural:

The National Sample Survey Office (NSSO) defines 'rural' as follows: An area with a population density of up to 400 per sq. km. Villages with clear surveyed boundaries but no municipal board. A minimum of 75 per cent of male, working population involved in agriculture and allied activities.

The Census of India 2001defines urban India, and it is implied that rural means the areas which are not urban. Urban India is defined as:

1. All statutory places with municipality, corporation, cantonment board or notified town area committee.
2. Minimum population of 5,000.

Dogra and Ghuman (2008) define rural marketing as "planning and implementation of marketing function for the rural areas." -

- ✓ **Distribution:** Small packets over large distances where transportation are irregular or non-existent?
- ✓ **Promotion:** How to promote goods in areas which are media dark, lacking regular communication channels?
- ✓ **Pricing:** How to keep prices low when the costs in remote areas are extremely high?
- ✓ **Feudal outlook:** How to promote modern products in areas which see modernization as a threat to culture?
- ✓ **Intermediaries:** How to find warehouses & intermediaries to support the activities.
- ✓ **Purchasing power:** People are desperately poor and farmers are committing suicide.
- ✓ **Sachet marketing:** How to achieve volumes and a high penetration rate to make low-priced sachet marketing profitable?
- ✓ **Selling effort:** How to deploy, train and retain the sales force in geographically diverse areas?
- ✓

Phases of Evolution of Green Marketing:

Phase I (pre-1960): Rural marketing was thought of as agriculture marketing, that is, of supplying rural produce to urban areas and agricultural inputs to rural markets.

Phase II (1960s–1990): The focus was on agricultural inputs. Marketing of non-farm rural produce was considered as rural marketing. Green Revolution was underway and scientific farming practices were adopted.

Phase III (1991–present): Focus on consumer goods. Due to saturation in cities, companies faced lack of growth in urban areas and they turned their attention to rural areas.

14.9 4 A Rural Marketing Approach

While entering the rural market, businesses are supposed to tweak their marketing strategies as per the 4 as of rural marketing to fulfill the specific needs of the rural customers. The 4 as of rural marketing mix are-

1. Affordability

Rural marketing campaigns must be reaching to rural consumers by understanding and fulfilling their specific needs. The products or services that are marketed should be in the buying capacity of the rural consumers.

2. Availability

Ensuring consistent availability of the products in remote rural areas is another key aspect of rural marketing. Making products available to retailers' shelves resolves this issue by more than ninety per cent. Reaching out with your products and services to a rural marketing environment in time is highly crucial.

3. Acceptability

There should be acceptability for your product or service among rural consumers. Marketing strategy should ensure that your product or service adds some value to their lives and convinces them that you would fulfill their specific needs.

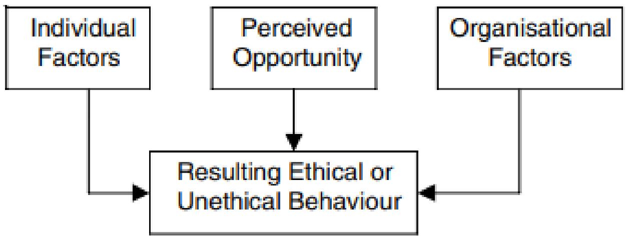
4. Awareness

While targeting a rural consumer with rural marketing campaigns, brands should understand that their message should reach the customers' mindset. For optimizing awareness, brands may try commercials on media like TV, outdoor, or Radio and Outdoor. Product packaging, colors, taglines, slogans, etc play a key role in awareness programs.

14.10 Ethics in marketing

Ethical Behaviour of Firms Notes 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. 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



Why we need Ethics in marketing?

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.

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

- ✓ When an organization behaves ethically, customers develop more positive attitudes about the firm, its products, and its services.
- ✓ To create Values or trust with key stakeholders
- ✓ To build good image about the organization in the minds of customer, employees, shareholders and the society.

14.11 Ethical Issues and 4 P's Of marketing:

Ethical concerns can arise in every element of the marketing mix. As mentioned before on this blog, the marketing mix is a combination of the **4Ps** : **Product**, **Price**, **Promotion** and **Place**

Product:

Ethical concerns can arise in the development of products/services. Marketers are supposed to identify and satisfy needs of consumers. Products offered do not always contribute to satisfying existing needs but sometimes create new needs through Ethical concerns can arise in the development of products/services. Marketers are supposed to identify and satisfy needs of consumers. Products offered do not always contribute to satisfying existing needs but sometimes create new needs through the promotion of materialism. It appears not to be ethical from marketers to forget the first role of marketing at the benefit of mercantilism.

- ✓ Ethical concerns can also appear in the performance of products/services. Ethical marketing activity should prevent poorly made and unsafe products. Products not made well or products delivering little benefit or less benefit than promised are commonplace criticism made to marketers.
- ✓ More questionable is the case of harmful products due to poor design or lack of quality. Marketers should refer to the maxim 'Do unto others, as you would have them do unto you' to judge whether a product is acceptable or not. The quality of a product should always have the priority on economic concerns. Moreover, pre-tests should be conducted to ensure the compliance of products to safety standards.

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Packaging:

Packaging can also be a source of ethical concerns. Exaggerating packaging (for example through design) or misleading labels cannot be considered ethical, because they aim at deceiving consumers by making them believe a pack contains more product than it does in reality or by giving unclear/incomprehensible information.

A company sells a litchi/raspberry juice that claims to be a "refreshing and exotic".

Yet, this fruit juice contains more apple than litchi plus raspberry together. The ingredient label indicates 27% of apple juice, 15% of litchi juice and 8% of raspberry juice (plus water, sugar and citric acid). The product is sold as a raspberry/litchi juice, while it is closer to an apple juice.

- ✓

  Label information
- ✓ Packaging graphics
- ✓ Packaging safety
- ✓ Environmental implication ofpackaging

Promotion:

The most commonplace ethical concern in promotion is deception. The American Federal Trade Commission (FTC) defines deception as "a misrepresentation, omission, or practice that is likely to mislead the consumer acting reasonably in the circumstances, to the consumer's detriment".

Deception is commonplace in advertising. For example, overstating a product's feature or performance is contrary to the ethics. Deception in advertising can be either an exaggeration of products' attributes (for example, a shampoo that helps fighting dandruff in 2 weeks whereas results are significant only after one month) or a unrealistic statement about products' performance (for example, a pill that would help lose 30 Lbs. in one week).

A campaign by a famous beauty brand is to be mentioned: an actress was engaged to promote a false eye lash mascara… but the actress wore fake eyelashes in the TV commercial! The company under came negative feedback from offended consumers.

Pricing:

Marketers should be allowed to charge any price they want provided there is no price discrimination among consumers and that prices are all inclusive.

However, too high prices are not ethical, when they do not reflect the existing cost structure but are a means to take advantage of consumers. This is especially true in the case of monopolies, oligopolies or cartels.

Besides, advertised prices should always be realistic prices that consumers will find in stores.

The odd-pricing and partitioned prices practices can also be questionable on ethical grounds. With odd-pricing, marketers resort to odd numbers (e.g., 29.99€) instead of rounded numbers (e.g., 30€) because consumers tend to associate 29.99 with 20 rather than 30. Partitioned prices aim at sharing the total price in several sub prices to make consumers believe the price is lower than in reality. If not used with sensitivity, these methods cannot be considered as ethical, because marketers manipulate consumers' expectancies.

Place:

Consumers can be manipulated without knowing it through subtle marketing techniques in distribution outlets. For example, shelves at lower heights target children, and stores can be organised in such a way that it encourages consumers to pass through more shelves. The ethical concern of such practices is whether subliminal incentives are morally acceptable: would consumers have bought the products even if those marketing techniques had not been used? In that case, is it possible to talk about 'forced purchases'? Can those techniques cause economic hardships to shoppers by making them buy more than they can afford?

Ethical concerns are also linked with the segmenting, targeting and positioning process.

Efforts to target consumer populations can be subject to unethical attitudes (e.g.: particularly vulnerable consumer populations, such as children, the poorest minorities, and the uneducated).

For example, the issue of higher insurance premiums to people with poor credit ratings is morally questionable.

Marketing to children also raises ethical concerns. Wharton marketing professor Lisa Bolton asks the question: "Can [children] really make fully-informed choices or are they being flooded with marketing material that is going to alter their behaviour?". That is the reason why candies have been suppressed from the shelves before the tills in French supermarkets

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 wellbeing. 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).

Keywords

Green marketing , Rural marketing , Customer Relationship management, Ethical marketing , Product , Place , Price , Promotion

Self Assessment

1.Which is not a service Firms:

A. Banking , Stock Broking
B. Restaurants, Bars, Catering
C. Insurance
D. Manufacturing

2.A ___________is an act or performance offered by one party to another. They are economic activities that create value and provide benefits for customers at specific times and places as a result of bringing desired change.

A. Service
B. Value
C. Relationship
D. Product

3.Characteristics Of services:

A. Intangibility
B. Perishability
C. Inseparability
D. All the above

4.Characteristics That Distinguish goods and services

A. Intangibility
B. Inseparability
C. Inconsistency
D. All the above

5.____________ also known as Internet Marketing, Web Marketing, Digital Marketing, or Online Marketing, is marketing done through the internet on online channels.

A. E marketing
B. Direct Marketing
C. Advertising

D. Public Relations

6.The Planning Commission of India, a town with a maximum population of __________ is considered rural in nature.

A. 15000
B. 25000
C. 16000
D. 70000

7. Urban India is defined as:

A. All statutory places with municipality, corporation, cantonment board or notified town area committee.
B. Minimum population of 5,000.
C. Density of population of at least 400 per sq. km. (1,000 per sq. mile).
D. All the above

8.___________ is a process that consists of developing and empowering people in rural communities through capability enhancement and social innovation, to facilitate a two-way marketing of economic and social goods between rural and urban areas.

A. Rural marketing
B. Comprehensive marketing
C. Two way marketing
D. None of the above

9.4A approach in Rural marketing

A. Acceptability
B. Affordability
C. Availability
D. All the above

10. _________the 4th largest sector in the Indian economy where the rural segment contributes about 45% to the overall revenue generated by the sector.

A. FMCG
B. Service
C. Manufacturing'
D. Academics

11. ___________is the science and art of exploring, creating, and delivering value to satisfy the needs of a target market at a profit.

A. Marketing
B. Promotion
C. Advertising
D. Dealing

12. Which of the following is/are feature of corporate governance?

A. Non- universality
B. Accountability
C. Ambiguity
D. None of these

13. There are usually …………… key participants in corporate governance.

A. Three
B. Four
C. Five
D. Eight

14. Corporate governance is concerned with the formation of …………… term objective

A. Very short
B. Short
C. Medium
D. Long

15. What is Ethics to do with?

A. The Wider Community
B. Business
C. Right and Wrong
D. Nothing

Answers for Self Assessment

1.	D	2.	A	3.	D	4.	D	5.	A
6.	A	7.	D	8.	D	9.	A	10.	A
11.	A	12.	B	13.	A	14.	D	15.	A

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. What do you understand by 'green marketing'? Give a few examples to make it clearer.

5. "CSR is a vehicle on which the companies can race past the profit highway towards growth". Comment.

Further Readings

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