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Table Of Contents

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MBA- II Semester **Paper Code :MBAC 2002**

PAPER-VII
MARKETING MANAGEMENT

Objectives

- To familiarize with the basic concepts, and techniques of marketing management
- To understand the behaviour of consumers
- To create awareness of marketing mix elements, and
- To analyse and solve marketing problems in the complex and fast changing business environment.

Unit-I

Introduction to Marketing and Marketing Management, Marketing Concepts - Marketing Process Marketing mix - Marketing environment. - Consumer Markets and buying behaviour - Market segmentation and targeting and positioning.

Unit-II

Product Decisions - concept of a Product - Product mix decisions - Brand Decision - New Product Development – Sources of New Product idea - Steps in Product Development - Product Life Cycle strategies- Stages in Product Life Cycle,

Unit-III

Price Decisions - Pricing objectives - Pricing polices and constraints - Different pricing method - New product pricing, Product Mix pricing strategies and Price adjustment strategy.

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Unit-IV

Channel Decision - Nature of Marketing Channels –. Types of Channel flows - Channel functions - Functions of Distribution Channel – Structure and Design of Marketing Channels -Channel co-operation, conflict and competition – Retailers and wholesalers.

Unit - V

Promotion Decision - Promotion mix - Advertising Decision, Advertising objectives - Advertising and Sales Promotion – Developing Advertising Programme – Role of Media in Advertising - Advertisement effectiveness - - Sales force Decision.

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UNIT – I

Lesson 1.1 - Introduction to Marketing

Objectives

In this lesson, we will introduce you to the business function of marketing. After you work out this lesson, you should be able to:

- Define marketing and the utility (value) it creates for the customer
- Trace the origin of marketing and explain how it has evolved
- Describe the elements of a marketing strategy
- Understand the scope of marketing

Learning Objectives

In this lesson, we will discuss the following

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- What is marketing?
- Evolution of marketing
- Marketing framework
- Marketing in different sectors
- Functions of marketing

Introduction

Production and marketing of goods and services are the essence of economic life in any society. All organizations perform these two basic functions to satisfy their commitments to their stakeholders – the owners, the customers and the society, at large. They create a benefit that economists call utility which is the want-satisfying power of a good or service. There are four basic kinds of utility – form, time, place and ownership utility. Form utility is created when the firm converts

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raw materials and component inputs into finished goods and services. Although marketing provides important inputs that specify consumer preference, the organization's production function is responsible for the actual creation of form utility. Marketing function creates time, place and ownership utilities. Time and place utility occur when consumers find goods and services available when and where they want to purchase them. Online retailers with 24*7 format emphasize time utility. Vending machines focus on providing place utility for people buying snacks and soft drinks. The transfer of title to goods or services at the time of purchase creates ownership utility.

Type	Description	Examples	Responsible function
Form	Conversion of raw materials and components into finished goods and services	Pizza made from several ingredients	Production
Time	Availability of goods and services when consumers want them	Dial-a-pizza; delivery guaranteed in 30 minutes.	Marketing
Place	Availability of goods and services where consumers want them	Delivery at your doorstep	Marketing
Ownership (possession)	Ability to transfer title to goods or services from marketer to buyer	Pizza sales (in exchange for rupees or credit card payment)	Marketing

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To survive, all organizations must create utility. Designing and marketing want-satisfying goods, services and ideas is the foundation for the creation of utility. Management guru, Peter F.Drucker emphasized the importance of marketing in his classic book, The Practice of Management as:

> 'If we want to know what a business is, we have start with its purpose. And its purpose must lie outside the business itself. In fact, it must lie in society since a business enterprise is an organ of society. There is one valid definition of business purpose: to create a customer'.

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How does an organization create a customer? Guiltinan and Paul explain it this way:

> Essentially, 'creating' a customer means identifying needs in the marketplace, finding out which needs the organization can profitably serve and developing an offering to convert potential buyers into customers. Marketing managers are responsible for most of the activities necessary to create the customers the organization wants, These activities include:
>
> - Identifying customer needs
> - Designing goods and services that meet those needs
> - Communicating about those goods and services to prospective buyers
> - Making the goods and services available at times and places that meet customers' needs
> - Pricing goods and services to reflect costs, competition and customers' ability to buy
> - Providing for the necessary service and follow-up to ensure customer satisfaction after the purchase

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Activity 1.1.1

Think of a recent purchase you made. How did the company provide you with the following utilities?

Form ____________________________
____

Time ____________________________
____

Place ____________________________
____

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Ownership ____________________________
____

What is Marketing?

Though marketing is broader than selling, it is often equated with selling. Continuous exposure to advertising and personal selling leads many people to link marketing and selling, or to think that marketing activities start once goods and services have been produced. While marketing certainly includes selling and advertising, it encompasses much more. Marketing also involves analyzing consumer needs, securing information needed to design and produce goods or services that match buyer expectations and creating and maintaining relationships with customers and suppliers. The following table summarizes the key differences between marketing and selling concepts.

Table 1.1.1 Selling Vs. Marketing

Point of difference	Selling	Marketing
Starting point	Factory	Marketplace
Focus	Existing products	Customer needs
Means	Selling and promoting	Integrated marketing
End	Profits through volume	Profits through satisfaction

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The difference between selling and marketing can be best illustrated by this popular customer quote: 'Don't tell me how good your product is, but tell me how good it will make me'.

The American Marketing Association, the official organization for academic and professional marketers, defines marketing as:

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

Another definition goes as ' … process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others'.
Simply put: Marketing is the delivery of customer satisfaction at a profit.

The notion of exchange as central to marketing is reinforced by many contemporary definitions such as 'marketing is the process of creating and resolving exchange relationships' and 'marketing is the process in which exchanges occur among persons and social groups'. The essence of marketing is the exchange process, in which two or more parties give something of value to each other to satisfy felt needs. In many exchanges, people trade tangible goods for money. In others, they trade intangible services.

Exchanges in marketing are consummated not just between any two parties, but almost always among two or more parties, of which one or more taken on the role of buyer and one or more, the role of seller. A common set of conditions are present in the marketplace, viz.,

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(i) Relating to buyers

1) Buyers outnumber sellers
2) Any individual buyer is weaker than any individual seller economically.
3) However, the total economic power of even a fraction of the buyers is enough to assure the existence of, or to put out of business, most sellers or groups of sellers.

(ii) Relating to sellers

4) The sellers compete to sway the largest number of buyers they can to their, rather than another seller's (competitor's) offerings.

5) In this process, they are influenced as well, regularly modifying their behaviours so they will have more success, with more buyers, over time.

The expanded and dynamic concept has some characteristics.

- Holistic view The concept of marketing activities permeates all organizational functions. It assumes that the marketing effort will follow the overall corporate strategy and will proceed in accordance with ethical practices and that it will effectively serve the interests of both society and organization.

- Key decision areas The concept also identifies the marketing variables – product, price, promotion and distribution – that combine to provide customer satisfaction. In addition, it assumes that the organization begins by identifying and analyzing the consumer segments that it will later satisfy through its production and marketing activities.

- Relationships The concept's emphasis on creating and maintaining relationships is consistent with the focus in business on long-term, mutually satisfying sales, purchases and other interactions with customers and suppliers.

- Universality Finally, it recognizes that marketing concepts and techniques apply to non-profit organizations as well as to profit-oriented businesses, to product organization and to service organizations, to domestic and global organizations, as well as to organizations targeting consumers and other businesses.

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Activity 1.1.2

The following list consists of some MARKETING MYTHS. Tick the myths you thought about marketing before reading this section? Add some new myths you might have discovered.

- Marketing and selling are synonymous
- The job of marketing is to develop good advertisements
- Marketing is pushing the product to the customers
- Marketing is transaction-oriented than relationship-oriented
- Marketing is a short-term business strategy
- Marketing is an independent function of a business
- Marketing is part of selling

Evolution of Marketing

As noted earlier, exchange is the origin of marketing activity. When people need to exchange goods, they naturally begin a marketing effort. Wroe Alderson, a leading marketing theorist has pointed out, 'It seems altogether reasonable to describe the development of exchange as a great invention which helped to start primitive man on the road to civilization'. Production is not meaningful until a system of marketing has been established. An adage goes as: Nothing happens until somebody sells something.

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Although marketing has always been a part of business, its importance has varied greatly over the years. The following table identifies five eras in the history of marketing: the production era, the product era, the sales era, the marketing era and the relationship marketing era.

Table 1.1.2 The Evolution of Marketing

Era	Prevailing attitude and approach
Production	▪ Consumers favor products that are available and highly affordable ▪ Improve production and distribution ▪ 'Availability and affordability is what the customer wants'
Product	▪ Consumers favor products that offer the most quality, performance and innovative features ▪ 'A good product will sell itself'
Sales	▪ Consumers will buy products only if the company promotes/ sells these products ▪ 'Creative advertising and selling will overcome consumers' resistance and convince them to buy'
Marketing	▪ Focuses on needs/ wants of target markets and delivering satisfaction better than competitors ▪ 'The consumer is king! Find a need and fill it'
Relationship marketing	▪ Focuses on needs/ wants of target markets and delivering superior value ▪ 'Long-term relationships with customers and other partners lead to success'

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Production era(Mass production)

In the production era, the production orientation dominated business philosophy. Indeed business success was often defined solely in terms of production victories. The focus was on production and distribution efficiency. The drive to achieve economies of scale was dominant. The goal was to make the product affordable and available to the buyers.

Product era (Quality product)

In the product era, the goal was to build a better mouse trap and it was assumed that buyers will flock the seller who does it. However, a better mousetrap is no guarantee of success and marketing history is full of miserable failures despite better mousetrap designs. Inventing the greatest new product is not enough. That product must also solve a perceived marketplace need. Otherwise, even the best-engineered and highest quality product will fail.

Sales era (Pressure selling)

In the sales era, firms attempted to match their output to the potential number of customers who would want it. Firms assumed that customers will resist purchasing goods and services not deemed essential and that the task of selling and advertising is to convince them to buy. But selling is only one component of marketing.

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Marketing era (Satisfied customer)

In this era, the company focus shifted from products and sales to customers' needs. The marketing concept, a crucial change in management philosophy, can be explained best by the shift from a seller's market – one with a shortage of goods and services – to a buyer's market – one with an abundance of goods and services. The advent of a strong buyer's market created the need for a customer orientation. Companies had to market goods and services, not just produce them. This realization has been identified as the emergence of the marketing concept. The keyword is customer orientation. All facets of the organization must contribute first to assessing and then to satisfying customer needs and wants.

Relationship marketing era (Relationships with customers)

The relationship marketing era is a more recent one. Organization's carried the marketing era's customer orientation one step further by focusing on establishing and maintaining relationships with both customers and suppliers.

This effort represented a major shift from the traditional concept of marketing as a simple exchange between buyer and seller. Relationship marketing, by contrast, involves long-term, value-added relationships developed over time with customers and suppliers. The following table summarizes the differences between transaction marketing (i.e. exchanges characterized by limited communications and little or no on going relationship between the parties) and relationship marketing.

Table 1.1.3 Comparing transaction-based marketing and relationship marketing

Characteristic	Transaction-Based Marketing	Relationship Marketing
Time orientation	Short term	Long term
Organizational goal	Make the sale	Emphasis on customer retention
Customer service priority	Relatively low	Key component
Customer contact	Low to moderate	Frequent
Degree of customer commitment	Low	High
Basis for seller-customer interactions	Conflict manipulation	Cooperation; trust
Source of quality	Primarily from production	Companywide commitment

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Activity 1.1.3

Make a statement to describe each of the stages in the evolution of marketing. You may consider the given examples before coming up with your own statements.

1. Production era
    a. 'Cut costs. Profits will take care of themselves'
2. Product era
    a. 'A good product will sell itself'
3. Sales era
    a. 'Selling is laying the bait for the customer'
4. Marketing era
    a. 'The customer is King!'
5. Relationship marketing era
    a. 'Relationship with customers determine our firm's future'

Marketing Framework

The basic elements of a marketing strategy consist of (1) the target market, and (2) the marketing mix variables of product, price, place and promotion that combine to satisfy the needs of the target market. The outer circle in Figure 1.1.1 lists environmental characteristics that provide the framework within which marketing strategies are planned.

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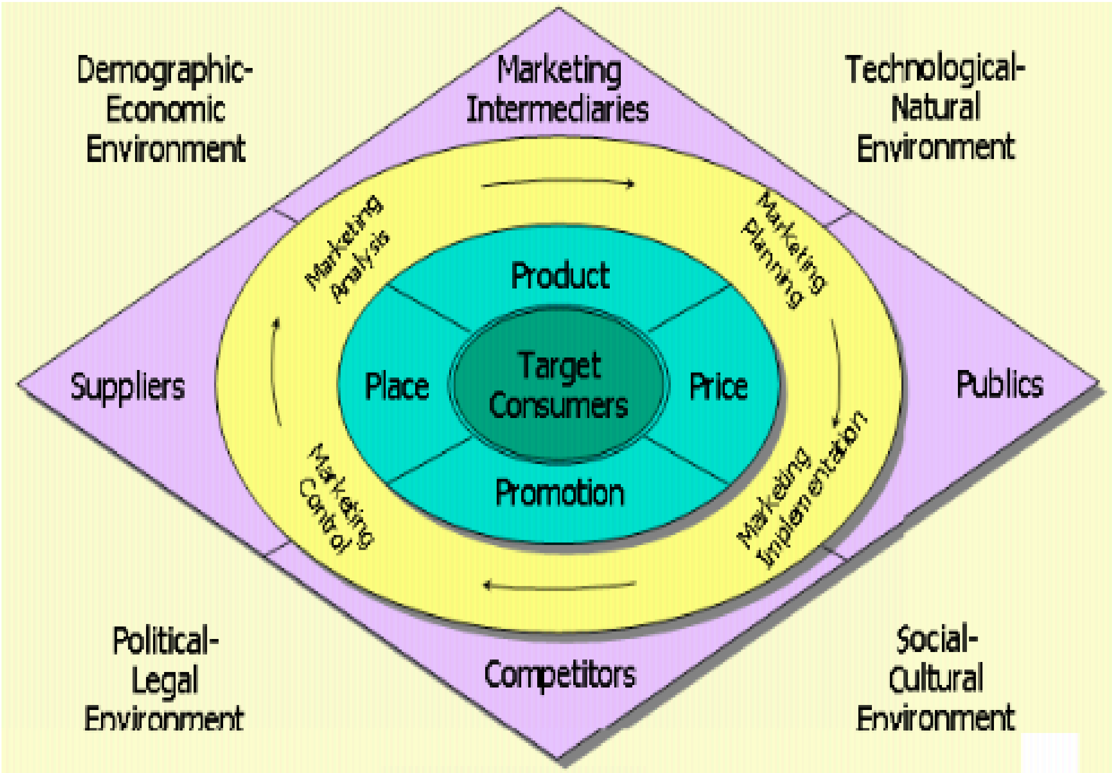

Figure 1.1.1 Elements of a marketing strategy and its environmental framework

Target consumers

Marketing activities focus on the consumer. Therefore, a market-driven organization begins its overall strategy with a detailed description of its target market: the group of people toward whom the firm decides to direct its marketing efforts.

Marketing mix

After marketers select a target market, they direct their activities towards profitably satisfying that target segment. Although they must manipulate many variables to reach this goal, marketing decision making can be divided into four areas: product, price, place (distribution) and promotion (marketing communication). These 4 Ps of marketing are referred to as the marketing mix. The 4 Ps blend to fit the needs and preferences of a specific target market. These are the four variables that a

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marketer can use and control in different combinations to create value for customers.

Figure 1.1.1 illustrates the focus of the marketing mix variables on the central choice of consumer or organizational target markets.

1. The product strategy involves deciding what goods and services the firm should offer to a group of consumers and also making decisions about customer service, brand name, packaging, labeling, product life cycles and new product development.

2. The pricing strategy deals with the methods of setting profitable and justifiable prices. Marketers develop place (distribution) strategy to ensure that consumers find their products available in the proper quantities at the right times and places.

3. Place strategy involve decisions related to the distribution functions and marketing intermediaries (channel members).

4. In the promotional strategy, marketers blend together the various elements of promotion to communicate most effectively with their target market. Many firms use an approach called Integrated Marketing Communications (IMC) to coordinate all promotional activities so that the consumer receives a unified, consistent and effective message.

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Environmental factors. Unlike the controllable marketing mix elements, the environmental variables frequently lie outside the control of marketers. Marketers do not make decisions about target markets and marketing mix variables in a vacuum. They must take into account the dynamic nature of the five marketing environmental dimensions as shown in Figure 1.1.1 – competitive, political-legal, economic, technological and social-cultural dimensions.

- Marketers compete for the same consumers. So the developments in the competitive environment will have lot of repercussions.
- The political-legal environment includes the governing and regulatory bodies that impose guidelines to the marketers.

Adherence to the law of the land is an imperative for a marketer to be a good and responsible corporate citizen.

- The economic environment dictates the mood in the target market participants who take decisions such as to buy or save, to buy now or later.
- The technological environment can spell life or death for a marketer with break-through technologies. Marketers often leap forward or get left behind owing to the changes in the technological environment.
- The social-cultural environment offers cues for the marketers to 'connect' well with the target market. Failure on part of the marketer to understand the social-cultural environment will have serious consequences. A marketers can not afford to rub a society/culture on the wrong side!

Marketing in different sectors

Until fairly recently, marketing focused primarily on exchanges of goods between individuals (business-to-consumer (B2C) marketing) and businesses (business-to- business (B2B) marketing). A new area of marketing has recently emerged. It is services. Consumer marketing deals with good and services targeted to households for individual consumption. Industrial marketing deals with the organizational purchases of goods to support production of other goods or daily operations or for resale. Services deal with intangible products offered to both consumer markets and industrial markets. Table 1.1.2 highlights the differences between consumer marketing and industrial marketing.

The marketing of services require additional effort. With the growth of the services sector, marketers realized that services cannot be marketed in the same way as the products. Certain characteristics of services posed serious problems for marketers who realized that services marketing must be done differently and not with the same marketing mix (4 Ps) variables. Services have unique characteristics like :

- Intangibility (service firms don't sell a tangible thing, but a promise) inseparability (production and consumption of services take place at about the same time),
- Heterogeneity (the problem due to the fact that no two service providers are like, nor are the service consumers) and
- Perishability (service providers cannot maintain inventories of their products).

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Areas of Difference	Industrial Markets (B2B)	Consumer Markets (B2C)
Market characteristics-	Geographically concentrated Relatively fewer buyers	Geographically dispersed Mass markets
Product characteristics	Technical complexity Customized products	Standardized products
Service characteristics	Service, timely delivery and availability are critical	Service, timely delivery and availability are some-what important
Buyer behaviour	Involvement of cross-functional teams in both buyer and supplier firms	Involvement of family members
	Purchase decisions are mainly made on ratio-nal/performance basis	Purchase decisions are mostly made on physiological/social/ psy-chological needs
	Technical expertise sought	Less technical expertise
	Stable interpersonal relationship between buyer and seller	Non-personal relationship
		Indirect channels

Channel characteristics Promotional characteristics Price character-istics	More direct channels- Fewer intermediaries/ middlemen Emphasis on personal selling Competitive bidding and negotiated prices List prices for standard products	Multiple layers of intermediaries Emphasis on advertising List prices or maximum retail price (MRP)

To cope with these challenges, service marketers broadened the 4-Ps marketing mix to make it 7-Ps marketing mix. They suggested additional 3 Ps – process, physical evidence and people.

- The process is aimed at solving the heterogeneity or variability problem associated with the services by providing a service blueprint.
- The physical evidence solves some of the problems associated with the intangible nature of services. The physical evidence in terms of service environment, equipment, personnel and so on attempts to tangibilize the intangible.
- The final P – People – gives lot of attention to the service providers because they are, strictly speaking, part of the service provided. They can influence the perceived service quality in a big way.

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With the world becoming a global village, marketers started targeting global audience for their products and services. International marketers implement the basic marketing framework discussed earlier. However transactions that cross national boundaries encounter an additional set of environmental factors. For example, differences in laws, economic conditions, cultural and business norms and consumer preferences other demand variations in marketing strategies. The biggest challenge in international marketing is managing the international

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business environment. With many uncontrollable factors, sharing complex relationships among them, the international marketer faces the dilemma of whether to standardize or differentiate his marketing mix.

Non-profit organizations encounter a special set of characteristics that influence their marketing activities. Like for-profit firms, non-profit firms may market tangible goods and/or intangible services and operate in B2C and B2B markets. An important distinction is that profit-seeking businesses tend to focus their marketing on just one public – their customers. Non-profit businesses however must often market to multiple publics (say, their clients and sponsors), which complicates decision making regarding the markets to target. Also a customer or service user may wield less control over the organization's destiny than would be true for customers of a profit-seeking firm. As a result, non-profit marketing must fine tune its marketing variables to adjust to these conditions.

Activity 1.1.4

Match the following:

(1) Product marketing	-	(A) AIDS awareness
campaign		
(2) Service marketing	-	(B) Selling iron ore to a steel
manufacturer		
(3) Consumer marketing	-	(C) Selling ice creams to
adults		
(4) Industrial marketing	-	(D) Disney setting up a park
in Hong Kong		
(5) International marketing	-	(E) Setting up an ayurvedic
massage center		
(6) Non-profit marketing	-	(F) Selling electric bulbs

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Functions of Marketing

Firms must spend money to create time, place and ownership utilities as discussed earlier. Several studies have been made to measure

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marketing costs in relation to overall product costs and service costs and most estimates have ranged between 40-60 percent. These costs are not associated with raw materials or any of the other production functions necessary for creating form utility. What then does the consumer receive in return for this proportion of marketing cost? This question is answered by understanding the functions performed by marketing.

In the following table, marketing is responsible for the performance of 8 universal functions: buying, selling, transporting, storing, standardizing and grading, financing, risk taking and securing marketing information. Some functions are performed by manufacturers, others by marketing intermediaries like wholesalers and retailers. Buying and selling, the first two functions represent exchange functions. Transporting and storing are physical distribution functions. The final four marketing functions – standardizing and grading, financing, risk taking and securing market information – are often called facilitating functions because they assist the marketer in performing the exchange and physical distribution functions.

Table 1.1.3 Functions of Marketing

Marketing function	Description
A. Exchange functions	
1. Buying	Ensuring that product offerings are available in sufficient quantities to meet customer demands
2. Selling	Using advertising, personal selling and sales promotion to match goods and services to customer needs
B. Physical distribution functions	
3. Transporting	Moving products from their points of production to locations convenient for purchasers
4. Storing	Warehousing products until needed for sale

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C. Facilitating functions	
5. Standardizing and grading	Ensuring that product offerings meet established quality and quantity control standards of size, weight and so on
6. Financing	Providing credit for channel members or consumers
7. Risk taking	Dealing with uncertainty about consumer purchases resulting from creation and marketing of goods and services that consumers may purchase in the future
8. Securing marketing information	Collecting information about consumers, competitors and channel members for use in marketing decision making

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Lesson - 1.2 - Marketing Concepts

Objectives

In this lesson, we will introduce you to the conceptual ideas that makeup the marketing function of a business. After you work out this lesson, you should be able to:

- List out the concepts of marketing
- Understand how these concepts are interconnected
- Explain how marketing is changing in a connected world

Learning Objectives

In this lesson, we will discuss the following

- Needs, wants and demands
- Products
- Value and satisfaction
- Exchange, transactions and relationships
- Markets
- Marketing in a connected world

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Introduction

Having defined marketing in the previous lesson as a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others, this lesson examines the important concepts that are included and implied in this definition. These concepts are indicated in Figure 1.2.1 and it is important to note that they are linked, with each one building on the one before it.

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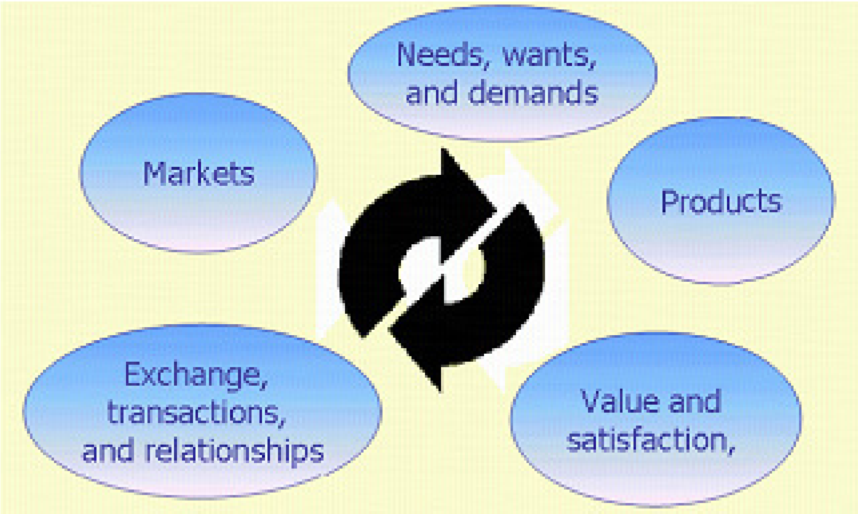

Figure 1.2.1 Marketing concepts

Needs, Wants and Demands

The most basic concept underlying marketing is that of human needs. A need is a state of felt deprivation. It is a part of the human makeup. Humans have many needs, viz., physical needs, social needs, spiritual needs and so on. Wants are the form taken by needs as they are shaped by the one's culture and personality. Wants are thus shaped by both the internal and external factors. Wants are described in terms of objects that will satisfy needs. For example, thirst is a need. To quench this thirst, a person may consider a number of options (want-list)– drink water or a soft drink or a fruit juice. These objects (which represent the different choices for a person to fulfill his/her need) comprise the potential want-list. As people are exposed to more objects that arouse their interest and desire, marketers try to provide more choices, that is, more want-satisfying products. People have almost unlimited wants but limited resources. Therefore, they want to choose products that provide the most satisfaction for their money. When backed by buying power (ability), a want becomes a demand.

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Products

A product is anything that can be offered to a market to satisfy a need or want. People satisfy their needs and wants with products. Though the word suggests a physical object, the concept of product is not

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limited to physical objects. Marketers often use the expressions goods and services to distinguish between physical products and intangible ones. These goods and services can represent cars, groceries, computers, places, persons and even ideas. Customers decide which entertainers to watch on television, which places to visit for a holiday, which ideas to adopt for their problems and so on. Thus the term 'product' covers physical goods, services and a variety of other vehicles that can satisfy customers' needs and wants. If at times the term 'product' does not seem to be appropriate, other terms such as market offering, satisfier are used.

Value and Satisfaction

When the customers have so many choices to choose from to satisfy a particular need, how do they choose from among these many products? They make their buying choices based on their perceptions of a product's value. The guiding concept is customer value. A customer will estimate the capacity of each product to satisfy his need. He/She might rank the products from the most need-satisfying to the least need-satisfying. Of course, the ideal product is the one which gives all the benefits at zero cost, but no such product exists. Still, the customer will value each existing product according to how close it comes to his/her ideal product and end up choosing the product that gives the most benefit for the rupee – the greatest value.

Exchange, Transactions and Relationships

Marketing occurs when people decide to satisfy needs and wants through exchange. Exchange is the act of obtaining a desired object from someone by offering something in return. Thought it is only one of the many ways people can obtain a desired object, it allows a society to produce much more than it would with any alternative system. For an exchange to take place, several conditions must be satisfied. Of course, at least two parties must participate, and each must have something of value to the other. Each party also must want to deal with the other party and each must be free to accept or reject the other's offer. Finally, each party must be able to communicate and deliver. These conditions simply make exchange possible. Whether the exchange actually takes place depends on the parties' coming to an agreement. If they agree, we must conclude that the act of exchange has left both of them better off or at least not worse

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off. After all, each was free to reject or accept the offer. In this sense, exchange creates value just as production creates value. It gives customers more consumption possibilities.

A transaction is marketing's unit of measurement. It consists of a trade of values between two parties. A monetary transaction involves trading goods and services in return for money whereas a barter transaction involves trading goods and services for other goods and services. Transaction marketing is part of the larger idea of relationship marketing. Marketing is shifting from trying to maximize the profit on each individual transaction to maximizing mutually beneficial relationships with consumers and other parties. This is based on the assumption that if good relationships are built, profitable transactions will simply follow.

Markets

The concept of transactions leads to the concept of a market. A market is the set of actual and potential buyers of a product. It may exist in a physical environment as a marketplace or in a virtual environment (on the internet platform) as a marketspace. To understand the nature of a market, imagine a primitive economy consisting of only four people – a farmer, a fisherman, a potter and a hunter. Figure 1.2.2 shows the different ways in which these traders could meet their needs. In the first case, self-sufficiency, they gather the needed goods for themselves. In the second case, decentralized exchange, each person sees the other three as potential buyers who make up a market. In the third case, centralized exchange, a new person called a merchant appears and locates in a central area called a marketplace. Each trader brings goods to the merchant and trades for other needed goods. Merchants and central marketplaces greatly reduce the total number of transactions needs to accomplish a given volume of exchange. As economies grow, exchange becomes even more centralized, as seen in the growth of huge companies. Large supermarkets now serve millions of people who formerly shopped in smaller outlets.

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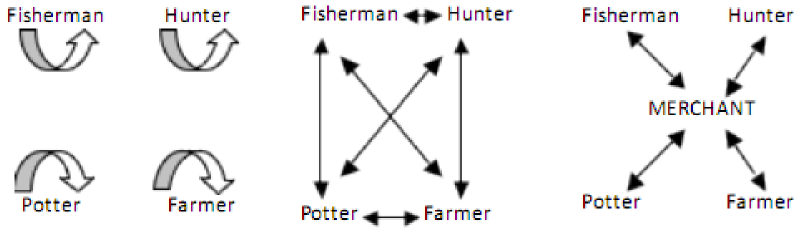

Figure 1.2.2 Moving towards centralized exchange

Marketing in a connected world

The internet and the resultant connected world has posed some special challenges and opportunities for marketers. Prof. Mohanbir Sawhney (Kellogg School of Management) has used two interesting metaphors (hunting Vs. gardening) to describe marketing hither-to and marketing hence-forth.

Marketing Hither-to:	**Marketing Hence-forth:**
Marketing as hunting	**Marketing as gardening**
Market as a jungle Customers as targets Marketers as hunters Segmentation as rifle Vs. shotgun approach Products as mousetraps Salespeople as baiters-and-switchers Promotions as campaigns Relationships as conquests/acquisitions Loyalty as lock-in and retention Customer visits as eyeballs and traffic	Customer relationships as garden to be tended Marketer as gardener Partners as players in the ecosystem Customer loyalty as roots Lifetime profits as harvest Marketing process as seed, feed and yield

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The underlying reason for this shift is the rise of information democracy made possible by the internet. For information symmetry (characterized by scarce information, ill-informed customers, monologue kind-of exchanges and 'command-and-control' marketing) the society is moving towards information democracy (characterized by ubiquitous information, well-informed customers, conversations kind-of exchanges and 'connect-and-collaborate' marketing). The Cluetrain Manifesto (www.cluetrain.org) describes markets as conversations in the following manner:

Markets are conversations. Their members communicate in language that is natural, open, honest, direct, funny and often shocking... Most corporations, on the other hand, only know how to talk in the soothing, humorless monotone of the mission statement, marketing brochure, and your-call-is-important-to-us busy signal. Same old tone, same old lies. No wonder networked markets have no respect for companies unable or unwilling to speak as they do.

In the connected world, the empowered customers can: (1) Get objective information for multiple suppliers without relying on the manufacturer or the retailer (e.g., Edmunds.com); (2) Initiate requests for information and advertising from manufacturers (e.g., DealTime.com); (3) Design and configure customized offerings (e.g., Dell.com); (4) Use buying agents to pit sellers against each other (e.g., Free markets Online); (5) Unbundle offerings and arbitrage across channels (e.g. Ritz Camera); (6) Pay by the minute, by the month, by the mile (e.g., IBM e-business on demand) and (7) Communicate with peers and experts for feedback on products and brands (e.g. Amazon.com and Epinions.com)

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Lesson 1.3 - Marketing Process

Objectives

In this lesson, we will introduce you to the activities that makeup the marketing process. After you work out this lesson, you should be able to:

- Identify the parts of the marketing process
- Understand the relationships among the parts of the marketing process
- Explain how the marketing process creates, captures and sustains value for the customer

Learning Objectives

In this lesson, we will discuss the following

- Formulation of marketing strategy
- Marketing planning
- Marketing programming, allocating and budgeting
- Marketing implementation
- Monitoring and auditing
- Analysis and research
- Schematic of marketing process

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Introduction

While there is lot of focus on the substance of marketing, particularly the marketing mix, an equally important aspect of marketing is the marketing process – how marketers do their job. The process is equal in importance to the substance because the process determines the nature and quality of the decisions made. A good process is likely to lead to a good decision. On the other hand, a faulty process will produce a good decision only on a random or accidental basis.

The marketing process can be divided in several different ways. One popular conceptualization of marketing tasks is:

1. Strategy formulation – the development of the broadest marketing/business strategies with the longest term impact.
2. Marketing planning – the development of longer-term plans which have generally stronger impact than the short-term programs.
3. Marketing programming, allocating and budgeting – the development of short-term programs which generally focus on integrated approaches for a given product and on the allocation of scarce resources.
4. Marketing implementation – the actual task of getting the marketing job done.
5. Monitoring and auditing – the review and analysis of programs, plans and strategies to assess their success and to determine what changes must be made
6. Analysis and research – the deliberate and careful acquisition and examination of qualitative and quantitative data to improve decision making

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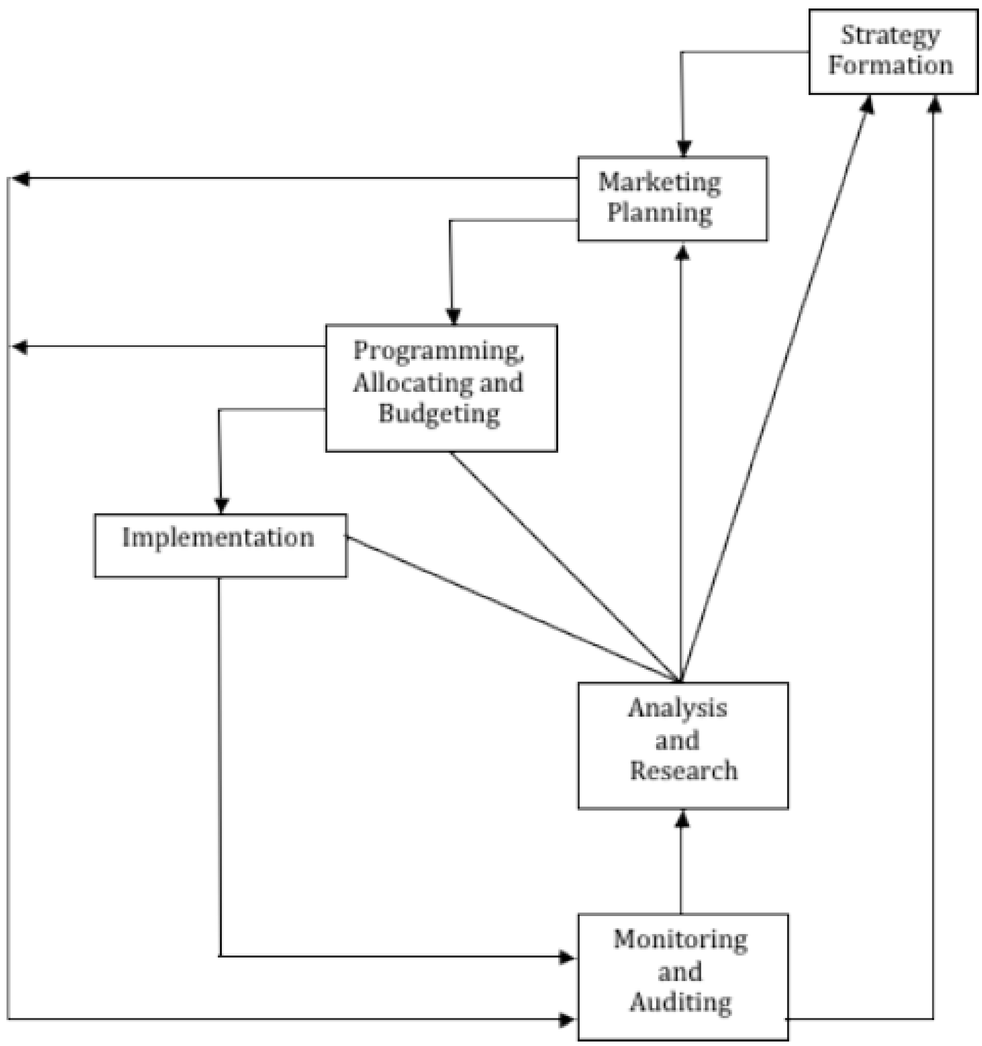
Though implied and considered as part of the overall corporate planning, the importance of situation analysis can never be undermined during marketing strategy formulation. Especially under product policies, but throughout the marketing mix elements, the company, customer and competitive scanning is so essential to marketing success. Situation analysis describes the process by which environmental assessment, marketing research and market size/growth estimates get done. It pays particular attention to environment scanning skills useful in forecasting and modeling consumer behavior.

It is important to note that each part of the process is intimately related to the other parts of the process. Figure 1.3.1 is an attempt to capture the more important relationships. The dividing lines between any two parts of the process are vague and unclear. This is particularly true of those elements of the processes which are clearly connected. For example, the distinction between a marketing plan and a marketing program is very unclear for many. But the precise boundaries are not as important as the general concept. Each element can be divided into smaller sub elements. For example, marketing planning includes market assessment which is the evaluation and selection to serve specific customer markets. Product line planning is another sub element of marketing planning.

Figure 1.3.1 Relationships among the six parts of the marketing process



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Formulation of marketing strategy

Strategy formulation is the broadest, longest-term marketing activity. At this stage, complex and subtle integration with other corporate functions is required. All of the functional strategies must fit together into a business strategy. Because marketing deals with customers and the competitive environment, it is an early part of the total strategy formulation process. When done well, it is impossible to separate the marketing strategy from the corporate strategy. The two meld into a unified whole.

The strategic process is one of working with market dynamics (a particular segment or selection of the market) to achieve a solid positioning of the product/service offering that contains a clear 'benefit promise' to the consumer which is differentiable from the offers of the competition and which thus positions the firm well for potential competitive responses to its actions.

For instance, a going company may choose strategies like diversification or expansion to achieve growth. It implies that marketers go either for product development or market development strategies.

Marketing Planning

Marketing planning involves objectives and plans with a 2-5 year time horizon and is thus further from day-to-day activity of implementation. Because of their broader nature and longer-term impact, plans are typically developed by a combination of higher-level line managers and staff specialists. If the specialists take over the process, it loses the commitment and expertise of the line managers who are responsible for carrying out the plan. The planning process is probably more important than the final planning document. The process ensures that a realistic, sensible, consistent document is produced and leads to important organizational learning and development in its own right.

In accordance with the strategy chosen, a long term plan of financing the project of expansion or diversification with details of acquisition of machinery and equipment, searching and choosing sources

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of materials, recruiting and training of human resources, on operational side and on the marketing side the development of four Ps, for a product or product line.

Marketing Programming, Allocating and Budgeting

This part of the marketing process involves a good deal of detail and focuses generally on the one-year time horizon.

Programs will be determined by the nature of the company's organization. They can be related to either one element of the marketing mix such as distribution for one or more products or to all elements of the mix for a single product or market.

- In functional type of organization (i.e. separation of marketing functions such as advertising, sales, etc.), programs will focus on one aspect of the mix across all products and markets.
- In product or market type organization, programs tend to be for each of the product or market.

Allocating is a necessary function because there is never enough of any scarce resource such as advertising budget or distribution effort to meet the 'needs' of all products, markets and programs. In many ways, marketing is deciding what not to do: which prospects not to sell to, which products not to produce to, etc. Allocation is the formal process of choosing what to do and what not to do, as well as choosing how much to do. Because marketers tend to be optimists, they often underestimate the amount of effort which will be required to accomplish a goal. Allocation requires the stark realism to separate the clearly feasible from the hopeful. It forces the marketer to set explicit priorities and to make hard decisions.

Budgeting reflects the programs and allocations in a set of quantitative forecasts or estimates which are important within and beyond the marketing function. The budgets generally include:

(i) Financial proformas which are used by the control and finance functions to forecast cash flows and needs.

(ii) Unit sales forecasts.

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Marketing Implementation

This is the execution phase which, in part produces the actual results. Poor implementation can ruin even the best strategies, plans and programs. The total purpose of all that goes before implementation is to ensure excellent execution.

Implementation means different things to different people in the organization.

To the salesperson, it means going through all of the steps of the selling process to obtain the desired results. It involves understanding the time bound targets tied to budgets, and performing activities like prospecting, contacting, presenting the products, convincing the prospects and clinching the sale. The progress is monitored by standards like sales calls /day, costs/call, sales orders /sales calls, and others.

Because of the relatively short time frame involved in most implementation activities, monitoring and auditing are generally easier than for the longer-term strategies and plans. Marketing implementation focuses on prospects, customers, distributors, retailers, centers of influence (who are the influencers in a buying decision – they specify but do not purchase). Marketing implementation also includes dealing with other functional areas to gain support and to develop coordination. For example, product managers must implement their plans and programs through product development, production, service and logistics personnel in other functional areas.

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Marketing implementation involves a very interesting tension between the structures the firm puts in place to guide marketing efforts and the skills of the managers doing the marketing job. In most firms, what happens is that over time the structures become rigid and dysfunctional to changing marketplace needs, which guides the firm to destinations it does not want to reach! It is only by the timely intervention of the marketers, using their personal skills to 'subvert the organization toward quality' that good marketing actions result.

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Monitoring and Auditing

While auditing normally refers to an activity which is done only on certain occasions, monitoring generally refers to a more day-to-day review activity. It also often refers more to a review of external data than internal activities. It, too, is an important part of the total marketing process because it provides a frequent check of progress against plans and programs.

One reason to develop plans, programs and budgets is to have a set of goals or standards against which to measure performance. Marketing audits usually include two parts. The first is an assessment of performance against quantitative goals. The second part of a comprehensive audit reviews the processes and other non-quantifiable aspects of the marketing operation. Because marketing is a mixture of art and science, quantitative and qualitative, and because it involves so many interactive variables, it is hard to audit. Standards are few and comparisons are difficult.

The audit raises a variety of important topics:

1. Who should perform the audit? Can the planners, programmers and executors audit their own performance without bias? If they cannot, who knows enough about the operation to perform the audit? Should outsiders such as consultants be involved and in what capacity?
2. How often should the audit be performed? Should it be on a regular basis or only at certain important points?
3. How comprehensive should the audit be? Should it involve all aspects of marketing or just some?

Analysis and Research

All marketing decisions should be based upon knowledge and careful analysis. Knowledge can be sourced either from intelligence or from research. While formal analysis and research are important, nothing replaces common sense and good judgment. It implies that managers should develop intelligence- a knowledge base- by observing

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the developments in the environment. When intelligence is inadequate formal research becomes necessary. The analysis and research need not be quantitative, but it should be deliberate and should be matched to the magnitude of the decision being made.

The marketer's kit has some very powerful analytical tools and the rapid development of decision support systems, mathematics including statistics, and other supporting disciplines such as psychology and sociology insure that the diversity and power of the tools will continue to increase. All of the tools must be applied carefully and intelligently to the decision at hand. It is a fine line, indeed between healthy skepticism and arrogant neglect of useful tools. The right analytical tool well applied can substantially improve marketing decision making.

Table 1.3.1 has two dimensions. The first is temporal – it shows the natural development from strategy formulation through planning, programming, allocating and budgeting on to implementation. This process is not nearly as 'clean and separated' as the table implies. The activities are interrelated and contemporaneous.

The second dimension is the lateral connection to other functional parts of the organization, such as production and operations, finance, control and human resources management. Each step has a company or business counterpart in the right-hand column. The marketing strategy thus becomes part of the total corporate strategy, which includes all functional areas.

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The marketing plan is often part of a broader corporate business plan. The marketing plan is usually the 'front end' of the corporate plan, because it spells out the operation, human and financial resources needed to support the organization's approach to its markets.

Table 1.3.1 Activities and Lateral Connections

Time Horizon	Activities	Names of Activities	Lateral Connecions
Long	1. set overall, long-term goals and basic approach to marketplace	1. formulation of marketing strategy	1. corporate strategy
Medium	2. set two- to five-year objectives and plans with more detail for shorter time horizons	2. marketing planning	2. business plan
	3. set one-year objectives and detailed plans; allocate resources to achieve goals specified in 3 and 4	3. marketing programming, allocating and budgeting	3. operating programs and budgets
Short	4. execute plans, programs and budgets	4. marketing implementation	4. operating activities
	5. evaluate results of execution against goals set in steps 1, 3 and 4, above; specify corrective action where necessary	5. monitoring and auditing	5. business audits
	6. gather and analyze quantitative and qualitative data from within and outside the company	6. analysis and research	6. business analysis and research

Marketing programs and budgets are usually part of the organization's fundamental operating documents. For example, the sales forecasts in the programs and budgets become the production schedule for the manufacturing function. Those, in turn, become the staffing programs for the human resource function and indicate the working capital needs to be supported by the financial function. If finance cannot support such a high level of inventory and accounts receivable, the sales forecast, production schedule and staffing program must be scaled down. In most organizations, great effort must be devoted to such lateral connections. The coordination needs are very high and the amount of conflict often great. Risk aversion and opportunity sensitivity differ among functions. Varying reward systems sometimes encourage different types of behaviour. The organization must develop formal and informal ways to foster good, open lateral connections.

Schematic of Marketing Process

Figure 1.3.2 represents a schematic describing a general process of marketing strategy development. As shown, five major areas of analysis (5 Cs) underlie marketing decision making – customers, company, competitors, collaborators and context. The questions to raise in each of these areas are:

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- Customer needs - What needs do we seek to satisfy?
- Company skills - What special competencies do we possess to meet those needs?
- Competition - Who competes with us in meeting these needs?
- Collaborators - Who should we enlist to help us and how do we motivate them?
- Context - What environmental (say, cultural, technological or legal) factors limit what is possible?

This leads first to specification of a target market and desired positioning and then to the marketing mix (4 Ps). This results in customer acquisition and retention strategies driving the firm's profitability. In

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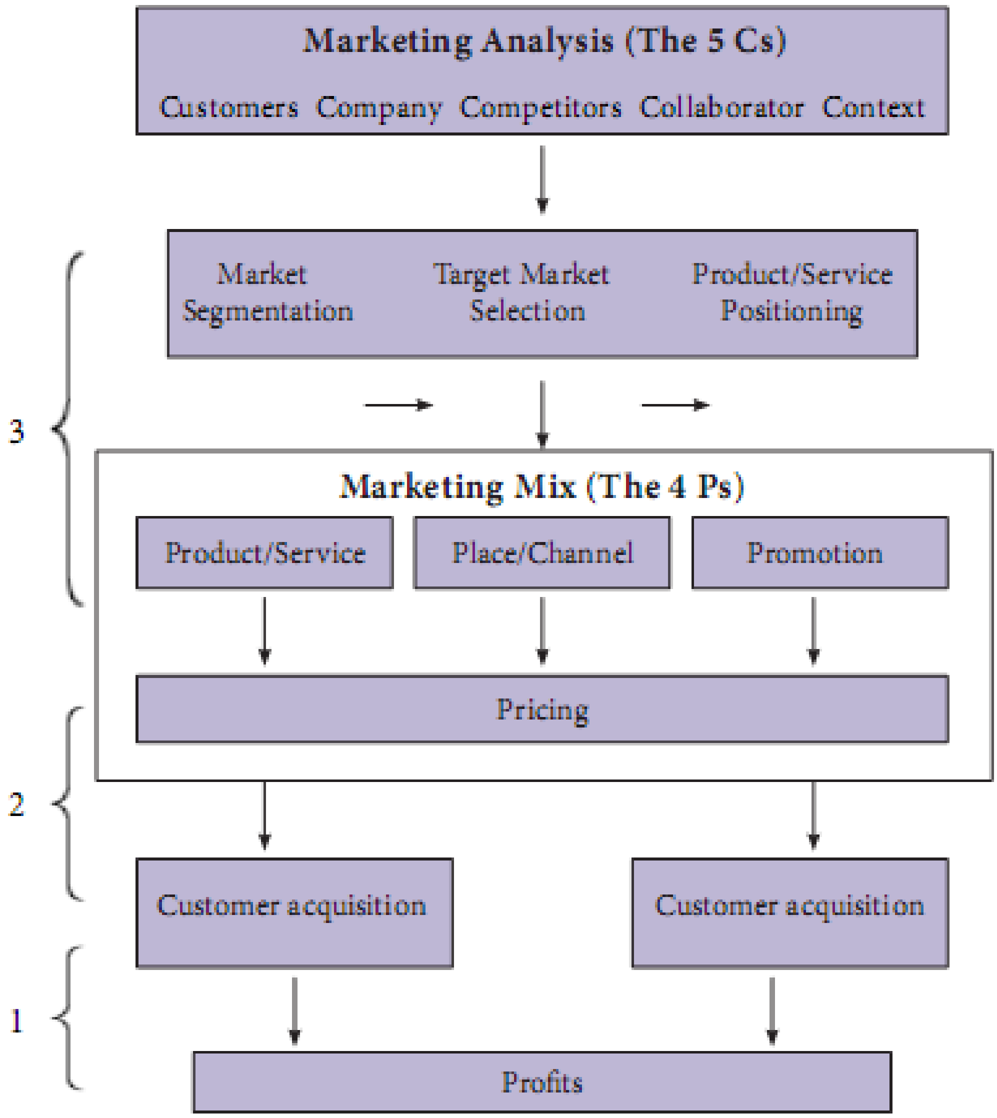
this schematic, value creation happens by identifying target segment, establishing a product/service positioning and developing the suitable product, place (distribution) and promotion for the chosen market segment. The pricing decision helps to capture value – for the company and for the customer. Value is sustained by acquiring and retaining the customers at a profit for the firm.

Figure 1.3.2 Schematic of marketing process



Note: 1 – Creating value; 2 – Capturing value; 3 – Sustaining value

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Lesson 1.4 - Marketing Environment

Objectives

In this lesson, we will introduce you to the forces that define marketing's external environment. After you work out this lesson, you should be able to:

- Identify, analyze and monitor external forces and assess their potential impacts on the firm's goods and services
- Understand how marketers formulate their strategy within the frame of reference provided by the forces in the external environment

Learning Objectives

In this lesson, we will discuss the following

- Competitive environment
- Political-legal environment
- Economic environment
- Technological environment
- Social-cultural environment

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Introduction

Industry competition, legal constraints, the impact of technology on product design and social concerns are some of the many important conditions that shape the business environment. This lesson examines the forces that define marketing's external environment. Every organization needs to think seriously about the environments in which it operates. All

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firms must identify, analyze and monitor external forces and assess their potential impacts on the firm's goods and services. Although external forces frequently operate outside the marketing manager's control, decision makers still must consider those 'uncontrollable' influences together with the variables of the marketing mix in developing the firm's marketing plan and strategies.

Environmental Scanning and Environmental Management

Marketers must carefully and continually monitor crucial trends and developments in the business environment. Environmental scanning is the process of collecting information about the external marketing environment to identify and interpret potential trends. This activity then seeks to analyze the collected information and determine whether identified trends represent opportunities or threats to the company. This judgment, in turn, allows a firm to determine the best response to a particular environmental change.

Environmental scanning is a vital component of effective environmental management. Environmental management is the effort to attain organizational objectives by predicting and influencing the firm's competitive, political-legal, economic, technological and social-cultural environments. The development of a global marketplace has complicated environmental scanning and environmental management. These processes may now need to track political developments, economic trends and cultural influences anywhere in the world.

While the marketing environment may exceed the confines of the firm and its marketing mix components, effective marketers continually seek to predict its impact on marketing decisions and to modify its conditions whenever possible.

The Competitive Environment

The interactive exchange in the marketplace as organizations vie with one another to satisfy customers creates the competitive environment. Marketing decisions by each individual firm influence consumer responses in the marketplace. They also affect the marketing strategies of competitors. As a consequence, decision makers must

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continually monitor competitors' marketing activities – their products, channels, prices and promotions.

Structurally, competition can be viewed in the following way.

(i) Monopoly

Few organizations enjoy monopoly positions in the marketplace. In India, Indian Railways is a monopoly firm. Utilities such as electricity, water and cooking gas accept considerable regulation from local authorities. Other firms, such as manufacturers of pharmaceutical products, sometimes achieve temporary monopolies as a result of patents.

(ii) Oligopoly

When competitors are few and each one exercises some influence on market dynamics, it is called oligopoly. Firms in telecom, cement, and steel are examples. Prices and production levels are fixed by formation of cartels or pools.

(iii) Monopolistic competition

When competitors are many and each one has a unique product to offer same needs the competition is termed as monopolistic competition. It is called non-price competition and features competition. Products like toothpastes, shampoos, fairness creams, have number of brands rolled out by companies like HUL, P&G, Dabur, Godrej, CavinKare. They compete within a price range offering a different feature.

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Yet another way of looking at competition is by considering the three types of competition.

Generic competition

Every product is in competition with every other product. The income of a consumer is divided into savings, consumption and investment.

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Therefore, TV is in competition with products of savings like insurance or savings bonds, investment options like shares of companies, interest payments for housing loan, or consumption products like refrigerator, micro oven, Steel cupboard, scooter and holiday trip.

Form competition

The second type of competition involves products that users can substitute for one another. *In the transportation industry, the no-frills, low-cost airliners compete with train and luxury bus services.*

A change such as a price increase or an improvement in a product's capabilities can directly affect demand for substitute products.

Brand competition Direct competition occurs among marketers of similar products, as when an insurance firm competes with other insurance firms. *LIC competes with Postal department , Reliance, Birla and others.*

Traditional economic analysis views competition as a battle among companies in a single industry or among firms that product substitute goods and services. Marketers must, however, accept the argument that all firms compete for a limited pool of discretionary buying power.

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Because the competitive environment often determines the success or failure of a product, marketers must continually assess competitors' marketing strategies. A firm must carefully monitor new product offerings with technological advances, price reductions, special promotions or other competitive variations, and the firm's marketing mix may require adjustments to counter these changes.

Every firm's marketers must develop an effective strategy for dealing with its competitive environment. One company may compete in a broad range of markets in many areas of the world. Another may specialize in particular market segments, such as those determined by customers' geographic, age or income characteristics. Determining a competitive strategy involves answering three questions:

(1) **Should we compete?**

The answer to this questions depends on the firm's resources, objectives and expectations for the market's profit potential. A firm may decide not to pursue or continue operating a potentially successful venture that does not mesh with its resources, objectives or profit expectations.

(2) **If so, in what markets should we compete?**

The answer requires marketers to acknowledge their limited resources (sales personnel, advertising budgets, product development capabilities and so on). They must accept responsibility for allocating these resources to the areas of greatest opportunity.

(3) **How should we compete?**

This requires marketers to make product, pricing, distribution and promotional decisions that give their firm a competitive advantage in the marketplace. Firms can compete on a wide variety of claims, including product quality, price and customer service. For example, a retailer may gain competitive advantage by providing superior customer service, while another retailer competes by providing low prices.

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With increased international competition and rapid changes in technology, many firms are using time as a strategic competitive weapon. A time-based competition strategy seeks to develop and distribute goods and services more quickly than competitors. The flexibility and responsiveness of a time-based strategy enables the firm to improve product quality, reduce costs, respond to competition and expand the variety of its products to cover new market segments and enhance customer satisfaction.

The Political-Legal Environment

No one should start playing a new game without first understanding the rules, yet some businesses exhibit remarkably limited knowledge about marketing's political-legal environment – the laws and their interpretations that require firms to operate under certain competitive conditions and to protect consumer rights. Ignorance of laws, ordinances and regulations or failure to comply with them can result in fines, embarrassing negative publicity and possibly expensive civil damage suits.

Businesses need considerable diligence to understand the legal framework for their marketing decisions. Numerous laws and regulations affect those decisions, many of them vaguely stated and inconsistently enforced by a multitude of different authorities. Regulations affect marketing practices, as do the actions of independent regulatory agencies. These requirement and prohibitions touch on all aspects of marketing decision making – designing, labeling, packaging, distributing, advertising and promoting goods and services. To cope with the vast, complex and changing political-legal environment, many large firms have in-house legal department; small firms often seek professional advice from legal experts. All marketers, however, should be aware of the major regulations that affect their activities. Consumer Protection Act(COPRA), Sale of Goods Act, Contract Act, Copy Right Act, and others are to be kept in mind while taking decisions.

Some of potential issues from the political-legal environment to affect businesses include:

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- ➢ The national foreign policy can dominate the international business decisions of the local firms. EXIM policy and FOREX policy restrict the flow of goods and monies from India or into India.
- ➢ The political ideology of the Government can affect the international brands wanting to enter a market. When Janata Party was in power during 1960s, ‚Coco cola was asked to leave our country. After liberalization policy in 1990s, it reentered India. Today MNCs have free entry into our country.
- ➢ The competitors who work closely with the government can help erect trade barriers for a firm. Reliance could lobby against TATAs when Rajiv Gandhi was Prime Minister.
- ➢ Global trade organizations can enforce trade barriers when their regulations and guidelines are not observed. WTO is now deciding the rules of game for trade world over.

- A host nation may levy anti-dumping duties on a foreign firm and such a decision may be dominated by the local businesses lobbying with the government. When

- Copyright infringements, trademark and intellectual property rights violations. Intellectual Property rights of basmati was contested by India when USA made claim for it.

- Direct comparative advertisements may not be allowed in few countries

- Use of children is advertising and advertising to children are banned in certain countries.

- Price regulations preempt any pricing strategy of a firm. Steel industry is India is subject to price regulation.

- A detailed displaying of the ingredients in product labels is mandatory in most countries. In India, Packaging Acts specify such conditions. The Infant Milk Substitutes, Feeding Bottles and Infant Foods (Regulation of production, Supply and Distribution) Act, 1992, The Edible Oils Packaging (Regulation) Order, 1998 etc govern the packaging decisions.

- Industry watch dogs and consumer groups are always on the prowl for any unethical trade practices. In India consumer associations like Mumbai Grahak Panchayat,Consumer Guidance Society of India, Common Cause and Voluntary Organisation in Interest of Consumer Education are active. Also environmentalists and animal lovers from time to time protest exploitation of nature and animals.

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Each one of the above issues has serious implications for the marketer in his marketing decision making. Ignorance of the law is no excuse and breaking of the law is an offence.

The Economic Environment

Marketing's economic environment consists of forces that influence consumer buying power and marketing strategies. They include the stage of the business cycle, inflation, unemployment, resource availability and income.

(i)Stage of business cycle:

Historically, a nation's economy tends to follow a cyclical pattern consisting of four stages: prosperity, recession, depression and recovery. Consumer buying differs in each stage of the business cycle and marketers must adjust their strategies accordingly.

- In times of prosperity, consumer spending maintains a brisk pace. *Marketers respond by expanding product lines, increasing promotional efforts and expanding distribution in order to raise market share and raising prices to widen their profit margins.*

- During recessions, consumers frequently shift their buying patterns to emphasize basic, functional products that carry low price tags. *During such times, marketers should consider lowering prices, eliminating marginal products, improving customer service, and increasing promotional outlays to stimulate demand. Consumer spending sinks to its lowest during a depression.*

- In the recovery stage of the business cycle, the economy emerges from recession and consumer purchasing power increases. While consumers' ability to buy increases, caution often restrains their willingness to buy. They may prefer to save than to spend or buy on credit. *In this stage marketers can attract consumers by offering incentives like price –off, buy one and get another free, and so on.*

Business cycles, like other aspects of the economy, are complex phenomena that seem to defy the control of marketers. Success depends on flexible plans that can be adjusted to satisfy consumer demands during the various business cycle stages.

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(ii) Inflation

Inflation devalues money by reducing the products it can buy through persistent price increases. It would restrict purchases less severely if income were to keep pace with rising prices, but often it does not. Inflation increases marketers' costs such as expenditures for wages and raw materials and the resultant higher prices may therefore negatively affect sales. Inflation makes consumers conscious of prices, especially during periods of high inflation.

This influence can lead to three possible outcomes, all of them are important to marketers.

(1) Consumers can elect to buy now, in the belief that prices will rise later. Attractive offers by marketers will tempt them to buy. *Marketers should design offers to like discounts, extra good or price vouchers for future purchase and so on.*

(2) They can decide to alter their purchasing patterns- This results in switching from high price product to low price substitutes. *This can be stopped by offering he product in small packages, gift schemes for buying a certain number of times, bonus or bumper prizes schemes etc.*

(3) They can postpone certain purchases. *Marketers can counter this by offering buy now and get one pack free, extra large packs at same price, gift vouchers to buy related products, combi packs (two products offered together) and so on.*

(iii) Unemployment Unemployment is defined as the proportion of people in the economy who do not have jobs and are actively looking for work. It rises during recessions and declines in the recovery and prosperity stages of the business cycle. Like inflation, unemployment affects marketing by modifying consumer behavior. Instead of buying, consumers may choose to build their savings. *Marketers can attract the low income consumers by offering low priced products, small packs of high priced ones, discounts and installment schemes.*

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(iv) Income Income is another important determinant of marketing's economic environment, because it influences consumer buying power. By studying income statistics and trends, marketers can estimate market potential and develop plans for targeting specific market segments. For marketers, a rise in income represents a potential for increasing overall sales. But they are most interested in the disposable income, which is the amount of money that people have to spend after they have paid for necessities. Consumers' disposable income varies greatly by demographic variables such as age group and educational levels. *High income groups look for high price- high quality products (Surf excel, Lux, Colgate Tartar) where as low income groups prefer (Nirma, Lifebuoy, Dabur dantamanjan). Accordingly marketers have to develop and offer products. For people with less disposable income 'buy now pay later' or 'instlament schemes', 'save and buy schemes' etc.*

(v) Resources availability Resources are not unlimited. Brisk demand may bring in orders that exceed manufacturing capacity or outpace the response time required to gear up a production line. A shortage may also reflect a lack of raw materials, component parts, energy or labour. Regardless of the cause, shortages require marketers to reorient their thinking. *One reaction is demarketing, the process of reducing consumer demand for a product to a level that the firm can reasonably supply. Demarketing is found in case of petroleum products in India.*

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The Technological Environment

Technology is revolutionizing the marketing environment.

(i) **New products/ new processes**

The technological environment represents the application to marketing of discoveries in science, inventions and innovations. New technology results in new goods and services for consumers; it also improves existing products, strengthens customer service and often reduces prices through new, cost-efficient production and distribution methods. To gain competitive advantage marketers have to be innovative, focusing on new product development. Companies like Nokia, Microsoft, Wipro, HUL, are seen introducing new models with new features and new designs.

(ii) **Threat of obsolescence**

Technology can quickly make products obsolete. Marketers consider planned obsolescence as a strategy to outdate their own products by launching new models on a regular basis. Maruti models include Maruti Suzuki Grand vitara, launched in 2003, Maruti Versa, launched in 2004, Maruti Suzuki Swift, launched in 2005, Maruti Zen Estilo and Maruti Suzuki SX4, launched in 2007.

(iii) **New industries**

Technological innovations not just create new products but also whole new industries. Recently, the Internet has been transforming the way companies collaborate with different stakeholders to create more value for the customers. E-commerce and online marketing have revolutionized the style of marketing. Software companies and their packages for CRM and SCM are changing the way firms operate today.

(iv) **Green products**

Technology can sometimes address social and environmental concerns by offering a cheap, non-polluting, energy-conserving, safe product and also create parity among consumers by providing equal access and opportunity. Companies are reducing the production of plastic materials and switching to paper products which are biodegradable. Paper making companies are encouraging social forestry to save forests. Organic waste is converted into biogas to be used as fuel.

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Marketers must closely monitor the technological environment for a number of reasons. Creative applications of new technologies give a firm a definite competitive advantage. Marketers who monitor new technology and successfully apply it may also enhance customer service.

The Social-Cultural Environment

The social-cultural environment of marketing describes the relationship between marketing and society and its culture. Marketers must cultivate sensitivity to society's changing values and to demographic shifts such as population growth and age distribution changes. These changing variables affect consumers' reactions to different products and

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marketing practices. The social-cultural context often exerts a more pronounced influence on marketing decision making in the international arena than in the domestic arena. Learning about cultural and social differences among countries proves a paramount condition for a firm's success abroad. Marketing strategies that work in one country often fail when directly applied in other countries. In many cases, marketers must redesign packages and modify products and advertising messages to suit the tastes and preferences of different cultures.

It is estimated that over a billion Barbie dolls have been sold worldwide in over 150 countries, with Mattel claiming that three Barbie dolls are sold every second. Barbie dolls are made to fit into different cultures. Barbie wears saree and bridal costume of India to attract Indian girls. Fulla is marketed as an alternative to Barbie in Middle Eastern countries. Black Barbie and Hispanic Barbie were launched in 1980.

Changing social values have led to the consumerism movement which is a social force within the environment designed to aid and protect buyers by exerting legal, moral and economic pressures on business. Consumerism also advocates the rights of the consumers such as:

1. The right to choose freely – consumers should be able to choose among a range of goods and services
2. The right to be informed – consumers should have access to enough education and product information to make responsible buying decisions
3. The right to be heard – consumers should be able to express legitimate complaints to appropriate parties – be it manufacturers, sellers, consumer assistance groups and consumer courts.
4. The right to be safe – consumers should feel assured that the goods and services they purchase will not cause injuries in normal use. Product designs should allow average consumers to use them safely.

The social-cultural environment for marketing decisions at home and abroad is expanding in scope and importance. Today no marketer can initiate a strategic decision without taking into account the society's

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norms, values, culture and demographics. Marketers must understand how these variables affect their decisions. The constant influx of social input requires that marketing managers focus on addressing these questions instead of concerning themselves only with the standard marketing tools.

Activity 1.4.1

Choose an industry. Search from recent business news to look for examples of influences of competitors, economy, politics, law, technology, society and culture on marketing decision making.

Competitive Environment

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Economic Environment

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Political-Legal Environment

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Technological Environment

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Social-Cultural Environment

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Lesson 1.5 - Buyer Behaviour

Objectives

In this lesson, we will introduce you to the process through which the ultimate buyer makes purchase decisions. After you work out this lesson, you should be able to:

- Identify what stimulates a consumer to consider buying
- Describe the buyer's decision making process and the several factors which influence this decision
- Understand the response of the buyer to the marketing and other stimuli

Learning Objectives

In this lesson, we will discuss the following:

- What is buyer behaviour?
- Models of consumer/buyer behaviour
- Determinants of consumer behaviour
- The consumer decision process
- Marketing implications of consumer behaviour

Introduction

Why do people buy one product and not another? Answering this question is the basic task of every marketer. The answer directly affects every aspect of marketing strategy, from product development to pricing and promotion. Discovering that answer requires an understanding of buyer behaviour, the process by which consumers and business-to-

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business buyers make purchase decisions. Buyer behaviour is a broad term that covers both individual consumers who buy goods and services for their own use and organizational buyers who purchase business products. A variety of influences affect both individuals buying products for themselves and professional buyers purchasing products for their firms. This lesson focuses predominantly on individual consumer behaviour.

What is Buyer Behaviour?

Consumer behaviour is the process through which the ultimate buyer makes purchase decisions. Here is a sample of popular definitions for consumer behaviour

> '… the study of the buying units and the exchange processes involved in acquiring, consuming, and disposing of goods, services, experiences, and ideas' (Mowen)

> '… the decision process and physical activity individuals engage in when evaluating, acquiring, using or disposing of goods and services' (Loudon and Della Bitta)

> '… reflects the totality of consumers' decisions with respect to the acquisition, usage and disposition of goods, services, time and ideas by (human) decision making units (over time)' (Jacob Jacoby)

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The definition by Jacoby can be further illustrated.

- The totality of consumers' decisions include whether to buy or not, what to buy, why to buy, how to buy, when to buy, where to buy and also how much/ how often/ how long. The idea of consumption not only includes purchasing and using, but also disposing. The marketer's offering can mean many things – be it product, service, time, ideas, people and so on.

- The term decision making units obviously refer to people involved. In a typical purchase, many people may be involved and they play different roles such as information gatherer, influencer, decider, purchaser and user. In a consumer buying context, it may mean a family or group influence where as in the industrial buying context, it means a cross-functional team with each member of the team performing a particular role in the buying decision.

- The word 'time' could mean different units of time like hours, days, weeks, months and years.

Models of Consumer/Buyer Behaviour

Consumer behaviour is a dynamic, multi-disciplinary process. The study of consumer behaviour builds upon an understanding of human behaviour in general. In an effort to understand why and how consumers make buying decisions, marketers borrow extensively from the sciences of psychology and sociology.

The work of psychologist Kurt Lewin provides a useful classification scheme for influences on buying behaviour. Lewin's proposition is B = f(P,E) which means that behaviour (B) is a function (f) of the interactions of personal influences (P) and pressures exerted by outside environmental forces (E).

This statement is rewritten to apply to consumer behaviour as B = f(I,P) (i.e.) consumer behaviour (B) is a function (f) of the interactions of interpersonal influences (I) such as culture, role models, friends and family – and personal factors (P) such as attitudes, learning and perception. Therefore inputs from others and an individual's psychological makeup both affect a consumer's purchasing behaviour. This model is further explained in the following sections of this lesson.

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There are many other models of consumer behaviour. The most generic model of consumer behaviour suggests a stimulus-response pattern of understanding the consumer's behaviour (Figure 1.5.1). The stimulus can be marketing stimuli (which can be manipulated by the marketer) and other external stimuli (like the economy, culture, technology and so on). The response includes the decision to buy, product choice, dealer choice and choices regarding time, quantity, etc.

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The consumer is at the center of this model. The stimulus is applied to this consumer who in turn comes up with a response. The consumer has his/her own characteristics and a multi-staged decision-making process. There are also several influencing factors acting upon the consumer. The influencing factors may include personal and interpersonal influences.

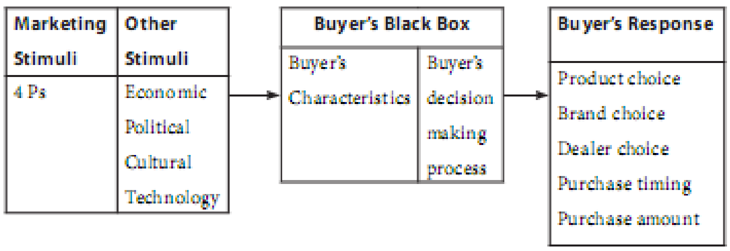

Figure 1.5.1 A generic model of consumer behaviour

Determinants of Consumer Behaviour

Consumers don't make purchase decisions in a vacuum; rather, they respond to a number of external, interpersonal influences and internal, personal factors.

Consumer often decide to buy goods and services based on what they believe others expect of them. They may want to project positive images to peers or satisfy the unspoken desires of family members. Marketers recognize three broad categories of interpersonal influences on consumer behaviour:

1. Cultural influences,
2. Group influences and
3. Family influences.

Cultural influences

Culture can be defined as the values, beliefs, preferences and tastes handed down from one generation to the next. Culture is the broadest environmental determinant of consumer behaviour. Therefore, marketers need to understand its role in customer decision making. They must also monitor trends to spot changes in cultural values. Marketing strategies

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and business practices that work in one country may be offensive or ineffective elsewhere because of cultural variations. Hence cultural differences are particularly important and complex to understand for international marketers. Cultures are not homogeneous entities with universal values. Each culture includes numerous subcultures – groups with their own distinct modes of behaviour.

Group (Social) influences

Every consumer belongs to a number of social groups. Group membership influences an individual's purchase decisions and behaviour in both overt and subtle ways. The influences may be informational and/ or normative. Every group establishes certain norms of behaviour. Group members are expected to comply with these norms. Difference in group status and roles can also affect buying behaviour.

The surprising impact of groups and group norms on individual behaviour has been called the Asch phenomenon because it was first documented by psychologist S.E.Asch. Discussions of the Asch phenomenon raises the subject of reference groups – groups whose value structures and standards influence a person's behaviour. Consumers usually try to coordinate their purchase behaviour with their perceptions of the values of their reference groups. Children are especially vulnerable to the influence of reference groups.

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They often base their buying decisions on outside forces – what is popular with their friends, what is fashionable and trendy, what is popular, what are their heroes and role models (usually, celebrities) using. In nearly every reference group, a few members act as opinion leaders. They are the trendsetters who are likely to purchase new products before others in the group and they share their experiences and opinions via word of mouth. Other members' purchase decisions are affected by the reports of the opinion leaders. Closely related to reference groups is the concept of social class.

A social class is an identifiable group of individuals who tend to share similar values and behavior patterns different from those of other classes. These values and behaviour patterns affect the purchase decisions.

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Family influences

The family group is perhaps the most important determinant of consumer behaviour because of the close, continuing interactions among family members. Like other groups, each family typically has norms of expected behaviour and different roles and status relationships for its members. The traditional family structure consists of a husband and wife. Although these and other members can play a variety of roles in household decision making, marketers have created four categories to describe the role of each spouse: (1) Autonomic, in which the partners independently make equal numbers of decisions (e.g. personal-care items) (2) Husband-dominant, in which the husband makes most of the decisions (e.g. insurance) (3) Wife-dominant, in which the wife makes most of the decisions (e.g. children's clothing) and (4) Syncratic in which both partners jointly make most decisions (e.g. vacation).

Consumer behaviour is affected by many internal, personal factors, as well as interpersonal ones. The factors are:

- Unique needs,
- Motives,
- Perceptions,
- Attitudes,
- Learning and
- Self-concept.

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Needs and motives

Individual purchase behaviour is driven by the motivation to fill a need. A need is an imbalance between the consumer's actual and desired states. Someone who recognizes or feels a significant or urgent need then seeks to correct the imbalance. Marketers attempt to arouse this sense of urgency by making a need 'felt' and then influence consumers' motivation to satisfy their needs by purchasing specific products. Motives are inner states that direct a person toward the goal of satisfying a felt need. The individual takes action to reduce the state of tension and return to a condition of equilibrium.

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A company executive may buy Maruti car to fulfill the need of convenient personal transport, where as a millionaire may buy it to gift it to his young daughter. A career woman may buy a micro oven to save cooking time, whereas a housewife may buy it to enhance her status.

Perceptions

Perception is the meaning that a person attributes to incoming stimuli gathered through the five senses – sight, hearing, touch, taste and smell. Certainly a buyer's behaviour is influenced by his or her perceptions of a good or service.

Mobile phone is viewed as a necessary communication device by traditional persons whereas the modern youth see it as a multipurpose gadget for communication, photography, music, news , TV and status.

Attitudes

Perception of incoming stimuli is greatly affected by attitudes. In fact, the decision to purchase a product is strongly based on currently held attitudes about the product brand, store or salesperson. Attitudes are a person's enduring favourable or unfavourable evaluations, emotional feelings or action tendencies toward some object. Because favourable attitudes likely affect brand preferences, marketers are interested in determining consumer attitudes toward their products.

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People with happy go lucky attitudes would buy cars, cell phones, coco-cola, club membership, and credit cards . With outsourcing opportunities on the rise, English is now favoured as an important language for communication in India. As a result, the Institutes offering such courses are now benefited.

Learning

In a marketing context, refers to immediate or expected changes in consumer behaviour as a result of experience (that of self or others'). Consumer learning is the process by which individuals acquire the purchase and consumption knowledge and experience that they apply to future related behaviour. Marketers are interested in understanding how consumers learn so that they can influence consumers' learning and subsequently, their buying behaviour.

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Computers were threatening to many. With increased application of computers it has become a household product. People are learning to quote specifications while buying and use important software.

Self-concept: The consumer's self-concept – a person's multifaceted picture of himself or herself – plays an important role in consumer behaviour. The concept of self emerges from an interaction of many of the influences – both personal and interpersonal – that affect buying behaviour.
The macho image of motor cycles match the self concept of many young .Hence they buy motor cycles and not the family image holding scooters. Surf excel has the personality of upper middle income housewife, who likes clean, fragrant clothe. Woman buys surf excel when she identifies herself with such image.

The Consumer Decision Process

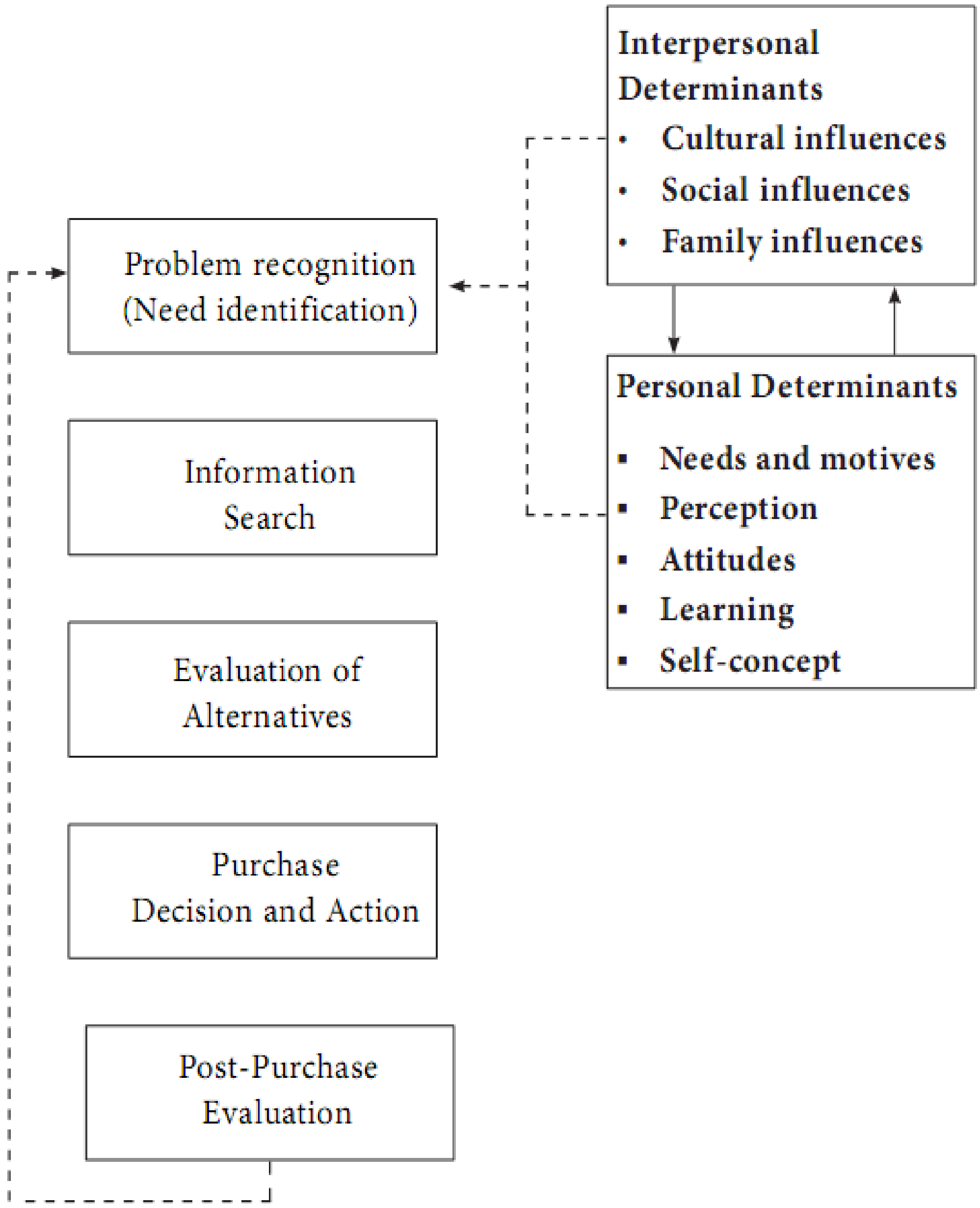

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Figure 1.5.2 An integrated model of the consumer decision process

Consumers complete a step-by-step process to make purchasing decisions. The length of time and the amount of effort they devote to a particular purchasing decision depends on the importance of the desired good or service to the consumer.

Purchases with high levels of potential social or economic consequences are said to be high-involvement purchase decisions. Routine purchases that pose little risk to the consumer are low-involvement decisions. Consumer generally invest more time and effort to purchase decisions for high-involvement products than to those for low-involvement products.

For example, a car buyer will probably compare prices, spend time visiting dealer showrooms, read auto reviews and ask for advice from friends before making the final decision.

Few buyers invest that much effort in choosing between two brands of candies. They will still go through the steps of the consumer decision process but on a more compressed scale. Purchase decisions can be thought-based (cognitive) or feeling-based (emotive). While it is true that both cognition and emotion will be present in every purchase decision, either one of them will dominate the decision. As a result, we can construct a grid as follows to analyze different consumer purchase decisions.

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Figure 1.5.3 Classification of consumer purchase decisions

Thought-based	Feeling-based
Example: Investment decisions	Example: Jewellery
Example: Home maintenance products	Example: Snacks

Figure 1.5.2 shows the five steps in the consumer decision process.

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1.Problem recognition

During the first stage in the consumer decision making process, the consumer becomes aware of the discrepancy between the actual state ('where we are now' and the ideal state ('where we want to be'). Problem recognition motivates the individual to achieve the desired state of affairs. A marketer can stimulate problem recognition either by creating a new ideal state or by creating dissatisfaction with the actual state.

2. Information search

In the second stage, the consumer gathers information related to his/her attainment of a desired state of affairs. This search identifies alternative means of problem solution. High-involvement purchases may elicit extensive information searches, while low-involvement purchases require little search activity. The search may cover internal or external sources of information. During internal search, stored information, feelings and experiences relevant to the problem-solving situation are recalled from the consumer's memory. An external search gathers information from outside sources, which may include family members, associates, store displays, sales representatives, advertisements and product reviews. The external search may be a general on-going search or a specific pre-purchase search. The search identifies alternative brands for consideration and possible purchase. The number of brands that a consumer actually considers in making a purchase decision is known as the evoked set. Marketers try to influence consumer decisions during the search process by providing persuasive information about their goods or services in a format useful to consumers.

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3. Evaluation of alternatives

The third step in the consumer decision making process is to evaluate the evoked set of options identified during the search step. The outcome of the evaluation stage is the choice of a brand or product in the evoked set or possibly a decision to renew the search for additional alternatives, should all those identified during the initial search prove unsatisfactory. To complete this analysis, the consumers develop a set of evaluative criteria to guide the selection. These criteria can either be objective facts or subjective impressions. Marketers can attempt to

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influence the outcome from this stage in many ways. First, they can try to educate consumers about attributes that they view as important in evaluating a particular class of goods. They can also identify which evaluative criteria are important to an individual and attempt to show why a specific brand fulfills those criteria. They can try to induce a customer to expand his/her evoked set to include the product they are marketing.

4. Purchase Decision and Action

The search and alternative evaluation stages of the decision process result in the eventual purchase decision and the act of making the purchase. At this stage, the consumer has evaluated each alternative in the evoked set based on his/her personal set of evaluative criteria and narrowed the alternatives down to one. Marketers can smooth the purchase decision and action by helping consumers through financing, delivery, installation and so on.

5. Post-Purchase Evaluation

The purchase act produces one of two results.

Satisfaction

The buyer feels either satisfaction at the removal of the discrepancy between the actual and the ideal states or dissatisfaction with the purchase. Consumers are generally satisfied if purchases meet their expectations.

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Dissatisfaction

Sometimes, however, consumers experience some post purchase anxieties, called cognitive dissonance. It is a perception that one has not made the right decision. The consumer attempts to reduce this dissonance by searching for additional information that confirms his/her choice. The marketer can help by providing reassuring information to the buyer and also by positive marketing communications.

Consumer behavior and implications to marketer

Here are some specific real-life examples

Needs and wants

Itchguard represents a classic case of the creation of a new product category. The consumer need was always there until this brand arrived and addressed this need exquisitely and exclusively.

Competition

While designing the competitive marketing strategy, one question that bothers marketers is 'Who am I competing with?'

For instance, is Xerox competing with other photocopier makers or computer printer makers or printers? With a positioning as 'the Document company' it protects itself from marketing myopia and positions itself to take on competition even from the substitute products. If Style-Spa, the high-end home furniture retailer considers itself as a home expressions company, it invites competition from antique furniture shops. Similarly, Archies, a social expressions company selling cards and gifts, in reality competes with florists! These insights emerge from an understanding of the consumer needs and motives which is central to consumer behaviour. Perception Marketers are concerned about how consumers perceive their products.

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For example, brands like Strepsil (with all its colours and flavours), Crocin (with interesting mass media campaigns) can possible confuse the consumers – are they pharmaceutical products? self-help relievers? Are they specialty or common-place products. Consumer perception determines the evoked set for the problem. No brand wants to be categorized with wrong competition in the evoked set! In many markets, orange juice enjoys different perceptions – as a breakfast drink, as a refresher drink, as a health drink and as a health recovery drink. Same product but different consumer perceptions! This understanding is vital for a brand like Tropicana which sells orange juice in different markets. Also the use of celebrity endorsements (as reference groups, opinion leaders) is attributed to its role in consumer behaviour.

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The use of cricketers like Sachin Tendulkar and Bollywood stars like Aishwarya Rai in advertisements attempts to shape and influence consumer behaviour in favour of the brands they endorse. Another classic example is the 'Got milk?' campaign featuring several celebrities in support of milk as a healthy drink and endorsing its consumption.

Check out for more about this campaign at www.whymilk.com. In Eastern cultures, group values are stressed over the individual's. So the appeal to normative beliefs takes on greater significance while designing marketing communications in the Eastern cultures.

- Positioning Remember the classic ad campaign for CoffeeBite. It talks about the positioning identities - What am I and Who am I. The Axe Deo campaigns strongly bring out the positioning identity of 'For whom am I?'. Also the positioning of different supermarkets like FoodWorld, Nilgris, ApnaBazar and Subiksha answer the question 'For whom am I?'

- Learning A study of consumer learning reveals how consumers generalize related marketing stimuli. Based on this, there are several marketing applications – product-line extension (Pepsi Lemon), product-form extension (Pepsi can), product-category extension (Aquafina), Family branding (Nestle's Maggi, HP Pavillion), Licensing (Tommy, CK, Disney – in several product categories to several merchandisers), usage situation generalization (an all-hair shampoo).

Consumer Behaviour and strategy development

The study of consumer behaviour is a very exciting field of marketing. Marketing begins and ends with consumers. As a result, the study of consumer behaviour forms the basis for marketing decisions and actions– be it in marketing strategy (as defined by market segmentation, targeting and positioning) formulation or in designing the marketing mix (defined by the 4 Ps of marketing, viz., product, price, place and promotion). The following is a list of questions related to marketing strategy and marketing mix. The answers obviously arise from insights and findings from the study of consumer behaviour.

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Table 1.5.1 Developing a Customer-Oriented Strategy

Market segmentation	How Is the Market Segmented? How Profitable Is Each Segment? What Are the Characteristics of Consumers in Each Segment? Are Customers Satisfied with Existing Offerings?
Selecting the target market	What are the demographics and psychographics of target market? What is the demand potential of this chosen market?
Positioning	How Are Competitive Offerings Positioned? How Should Our Offerings Be Positioned? Should Our Offerings Be Repositioned?
Developing Products or Services	What Ideas Do Consumers Have for New Products? What Attributes Can Be Added to or Changed in an Existing Offering? What Should Our Offering Be Called? What Should Our Package and Logo Look Like? What About Guarantees?

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Making Promotion (Marketing Communications) Decisions	What Are Our Advertising Objectives? What Should Our Advertising Look Like? Where Should Advertising Be Placed? When Should We Advertise? Has Our Advertising Been Effective What About Sales Promotion Objectives and Tactics? When Should Sales Promotions Happen? Have Our Sales Promotions Been Effective? How Many Salespeople Are Needed to Serve Customers? How Can Salespeople Best Serve Customers?
Making Pricing Decisions	What Price Should Be Charged? How Sensitive Are Consumers to Price and Prices Changes? When Should Certain Price Tactics Be Used?
Making Distribution Decisions	Where Are Target Consumers Likely to Shop? How Should Stores Be Designed?

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Lesson 1.6 - Market Segmentation, Targeting and Positioning

Objectives

In this lesson, we will introduce you to the activities, viz., segmentation, targeting and positioning, that are collectively referred to as marketing strategy. After you work out this lesson, you should be able to:

- Segment the markets based on several segmentation variables
- Target a segment by identifying the fit between segment profitability and organizational capability
- Position your product/service so that it occupies a distinct and valued place in the target customers' minds

Learning Objectives

In this lesson, we will discuss the following

- The logic of segmentation
- Segmentation analysis
- Segmentation variables for consumer markets and industrial markets
- Targeting approaches
- Positioning identities
- Differentiation across the consumption chain

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Introduction

Development of a successful marketing strategy begins with an understanding of the market for the good or service. A market is composed of people or institutions with need, sufficient purchasing power and willingness to buy. The market place is heterogeneous with differing wants and varying purchase power. The heterogeneous marketplace can be divided into many homogeneous customer segments along several segmentation variable. The division of the total market into smaller relatively homogeneous groups is called market segmentation. Products seldom succeed by appealing to everybody.

The reasons are simple: not every customer is profitable nor worth retaining, not every product appeals to every customer. Hence the organizations look for a fit between their competencies and the segments' profitability. The identified segments are then targeted with clear marketing communications. Such communications are referred to as positioning the product or service in the mind of the customer so as to occupy a unique place. This involves identifying different points of differentiation and formulating a unique selling proposition (USP). In today's marketplace, differentiation holds the key to marketing success. This lesson is about marketing strategy formulation which consists of market segmentation, targeting and positioning.

The logic of Segmentation

The concept of market segmentation has helped marketing decision making since the evolution of marketing. The goal of market segmentation is to partition the total market for a product or service into smaller groups of customer segments based on their characteristics, their potential as customers for the specific product or service in question and their differential reactions to marketing programs. Because segmentation seeks to isolate significant differences among groups of individuals in the market, it can aid marketing decision making in at least four ways:

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1. Segmentation helps the marketer by identifying groups of customers to whom he could more effectively 'target' marketing efforts for the product or service
2. Segmentation helps the marketer avoid 'trial-and-error' methods of strategy formulation by providing an understanding of these customers upon which he can tailor the strategy
3. In helping the marketer to address and satisfy customer needs more effectively, segmentation aids in the implementation of the

marketing concept

4. On-going customer analysis and market segmentation provides important data on which long-range planning (for market growth or product development) can be based.

Although it is a very useful technique, segmentation is not appropriate in every marketing situation. If, for instance, a marketer has evidence that all customers within a market have similar needs to be fulfilled by the product or service in question (i.e. an undifferentiated market), one 'mass' marketing strategy would probably be appropriate for the entire market. However, in today's market environment, it is unlikely that one would find either an entirely homogeneous market,

Activity 1.6.1

Consider the toothpaste market. Nearly everyone uses it. Yet, the toothpaste manufacturers have found that consumers have different ideas about what they would like the product to do. Prepare a list of what consumers want their toothpastes to do to them.

1.
2.
3.
4.
5.
6.
7.
8.

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Criteria for Segmentation

If segmentation has to be useful in marketing decision making, then it must possess the following characteristics:

1. Segments must be internally homogeneous --- consumers within the segment will be more similar to each other in characteristics and behaviour than they are to consumers in other segments.

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2. Segments must be identifiable --- individuals can be 'placed' within or outside each segment based on a measurable and meaningful factor
3. Segments must be accessible --- can be reached by advertising media as well as distribution channels. Only then, the segments can be acted upon.
4. Segments must have an effective demand --- the segment consists of a large group of consumers and they have the necessary disposable income and ability to purchase the good or service.

Segmentation Analysis

Here is a list of few general steps, referred to as segmentation analysis, that will be most often followed after the decision to employ market segmentation has been made. Examples of questions to be answered during each step are also given.

Step-1 Define the purpose and scope of the segmentation

- What are our Marketing Objectives?
- Are we looking for new segments or determining how to better satisfy existing ones?
- Will we use existing data or invest time and money in new research?
- What level of detail will be needed in the segmentation analysis?

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Step-2 Analyze total Market Data

- What is the character of the total market? (e.g. size)
- Are there basic differences between users and non-users of the product class?
- Are there any factors which clearly distinguish users from non-users or users of different brands?
- What is our competitive position in the market now?

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Step-3 Develop segment profiles

- What factor seems to differentiate groups of consumers most clearly?
- Are the profiles of each segment internally consistent?

Step-4 Evaluate segmentation

- What are the major similarities and differences among segments?
- Should the number of segments described be reduced or increased?
- How sensitive is this segmentation of the market to growth?

Step-5 Select target segment(s)

- Which segment(s) represent our best market opportunity?
- What further details do we know about the target segment's characteristics and market behaviour?
- If complete data on market behaviour for the target segment are not available, can we make reasonable assumptions?
- Are we alone in competing for this target segment?

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Step-6 Designing the marketing strategy for the target segment

- What type of product do these consumers want?
- What kinds of price, promotion or distribution tactics will best suit their needs?
- Would other segments react positively to a similar strategy? (if so, the segments should probably be merged)

Step-7 Reappraisal of segmentation

- Do we have the resources to carry out this strategy?
- If we wish to broaden or change our target definition in the future, how flexible is the strategy?

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- If we wish to change some element of the strategy in the future, how would that change probably influence the target segment?
- Does the target segment/strategic plan meet our objective? Does it fit our corporate strengths?

Segmenting the Consumer Markets

Consumer markets are those where the products are purchased by ultimate consumers for personal use. Industrial markets are those where the goods and services are purchased for use either directly or indirectly in the production of other goods and services for resale. Market segmentation of these markets use different variables.

The consumer market segmentation variables appear to fall into two broad classes: consumers' background characteristics and consumers' market history. The following tables illustrate the most important factors and variables that have been found useful for market segmentation.

Table 1.6.1 Segmentation using consumer background characteristics

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Segmentation variable	Some examples of variables Measured	Comments
Geography	▪ Region of product distribution ▪ Cultural differ-ences ▪ Mobility of con-sumers	Geographic segmentation is one of the oldest and most basic of market descriptors. In most cases, it alone is note sufficient for a meaningful consumer segmentation
Demographic	▪ Age ▪ Sex ▪ Income ▪ Educational level ▪ Social status	Also basic and included as a variable in most segmentation analyses. Demographic pro-files of segments are impor-tant especially when making later advertising media deci-sions

Psychographic	▪ Personality traits ▪ Perceptual styles ▪ Attitudes ▪ Reference groups ▪ Social roles	Psychographic variables are more useful because there is often no direct link between demographic and market behaviour variables. These consumer profiles are often tied more directly to purchase motivation and product usage
General life-style	▪ Correlation of demographic and psychographic variables ▪ Activities and interests	Provides a rich, multi-dimensional profile of consumers that integrates individual variables into clearer pattern that describes the consumer's routines and general 'way of life'

Table 1.6.2 Segmentation using consumers' market history

Segmentation variable	Some examples of variables measured	Comments
Product usage	▪ Frequency of brand/product use ▪ Brand loyalty ▪ Attitudes toward product	Segmenting the market into heavy, medium, light and non-users gives good understanding of present situation in market
Product benefit	▪ Expectations of product performance ▪ Needs product must fill ▪ Perceptions of brands ▪ Satisfaction (dissatisfaction measures)	Very useful if product can be positioned in a number of ways. Primary use of this variable segments the market into groups that look for different product benefits

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Decision-process	▪ Shopping patterns ▪ Media-use patterns ▪ Product information searches ▪ Sensitivities to price, to promotion and to place (channel)	Use of this variable segments the market into price/non-price sensitive, shoppers/impulse buyers and other segments which characterize the market behaviour of each group. Must be used in conjunction with analysis of consumer characteristics to allow identification of the individuals involved

Activity 1.6.2

Refer to the activity 1.6.1. From what you had noted down as the 'wants' of toothpaste consumers, match each of those wants with the segmentation variables listed below

1. Consumer background characteristics

    1.1 Geography -

    1.2 Demographic -

    1.3 Psychographic -

    1.4 General life-style -

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2. Consumers' market history

    2.1 Product usage -

    2.2 Product benefit -

    2.3 Decision-process -

Segmenting the Industrial Markets

Industrial marketing needs to consider two important sets of characteristics of the business buyers: (1) the characteristics of the buyer as a consuming organization and (2) the behavioural characteristics of the

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buyer. The first set includes such factors as the type of the organization, the size, the product requirements, the end use of the product, the organization capabilities and so on. The second set includes factors like the buying decision making process and considers the fact that it is in effect people and the organization, who take the decision.

These characteristics have led to a two-stage approach to industrial market segmentation starting with a macro segmentation and then going into a micro segmentation. Between the macro and micro bases of industrial market segmentation, there lie some useful bases of segmentation, as suggested by Shapiro and Bonoma in the Nested approach to segmenting the industrial markets.

These intermediate bases of segmentation, viz., demographics, operating variables, purchasing approaches, situational factors and personal characteristics, are explained in Table 1.6.3. The table lists major questions that business marketers should ask in determining which customers they want to serve. By targeting these segments instead of the whole market, companies have a much better chance to deliver value to customers and to receive maximum rewards for close attention to their needs.

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Table 1.6.3 Major Segmentation variables for Industrial Markets

Segmentation variable	**Examples of variables measured**	**Comments**
Demographics	▪ Industry ▪ Company size ▪ Location	Which industries that buy this product should we focus us? What size companies should we focus on? What geographical areas should we focus on?

Operating variables	▪ Technology ▪ User/non-user status ▪ Customer capabilities	What customer technologies should we focus on? Should we focus on heavy, medium or light users or non-users? Should we focus on customers needing many or few services?
Purchasing approaches	▪ Organization ▪ Power structure ▪ Nature of existing relationship ▪ General purchase policies ▪ Purchasing criteria	Should we focus on companies with centralized or decentralized purchasing? Should we focus on engineering or finance or marketing –dominated companies? Should we focus on companies with which we already have strong relationships or just go after the most desirable companies? Should we go after companies that prefer leasing? Service contracts? Systems purchases? Sealed bidding? Should we focus on companies that are seeking Quality? Service? Price?
Situational factors	▪ Urgency ▪ Specific application ▪ Size of order	Should we focus on companies that need quick delivery or service? Should we focus on certain applications of our product rather than all applications? Should we focus on small or large orders?

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Personal characteristics	▪ Buyer-seller similarity ▪ Attitudes toward risk ▪ Loyalty	Should we focus on companies whose people and value are similar to ours? Should we focus on risk-taking or risk-avoiding customers? Should we focus on companies that show high loyalty to their suppliers?

Targeting Approaches

Target market selection is the next logical step following segmentation. Once the market-segment opportunities have been identified, the organization got to decide how many and which ones to target. Lot of marketing effort is dedicated to developing strategies that will best match the firm's product offerings to the needs of particular target segments. The firm should look for a match between the value requirements of each segment and its distinctive capabilities. Marketers have identified four basic approaches to do this:

1. Undifferentiated Marketing

A firm may produce only one product or product line and offer it to all customers with a single marketing mix. Such a firm is said to practice undifferentiated marketing, also called mass marketing. It used to be much more common in the past than it is today. A common example is the case of Model T built by Henry Ford and sold for one price to everyone who wanted to buy. He agreed to paint his cars any colour that consumers wanted, 'as long as it is black'. While undifferentiated marketing is efficient from a production viewpoint (offering the benefits of economies of scale), it also brings in inherent dangers. A firm that attempts to satisfy everyone in the market with one standard product may suffer if competitors offer specialized units to smaller segments of the total market and better satisfy individual segments.

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2. Differentiated Marketing

Firms that promote numerous products with different marketing mixes designed to satisfy smaller segments are said to practice differentiated marketing. It is still aimed at satisfying a large part of the total market. Instead of marketing one product with a single marketing program, the firm markets a number of products designed to appeal to individual parts of the total market. By providing increased satisfaction for each of many target markets, a company can produce more sales by following a differentiated marketing approach. In general, it also raises production, inventory and promotional costs. Despite higher marketing costs, a company may be forced to practice differentiated marketing in order to remain competitive.

2. Concentrated Marketing

Rather than trying to market its products separately to several segments, a firm may opt for a concentrated marketing approach. With concentrated marketing (also known as niche marketing), a firm focuses its efforts 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 good 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 in 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.

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3. Micro Marketing

This approach is still more narrowly focused than concentrated marketing. Micro marketing involves targeting potential customers at a very basic level, such as by the postal code, specific occupation or lifestyle. Ultimately, micromarketing may

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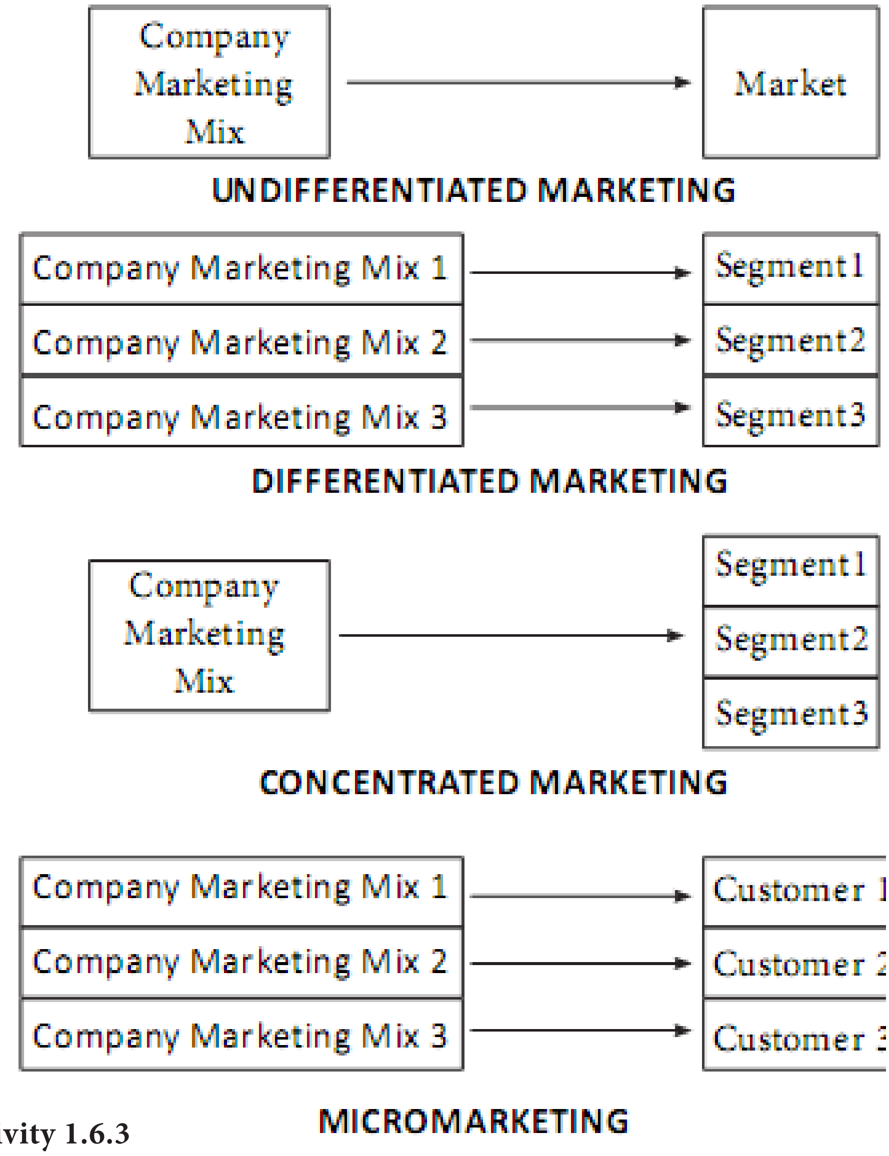
even target individuals themselves. It is referred to as marketing to segments of one. The internet allows marketers to boost the effectiveness of micromarketing. With the ability to customize (individualization attempts by the firm) and to personalize (individualization attempts by the customer), the internet offers the benefit of mass customization – by reaching the mass market with individualized offers for the customers.

Figure 1.6.1 Market targeting approaches



Activity 1.6.3

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Match the following real life marketing examples with the above mentioned targeting approaches.

1. Titan now selling fashion eyewear and watches apart from the regular watches
2. A promotional email from Amazon.com based on your previous purchases
3. Air Deccan with its no-frills, single-class airline model
4. The battery-operated, eco-friendly electric car, Reva

Positioning

Having chosen an approach for reaching the firm's target segment, marketers must then decide how best to position the product in the market. The concept of positioning seeks to place a product in a certain 'position' in the minds of the prospective buyers. Positioning is the act of designing the company's offer so that it occupies a distinct and valued place in the target customers' minds. In a world that is getting more and more homogenized, differentiation and positioning hold the key to marketing success!

The positioning gurus, Al Ries and Jack Trout define positioning as: Positioning is … your product as the customer thinks of it. Positioning is not what you do to your product, but what you do to the mind of your customer. Every product must have a positioning statement. A general form of such a statement is given below:

Product X is positioned as offering (benefit) to (target market) with the competitive advantage of (competitive advantage) based on (basis for competitive advantage)

For example, the positioning statement of toothpaste X may read as follows:

Toothpaste X is positioned as offering to kids a toothpaste made especially for those kids who don't like to brush with the competitive advantage of a mild fruit taste and lower foaming.

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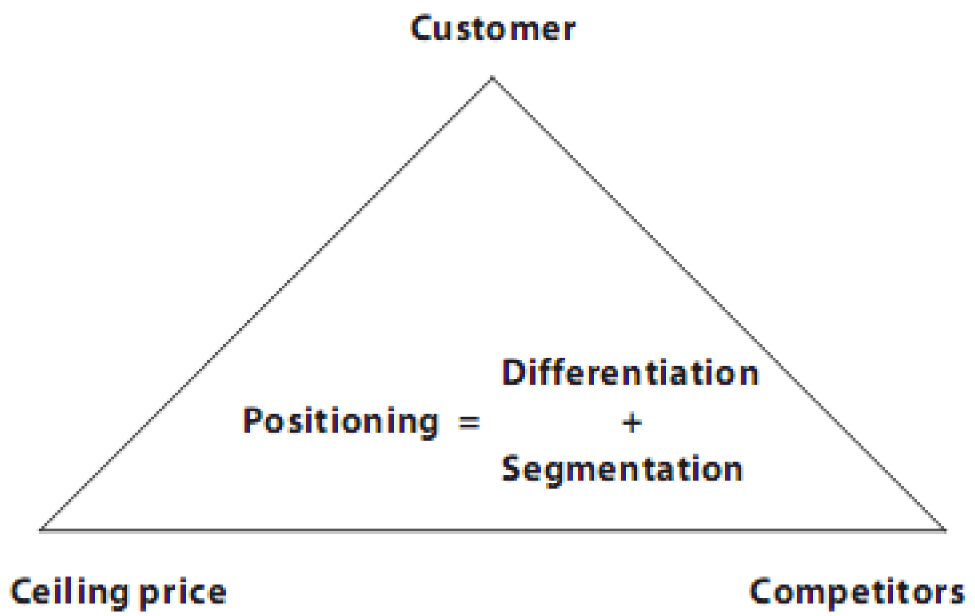
One way to think about positioning is to imagine a triangle, with the baseline anchored by the organization and competitor concerns and the apex, the customers. The marketer's job is to find a positioning of the product or service that is both possible and compatible with organization constraints which uniquely places the product/service among competitive offerings so as to be most suitable to one or a number of segments of customers.



Positioning can be done along different possibilities. Attribute positioning is when the positioning is based on some attribute of the product. Benefit positioning is when a derived benefit is highlighted as the unique selling propositioning. Competitor positioning is when a comparison is drawn with the competitor and a differentiation from the competitor is emphasized. Product category positioning is when a product is positioned to belong to a particular category and not another category which probably is crowded. Quality/price positioning is when the product is positioned as the best value for money.

For example, a Pizza may be positioned on its taste or it's natural contents or as an easy meal or with a thicker topping or as the lowest priced offering the best value for money. Each one of them offers a distinct positioning possibility for a pizza.

In the positioning decision, caution must be taken to avoid certain positioning errors: Under positioning is done when a unique, but not so

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important attribute is highlighted. As a result, the customer does not see any value in such a position. Over positioning is done when the product performance does not justify the tall claims of positioning. Confused positioning is when the customer fails to categorize the product correctly and the product ends up being perceived differently from what was intended. Doubtful positioning is when the customer finds it difficult to believe the positioning claims.

Positioning map is a valuable tool to help marketers position products by graphically illustrating consumers' perceptions of competing products within an industry. For instance, a positioning map might present two different characteristics, price and quality, and show how consumers view a product and its major competitors based on these traits. Marketers can create a competitive positioning map from information solicited from consumers or from their accumulated knowledge about a market.

Activity 1.6.4

Draw a positioning map to describe the toothpaste market. Choose any two characteristics to show how the different brands can be viewed based on these traits.

Sometimes, changes in the competitive environment or cultural environment force marketers to reposition a product – changing the position it holds in the minds of prospective buyers relative to the positions of competing products. Nestle's Milkmaid brand has undergone few repositionings in the last few decades.

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The original positioning as 'sweetened condensed milk as a milk substitute' became obsolete when India attained self-sufficiency in milk production and milk products. So Milkmaid was repositioned as a 'ready ingredient' in preparing home-made sweets. Recipes started appearing on the labels. It succeeded for a certain period of time. Soon the Indian households were no longer making home-made sweets, but rather consuming ready-made, packaged sweets.

If it was an economic environment factor that necessitated a repositioning earlier, it was now the changing demographic of the Indian homes. Milkmaid took another successful attempt at repositioning.

Milkmaid was then repositioned as a 'central ingredient' in making the deserts at home. The recipes naturally changed. Repositioning helps a firm to tide over the environmental changes and the changes in consumers' preferences. It extends the life of a brand.

Positioning Identities

Positioning is creating an identity to your product. This identity is a cumulative of the following four positioning identities.

1. Who am I?

   It refers to the corporate credentials like the origin, family tree and the 'stable' from which it comes from. For instance, think of the mental associations when a buyer buys a Japanese car and it is a Honda!

2. What am I?

   It refers to the functional capabilities. The perceived brand differentiation is formed using the brand's capabilities and benefits. For instance, the Japanese cars are known for their fuel-efficiency, reasonable-price and utility-value.

3. For whom am I?

   It refers to the target segment for the brand. It identifies the that market segment for which his brand seems to be just right and has competitive advantage. For instance, the Japanese car makers have traditionally focused on the quality-conscious, value-seeking and rather-serious car buyer

4. Why me?

   It highlights the differential advantage of the brand when compared to the competing brands. It gives reasons as to why the customer should select this brand in preference to any other brand. For instance, Japanese car makers have tried to score a competitive advantage on the lines of quality and technology

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Differentiation Across the Consumption Chain

A research finding suggests that there are one million branded products in the world today. As a result, the market is increasingly competitive and confusingly crowded. For the customers, it means more choices than they know how to handle and less time than they need to decide. For the marketers, it is hyper-competition and continuous struggle to win the attention and interest of choice-rich, price-prone customers. The tyranny of choice for the buyers are represented by the following facts:

- An average hypermarket stocks 40,000 brand items (SKUs)
- An average family gets 80% of its needs met from only 150 SKUs
- That means there's a good chance that the other 39,850 items in the store will be ignored

The implication is that those that don't stand out will get lost in the pack! The average customer makes decisions in more than 100 product/service categories in a given month. He/she is exposed to more than 1600 commercials a day. Of this, 80 are consciously noticed and about 12 provoke some reaction. The challenge for marketers is: how to get noticed (i.e. differentiation) and be preferred (i.e. positioning)?

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Most profitable strategies are built on differentiation (i.e.) offering customers something they value that competitors don't have. A close look at consumer behaviour reveals that people buy on the differences. An ability to create compelling differences remains at the heart of a firm's competitive advantage. The battle has always been (and still is) about differentiation - create winning differences in customers' minds.

People pay attention to differences (though at different levels) and tend to ignore undifferentiated products. Here is an example of how Nike (the top-dog sports shoe brand) creates winning differences at cognitive, normative and wired-in levels in the buyer.

1. Cognitive (conscious decisions) Level
   - 'I buy Nike because it's made of engineered materials which enable higher athletic performance'

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2. Normative (semiconscious feelings) level
    - 'I buy Nike because it's "in" with my crowd'

3. Wired-in (subconscious determinants) level
    - ('Nike appeals to my desire to be cool, fashionable, strong, aggressive …')

Organizations use several differentiation dimensions. The most popular are product differentiation, service differentiation, personnel differentiation, channel differentiation and image differentiation.

Activity 1.6.5

Match the following brands with their chosen differentiation dimensions.

1. Apple's iMac (with an innovative product design)
2. Honda's bikes (In the US market, they did an image make-over for bike riders to differentiate from the image created by Harley-Davidson bike riders)
3. Singapore airlines (highlighting the 'Singapore airlines girl' is its campaign)
4. Dell computers (Dell becoming synonymous with Direct (channels) selling)
5. Cemex cement (using GPS to deliver ready-mix concrete just-in-time)

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Most firms while seeking to differentiate themselves from the competition focus their energy only on their products and services. In a Harvard Business Review article, MacMillan and McGrath, advocate that a company has the opportunity to differentiate itself at every point where it comes in contact with its customers – from the moment the customers realize that they need a product or service to the time when they no longer want it and decide to dispose of it – that is, anywhere along the spectrum of the Consumption chain – from need recognition to product disposition. Based on this idea, some avenues for differentiation are listed below:

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- How do people become aware of their need for your product/service?
  - If you can make consumers aware of a need in a way that is unique and subtle, that's a powerful source of differentiation!
- How do customers find your offering?
  - Opportunities for differentiating on the basis of the search process that is made less complicated, more convenient, less expensive and more habitual.
- How do customers order and purchase your product/service?
  - Differentiating by making the process of ordering and purchasing more convenient
- How is your product/service delivered?
  - Delivery affords many hard-to-duplicate opportunities for differentiation
- What happens when your product/service is delivered?
  - An often overlooked opportunity between product/service delivery and usage; opening, inspecting, assembling are real issues for customers
- How is your product installed?
  - Differentiation that is particularly relevant for companies with complex products
- What help do customers need when they use your product?
  - Most helpful and fastest response gives a cut above the rest
- How is your product moved around?
  - Addressing the difficulties experienced in transporting a product from one location to another
- How is your product repaired or serviced or exchanged?
  - Differentiating by being proactive and practicing acceptance
- What happens when your product is disposed of or no longer used?
  - Differentiation opportunities through Responsible marketing and Green Marketing

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Activity 1.6.6

Think of how the petrol bunks have evolved over the years – starting from selling a commodity to marketing a branded product in landscaped locations! Is there a way to differentiate selling petrol?

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Lesson 1.7 - Introduction to Marketing Mix

Objectives

In this lesson, we will introduce you to the activities that comprise a firm's marketing program. These activities are popularly referred to as the 4 Ps – product, price, place and promotion. After you work out this lesson, you should be able to:

- Understand the major product decisions in marketing planning
- Know the pricing objectives and the factors that influence the pricing decisions
- Appreciate the role of marketing channels and understand the important channel decisions to be taken
- Comprehend the Promotion Mix of marketing and the different elements in the promotion mix
- Learn how the 4 Ps combine to create effective marketing programs

Learning Objectives

In this lesson, we will discuss the following:

- The sub-elements of each of the 4 Ps of marketing
- Marketing programs
- Product management decisions
- Channel management
- Marketing communications
- Pricing basis, objectives and approaches

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Introduction

After marketers select a target market, they direct their activities towards profitably satisfying that segment. Although they must manipulate many variables to reach this goal, marketing decision making can be divided into four areas: product, price, place (distribution) and promotion (marketing communication). The total package forms the marketing mix – the blending of the four elements to fit the needs and preferences of a specific target market. These are the four variables that a marketer can use in different combinations to create value for customers. Several of the sub-elements in each of the four Ps that constitute the marketing mix are listed in the following table.

Elements of the Marketing Mix	Sub-Elements
Product	Product design Product positioning Product name and branding Packaging and labeling Breadth and depth of product line Level and type of customer service Product warranty New product development process Product life cycle strategies
Price	Manufacturer, wholesaler and retailer selling prices Terms and conditions Bidding tactics Discount policies New product pricing (Skim Vs. Penetrating pricing)
Promotion (marketing communications)	Advertising Sales force policies Direct marketing (mail, catalog) Public relations Price promotions – for the consumers and the channel Trade shows and special events

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Place (distribution channels)	Direct Vs. Indirect channels Channel length Channel breadth (exclusive, selective or intensive) Franchising policies Policies to ensure channel coordination and control

Marketing Programs

A marketing program is made up of the various elements of the marketing mix and the relationships among them. The concept of the marketing mix emphasizes the fit of the various pieces and the quality and size of their interactions. There are three degrees of interaction – consistency, integration and leverage. Consistency is the lack of a poor fit between two or more elements of the marketing mix. For example, to sell a high quality product through a low quality retailer would seem inconsistent. While consistency is the lack of a poor fit, integration is the presence of a positive, harmonious interaction among the elements of the mix.

For example, heavy advertising can sometimes be harmonious with a high price, because the added margin from the high price pays for the advertising and the high advertising creates the brand differentiation that justifies the high price.

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Leverage is the situation in which each individual element of the mix is used to the best advantage in support of the total mix.

Once the elements of the marketing mix have met the internal tests of consistency, integration and leverage, the next step is to check that the proposed program fits the needs of the target customers, the core competencies of the company and the likely responses of key competitors.

The concept of program/customer fit encompasses development of a marketing program that fits the needs of the target-market segments. For that, the market must first be carefully and explicitly delineated. If the target has not been defined, it cannot be reached! The program must not only fit the market, but also fit the company. A marketing program must match the core competencies of the company that is implementing it. For example, an organization with extensive mass advertising experience and expertise is more likely to be able to carry out a program that leans heavily on advertising than an organization less strong in that particular area.

An effective marketing program must not only fit the company's own core competencies, it must also take account of competitors' programs. Competitive/program fit can be defined as the characteristic of a marketing program that, while building on a company's strengths and shielding its weaknesses, protects it from competitors by capitalizing on their weaknesses, in the process creating a unique market personality and position.

Like most concepts, the marketing mix is an abstraction and real marketing programs do not always fit perfectly the product, price, place and promotion paradigm. In fact, several parts of the mix fall at the interface of two elements. For example, brand, which is often views as an aspect of product, is clearly also part of marketing communications and can serve to help coordinate product policy and communication.

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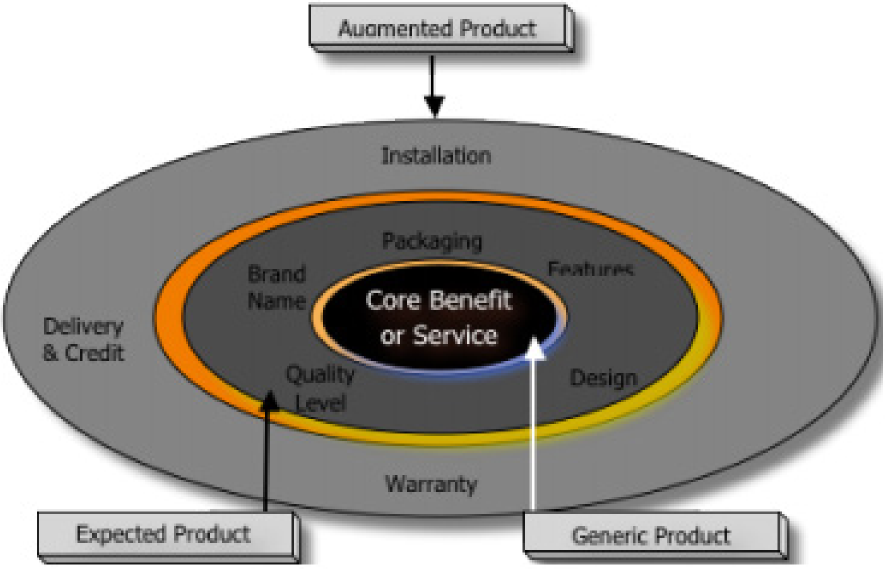
Product Management Decisions

Product decisions start with an understanding of what a product is, viz., the product offering is not the thing itself, but rather the total package of benefits obtained by the customer. This is called as the total product concept.

For example, a watch from Rediff.com is not just a watch but one shipped within 24 hours of order and unconditionally guaranteed. This broad conception of a 'product' is key to seeing possible points of differentiation from competitors. The following chart illustrates the total product concept.



The 'generic' product is no longer sought (leave alone bought!) by the customers. For transport, a scooter without cushion seats, handle covers, side mirrors, etc is adequate. It merely represents customer need fulfillment. But one would expect some sort of comfort in starting, sitting and driving the scooter. The expected product represents the customers' minimal purchase conditions. When such customer expectations are met, it leads to customer satisfaction.

The augmented product represents the customers' wish-list. It is the basic product with all extra features that makes the scooter convenient and safe. It leads to customer delight. Beyond the augmented product, lies the potential product which represents all that this product can become in the future. It represents the customers' dream. *In case of a scooter, it may be one with foldable sunshad with sensors that change the direction of scooter to avoid accidents. More enthusiastic expectation is, a flying one that avoids road traffic jams.*

Activity 1.7.1

Illustrate the product hierarchy or 'total product concept' with an example.

Core benefit -
Basic product -
Expected product -

Augmented product -
Potential product -

A taxonomy of product line planning decisions can be developed by considering some product planning decisions firms face. Product line breadth: How many different lines will the company offer? A guiding principle in answering breadth questions is the company's position on desired consistency or similarity between the lines it offers.

Product line length: How many items will be there in a line providing coverage of different price points?

Product line depth: How many types of a given product?

Individual item decisions: decisions on individual items need to be considered within the context of the firm's full product line due to item interrelationships. At the individual item level, decisions to be made are whether to undertake efforts to delete an item from the line (pruning), reposition an existing product within the line (balancing), improve the performance of an existing product to strengthen its positioning (modernization), introduce a new product within an existing line (filling) and introduce a product to establish a new line (extension). The assortment of product lines and individual product offerings is called as the product mix.

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A proactive approach to new product development follows some form of a sequential process, for example,

- Opportunity identification
- Design
- Testing
- Product introduction and
- Life cycle management.

In the opportunity identification stage, the firm identifies a customer problem that it can solve. In addition it identifies the concept for a product through idea generation and screening initiatives. The next two stages, design and testing are linked in an iterative process. The firm must first embody the product idea in a concept statement which is tested via presentation to potential customers. After the firm has settled on the product and a supporting plan, it reaches product introduction.

Decisions at this stage involve the geographic markets to which the product will be introduced and whether markets will be approached at the same time or sequentially over time. After introduction, a process of Product Life Cycle Management begins. The Life Cycle stages are introduction, growth, maturity and decline. The marketing objectives vary across these stages – so do the sales, profits and costs. The marketing mix also changes from stage to stage.

The first P of marketing, namely, the product also looks at how firms build and maintain identity and competitive advantage for their products through branding. Functions like packaging and labeling also perform specific functions within the ambit of product management.

Place (Channel Management)

The marketing channel is the set of mechanisms or network via which a firm 'goes to market' or is 'in touch' with its customers for a variety of tasks ranging from demand generation to physical delivery of the goods. The customer's requirements for effective support determine the functions which the members of the channel must collectively provide.

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Eight generic channel functions can be identified, viz.,

1. Product information
2. Product customization
3. Product quality assurance
4. Lot size (e.g. the ability to buy in small quantities)
5. Product assortment (refers to breadth, length and width of product lines)
6. Availability
7. After-sale service
8. Logistics
9.

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Marketers develop channels and formulate distribution plans to ensure that consumers find their products available in the proper quantities at the right times and places. Distribution decisions involve transportation, warehousing, inventory control, order processing and selection of marketing channels.

Marketing channels are made up of institutions such as wholesalers and retailers – all those involved in a product's movement from producer to final consumer. The two major decisions in channels are: (1) Channel design – which involves both a length and breadth issue, and (2) Channel management – what policies and procedures will be used to have the necessary functions performed by various parties

An important point with respect to channel design is that while there are options about whether a particular institution (e.g. a distributor) is included in the channel or not, the setting implicates specific tasks which need to be accomplished by someone in the channel. One can eliminate a layer in the chain but not the tasks that layer performed.

Promotion (Marketing Communications)

The next element of the marketing mix is deciding the appropriate set of ways in which to communicate with customers to foster their awareness of the product, knowledge about its features, interest in purchasing, likelihood of trying the product and/or repeat purchasing it. Effective marketing requires an integrated communications plan combining both personal selling efforts and non-personal ones such as advertising, sales promotion, direct marketing and public relations. Put together, they are referred to as the promotion mix.

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A useful mnemonic for the tasks in planning communications strategy is the 6 Ms model:

1. Market – to whom is the communication to be addressed?
2. Mission – what is the objective of the communication?
3. Message – what are the specific points to be communicated?
4. Media – which vehicles will be used to convey the message?
5. Money – how much will be spent in the effort?

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6. Measurement – how will impact be assessed after the campaign?

The marketing communications or promotions mix is potentially extensive – including non-personal elements as well as personal selling. The popular non-personal vehicles are advertising, sales promotion and public relations. Advertising in media is particularly effective in

- Creating awareness of a new product
- Describing features of the product
- Suggesting usage situations
- Distinguishing the product from competitors
- Directing buyers to the point-of-purchase
- Creating or enhancing a brand image

Advertising is limited in its ability to actually close the sale and make a transaction happen. Sales promotions may be an effective device to complement the favourable attitude development for which advertising is appropriate. One trend in advertising is the movement to more precisely targeted media vehicles. Direct marketing to households or email marketing to individuals are just instances of this trend.

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Sales promotion includes things such as samples, coupons and contests. These are usually most effective when used as a short-term inducement to generate action. The three major types of sales promotion are:

(1) Consumer promotions – used by a manufacturer and addressed to the end consumer

(2) Trade promotions – used by the manufacturer and addressed to the trade partners

(3) Retail promotions – used by the trade partners and addressed to the end consumer

Public relations refers to non-paid communication efforts, such as press releases. These efforts do entail a cost to the firm, but generally are distinguished from advertising by virtue of the fact that the firm does not pay for space in the media vehicle itself.

Personal selling as the communication vehicle presents the advantage of permitting an interaction to take place between the firm and a potential customer rather than just the broadcast of information. The importance of personal selling in the promotions mix typically increases with the complexity of the product and the need for education of potential customers.

The proper allocation of budget across the various media vehicles varies greatly depending upon the market situation. A fundamental decision is whether to focus on a 'push' or 'pull' strategy. In a push strategy, focus is on inducing intermediaries, such as a retailer, to sell the product at retail. Advertising's job may be to make the consumer aware of the product, but the closing of the deal is left to the intermediary. Alternatively, a pull strategy means the end consumer develops such an insistence on the product that he or she 'pulls' it through the channel of distribution, and the retailer's role is merely to make the product conveniently available.

Activity 1.7.2

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Sort the following promotion mix elements in the order of importance for consumer marketing (B2C) and industrial marketing (B2B)

1. Advertising
2. Personal selling
3. Public relations
4. Sales promotions
5. Direct marketing

Pricing Basis, Objectives and Approaches

One of the most difficult areas of marketing decision making, pricing, deals with the methods of setting profitable and justifiable prices. It is closely regulated and subject to considerable public scrutiny. In comparison to the other 3 Ps – product, place and promotion - of marketing mix, the price element is the only revenue element whereas the others are cost elements. Also, this is the element which can be easily copied. To a large extent, the combination of the 3 Ps determine the target customer's perception of the value of the firm's product in a given competitive context.

Conceptually, this perceived value represents the maximum price which the customer is willing to pay. This should be the primary guide to pricing the product. Once the firm has created value for customers, it is entitled to capture some of that value for itself to fund future value-creation efforts. This is the role of effective pricing.

Pricing Basis and Objective

In most situations, cost should act as a floor on pricing. In some circumstances, a firm intentionally sells at a loss for a time to establish a position in the market, but it is often difficult to increase prices later due to the customer's use of the introductory price as a reference point. With perceived value in mind, the first question is what is the marketing objective and how does the pricing objective derive from that?

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For example, the price that would maximize short-term profit is typically higher than the one which would maximize market penetration subject even to making some profit on each item. It can be described as a choice between a 'skim' and 'penetration' pricing strategy. In a skim strategy, the focus is on those consumers with high value. Starting with a high price and targeting a segment that is willing to pay this price, skimming happens. Later on, prices are reduced to reach the segments below.

In penetration pricing, the firm sets a lower price to generate lots of sales quickly. It is designed to preempt competition and gain a significant number of customers early on. The appeal of a penetration strategy increases to the extent that (1) customers are sensitive to price, (2) economies of scale are important, (3) adequate production capacity is available, and (4) there is a threat of competition.

Since customers typically place different values on the product, the firm should consider whether it is worth trying to capitalize on these value variations by charging different customers different prices. In some cases, legal constraints and logistical practicalities can make this infeasible. However many firms owe their economic well-being to their ability to customize prices.

In many cases, for example, prices are varied depending on when the buyer is booking, for how long, for what days of week and so on. These characteristics are used as indicators of the value the customer places on the product. Price customization can be achieved by:

- Developing a product line – e.g. developing 'economy' versions of the product
- Controlling the availability of lower prices – e.g. select availability in certain stores
- Varying prices based on observable buyer characteristics – e.g. new vs. existing customers
- Varying prices based on observable characteristics of the transaction – e.g. purchase volume

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Another pricing approach is product life cycle pricing in which different prices are charged at different stages of the product's life cycle. Since the marketing objective and the cost structure various across the stages, the pricing approach also varies.

While product marketing mix consists of the 4 Ps, services marketing brings in additional 3 Ps into an extended marketing mix. The additional 3 Ps – People, Process and Physical evidence – are necessitated by the characteristics of the services. While products are tangible, services are intangible.

While products can be manufactured and inventoried, production and consumption take place at the same time and hence are inseparable. While products can be standardized, services cannot be – thanks to the human interaction in service delivery. The perceived quality of service depends on who provides it, when and where it is provided and also to whom it is provided. Because of this, the heterogeneity in services throws a quality challenge. Finally, the services are perishable – so managing the demand and supply is crucial.

Because of these characteristics of services, viz., intangibility, inseparability, heterogeneity and perishability, there is a need for industrializing and standardizing the services (Process), tangibilize the intangibles (through Physical evidence) and managing the service personnel (People) who are part of the service. The sub-elements of these additional 3 Ps are:

Additional 3 Ps in Services Marketing	**Sub-Elements**
Process	Flow of activities Service script (number of steps) Customer involvement
Physical evidence	Facility design Service ambience Equipment Signage Employee dress Point-of-sale displays Other tangibles (e.g. business cards)
People	Employees ▪ Recruiting ▪ Training ▪ Motivation ▪ Rewards ▪ Teamwork Customers ▪ Education ▪ Training

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Answer key

Activity 1.1.1

An example of purchase: Mobile phone

Form:

Conversion of raw materials (required to manufacture a watch) into a finished product (a watch)

Time:

During the festival season. Though there was a heavy demand, the product was readily available in many outlets

Place:

An authorized dealer in the same locality making the product available

Ownership:

In exchange for the price of the mobile phone, the title (ownership) of the phone is transferred to you.

Activity 1.1.2

Marketing Myths

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(The student may tick the myths that he/she thought about marketing from the following list and also add to the list since the given list is not exhaustive)

- Marketing and selling are synonymous
- The job of marketing is to develop good advertisements
- Marketing is pushing the product to the customers
- Marketing is transaction-oriented than relationship-oriented
- Marketing is a short-term business strategy
- Marketing is an independent function of a business
- Marketing is part of selling

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Activity 1.1.3

(Students may coin their own statements to describe each era in the Evolution of Marketing)

Activity 1.1.4

Match the following: 1-F, 2-E, 3-C, 4-B, 5-D, 6-A

Activity 1.4.1

Industry: Aviation industry

Competitive environment

The entry of several low-cost carriers and the subsequent pressure on the standard carriers to come up with their own low-cost subsidiaries in the aviation industry Economic environment.

The upbeat economy, booming businesses, growing leisure and tourism industry all of them contributing to high growth in the civil aviation industry Political-legal environment

The open-sky policy of the government and all-weather flying skills training made mandatory for all domestic carriers
Technological environment

Advanced airplanes with increased carrying capacity and better fuel utilization directly contributing to sales increase and cost decrease
Social-cultural environment

The growing concept of travel and vacation, desire to cut travel time and cost resulting in a migration of many train travelers to low-cost carriers

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Activity 1.6.1

1. Preventing tooth decay
2. enhanced sex appeal
3. whiter teeth
4. removal of smoking stains
5. fluoride protection
6. appeal to kids
7. Natural (herbal) contents
8. Traditional (ayurvedic) contents

Activity 1.6.2

1. Consumer background characteristics

1.1 Geography	- traditional product (neem) domination
1.2 Demographic	- 'appeal to kids'
1.3 Psychographic	- preferring ayurvedic contents
1.4 General life-style	- enhanced sex appeal

2. Consumers' market history

2.1 Product usage	- twice a day usage
2.2 Product benefit	- whiter teeth
2.3 Decision-process	- 'buy 1 and get 1 free'

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Activity 1.6.3

1 – Differentiated marketing
2 – Micromarketing
3 – Undifferentiated marketing
4 – Concentrated marketing (Niche marketing)

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Activity 1.6.4

Positioning map for the toothpaste market can be drawn based on characteristics like ingredients (herbal Vs. chemical), benefits (emotional Vs. functional utilities), age (kids Vs. adults), usage (normal Vs. treatment), price (low Vs. high), attribute (taste Vs. contents) and so on. Different brands of toothpastes can then be plotted on the map depending on their positioning in the marketplace.

Activity 1.6.5

Product differentiation	-	Apple's iMac
Service differentiation	-	Cemex cement
Personnel differentiation	-	Singapore airlines
Channel differentiation	-	Dell computers
Image differentiation	-	Honda's bikes

Activity 1.6.6

How to differentiate selling petrol?

Clue: Consider the 'purchase links' of the consumption chain for this product.

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Activity 1.7.1

Product hierarchy	–	an example
Core benefit	-	lodging/accommodation
Basic product	-	A room
Expected product	-	A clean room with bath attached
Augmented product	-	Bed and breakfast; pick-up
Potential product	-	Customized room and menu (from your past preferences)

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Actitivity 1.7.2

Promotions Mix elements (in the order of importance)

For consumer marketing (B2C) - 1,4,2,5 and 3

For industrial marketing (B2B) - 2,5,1,3 and 4

Glossary of Terms

Utility – Want-satisfying power of a good or service

Marketing – Process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create and maintain relationships that satify individual and organizational objectives

Marketing concept – Organization-wide consumer orientation with the objective of achieving long-run success

Relationship marketing – Development and maintenance of long-term, cost-effective exchange relationships with individual customers, suppliers, employees and other partners for mutual benefit

Customer orientation – Business philosophy incorporating the marketing concept that emphasizes first determining unmet customer needs and then designing a product/service for satisfying them

Market – The set of all actual and potential buyers of a product or service
Demands – Human wants that are backed by buying power
Buyer – The person who makes an actual purchase

Exchange – The act of obtaining a desired object from someone by offering something in return

Product – Anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need. It includes physical objects, services, persons, places, organizations and ideas

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Potential market – The set of consumers who profess some level of interest in a particular product or service

Environmental scanning – The process of collecting information about the external marketing environment in order to identify and interpret potential trends

Environmental management – An effort to attain organizational objectives by predicting and influencing the firm's competitive, political-legal, economic, technological and social-cultural environments

Time-based competition – a strategy of developing and distributing goods and services more quickly than competitors can achieve

Demarketing – The process of reducing consumer demand for a good or service to a level that the firm can supply

Marketing audit – A thorough, objective evaluation of an organization's marketing philosophy, strategies, plans, programs, practices and results

Consumerism – A social force within the business environment designed to aid and protect buyers by exerting legal, moral and economic pressures on businesses

Buyer behaviour – Process by which consumers and business buyers make purchase decisions

Consumer behaviour – Buyer behaviour of ultimate consumers

Reference group – Group with which an individual identifies strongly enough that it dictates a standard of behavior

Opinion leader – Trendsetter likely to purchase new products before others and then share the resulting experiences and opinions via word of mouth

Evoked set – Number of brands that a consumer considers buying before making a purchasing decision

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Cognitive dissonance – Post-purchase anxiety that results from an imbalance among an individual's knowledge, beliefs and attitude

Segmentation – Dividing a consumer population into several homogeneous groups based on characteristics like geography, demography, psychography and life style.

Target market – A homogeneous group of people in a heterogeneous marketplace toward whom a firm markets its goods and services with a strategy designed to satisfy their specific needs and preferences

Positioning – Consumers' perceptions of a product's attributes, uses, quality and advantages and disadvantages in relation to those of competing brands

Repositioning – Marketing strategy to change the position of a product in consumers' minds relative to the positions of competing products

Undifferentiated marketing – Marketing strategy to produce only one product and market it to all customers using a single marketing mix

Differentiated marketing – Marketing strategy to produce to produce numerous products and promote them with different marketing mixes designed to satisfy smaller segments

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Niche market - A firm targets its efforts on profitably satisfying only one market segment. It may be a small but a profitable segment
Marketing mix – blending the four elements of marketing decision making – product, price, distribution and promotion – to satisfy chosen consumer segments

Product strategy – element of marketing decision making involved in developing the right good or service for the firm's customers, including package design, branding, trademarks, warranties, product life cycles and new product development

Product mix – A company's assortment of product lines and individual offerings

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Product life cycle – The four basic stages through which a successful product progresses – introduction, growth, maturity and decline

Pricing strategy – Element of marketing decision making dealing with methods of setting profitable and justifiable prices

Distribution strategy – Element of marketing decision making concerned with activities and marketing intermediaries that get the right good or service to the firm's customers

Promotional strategy - Element of marketing decision making that involves appropriate blending of promotional mix elements, namely, personal selling, advertising, sales promotions, direct marketing and public relations – to communicate with and seek to persuade potential customers.

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Case Study:1.

Master of the Online Supermall

Amazon.com could well go down in history as a love child born of the heady fling that the stockmarket had with dotcoms in the late 1990s. But the company, founded by Jeff Bezos in July 1995 when the internet was still an untested business medium, is a survivor-par-excellence. It floundered a bit in the swirl of the dotcom bust, but unlike thousands that were swept away, Amazon.com reinvented itself and emerged stronger.

The 40-year old Bezos, a computer science grad from Princeton University, is the pioneer of Internet Retailing. His compelling vision introduced a new paradigm for retail, the click-and-buy model; buy goods from a website instead of a physical store, from wherever there is an internet connection: home, office or cyber-café. A model that gave convenience to buyers, and mind-boggling market reach to sellers.

Named after the mighty Amazon river and its numerous tributaries that surge through dense rain forests, Amazon.com was started with an initial investment of a few thousand dollars. In less than three weeks after the website went live, Bezos and his wife Mackenzie were pulling in sales of over $20,000 a week. And soon after going public in 1997, the company had a market capitalization higher than that of its brick-and-mortar rivals. In 1999, Bezos was chosen as Time Magazine's 'Person of the Year'. But things changed soon after and the dotcom bust saw Amazon.com lose almost 90 percent of its market cap in 2000.

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Bezos didn't give up on his vision. He set about transforming Amazon.com from a website selling books into something much bigger: the world's largest online retailing platform. A series of tie-ups with companies like Toys R Us and Target helped give the website the feel of an online supermall where a customer could buy almost anything.

Marketing initiatives followed – from free shipping to highly discounted prices to very customized offerings (based on customer profile) to wide distribution through sites which can divert traffic to Amazon.com for a small commission. But the biggest move was Bezos'

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decision to make the site 'more global'.

The moves have paid off. The company announced its first full-year profit in 2003. It has been making money now for three straight quarters and revenues have exceeded a billion dollars for the last six quarters. If proof was needed that there is money to be made in online retailing, this is it. And Bezos has proved that the right idea, coupled with perseverance, pays in the end.
(excerpt from Business Today, May 2004)

Questions

1. How does Amazon.com bring utility or create value for its customers?
2. Explain the marketing framework of Amazon.com?
3. What do you learn about marketing from the Amazon story?

Case Study 2.

EuroDisney – managing the marketing environmental challenges

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Michael Eisner joined the Walt Disney company as the chairman of the board in 1984, after his successes at the ABC television network and Paramount. The same year, Tokyo Disney was completing its first year of operations after five years of planning and construction, when the Walt Disney Co. entered into an agreement with Oriental Land Company in Japan. More than 10 million people visited the park that year, spending $355 million.

This was $155 million more than had been expected and was partially attributed to the average expenditure per visitor being $35, rather than the estimated $21. The timing of the Tokyo Disneyland opening coincided with a rise in income and leisure time among the Japanese. Tokyo Disneyland thus became quickly profitable.

Growth continued, and by 1990 more than 14 million people visited the park, a figure slightly higher than the attendance at Disneyland in California and about half the attendance at Walt Disney World in Florida.

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Though, Disney was not a financial partner in the Tokyo venture, it was reaping the profit from its franchise (10% royalty from admission and 5% from merchandise and food sales).

The Tokyo park was in some ways a paradox. Tokyo Disneyland is nearly a replica of the two parks in US. Signs are in English, and most food is American style. The management of the Oriental Land Company demanded this because they wanted visitors to feel they were getting the real thing and because they had noted that such franchises as McDonald's have enormous success in Japan, as Japanese youth embraced American-style culture.

Yet, a few changes were necessary, such as the addition of a Japanese restaurant. The product was readily accepted by the Japanese, an acceptance attributed by some to the enthusiastic assimilation of the Japanese to Western ways. The success of the Tokyo Disneyland led the company to consider expansion into Europe.

In 1984, a few months after his arrival at Disney, Eisner decided to create a Disney resort in Europe. In 1985, Disney announced that it had narrowed its locational choice to two countries, Spain and France. The park was scheduled to open in 1992 at either location. Since the park was estimated to provide about 40,000 permanent jobs and would draw large numbers of tourists, the two countries openly courted Disney.

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If Disney opted for a Spanish location, the park would have to be like the ones in the U.S, where the visitors are outside for almost all amusements. However, Disney had learnt from the Tokyo experience that the cold weather does not necessarily impede attendance. But the colder climate in Paris area would require more indoor shows. Furthermore, France would require more focus on technology and historical themes.

After three years of discussions, the search culminated with the selection of a site at the heart of Europe: Marna-la-Vallee, France. Euro Disney was officially born. The total investment by 1992 was estimated at between $2.4 to 3 billion. Disney opted for a 49% stake. France was in full economic crisis and Disney was taking advantage of this crisis. In a real estate coup, the French Government sold Disney some very expensive land at a bargain price and. In spite of the economic benefits the park was expected to bring, many people in France feared that the Park would be one more step toward the replacement of the French culture with that of the US. Critics called EuroDisney "a cultural Chernobyl".

Disney headed off the criticism by explaining in the French press that Walt Disney was of French Huguenot descent, with an original name of D'Isigny rather than Disney. Disney also agreed to make French the first language in the park, although relying heavily on visual symbols. Disney would build an attraction, Discovery Land, based on the science fiction of France's Jules Verne; and a movie theater featuring European history. Many concessions were made to soothe the French resistance. Disney admitted that it may have to alter its no-alcohol policy for this park, but it didn't. The park also emphasized that Pinocchio was Italian, Cinderalla was French and Peter Pan flew in London.

The marketing campaign began in October, 1991. The sales division began ambitious programs to inspire European families to mark the Euro Disney resort on their vacation agendas. The Sales division established a strong presence in all the major markets through special partnerships with leading companies in the travel industry.

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On April 12, 1992, Euro Disney hosted the biggest event in Disney history, the official opening of the Euro Disney resort. Looking at the future, Euro Disney had two primary objectives : to achieve profitability as quickly as possible and to better integrate Euro Disney into its European environment while reinforcing its greatest asset – Disney heritage. Disney announced plans to add a second theme park, the Disney MGM Studios-Europe and a water park. Disney was so optimistic that it was negotiating the possibility of creation of creating a third theme park at the beginning of the new millennium.

The Park admission fee cost US $45 for an adult and $30 for a child under 11, a price about 50% higher than the corresponding Disney World price. The US Disney park's formula in terms of inelasticity of demand did not apply and the demand fell sharply (a 15% decrease in attendance for a 10% increase in price.)

Attendance figures were kept secret, but this attitude reinforced the idea that even in terms of attendance, the objectives were not reached.

The financial results were not as strong as hoped and the very difficult economic environment contributed to not meeting the ambitious objectives.

As Eisner started an interview with Larry King, he quipped, "Everybody is giving us 42 reasons why we've made a mistake, because we have financial problems... We are not either responsible for the real estate crisis nor the high French interest rate, which are dreadfully penalizing us. Not a single manager, whomever he be, could manage so many uncontrollable forces."

Questions

1. Describe the importance of environmental scanning for Disney in its EuroDisney venture.
2. How does the marketing environment affect Disney's marketing?
3. Single out each of these environmental variables and suggest ways for Disney to manage them.

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Case Study 3

Marketing Beyond the Veil

Many marketers think that marketing to Saudi Arabian women is a very difficult task. Women in Saudi remain behind the purdah and it is difficult to talk to them.

Saudi Arabia is one of the largest markets in west Asia and is a homogenous society. There exists a wrong notion among some marketers that Saudi women are passive consumers. Many Saudi women are often highly educated. About 3,80,000 women work in Saudi Arabia and the number of female students in the colleges is set to rise about 1,75,000 in the next two years. Most women work in the traditional fields of health and education. Some are even employed in retailing, designing, publishing and manufacturing.

They are exploring ways to sell products to Saudi women since Saudi Arabia is considered a young market. Shopping malls are an utter flop as women find these out-of-town malls inconvenient. MNCs have realized that Saudi women are brand conscious and make the buying decision for household items. MNCs have been searching intensively for women who can act as intermediaries between the company and the clients and those who have links with colleges, women groups, etc.

Marketers should now stop underestimating the sophistication of Saudi women as consumers. It is time they recognized that they are the emerging economic force. A women emerging out of a car fully covered by the purdah, may hold a degree in finance or law or medicine and so on, and she may be a potential consumer given her educational background and culture.

Questions

1. List out the differences between Consumer Behaviour of Women in a closed culture (as described by this case) in Saudi Arabia and in a open culture (say, in Western Eupore).
2. Highlight the cultural implications for a Woman consumer and also for a marketer in the given context.
3. Think of creative applications of 'reference groups' to market to the Saudi Arabian Women, say for a personal care product.

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Case study 4.

That CSR (Corporate Social Responsibility) thing!

It shouldn't surprise anyone that Indian companies have just discovered the marketing pay-off of their corporate social responsibility (CSR) initiatives. They could get by with focusing on real or perceived product attributes, and with profit-mindedness being considered a coarse sentiment, any CSR programme they launched was far removed from their core businesses, brands, even consumers.

There has been a spate of corporate CSR initiatives over the past few years. Companies have been quick to respond to crises (such as the Gujarat earthquake or the Tsunami that hit the southern part of the country) or shown inherent goodness in plugging gaps in the government's efforts to provide healthcare and education to all – in a country as vast as India, there will always be gaps – but there has been little effort to link such work to things such as marketing, even corporate strategies. Most CSR activities are, at best, charity, not very different from discrete acts of philanthropy and, at worst, a mere humane façade of a for-profit-only capitalist system.

This is why recent advertising campaigns by the country's two largest fast moving consumer goods (FMCG) companies, Hindustan Lever Limited (HLL) and ITC are significant. The first, a campaign for Surf Excel Quick Wash with the tagline Do bucket paani ab rozana hai bachnai (I will save two buckets of water a day), has struck a chord in a country where the shortage of water is an endemic phenomenon.

"We decided it would be of immense benefit to a household if a technology could be developed that would reduce the water consumed in the washing of clothes and the amount of effort required while rinsing while delivering superlative cleanliness", says an HLL spokesperson.

Surf's sales, say sources in the market, have gone up by as much as 15% since the advertisement, starring actress-turned-social-activist and former Member of Parliament, Shabana Azmi, went national (the company had tested the strategy in water-starved Tamil Nadu last year with another actress-turned-social-activist Revathy Menon).

Then, there is ITC's Working for you, working for India campaign, one strand of which focuses on the company's e-choupal initiative, an effort that seeks to enhance rural incomes, then, sell a variety of products and services to rural customers (apart from sourcing agricultural produce from them). The tagline itself smacks of old-style image-led CSR activity, but given what the e-choupal does, it is actually an attempt to build and position the company's brand around the idea of doing something for the country.

In some ways, ITC's e-choupal is a far stronger example of a CSR-brand linkage than the Surf Excel campaign. It is a programme that is obviously advantageous to the company, yet it is accomplished by enough socially relevant goodies to make it look the way a government programme targeted at rural development ideally should. HLL, coincidentally, has an initiative that fits the bill, its Project Shakthi that uses Women's self help groups in rural areas to further its reach. "The problem with old-style CSR was that the benefactors were not in control of what they would get", says Vivek Vaidya, a brand consultant. With brand or corporate strategy driven CSR, they are.
(Source: Business Today, May 8, 2005)

Questions

1. Explain the success of Do bucket paani ab rozana hai bachnai (I will save two buckets of water a day) campaign for Surf Excel.
2. What consumer behaviour insights can you draw from this case.
3. Identify the personal and interpersonal factors that affect consumer behaviour for the product/service described in the case.

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Case study 5.

HLL goes adult with its ice creams

The summer looks hot. That isn't the weatherman talking, but the ice cream marketer, who seems to have abandoned an age-old positioning of the product (as a fun, family treat) in favour of a new one: as an adult indulgence. Leading the new strategy is HLL, which has reworked the marketing communication of its Kwality brand to something more risqué. Its TV and billboard ads show adults "pleasuring it up" quite suggestively. What's up? According to an HLL spokesperson, the repositioning is "a bid to reflect the sensorial awakening in society".

"Evidence of which", the spokesperson continues, "is to be found in the spending one sees at malls and multiplexes". At any rate, says the spokesperson, given that half of the country's population is between 18 and 34, its new communication better reflects its image as a youthful and indulgent brand. Rivals haven't yet followed suit. On the contrary, ones

like the Anand-based milk marketing cooperative Amul, whose officials were not available for comment, are sticking to their family-centric campaigns, Will HLL's new positioning put its Rs.89 crore (2004 revenue) ice cream business on the boil? Hard to say. For, this is one category where availability plays a bigger role than just branding.
(Excerpt from Business Today, May 8, 2005)

Question

1. What are the market segmentation, targeting and positioning insights that you draw from this case?
1. Why is HLL repositioning its Kwality brand of ice creams?

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UNIT-II

Lesson 2.1 PRODUCT DECISIONS

This unit on the first P of marketing, namely the Product, will help you answer the following questions:

- What product should the company make?
- Where exactly are these products to be offered?
- What should be the width of the product mix?
- How many different product lines can the company accommodate?
- How should the products be positioned in the market?
- What should be the brand policy?

Overview

It is a fact that product/service is a 'mixer of ingredients' where in the manufacturer / service provider who blends various marketing activities in a manner that strengthen the business the interests of the firm. As we seen in lesson 11, the crux of any marketing strategy is to bring about the desired operation in the light of prevailing circumstances. We also learned from the pervious lesson that the planned manipulated to get optimum results in limiting environments. This lesson narrates the important concepts like marketing mix, products, brand, trademark, packing and labeling with suitable example from Indian marketing environmental.

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Significant Of Marketing Mix

The most popular 4 Ps' framework as suggested by McCarthy with the marketing mix variables- products, place, promotion and price had origination from the study of the manufacturers – i.e. the organization engaged in production and marketing of goods – it is more oriented to deal with goods marketing situations. However, service characteristics are radically different fro goods; and so are the challenges in their marketing. It

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is wrong to imply that services are just like products except for intangibility. But such wax-like logic as "apples are just like oranges, except for their appleness" does not stand the heat of nuts-and-bolts.

Marketing Product / service characteristics and add new dimensions to a marketing situation that is faced by the service manager. Given the product / service characteristics and activities in product/service firms, eight Ps' framework for services has been proposed. For the services, the additional prescribed Ps given below refer to activities that are service marketing mix can be summarized as follows:

Product - service core, levels, additional services, branding.

Price - price, discounts, terms of payment.

Place - location, channels of distribution, coverage.

Promotion - Advertising, sales promotion, personal selling and publicity.

For Service Additional 4 Ps Were Added For Marketing Services. They Are:

People - customer-provider relationship, training, culture, skills, and attitudes.

Physical - ambience, appearance, equipment, machines

Evidence - Buildings, physical facilities

Process - Activity sequence, quality management, customer participation and delivery process

Productivity - Efficiency of human and non-human capitals in the production process. But our discussion limits only to the first four Ps.

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Lesson 2.2 Concept Of A Product

The term 'product' is widely used to refer a market offering of any kind. In its broadest sense this may be anything from the physical to the abstract – an idea or a moral issue. Generally, however, most products are made up of a combination of physical elements and services. This is true in services marketing, where the service offering can include tangible features, such as food in a restaurant, or be a 'pure' service, intangible in nature.

A service product refers to an activity or activities that a marketer offers to perform, which results in satisfaction of a need or want of predetermined target customers. It is the offering of a firm in the form of activities that satisfies needs such as hair styling done by a barber.

Consumers will buy only what suits them. As customers, we buy different kinds of products and services to satisfy our various needs. We buy toothpaste, butter, shaving cream, pen, scooter, and ticket for the U.S.A and many other such items in our daily life.

As we understand, our decision to buy an item is based not only on its tangible attributes but also on psychological attributes such as services, brand, package, warranty, image, and etc. discussions about the marketing of goods apply to services as well. Services have special characteristics that make them different than products.

According to Alderson, W., "Product is a bundle of utilities consisting of various product features and accompanying services" according to Schwarte, D.J., "A product is something a firm markets that ill satisfy a personal want or fill a business or commercial need".

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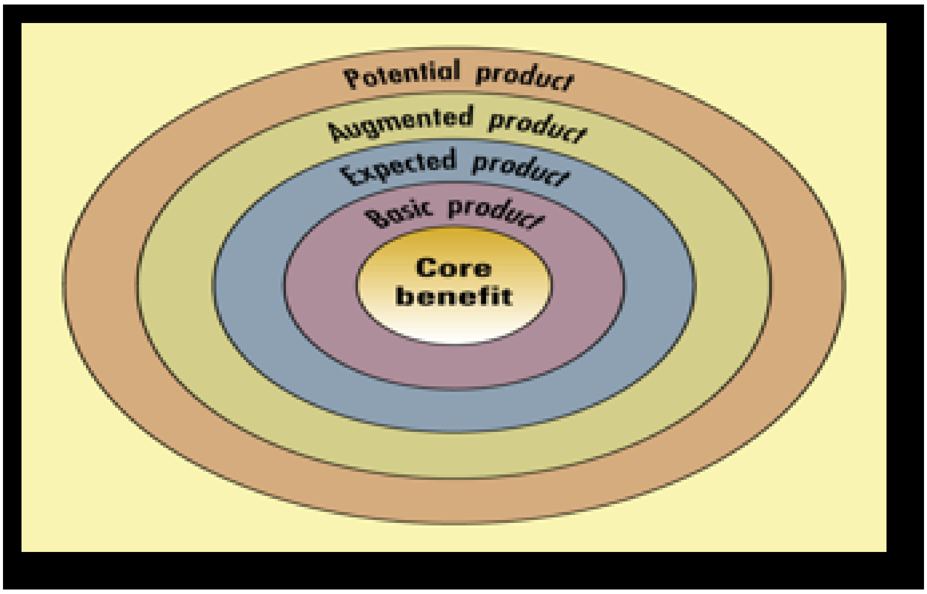
At the time of product planning, the marketer has to think about FIVE types of benefits.



From Generic To Potential Product

Most of you would be aware that a product has a personality of several components-like the physical products, the brand name, the package, the label etc. all of us know that most of the products are undergoing a constant change and the marketing man has been constantly engaged in enriching his product offer. In his attempt to score over competition, he has been bringing about refinement on his basic product offer, but managing the product was becoming more and more difficult. Hence the product traveled various levels:

- The Core Product
- The Generic product
- The branded Product
- The Differentiated product
- The customised product
- The augmented product
- The potential product

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The **Core** benefits: what does the product mean to the customer? For example, a bread offers core benefit of *reducing hunger*.

The **Generic product** is the unbranded and undifferentiated commodity. *Examples are: like rice, bread, flour or cloth.*

The **Branded Product** - The branded product gets an identity through a 'name'.
Modern bread, Harvest are branded products.

The differentiated product - The differentiated product enjoys a distinction from other similar products/brands in the market. The differential claimed may be 'real', with a real distinction on ingredient, quality, utility, or service, or it may be 'psychological' brought about through subtle sales appeals.

Close-up tooth paste offers freshness and bold intimate social interactions among youth, whereas its rival Colgate offers prevention of tooth decay with freshness..

The customized product - Customer specific requirements are taken into account while developing the product. Commonly practiced in the industrial product marketing, where the manufacturer and the user are in direct contact and the product gets customized to the requirements of the customer.

A ready made garment represents customization for a group of people; when you buy one, you ask for alterations to suit your shape and size. On the other hand, if you give cloth to the tailor for stitching, the garment is customized to you.

The augmented product

The augmented product is the result of voluntary improvements brought about by the manufacturer in order to enhance the value of the product, which are neither suggested by the customer nor expected by them. The marketer on his own augments the product, by adding an extra facility or an extra feature to the product.

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Refrigerators are augmented with extra shelves, more shelf space, and double doors.

The potential product

The potential product is tomorrow's product carrying with it all the improvements and finesse possible under the given technological, economic and competitive condition. There are no limits to the 'potential product'. Only the technological and economic resources of the firm set the limit.

Robot-managed houses, artificial hearts, flying cars, space travel jets, etc., represent potential products.

Product differentiation

Is the act of designing a set of meaningful differences to distinguish the companies offering from competitor's offerings? The number of differentiation opportunities varies with the type of industry. The Boston consulting group has distinguished four types of industries based on the number of available competitive advantages and their size.

1. **Volume industry** : One in which companies can gain only a few, but rather large,competitive advantages.
2. **Stalemated industry** : One in which there are a few potential competitive advantages and each is small.
3. **Fragmented industry**: One in which companies face many opportunities for differentiation, but each opportunity for competitive advantage is small.
4. **Specialised industry** : One in which companies face many differentiation opportunities, and each differentiation can have a high payoff.

Theodore Levitt in one of his books "Marketing Success, through differentiation of anything" explains that in a market place, there is no

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such thing as commodity .All goods and services are differentiable. In a market place differentiation is everywhere .All the companies try to distinguish their offer from that of their competitor. This is true of even those who produce and deal in primary metals, grains, chemicals, plastics and money. Starting from technology to plant location to post sale service firms to the personnel/procedures employed for various functions like sales, production etc., and companies can differ their offers in many ways. Companies usually choose those functions, which give them greatest relative advantage.

There are different strategy stances that firms can adopt

It is natural for different firms to take different strategy stances as the requirement; situational design of each is different from the other. One firm might find it appropriate to have direct confrontation with the market leader; another may find it appropriate to keep aloof for some time from the competition; and the third might may find it relevant to chalk out a strategy of sheer survival. No strategy stance is universally valid. Broadly strategy stances can be classified under three heads-Offensive/ confrontation strategy, Defensive and Niche strategy.

Offensive Strategy

Is the strategy of aggression usually employed by the firm that is not presently the leader, but aspires to leadership position in the industry. It acts as a challenger and the leader is mostly its target. It tries to expand its market share and utilizes all the elements of the marketing mix in attacking the leader.

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Defensive Strategy

Is usually employed by the leader who has the compulsion to defend his position against the confrontation of powerful existing competitors or strong new entrants trying to remove the leader from the topmost position. The leader has to maintain constant vigilance and defend its position against the attack of the challengers.

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Niche Strategy

Is usually employed by firms, which neither confronts nor defend it. It cultivates a small market segment for itself with unique products/ services; supported by a unique marketing mix. Small firms with distinctive capabilities adopt this stance. A market niche to be worthwhile must have characteristics such as reasonable size, profit potential and growth potential.

Product Classification

The nature of product is found to have considerable impact on the method of product positing. There are two classes of products consumer goods, and industrial goods, and this classification is useful in product positioning. The table given below shows the categories of consumer and industrial goods. Marketers have traditionally classified products on the basis of there characteristics: durability, tangibility and use. The following figure shows the products classification:

Products Classification					
1.	Durability and tangibility	2.	Consumer goods	3.	Industrial goods
a.	Non-durable goods	a.	Convenience goods	a.	Material and parts
b.	Durable goods	b.	Shopping goods	b.	Capital items
c.	Services	c.	Specialty goods	c.	Supplies and business services
		d.	Unsought goods		0

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Tangible / Intangible Attributes – key points

Tangible

Touch

See

Taste

Smell

Intangible

Can't see

Can't touch

Can't smell

Can't taste

Durability And Tangibility

(a)Non – durable goods: Non-durable goods are tangible goods normally consumed in one or a few uses. *For example, soap, salt and biscuits.*

(b) Durable goods: Durable goods are those which can be used over a period of time. *Examples are: Colour TV, Refrigerator, washing machine and Vacuum cleaners.*

(c) Services: services rate intangible, inseparable, variable and perishable products, *Airlines and Railways offer travel services. Post and telegraph offer communication services. Hospital and diagnostic centers offer medical services.*

Exercise: Think of examples of product/services possessing above tangible and intangible attributes

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Consumer Goods Classification

a. Convenience Goods:

These are goods that the customer usually purchases frequently immediately and with a minimum of efforts, example includes soaps and newspapers.

Convenience goods can be further classification into three categories:

- Staple goods: consumer purchase on regular basis. *Rice,wheat, oils etc.*
- Impulse goods: consumer purchase without any planning or search efforts. *Chocolates, soft drinks, biscuits, toys, magazines, etc.*
- Emergency goods: consumer purchase on urgent need.

  Certain drugs, ambulance services, tatkal reservation of rail tickets, come under this category.

b. Shopping Goods

These are goods that the customer, in the process of selection and purchase characteristically compare on such bases as suitability and quality. *Example: furniture, kitchen equipment, electrical appliances, clothing, etc.*

c. Specialty goods

These are goods with unique characteristic or brand identification for which a sufficient number of buyers are willing to make a special purchasing effort. *For example apartments, cars, jewellery, greeting cards, gift articles etc.*

d. Unsought goods

These are goods the consumer does not know about or does not normally think of buying. *The classic example of known but unsought goods is life insurance and ambulance services.*

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Industrial Goods Classification

a. Material and Parts

These are goods that enter the manufacturer's product completely. They fall into two classes. Raw material and manufactured material parts. *Iron,zinc, sulphur, jute, fruits, wheat, nuts, bolts, transistors, chips, etc.*

b. Capital Items

These are long lasting goods that facilitate developing or managing the finished products. They include two groups: installation and equipments. *Blast furnaces, lathe machines, computers, fax machines, etc.*

C. Supplies and Business Services

These are short-listing goods and services that facilitate developing or managing the finished products. *Lubricating oils, cotton, brushes, stationery items, etc.*

Decisions, Which Are Useful For Products Management

The search for competitive advantage – and escape from price-based competition – often centers on the value – creating supplementary services that surrounds this core and add differentiation. Managers should be aware of the important of selecting the right mix of supplementary service elements-no more and no less than needed –and creating synergy by ensuring that they are all internally consistent. Customer research, evaluation of competitive offering and feedback from employees can all provide important inputs to the decision making process. Three principal factors should be considered here are.

- The nature of the market and competition from the product
- The nature of assistance needed by the product regarding production, engineering, financing, staffing and so on,
- Strategic requirement of a border nature, namely, those affecting the product line, the business or the whole corporation.

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Factors To Be Considered In Organizing For Product Management

- What do we want to out of product management
- What do we want our product manager to do?
- How do we want our product manager to do their jobs?
- What operational guidelines will we established?
- What expectation do we have for the specific contribution of product manager and product management?
- What authorities will be assigned to product managers?
- What are the number and nature of products and managers?
- What are product objective?
- How will we measure the effectiveness of our product management?

Role Of Product Manager In An Organization

In assessing the product manager's performance the following checklist can be used:

- Product line control
- Product life cycle, analysis and capitalization
- Product development and success of new products recommended
- Improved communication
- Improved supplies and sourcing
- More and better market information
- Wider and better market information
- Centralized products planning
- Coordination of activities
- Achievement of planned profits
- Cost and profit control

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Summary

What Is A Product

- What you but, that satisfied what you want to be able to do
- It can be "good felling" causes you bought some cosmetic and someone said you looked pretty
- It could be a happy stomach cause you bought a meal that tasted great
- It could be easier homework cause you bought new software for your company
- Most customer think about product in terms of the total satisfaction
- This can lead t statements such as "we don't sell cars, we sell safety!"
- We don't sell houses, we sell homes

Product Line

- A series of related products
- A group of products that are physically similar in performance, use or feature and intended for a similar market
- "… A set of products that are closely related."
- Shoes Nike, Adidas, Rebook, file, new balance, British knight, books, converse, vans, sic, puma notebooks, Toshiba, NEC, TI, Compaq, IBM, DELL
- Apple, HP, Hitachi, mitsubishi, matsushita.

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Cannibalization

- Situation involving one products taking sales from another offering in a product line
- Cannibalization occurs when sales of a new product cut into (reduce)the sales of a firm's existing products

Lesson 2.3 Product Mix Decisions

- What product should the company make?
- Where exactly are these products to be offered?
- What should be the width of the product mix?
- How many different product lines can the company accommodate?
- How should the products be positioned in the market?
- What should be the brand policy?

Basically the answers to these will constitute the product policy of a firm.It constitutes the following:

Appraisal of the product line and the individual products

No product line is perfect and also does not run for all times to come. Changes happen in the business environment, customer tastes and preferences, extent of competition that pressurise the product policy of the firm. New, changed, advanced products are introduced or even old products are withdrawn from the market by the companies to revive the lost market image, to overcome the treat of functional obsolescence due to new improved /substitute products introduced by competitors, to regain profitability or when the product has entered a stage of decline. Firm needs to constantly monitor the company's product policy.

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This topic of Product Mix & Product Line is very important so concentrate on it.

When we say a firm's product mix we are actually discussing about all product items it offers.

Hindustan Lever's product mix includes agro-chemical products, soaps, detergents, toothpaste, shampoos, Talcum powders, cosmetics and now, frozen foods.

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Just suppose any organization is marketing more than one product then it has a product mix.

Product item—a single product

Product line—all items of the same type

Product mix—total group of products that an organization markets

Now if I say a product line what do you understand from this?

It is basically a group of products that are related because of customer, marketing and or production considerations.

Rin, Wheel, Rin Solarox, Rin detergent powder, Surf, and Surf Ultra are part of Lever's detergents line and Le Sancy, Lux, Rexona, Lifebuoy, are part of its soaps line.

When we are discussing about a typical large multi-product firm's product mix includes new, growing, maturing and declining products.

Reasons many firms do not want to limit themselves to one product.

- To counteract the effects of the PLC on a one product firm.
- To even out seasonal sales patterns.
- To use company resources and capabilities more effectively.
- To capitalize on middlemen and consumer acceptance of established products.
- To spread production and marketing costs over a wider product mix.
- To become better known and respected by middlemen and consumers.

Breadth & Depth

Now you have a fair idea on what is a product mix. In product you have to define the structural dimensions of breadth (or width) and depth. Breadth refers to the number of different product lines. Depth refers to the number of product items within each line. A firm can expand its product

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mix by increasing the number of product lines or the depth within one or more product lines.

HLL expanded in breadth when it entered the agro-chemical business. It expanded in depth when it bought TOMCO a soaps and detergents company.

Width of product mix

Lever's Product Mix and Product Lines (partial listing)

Detergent	Soap	Toothpaste	Talcum Powder	Cosmetic
Rin bar	Le sancy	Close up	Ponds	Fair & lovely
Wheel bar	Lux	Pepsodent	Liril	Lakme
Rin Powder	Rexona			
Wheel Powder	Lifebuoy			
Surf	Liril			
Surf Ultra				

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You would have noticed that so many companies market just one or two product lines, and hence their product mix is narrow.

Do you know in which all areas General Electric operates?

It basically operates in diverse fields, and has broad product mix. You can see in Fig that each product mix has a depth, which is given by models, colours, sizes, available in each individual product lines.

As all of us know that pharmaceutical company has a product line of antibiotics. It has several dosage forms like it can be in the form of capsules,

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dispersible tablets for children, vaginal suppositories, injections, eardrops, eye drops and Syrups under the dosage form and then the size of the package can be different. The company has several brands of antibiotics, and each brand has several dosage forms and sizes. We can say, that its product mix has depth. On the contrary, a few products, in one size only as one brand is an example of a shallow product depth.

All the decisions related to product lines offers are from company's strategic plan and marketing plan. It considers the segmentation of the market and targeting. Just suppose an organization wishes to target young' children, it can add a whole new product line for it.

New product lines are either a matter internal development or can be acquire. Each product line also can be expanded. The important idea is that the product line of a company reflects the objectives of the organization, the targeting decided upon and the buyer behaviour in a given market.

You can modify existing Product lines:

We have a number of reasons to alter either an existing product or a product line. The reasons could be to support marketing strategy, to improve sales, to improve profits, to expand market share. We can also consider what the product as such contributes to the product portfolio. We can modify a product line by altering either one or more than one of the following attributes:

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(1) Composition of the product line

(2) Expansion or contraction of product line

(3) Value addition process

(4) Brand

(5) Packaging

(6) Physical characteristics

(7) Positioning

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The first two attributes are relevant to a set of products in the product line. The rest are relevant to either individual products or product lines.

Expanding and Reducing the Product Line:

Companies do not, in general, offer single product and single model .

As you are aware that there are many models of TV available in the market. There is a large variety of radio sets from Sony. Underlines bras are available in a number of styles. Syrups and crushes are available in many flavours, e.g., Rasna concentrates and Mala's crushes.

There are technical products with higher and lesser sophistication. We find many product categories where consumers prefer to have a great variety for their satisfaction. Marketers are adopting strategies of adding new versions with new specifications, while retaining the old versions for the less sophisticated consumers.

Sometimes this addition of new products to existing line is done to include complementary products, e.g., *a toothpaste marketer may add toothbrushes to the product line. Camel may introduce paintbrushes, which go well with its watercolours.*

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Sometimes, there are occasion to delete a product/products from the line. A product, which shows decline in terms of sales, may be abandoned. Non-contributing products may be eliminated. While doing so, it should be seen that other products in the product line are not affected.

HUL has removed Lifebuoy carbolic soap from its line. It upgraded Lifebuoy to compete with other beauty soaps.

Product line length

Now you should ask a question what is the optimum size of a product line?

A line is too long if after eliminating a product is results into increased profits. A line is too short when any addition to it results into increased profits.

One thing should be clear to you that the Company's overall objectives do affect the length of its product line. For instance, a company may have the objective of expanding its market share. It will then have a longer product line. Contribution of individual products to profits may be ignored. However, a company whose objective is to have larger profits will have a shorter product line consisting of those items, which contribute to profits substantially Product lines have a tendency, to lengthen over a period of time. Many a time, a firm may, have extra capacity, which is used for developing new items. . Sales people and trade put pressure on management to keep on adding items to a product line so as, to satisfy their customers.

Lengthening of the line shoot up costs. At some point, this must come to halt. Loss making items are then eliminated. The contribution of items to profits is studied. Thus in the life of an organization, there is a cycle of longer product line followed by a pruned product line. This cycle is repeated again arid again.

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Line stretching

Line stretching occurs when this range is lengthened. This stretching could be upward, downward or both ways.

Most of the companies have range of products in its existing product lines, like Videocon has a range of TVs in its product line, right from budget TVs to premium TVs. Videocon entered the market targeting elite consumers. Later, it introduced 14 inch private to yuppies, Bazooka for Richie, Turbo tough to middle income aspirants, and Budgedt lien to the low income price conscious. ,

Upward stretching

Here a company operates in the lower end of the market. By upward stretch, it proposes to enter the higher end. Perhaps, it is motivated by higher margin of profits, higher growth rate or a position of a full-range marketer. This decision has its own risks.

A well-established high-end marketer might assault the stretcher by stretching downwards. Besides, it is a question of credibility of a lower-end marketer -whether he will be able to produce high quality products. There is one more risk. The existing infrastructure of a low-end marketer may not be competent to deal with the high-end market.

Hindustan Lever introduced Surf Ultra to match Ariel of P&G and then introduced Surf excel-all in the premium category. Philips had its two in ones in the price range of Rs.1000-2000. To entice high quality conscious upend end consumers it introduced Power house a in the price range of Rs.6000-9000 range and powerplay in Rs 15,000-25,000.

Downward stretch

Lets start with an example: like all of you know parker, parker started with pens only at high price but if we look at parker today we can see products available in the range of 50 Rupees which no one could have though of in older times.

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Many companies start with high-end products, but later stretch downwards by adding 1ow-priced products. The down-end products are advertised heavily so as to pull customers to the whole line on the basis of price.

Hindusthan Lever introduced Wheel a low priced detergent to compete with Nirma when it found that Surf had lost its market share to Nirma. When Ariel Microsystems did not generate expected revenues, P&G introduced a green alternate at a reduced price and new products like New Ariel Super soaker at much lower price.

This strategy needs careful handling. The budget brand being promoted should not dilute the overall brand image. Besides, the budget

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brand must be available. Consumers should not get a feeling that they were hooked to bait, for switching later. Downward stretch is practiced in the following situations:

A competitor stretches upward and challenges the marketer. He counter-attacks him stretching downwards

- Most companies start at the upper end, and then roll downwards.
- The high-end market has a slow growth rate.
- By filling the gap at the low-end, new competition is avoided.
- Downward stretch has its own risks. The down-end item might cannibalize the high-end items. Besides, our downward stretch might provoke a competitor to move upward. Down-end product may not be managed properly as the company may not have that capacity. It may dilute the brand image of the company's products. It is, however, needs careful consideration - a product line should not have a gap at the lower-end. It exposes the company to competition, e.g., American car companies faced the competition from small-sized, Japanese cars at the lower-end of the market.

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Two way stretch

Beside upward and downward stretch you can even stretch in two ways like several companies serve the middle-end market. They can stretch their product line in both the directions.

A hotel company operating hotels in the comfort category where each room has a tariff 2000-3000 a day might decide to have elite upper-end hotels with tariffs of Rs. 5000-7000 a lower-end budget hotels with tariffs of Rs. 600-1500 a day. Ashoka group of ITC has thus elite 5-Star hotels, at the upper-end comfort hotels at the middle-end and budget hotels like Ashoka Yatri Niwas at lower end.

Application exercise

Go to the area of your town that has a number of restaurants. Compare the product mix of one with the other. Are there any differences in width or depth? How could they stretch their lines?

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Another concept, which is very important and should be know to you, is cannibalization:

When the sales of the firms new products are due mainly because of decreasing sales of its existing and established product then we say that cannibalization has occurs in brief we can say by this you are actually eating away your own market.

A good example of it would be Hyundai Santro they have introduced Santro Xing as a new product in the market in other way they have cannibalized their own market, like a person who wanted to buy Santro old model will buy Xing as it latest so they are not capturing new customer but converting their own customers.

Only if they are able to make a person buy their product where he was planning to buy some product of Maruti then it is not cannibalization. If you want to avoid cannibalization, the new product should not be identified too closely with established products. Instead it should be targeted with new appeals to different market segments. Cannibalization is desirable when margins on new products are higher than those on established Products. In highly competitive industries, it is often desirable to induce target customers to trade up to the firm's newer products.

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This strategy is adopted by Videocon International, Which entered the market with a low priced color TV with basic features and then introduced more sophisticated models up the price scale in order to ensure that customers in all segments would buy only Videocon products.

Product Lines And Brands

Most service organization offers a line products rather than just a single product. Some of these products are distinctly different from one another. Again in response to changing market opportunities, companies may revise the mix of products that they offer. Following example illustrate this concept.

British airways (BA), which explicitly reorganizes eight different air travel products – or brand – under the British airways umbrella. (The company also has equity shares in several other airlines). There are four

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intercontinental service brands – Concorde (supersonic deluxe service), first class (deluxe subsonic service), club world (business class) and world (business class), and world traveler (economy class) ; two intra –European brands-club world (business class) and euro – traveler (economy class) : and within the united kingdom, the super shuttle brand, offering a graduated economy seat and high – frequency service. In additional, six commuter airlines, flying in British airways colors, operate service in partnership with BA under the British airways express brand. As described by Douglas each British airways brand has a key brand proposition and a set of clearly stated product specifications for preflight, in-flight and on-arrival service element. To provide additional focus on product, pricing and marketing communications, responsibility for managing and developing each brand is assigned to a brand management team. Through internal training and external communication, staff and passengers alike are kept informed of the characteristic of each brand.

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Lesson 2.4 Brand Decision

Many consumers products their basic feature, need attractive packing and a 'brand name'. A brand is a symbol or a mark that helps customers in instant recall, differentiating it thereby roam the competing products of a similar nature.

What is the brand? too often even marketing professional don't have an answer and to many have their 'own' answer. Which makes life very confusing! We've trawled though our resources to find some of the best definitions: the dictionary of business and management defines a brand Asia name, sign or symbol used to identify items or services of the seller(s) and to differentiate the from goods of competitors

Signs and symbols are parts of what a brand is, but to us this is a very incomplete definition. Walter Land or one of the greats of the advertising industry, said: " simply put, a brand is a promise. By identifying and authenticating a products or service it delivers a pledge f satisfaction and quality. In his book, ' building strong brand' David Aaker suggests the brand is a 'mental box' and gives s definition of brand equity as : 'a set of assets (or liabilities) linked to a brand's name and symbol that adds to (or subtracts from) the value provided by a product or service. According to the American marketing association, "A brand name is a part consisting of a word, letter, groups of words or letters to identify the goods or services of a seller or a group of seller and to differentiate them from those of the competitors."

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David Ogilvy defined a brand are not necessarily positive! Building from this idea of a 'mental box' a more poetic definition might be : these are all great definitions, but we believe the best is this : "a brand is a collection of perceptions in the mind of the consumer. A brand is the most valuable real-state in the world, a corner of the consumer's mind" . Why is the best? Well, first of all it is easy to remember, which is always useful! But it is also best because it works to remind us of some key point:

1.This definition make it absolutely clear that a brand is very different from a product' or service. A brand is intangible and exists in the mind of the consumer.

This identification helps us understand the idea of brand loyalty and the 'loyalty ladder'. Different people have different perceptions of a product or service, which places then at different point of loyalty ladder. A brand mark is a symbol or a design used for the purpose of identification. For example: Air India's MAHARAJA. The legal version of a brand mark is the 'trade mark' e.g., Ashok Masala and Good Health Atta.

A brand is given legal protection from being used by others because it is capable of exclusive approbation. A brand distinguishes a product or service from similar offerings on the basis of names are: LUX, LIRIL, REXONA, EVITA, PROTEX, HAMAM AND LE SANSI in case of toilet soaps; SUR, ARIEL, and NIRMA in case of detergents and NIVEA, FEM, OIL OF OLEY, CHARMIS AND VASELINE in case of vanishing creams.

Building Brands in the new economy –Heidi and Don Schultz urge companies to:

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- Clarify the corporation's basic values and build the corporate brand.
- Use brand managers to carry out the tactical work.
- Develop a more comprehensive brand-building plan.
- Define the brand's basic essence to be delivered wherever it is sold.
- Use the brand-value proposition as the key driver of the company's strategy, operations, services, and product development.
- Measure their brand-building effectiveness, not by the old measures of awareness, recognition, and recall, but by a more comprehensive set of measures including customer-perceived value, customer satisfaction, customer share of wallet, customer retention, and customer advocacy

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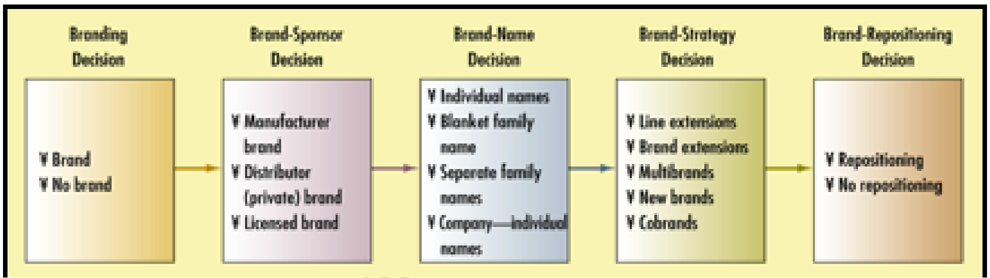
Brand preference

Aaker's five levels of customer attitude:

- The customer will change brands, especially for price reasons. No brand
- loyalty.
- Customer is satisfied. No reason to change brands.
- Customer is satisfied and would incur cost by changing brand.
- Customer values the brand and sees it as a friend.
- Customer is devoted to the brand.

Branding Decision: To Brand or Not to Brand?

An Overview of Branding Decisions



Brands provide a strong competitive advantage to the companies owning them and hence they are increasingly becoming important tradable assets.

In 1993, Coca-Cola paid about Rs.175 crore to buy Thums-up, Limca, Citra and Gold Spot brands. In 1994 Godrej soaps paid Rs.12 crore to acquire the Rs.67 crore translectra.

In 1995, Smithkline Beecham paid Rs.42 crore to acquire the Crocin brand from Duphar Interfan. In 1997, Knoll Pharma sold Coldarin and Burnol for Rs.34 crore Ranbaxy paid Rs.80 crore to Gufic Labs for Mox, Zole Excel and Suprimox. In 1997, Hindustan Lever paid Rs.110 crore for Lakme's basket of brands and only Rs.29 crore for Lakme's two plants.

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In 1999, Marico industries bought parachute and Suffola brands from Bombay oil industries for Rs.30 crore. The Gramophone company of India acquired Sangeetha, a leading audio producer of classical and devotional songs in the South. Acquiring a brand is a better, superior option over purchasing the entire operations of the company owing them for 3 months.

The buyer buys only the brand name. The brand name could be used to sell anything, which comes under the established brand personality. For example, the Burnol brand name could be used to sell an antiseptic like Dettol. Buying a brand provides a ready-made market. Apparently, Ranbaxy bought Mox because its own brand in the name family, Amoxycillin was not doing too well. Buying a brand saves a lot of brand building time and cost. Drug companies are known to recoup the cost of acquiring a brand in less than four years.

Summary

1.Brand

Brand is a name, term, sign, symbol, or design used to identify the products of one firm and to differentiate them from competitive offerings. It can be Words, letters, or symbols that make up a name. The benefits of branding are:

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- It is used to identify and distinguish the firm's offerings from those of its competitors. Originally it helped trace the source of the guild producer. In modern era, makes it easier to identify all the products from a particular company.
- Makes shopping easier
- Helps the companies in launching new products

To signify the consumer awareness and preference to brand the following terminology is in use.

- Brand Awareness – your product is the first that comes to mind in a certain product category e.g. Snapple ice tea, jeans – Levi's, Walkman – SONY, running shoes = Nike

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- Brand Recognition – awareness, loyalty, quality, emotion "customers remember the brand"
- Brand Preference / Loyalty – the degree to which customers are committed to further purchases e.g. "choose the brand over other brands"
- Brand Insistence – "willing to search for it." and if they don't find the brand they want, will not but a substitute
- Brand Equity – "... the values of a brand's overall strength in the market..."

2.Trademark

A brand that has been given exclusive legal protection – name and the design. It can not be imitated or copied.

3.Generic Name Brand

A brand name over which the original owner has lost exclusive claim because all offerings in the associated class of products have become generally known by the brand name (usually that of the first or leading brand in that product class).

For example, Surf is a generic name because buyers say Surf instead of saying detergent. Similarly Xerox is used to mean photocopying.

Packaging

Earlier, packaging was considered a major expense in marketing. For some toiletries, packaging costs actually exceeded the costs of contents. Today, it is however, fully recognized that packaging helps in branding and promoting brand loyalty. It also enables the buyers to handle and carry their products with case. Moreover, packaging may cut marketing costs thus adding to profit.

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Qualities Of Good Packaging

- Attractive appearance
- Convenient for storage and display
- Shield against damage or spoiling
- Product description shown on the package

Function Of Packaging Especially For Consumer Goods

- Protection and presentation are the basic functions of a packaging
- Modern marketing methods demand that, package be convenient to handle transport requirements.
- A package must be made to consistent and rigid quality standards. The consumer demands uniformity each time he purchases a product.
- Transport economics
- Every package must be recognizable and
- Every package must have eye appeal

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Packing to be satisfactory should satisfy the following conditions:

- It should be capable of withstanding the hazards of handling and transport. The cargo may be handled manually and mechanically. The handling methods may differ between places. When manually handled, it may be tilted, draped, thrown, pulled, pushed, rolled etc. further it may also be subject to compression dude to stacking. The packing should, therefore, be capable of withstanding such hazards of handling and transportation.

- It should be easy to handle. To facilitate easy handling, bulk packs may be provided with handling facilities like books, handles, gripper's etc. in case of products which shall not be turned upside down, the position should be clearly indicated like marking 'this side up'. In case of fragile articles, which shall not be subject to rough handling, the size, shape and weight of the pack should be amendable for smooth handling. Further, it should also be

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indicated on the pack.

- It should be amendable to quick examination of contents. It may be remembered that the customs authorities of the exporting and importing countries may want to examine the contents.
- It should be easy to identify
- It should be adequately marked.
- Unless it is necessary, the contents shall not be disclosed.
- It should be easy to dispose of.
- Packing must confirm to the buyer's specifications. If any and the regulations in the exporting and importing countries, guidelines and regulation by the shipping company, etc. care should be taken to observe the established has prescribed packing standards for certain goods. The British standard packing code, published by the British standards institution and Exporters Encyclopedia, USA, give detailed packing instruction. Shipping companies also given certain packing instructions especially for highly dangerous products. According to the products he intends to export, the exporter has to choose the right type of packing 1 to send the goods in good condition to the destination. A right package always guarantees the right quality of the product at the time of delivery.

Labelling

Labeling is regarded as part of marketing because packaging decision making involves the consideration of the labeling requirements. In international trade, many countries insist that labeling should be done in the absence of such a statutory requirement. Statutory obligations are important aspects of labeling. Many countries have laid down labeling requirements in respect of a number for commodities.

According to the regulations labeling of food items should disclose information about a number of aspects like date of manufacturing, expiry date or optimum storage period for good which do not have an indefinite storage period, composition, storage conditions, necessary method of use, if necessary etc. Many types of symbols for package labeling are nationally and internationally standardized.

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For consumer packaging, symbols exist for product certifications, trademarks, proof of purchase, etc. Some requirements and symbols exist to communicate aspects of consumer use and safety. Recycling directions, Resin identification code (below), and package environmental claims have special codes and symbols.

Labels may be categorized into the following

- Descriptive- giving description of weight, volume, composition or ingredients, information about manufacturer, production and packaging dates, date of expiry etc.
- Informative – giving product information as well as information about usage of the product.
- Grade indicative- showing the quality certification like ISI mark, Ag mark etc.

Role Of Packaging

- It helps increase sales: Good graphics and attractive color will make product appealing.
- It adds to the use of a product.
- It helps promote a product
- It contributes to the safety of a product
- It helps in storage
- It helps in product differentiation

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Packaging Decisions

Packaging Design

It is not easy to design a package for various items.
For example, all shaving creams come in tubes, but different brands of shaving cream have different packaging. Because of the high cost of packaging some companies have resorted to refill packs.

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Color

Color is an important factor for determining customer acceptance or rejection of a product. The use of right colors in packaging may help marketers reap huge advantage. Packaging color should be attractive so that it may help promote sales.

Coco cola is identified with red colour and Pepsi with blue color.

Convenience

Packaging should improve convenience in handling the product.

To make it easy to carry milk and soft drinks are packed in tetra packs, to make it easy to store, Threptin biscuits are packed in tins, to make it easy to use air fresheners are packed in spray bottles.

Packaging the Product Line

A company must decide whether to develop a family resemblance in the packaging of its several products. Families packaging involves the use of identical packages for all products or the use of packages with some common feature.

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Questions

1. Define a product
2. What do mean by product line
3. Explain the components of management
4. Describe major options available for branding a consumer product
5. How do you classify consumer product
6. Discuss in detail how productization will help IT products manager in India
7. Explain the significance of packing and labeling
8. List major industrial products
9. Explain the significance of product management. How branding packaging and labelling help product manager in realising their business goals.

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10. Classification products both industrial and consumer according to the type and use of products
11. What do you mean by productization? How do you position an IT product like SPSS for Indian managers?
12. Explain products positioning. Describe the importance of selecting a products line for gaining competitive advantage in FMCG industry India
13. Explain the concept of brand equity, brand awareness and trademark based on the example taken from a software industry.

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Lesson 2.5 - New Products Development Strategies

Overview

With advances in technology and intense competition, the creation of new products has become a way of life in India. However, begin a developing country, India is yet to face a situation of too many products chasing a handful of customers. Moreover, the sheer size of the Indian market and the continuing economic development has opened up new vistas for launching new products. This lesson discusses new products development process in detail and also analyses the new product launches in India in the new millennium.

New Products Launches

An analysis of new products development in the recent past shows that these products have been either offshoots of technological development in the west or improvement over the existing products in the areas of their, style, substance or packing. In the recent past, new product launches in India have shown that these launches can be broadly classified into three categories.

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a. Marketing Innovations

Companies have been improvement on existing products and have launched these as new products in the market.

For instance, magi noodles, soft drink in tetra pack, shrikh and pan parag etc., are basically slightly alternated version of existing or old products.

Here, consumers did not require changing their consumption habits drastically to accommodate these new products.

These are example of improvement in the products whose success was derived more from marketing innovation such as packing, branding

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and easy availability, rather than any significant change in the substance of the product itself.

b. Product Improvement

By introducing modifications to the existing product, a product can be made new.

The launch of 100cc two-wheelers, radical types, instamatic cameras are basically slight innovations on the technology / design of existing products, although the products category as such already existed in its primitive form.

Such new products are generally targeted for a new class of buyers. The success of such ventures depends upon the ability of the marketers to convince the consumer about the improvement in the performance over traditional brands(s) as well as over similar new extract.

For example, in the 100cc two wheelers vehicle market, TVS Suzuki was the entrant and it had captured a sizable market. Subsequently, Hero Honda became the market leader in this category of motorcycle by virtue of better performance and marketing techniques.

c. Technological Innovations

Some innovations change the life style of the consumers. They change the consumption patterns.

The Indian market has experienced a rapid induction of products like personal computers, photocopiers and colour television. , Mobile phones and Internet haes revolutionized the communication styles of people.The launch of transistor sets and cassette players, though primitive by today's standards, were at one time new to the market. They eventually replaced radios and gramophones.

Generally, these products require some kind of assembling of improved kits. Although adaptation of such products calls for substantial change in the consumption pattern, yet these products have succeeded in view of their significant utility to the user. Such venture require an initial awareness building and persuasion to install the product. Initial resistance

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to change may delay any adoption of new technologies. However, a look at the track record of such new product shows that early entrants have reaped the benefits of leadership. Subsequent entrants have faced difficulty in establishing themselves.

The Technology / Market Matrix

Another way to look at new products is through one of strategic planning's most useful analytical devices – an array of future options or alternative such as that shown in figure 1.1, A firm has roughly four way to gain new business – see quadrants A, B, C and D in the figure 13.1

Technological Newness			
New Product Growth Opportunities		**Present Or Improved Technologies**	**New Technologies**
Market Newness	Current Market	**A** Improved products.	**B** Line Extension.
	New Markets	**C** New use and market extensions.	**D** Diversification.

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Product improvement

This is the easiest strategy – selling more of the product line to current customers. This involves product improvement, smarter marketing and increasing market shares. New products management plays a minor role and the activity is often called market development, not product development.

Line Extension

It involves capitalizing on the firm's current strengths. If the strengths is franchise with a particular customer group, quadrant B's strategy is to develop more product t sell to them. Such products don't

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have to be unique because the franchise will help sell them.

New use and market extensions

This is suitable when the firm's strength is technology –something the firm known or does especially well.

Example are coca-cola's bottling system. Coming's glass skills and Hewlett packand's electronics capabilities.
Such firms try to develop new products that exploit their technology.

Diversification

It involves leaving both the firm's customer base and its technology base. This high-risk strategy should be used only under special circumstances. The new products may come by acquisition rather than through internal product development.
DCM'S entry into the LCV market fits into this category.

Over View Of New Products Development Process

New products development consists of the certain of new ideas, their evaluation in terms of sales potentials and profitability, production facilities, resource available, designs and production testing and marketing of the products.

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The main task of the product planners is to identify specific customer needs and expectations and align company's capabilities with the changing market demands. In each of these stages, the management must decide :(a) whether to move on to the next stage, (b) to abandon the product, or (c) to seek additional information.

Routes Of New Products Development

Transfer of Technology

New Products have often been launched, based on new technology, either acquired from the parent company or with foreign collaboration. Launch of the personal computer or photocopying machine is a move in this direction.

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Diversification

Sometimes companies have entered into new lines of business and catered to altogether new markets for the first time.

ITC's decision to enter into hotels, paperboards, edible oil, and tissue paper is a diversification strategy. Likewise, Shaw Wallace diversified to real estate business. Bata has successfully launched many sportswear, fashion jeans and apparels.

In general, diversification strategy tries to reduce the dependence of a company on a limited line of products. At times, companies find the new business more profitable than their former activities.

Additions to Existing Product Lines

New product lines and brand extensions have sometimes supplemented a company's existing business.

Videocon's entry in to washing machines and music systems form color televisions is a case in point. Similarly, as a business group, Godrej's strategy to expand its product range from consumer non-durables like toiletries to durable such as refrigerators, cupboards and even office equipments is a classic example of product line extension.

Improvements / Revisions in Existing Products

New products that offer superior performance and replace existing products are another way of entering the market.

Cost Reductions

New products that provide similar performance at lower cost e.g., Nirma detergent, Tata – 407 LCV.

Products Relaunch

Sometimes old products have been relaunched with minor improvements and targeted at completely new markets or consumer segments.

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Significance Of New Product Development

Whatever may be nature of operation of a concern, product planning and development is necessary for its survival and growth in the long run. Every product has a life cycle and t become obsolete after the completion of its life cycle. Therefore, it is essential to develop new products and alter or improve the existing ones to meet the requirements of customers. One of the most common products – planning problems relates to the addition of new products to the existing product line.

Addition of new products involves generation of new product ideas, appraisal of various possibilities, economic analysis, product development, product testing, test marketing and developing markets. Another important problem of product planning is modification or elimination of existing products.

The need for continuous of the product is great because society's needs are always changing and improved products must be introduced to fulfill them. All products have certain deficiencies, as they are the result of great many compromises. The perfect product has yet to be made. Research makes possible the reduction of these deficiencies and brings about improved products.

New Product Development Process

The developers must be conscious of the probabilistic nature of their endeavors. New product development endeavors are complex, strongly dependent on diversified human resources and significantly affected by factors and events beyond the developers control. Thus, the belief that the implementation of a mechanical methodology can assure success is an illusion and at times a delusion.

Sources Of New Product Ideas

Customers:

Customers are sometimes able to discuss their requirements and offer ideas that will meet those problems.

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Competitors:

Systematic comparison or bench marking with the competition may offer good source of new product ideas.

Distributors:

Suggestions from distributors and their problems in handling present products often thrown up new ideas.

Creative techniques:

Brainstorming, focused interviews and technological forecasting enable one to find out the latent capabilities of innovations.

External world:

The external world, especially the use of their technology, offers a good source of ideas for implementation in the home market.

Research and development:

Create new product ideas through R&D.From initial generation of ideas to full commercialization and well into the mature age of a product, the developers should strive to control what is in their power to control a do to monitor what is beyond their control. No single facet of new product development can assure success. Few facets are so deter mental that they are cannot be at least alleviated. Because of the probabilistic nature of new product development, planning and assessments must consider long-term repercussions.

Organizational Structure and Staffing

Given a clear strategy it is necessary to build the organizational capability to meet the challenge. At times this is simply appointing a committee. Other times it is creating an entirely new team and physically separating it from the ongoing organization. Selecting the right persons for such a team is difficult.

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Concept Creation and Development

Once the enabling conditions of strategy and organization are identified, actual ideation can begin. First, the team must focus on one area of interest or activity – specifically, a product category, a group of team may study floppy discs and try to improve them. Another team may try to find better ways to solve the problems of teachers. Or they may work to develop improved gold balls or golf balls or golf clubs. They may focus on their design capability and find new applications. Or they may focus on combinations of two or more of these areas.

Concept Development

Concept development involves asking question such as the following:

Need: Do customers find a strong perceived need for the benefit offered?

Trust: Do they believe that the new product has the benefits claimed?

Communicability: Do customers easily understand the key benefits being offered?

Usage: Does it offer easy adoption?

Perceived Value: Do Customers see it as offering value at the price being considered?

After the working area is defined, concept generation begins, often at a hectic pace. Ideas flow fast and in most cases rejection is equality fast. The team looks for the few fast and inmost cases rejection is equally fast. The team looks for the few concepts the warrant concepts development – the evolving of an original ideation attempt into a specific statement of need, form and technology that can be evaluated.

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Concept Evaluation

Often considered the heart of the new products process, the Evaluation State is long, involved, and difficult. Evaluation actually begins when the strategist evaluates the organization's abilities. And it continues long after a product is marketed since a product often needs revision to remain competitive. Concept testing and other prescreening marketing

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research prepare the team for the actual screening evaluation. This evaluation is a full, detailed analysis of the proposal. If the concept passes screening, technical development begins. The technical work produces prototypes, which can then be evaluated and if all goes well, the finished product can be prepared for use testing. Next, the team joins the new product to its marketing plan for a test of them combined – called market testing. All of the above data combine to permit a full financial analysis near the end of development.

Commercialization

Management's decision that the new item is worth marketing either in a test market situation or in a full – scale launch – is called the point of commercialization. Pilot processes are then converted to full-scale manufacturing. Final design specifications are written. Marketing strategy is finalized, including actual brand, packaging, service commitment etc. The team gradually moves the company from tentative exploration of a concept into production and marketing of a new product.

Review and Evaluation

After launch the entire project must be reviewed to see how successful the team was, those problems they faced and what they can learn to facilitate the next project.

Analysis Of New Product Launches In India

Empirical data suggests that in highly competitive markets such as in the US, the success rate of new launches, depending on the strictness of definition of success, varies from a low of two per cent to a high of 10 per cent. Markets in India are not as competitive as in the West and therefore, the success rate of new launches is likely to be healthier. A study by Abraham Koshy, revealed the following facts

On an overall basis, out of all the new launches, 53 per cent were successes and the remaining 47 per cent were failures. This implies that, cater is paribus, even at an optimistic level, new launches are likely to have a probability of success of around 50 per cent. In reality, this proportion may even at an optimistic level, new launches in the country today, given

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the level competitiveness in the market and professionalism of companies, is likely to be less than 30 per cent! This is worse than even the odds when an unbiased coin tosses; no company can invest huge resources for new launches if the probability of success is so unfavorable. The message from this insight is clear when the chances of survival are so low, the only way to beat the odds is through a systematic and professional approach to managing new launches. Other wise it is 50 – 50.

The mortality rates of new brands indeed tend to the high; only about 36 per cent of new products launched in the market with new brand names survived, the remaining 64 per cent were failures. This is indeed more unfavorable than the overall situation presented in the preceding paragraph it means that if you do not have a strong brand to leverage and therefore, there is a need to build brand awareness and create brand preferences afresh, then you should be even more thorough in your new launch efforts.

Life extensions and brand extensions were significantly more successful than the launch of new brands. Thus, 71 per cent of new launches that were line extensions and 63 per cent of brand extensions were successful in the market place. From one perspective, this suggests that your chances of success in a new launch are far greater if you leverage. From a different perspective, it also means that a levering strategy will not automatically guarantee you success; the results show that nearly a third of line extensions as well as brand extensions were failure. These in other words imply that even if you have strong brands, you need to be systematic in configuring your offer in tune with market needs. Inappropriate leveraging of brand names, leveraging weak brands and improper alignment of marketing mix elements are certified formulae for failures.

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How can one Influence Success of New Launches?

A perplexing question that a practitioner is often confronted with is the reasons for product failures. Marketing literature suggests several reasons for product failures. These reasons are broadly classified under product (or offer) related factors, market by the research team (or consumer) related factors, market by the research team related factors and competition related factors.

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The latter two reasons, namely market related and competition related factors provide the context of a firm's marketing operations and hence these are factors on which the firms can exert little control. All that a firm can do is to understand these given conditions and then align the total market offer based on these realities. And this is given where many firms slip rather badly. Findings of the study conducted by IIM, Calcutta provided interesting insights into the ways in which firms manage their new product activities.

Failure in Utilizing / Adopting Marketing Research Technique

The fundamental condition to succeed in any market is a deep understanding of consumers and an excellent appreciation of competitors and their activities. This can come about only if your company has strong systems and methods, not only to collect and analyze market data, but also to disseminate the information thus obtained to relevant decision makers within the organization. Studies revealed that nearly 67 per cent of the executives noted that market research agencies are seldom utilized by their companies to collect market data in a formal and structured manner; only the remaining 33 per cent of companies either frequently or almost always used marketing research agencies.

Granting that it may be somewhat costly to use market research agencies on a regular basis, the extent of utilization of internal mechanisms to collect market data also does not seem to be very high. Nearly half the companies do not have strong formal mechanisms to collect systematic data on a regular basis from their own sales people and about a third of the companies rarely collect data from their retailers. If this is the general trend, then it is not very surprising that the success of new brand launches is low.

The message, therefore, is that you need to review your internal systems and processes for gathering and utilizing market data relating to your consumers and competitors to what your decisions become sharper and data based. Success otherwise will be elusive.

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Failure in Identifying Market Opportunities for New Brand Launches

One of the weakest links in many organizations is the absence of any systematic approaches for identifying market opportunities, either for introducing new brands and products, or for relaunching and\or repositioning of existing products.

A glimpse at the mindset of companies, obtained from the survey of executives suggests that in most companies, the major source of new products ideas is the top management. These efforts are supplemented with analysis of foreign technology/ products or competitors' products. Seldom do companies obtain idea for new product launches from consumers. This is not surprising since the extent of utilization of market research for new products development.

The picture then becomes clearer for new product opportunities; companies depends either on the secondary technology available in some markets. There is hardly any serious and systematic effort to understand consumer's needs and requirement in the context of competing offers and naturally the market opportunities thus imagined to have existed turn out to be here mirages!

Failure in Integrating Customer's Choice / Ideas in New Product Offering

Consumers do not pay for mere ideas; they only buy tangible offers that satisfy their needs. Companies, therefore, need to translate their brilliant ideas for new brand sand products into tangible offers that spell out the specific benefits that the new offer will provide, the needs that they will satisfy and the cost that the consumers will have to bear.

This phase of transforming new ideas into tangible and viable market offer is very critical stage and is perhaps the stage where the firms commit major resource. But then can any firm take such major decisions without an assessment of likely consumer acceptance of the proposed new offer? In reality, unfortunately, many firms do not seem to be marking sufficient efforts in assessing consumers' reaction abut the new proposal and thus estimating the risks involved before investing huge resource to develop new offers.

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Further findings of the study suggest that 44 per cent of the firms do not carry out a formal concept testing and another 30 percent do it only occasionally. Data further suggests that 53 percent of the companies never or seldom make a per assessment of the financial viability of the proposed new products/brand before proceeding further with introduction plans.

These indications suggest that many a firms let pass occasion's access consumer preference carefully and fine-tune their proposal to reflect the value propositions of consumers. They slides over issues like leverage strengths of brands and appropriateness of equity of the brand for the proposed new product. Many a times firms even underplay the question as to whether or not the whole scheme makes the commercial sense.

Given such limited in sight in to the likely future potential of the new venture, companies end up courting disaster. In fact, many sad endings could have been averted if only companies showed little more diligence in assessing consumer reactions to the new proposal and estimating commercial viability before making major resource commitments.

Failure In Product Testing

If the core product that you are offering to consumers does not provide the functional benefits that it is intended to provide, then no amount of advertisement and publicity can salvage the situation. Therefore, it is extremely important to ensure that the basic product meets consumer requirement.

Research data revealed that nearly 56 percent of companies do test their products either frequently or almost always. Out of the remaining, 44 percent either never or rarely test their products. In all probability, the proportion of your offer, you do not have much to worry. However, even a good product will not survive if it needs to be made either before the invest in manufacturing and/or later. Many new brand failures in India today are more failures of concept rather than failures of basic product.

This observation suggests that you not only need to test the product to ensure that the functional performance under the laboratory as well as field conditions is satisfactory, but also it does address the felt needs

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of consumers better than competitors. This is also an activity, which will provide valid inputs to assess the likely market acceptance of the proposed new brand by way of volume prediction. This input certainly helps in assessing commercial viability of the proposal. Research findings suggest that most of the firms carry out some financial analysis at this stage.

Creativity In New Product Development

Consider a recent transformation at Procter & Gamble. Once a hotbed of creativity, P & G had in recent years seen the number of its product innovations decline significantly. In response, the company established Corporate New Ventures, a small cross-functional team that embodies creativity – enhancing practices.

In terms of challenge for instance, members of the CNV team were allowed to elect themselves. How better to make sure someone is intrinsically motivated for an assignment than to ask for volunteers? Building a team from volunteers, it should be noted, was a major departure from standard P & G procedures.

Members of the CNV team also were given a clear, challenging strategic goal: to invent radical news products that would build the company's future. Again departing from typical P & G practices, the team was given enormous latitude around how, when and where they approached their work.

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In the three years since its inception. CNV has handed off II projects to the business sectors for execution. And as of early 1998, those products were beginning to flow out of the pipeline. The first product, design to provide portable heat for several hours relief of minor pain, was already in test marketing. And six other products were slated to go to test market within a year. Not surprisingly, given CNV's success, P & G is beginning to expand both the size and the scope of its CNV venture.

a. Flexible Product Design for New Product Development

Product design is fast emerging as a force in the new ICE – age economy – for Internet devices, Websites, office equipment and even household gadgets. All these technological changes are reducing the

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product life cycle and bringing in more and more design innovation. The market that has taken most of the beating is an electronic gadget, be it computers pocket devices or phones. Trendier, more vibrant than the earlier versions, they are getting smaller too.

The shift towards sleek devices has come from the need for physical mobility, something that is crucial with almost all these gadgets. Studies indicate that the shift has more to do with analysis on human interaction with the devices. Product designs, today, focus on aspects of functionality, unlike the time when designs were incorporated to have a product extension in the market.

The best product example to describe this is the hands- free option that most third generation cellular phones carry. Whether it is as simple as a pen or as complicated as a keyboard that can be folded and carried in the pocket, design is changing the way products are looked at. Another field that is witnessing a lot of design change is pharmaceutical and medicine and medical equipment. With new technological improvements and design innovations, one gets to know his or her blood pressure with a guage attached to one's watch.

The watch gives out danger signals each time the pressure varies beyond the specified standards. It is amazing how quickly designers are able to conceptualize designs that are then incorporated into products. With designs playing such an important role in product differentiation, design specifications will change beyond imagination – soon.

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Product design, the painstaking process by which prototypes are developed and specifications are created and implemented in actual production, is an integral part of any business strategy. For the process to work effectively, every aspect of each activity related to the product and its life cycle must be taken into account.

These include supplier involvement, customer involvement, manufacturability, cost, time, management, usability, marketability and disassembly or recyclability. With such wide-ranging elements coming to play, a well – thought out design can provide a company with the competitive edge needed for achieving greater profits and higher market share. Organizations are always looking for better ways to design products.

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Intel, for example, has emphasized design ethnography, which focuses on understanding the customer and the culture in which a product is used. The world wide web is increasingly used for product design activities such as finding information on parts and materials, sharing designs among people, automating design sign-off's and linking geographically dispersed designed teams.

Majority of Chief Executives believe that design issues will be of increasing competitive importance in the coming years. Many product failures – even those by otherwise successful companies – might have been avoided if better product design methods were used. Author Tom Peters coined the phrase "design mindfulness" to refer to the benefits of a committed creative, an energetic focus on great design.

b. Integrating Consumer and Designer Preferences

Improved product design can be achieved by taking the viewpoints of both designers and consumers into account. In conventional product design, the marketing department sends consumers preferences to the designer, who then creates a design to meet those preferences. A delicate balance must be struck between the struck between the consumer and the designer since plans based solely on consumer preferences may be unfeasible or unrealistic.

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Designers acting alone, on the other hand, may come up with a product that is a technological marvel, but that consumers see as silly and unusable. Consumer's decision-making processes are not perfect and may given an inaccurate picture of preferences. They often think in terms of abstract goals that are difficult to translate into product features. A lack of expertise or incomplete consideration of alternatives can also lead consumers to make choices based on vague preferences, rather than considering ways to realize concrete operation benefits that would realized with greater experience and exploration.

Designers can make up for some of the short-comings of consumer input, since they usually understand more about future technologically possibilities and look at a longer time line. They are also in a better position to know that competitors might offer. For example, consumers may desire a "user – friendly" personal computer that is easy to get started with, but

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the designer realizes the computer should also meet longer – term needs. Therefore, designers should have the freedom to create innovative product designs that not only meet current user requirements but are also up to the demands of future consumer expectations. This give and take requires a delicate balance between designers and consumers since research has shown a high correlation between inadequate feedback from users and the failure of a new product containing technical innovations.

c. Striking a Balance between Consumers and Designers

The way a consumer looks at product attributes is usually much different from the way a designer looks at product "characteristics". For example, a consumer may want a boat to be fast, but a designer looks at characteristics that affect the speed of the boar, such as engine size and full shape. A distinction can be made between product characteristics and attributes: Product characteristics physically define the product and influence the formation of product attributes; product attributes define consumer perceptions and are usually fewer in number and more abstract than product characteristics.

Past product design research has focused on optimization with respect to either consumer attributes or designer characteristics. However, both the consumer and the designer will benefit from a balanced design. Plans based solely on consumer attributes ignore the relationship between attributes and characteristics; using only designer characteristics inadequately accounts for the consumer's preferences. A better approach to product design would account for the relationship between the two.

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In other words, what design characteristics would bring about the desired consumer attributes? In short, translating consumer attributes into the appropriate and corresponding design characteristics can optimize product design. This is the great benefit of multi-source product design: it optimizes both sides of the equation simultaneously.

.5 The Future Of New Products Management

In the new millennium, we are seeing more segmentation there will be even more competition for almost everyone than there is today; and life cycles of products will continue to get shorter or stay short. Similarly, most

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of the forces acting to increase the costs of innovation will remain high or will increase. In most instances productivity will increase as all producers focus so intently on it as the path to lower costs and higher-quality product. On the positive side, three forces acting to at least partially forces acting to at least partially offset the negative forces described above.

All three of these positive forces will get stronger, not weaker. The first, technology, is the strongest of all it can and that there is little left to invent, we know that this simply not so. Computerization, automated manufacturing, molecular biology, fiber optics and surface ceramics are just a few of many fields that offer what almost certainly will be more technological opportunities in the next 25 years than in the past 50.

Molecular biology has the potential for outstripping anything else done so far in this century. Moreover, there is an amazing move to invest large sums of money in older technologies, especially in the so-called mature industries. And as a final plus international opportunity continues to grow and contribute new markets, new skills and new concepts of management.

The second positive force is the general willingness of consumers to accept new items – otherwise there is absolutely no basis for forecasting. And third, management's general capability has been growing almost exponentially, particularly by taking advantage of the many MBAs entering the work force and the wide array of continuing education opportunities for managers today. The combined results of these negative and positive forces are mixed, of course, but the negatives had no perceived effect on the development and marketing of home video systems or on the development of new drugs in recent years.

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Summary

The general environment of social, economic and other forces seems to favor the continued viability of new products activities. At present no environmental force on the horizon has the power to blunt the force of product innovation. The leading on is the attitude of firms and their managements toward new products. More companies will eagerly seek such products and their searches will be more vigorous. Due primarily to (1) the interest in strategic market planning, (2) the subsequent growth

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in portfolio analysis and (3) marketing planning by individual business segments, more and more managements have come to see the dangers. The second force that will act directly on the motivation of new products managers is customer lifecycles – both consumer and industrial. In total, the above set of forecasts paints the following picture.

- There are many basic new needs – an ever-growing number of them, amid an ever-growing population, with ever more money to spend.
- Technology is fully capable of meeting many of this needs-never have we had find had the immediate technology potential that exists today?
- And never have we had such knowledge and sophisticated new products profession and such industrial capability. We do indeed know how to develop new products successfully. Given trained individual as working in corporate environments that provide the conditions known to be effective output, the only reason for a new product failure is deliberate circumvention of correct procedure.

In summary regarding the new product process, we should expect that failure rates would fall, that budgets will be up and that there will be better all-round performance as expertise is build up both inside and outside the firm.

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Questions

1. Define a new products
2. What do you mean by technology / market matrix?
3. Explain the source of new products idea
4. Describe major components of business creativity
5. What do you men by concept development
6. Discuss the detail business creativity will help IT products managers in India
7. Explain the significance of new products development in India
8. List major steps in new products developments
9. Explain the significance of new product management. Explain the

reason for failure and give your suggestion for improvement to India manager

10. Classify new products and explain how business creativity technology and markets positioning will help the new products managers to click success in India

11. Want do you mean by concept testing? How do you test an IT products like people soft for Indian managers

12. Explain products innovation. Describe the important of innovation for gaining competitive advantage in FMCG – consumer durable say, air conditioner in India.

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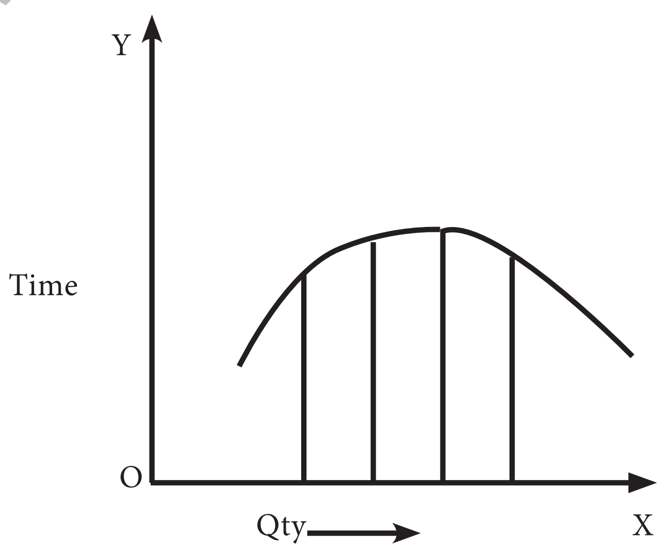
Lesson-2.6 - Product Life Cycle

Overview

Many products generally have a characteristic known as perishable distinctiveness'. This means that a products, which is distinct when new, degenerate over the year into a common commodity. The process by which the distinctiveness gradually disappears as the product merge with other competitive degeneration. The cycle begins with the invention of a new product and is often followed by patent projection and further development to make it salable. This is usually followed by a rapid expansion in its sales as the products grains market acceptance. Then competitors enter the field with imitation and rival product and the distinctiveness of the new products. While some products fail immediately on birth or a little later, other may live long enough BPL's picture in pictures TV was eliminated and the introduction stage itself. This lesson focuses exclusively on the PLC of various products and its implications for managers in detail.

The Concept

The innovation of a new product and its degeneration into common products is termed as the life cycle of products is termed as the life cycle of products. There are five distinct stages in the life of products as shown below:



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a. Introduction:

Research or engineering skill leads to product development. The product is put on the market; awareness and acceptance are minimal. There are high promotional costs.

When mobile phones came into market, the technology is new and prices were high. There was skepticism about the use of the product. Heavy promotion helped to increase sales.

b. Growth:

The product begins to make rapid sales gains because of the cumulative effects of begins to make rapid sales gains because of the cumulative effects of introductory promotion, distribution, and word of mouth influence. High and sharply rising profits may be witnessed. But to sustain growth, consumer satisfaction must be ensured at this stage.

In case of mobile phones the players like BSNL, Air tel, Idea, Hutch and others found growth in sales due to consumer awareness and fall in the tariffs. The prices of handsets manufactured by Nokia, Samsung, Motorola and others also came down with increase in demand.

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c. Maturity:

Sales growth continues, but at a diminishing rate, because of the declining number of potential customers who remain unaware of the product or who have taken no action. Also, the last of the unsuccessful competing brands will probably withdraw from the market. For this reason, sales are likely to continue to rise while the customers for the withdrawn brands are mopped up by the survivors. There is no improvement in the product but changes in selling effort are common. Profit margins slip despite rising sales.

As technology progressed, ordinary mobiles may be out of market. Those with extra features like camera, internet facility and music player will become basic products.

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The following table shows the product life cycle and its different stages and the various characteristics, which they reflect, in the varying stages:

PCL Elements	Introduction	Growth	Maturity	Decline
Characteristics				
1. Sales	Low	Fast Growth	Slow Growth	Declining
2. Profits	Negligible	Peak Level	Declining	Low
3. Cash inflow	Negative	Moderate	High	Low
4. Competitors	Few	Growing	Many	Declining
5. Customers	Innovative	Mass Market	Mass Market	Laggards

Source: Peter Dayle, "The Realities of the product life cycle", Quarterly Review of marketing, summer 1976.

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Pattern of Growth – A Life Cycle Analysis for New Products

Even then the existence of initiative products/services and the emphasis of management on such products cannot be ignored. This may be due to the recognized marketing gap hitherto unfilled by the existing producers, product deficiencies and identified consumer dissatisfaction with available products in the market.

The super cautious attitude of management towards innovation, which may be due to fear and high cost of product failures, may also be a reason for increased emphasis on imitative new products. Just like a human being pass through different stages of the life cycle, a product in the market should also different stages of the life cycle a product in the market should also pass through different stages from introduction to decline and possible abandonment.

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The concept of the product lifecycle indiscriminately applies both to innovative and imitative products. The noted stages of a product's life cycle include introduction, growth, maturity and saturation, decline and possible abandonment. He challenges and characteristics for innovative product imitative new product in their respective product life cycle stages are analyzed here.

The strategies for meeting these challenges, at each stage of the life cycle for the respective products are also discussed.

Different Strategies

Innovative and imitative products require different kinds of marketing strategies. Right from the embryonic stage of product development, these differences in dealing with innovative and imitative new products are noticeable. For instance, a new brand of soap, toothpaste, scooter or car is an imitative new product; on the other hand, a flying car or scooter is an innovative product. Imitative new products have to overcome the existing competition to establish them in the market. But in the case of innovative products prospective and not the present competition is a challenge.

a. Introduction and Growth Stage

The introduction stage of the product life cycle is the entry of the product in the market. Generally, in the earlier days of introduction, because of the product is known and its positive characteristics are less known to the consumer, sales or less. Even though there is increase in sales, it is at a slow place. The ease of introducing a product depends on the degree of its novelty, improvements over the existing products, distinctiveness and a host of other factors.

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Innovative products can be introduced in the market with relative competitive ease because there is no competition to be broken. This is much easier if the product has with a highly technical or utilitarian aspect. But for imitative products it is difficult even to enter the market under competitive conditions.

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No doubt, the degree of this difficulty is much influenced by the extent of market satisfaction number of existing rival products and the marketing and product advantage they offer to the customer.

Generally, the prospective consumers for a newly introduced product is already selective in his nature. Therefore new imitative products should have some step-up features and marginal improvements so as to divert the attention, affiliation and loyalty of the consumer from the already existing alternative brands in the market.

But in the case of innovative or really new products, convincing the consumer about the product's marketing advantage or utility is enough to find a place in market. However, the initial positioning of the products should be on sound lines with a long run competitive perspective, so as to be less vulnerable to the competitor's strategies.

The introduction stage of any product is generally charactersied by low sales volume, limited distribution and high costs of promotion. These may be common to a great extent for innovative and imitative products. But with respect to promotion strategy, for truly innovative products the main objective is primary demand creations, whereas it is secondary demand for imitative products.

In other words, due to the real newness of the product appeal to the consumer rather than bran appeal as in the case of imitative products .on the other hand, where the existing products dominate the market, imitative products as new entrants should try to snatch away the market of other products and thus establish their share of the market.

The success of innovative products in the introducing phase depends largely on the promotional efforts and their positioning. But the success of imitative products is conditioned by the extend of competition, the existing competitors, strength and quality of their products, offered to the consumers through promotion and the life stage of the exiting products.

The duration of the introduction stage for innovation is generally less, provided the products are effectively and extensively promoted.

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Moreover, the number of possible product failures is also less with respect to an innovative product. Because the direct competitive forces are absent the internal marketing effort and efficiency is the major deciding factor for the product's success. On the other hand, the imitative products often fail because of the competition and counter market strategies by the existing competitors.

Therefore, imitative products, which enter the growth stage should try to counter the marketing efforts of the marketers and at the same time develop a good image and a competitive edge by capitalizing the weakness of the existing products. The intensity of competition will also differ in this stage for innovative and imitative products should plan for product improvement or finding new uses for the product.

Thus the marketer can maintain his competitive edge and retain his distinction and market share. The duration of this stage of product life cycle may also vary in both cases. Imitative products, unless they are highly distinctive, of better quality and exceptionally appealing to the consumers, have a short span of growth stage. On the other hand, ceteris paribus, innovative products are likely to stay in the growth stage for a longer period because they take considerable time for the imitators to come up with their own versions of innovative products.

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b. Maturity and Saturation Stages

Once the product passes through the growth or market acceptance sage in due course, it enters the maturity stage followed by saturation. The former is characterized by increase in sales but at a low rate and the alter by stagnation in sales. The maturity stage in a product's life cycle is characterized by increasing sales and profit, but the rate of increase is less than that in the growth stage.

This reduced growth rate is certainly due to imminent competition in the market. Here one should not forget that innovative products face competition from new and improved imitative market entrants from time to time, whereas imitative products have to content with existing products.

When the question of guarding against the phenomena of maturity and saturation stages arises a clear forecast of the setting in of these phases is

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essentially required. Otherwise, designing of effective marketing strategies to prevent the early setting in of maturity and saturation is not possible. Sometimes, if the products sales are close to the break-even levels, losses become inevitable especially in the saturation stage.

Moreover, there may be a drop-out of the products at this stage if actual sales fall below the break-even levels. In order to prevent such as eventuality, strategies such as product improvements, price reductions, effective advertising and sales promotion activities should be intensified. When compared to imitative products, innovative products, generally experience a longer span of maturity and saturation stages.

This may be due to the early life cycle or the introduction stage of competing products and consequent less competition; or the competing and newly emerging imitations of the innovative products may have a low level of consumer acceptance. Moreover, innovative products may have a scope to adopt improvements through planned obsolescence when their imitations try to emerge a strong product in the market.

The strategy of systematic and timely planned untouched, potential segments of the markets and a number of other such strategies are quite significant to prevent the early entry of the product in to the decline stage. Especially, innovative products should not go for planned obsolescence before the entry of vital competitors with their own imitative versions. And growth so as to reserve it for maturity and saturation to revitalize the life cycle curve.

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Just like any human being enters into the life cycle phase of inevitable physical deterioration and death, products also do enter into the stage of decline and possible abandonment. How fast a product approaches this stage is dependent on the marketing environment, market forces, product characteristics, and competitive strengths of the product and extent of product differentiation.

As the new products enter the market, from time to time, virtually all the products enter the market, from time to time, virtually all the products are certainly caught in the clutches of obsolescence.

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When the competing products establish their firm footing and consolidate their position in the market, the earlier entrants to the market fall prey to the clutches of decline. If a product, either innovative or imitative, stays in the saturation stage competitors try to aggravate their promotional effort to establish their superiority and push the innovative product to decline and consequently to the wall. How far a product can withstand the threat of the decline and curse of obsolescence depends on the managerial efficiency, efficiency of the marketing management and product strategies.

This stage of any product's life poses challenges to the management. In this stage, the competitive strategies of promotion, re-pricing and repositioning are warranted to inject a new lease of life to the product. No one should be left unturned to revitalize the product lifecycle. For a successful revitalization, every effort to maintain the morale and loyalty of middlemen to carry out the product on their shelves as against those competitors is highly significant.

Strategic Considerations in the PLC Concept

a.Competition

At the introductory stage, competition is given no important the growth stage, it is given a little important while at the maturity stage, there are many in the market slowly, however, the number of competitors or rivals gets reduced with the declining srage.

b.Over all Strategic Focus

At the first stage, emphasis is laid on market establishment. At the growth stage, market penetration and persuasion of mass market are emphasis. Creation of brand loyally and brand preferences is focused at the maturity stage. At the decline stage, the strategy aims at overall preparation for renewal.

c.Profit

At the introductory stage, profit is negligible but all the growth stage, they reach the peak levels as a result of growing demand. At the

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maturity stage, they decline due to the increasing competition. At the last stage, the declining volume pushes costs up and eliminates profits.

d.Distribution Strategies

At the introduction stage, distribution is selective. However growth and maturity stages, it is intensive. At the decline stage, it becomes selective and hence low-end strategies are used.

e.Advertising Strategies

At the introduction stage, advertising strategies aim at the needs of early adopters; at the growth stage. An attempt is made to make the mass market aware of brand benefits. At maturity stage, advertising is used as a vehicle for differentiating among otherwise similar brands. At the last stage, however it emphasizes, on low price of the product and minimum advertising expenditure.

Summary

Introduction

The seller tries to stimulate demand promotion campaigns to get increase public awareness. Explain how the product is used.

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Feature, Advantage, Benefits

You will lose money, but you expect to make profits in the future Sales are low, and profits are below the line because your costs greater than the amount of money you make You have "negative" profit Need to spend a lot of money on promotion

Growth

A lot is sold- the seller tries to sell as much as possible other competitor companies watch and decide about joining in with a competitor product "success breeds imitation". Growth will continue until too many competitors in the market – and the market is saturated.

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At the end of the growth stage, profits starts, profit start to decline when competition means you have to spend more money on promotion to keep sales going. Spending money on promotion cuts into your profit.

Maturity

Many competitors have joined-the market is saturated. The only way to sell is to begin to lower the price – and profits decreases. It is difficult to tell the different between products since most have the same F.A.B. – features & Benefits. Competitions can get "nasty" and commercial are intense.

Decline

Newer products are now more attractive – even a low price does not make consumers want to buy. Profit margin decline – and so the only way to make money is to sell a high volume. To increase volume you try to.

- Increase the volume number of customers – get new customers
- Increase the amount each customer uses.

Speed of the PLC

Since the intro stage is getting shorter and something the growth stage doesn't last too long (because competitors move in) companies must continually come up with new products.

You can tell when they are in growth stage because this is when there introduce new model variations and some improvement to the products.

Products Life Cycle Considerations In Marketing Strategy

- Understanding that profits have a predictable pattern
- In the early stages, focus is on products information
- In the later stages, focus is on brand promotion
- Use market segmentation in maturity stage to maintain strong core customer basis.

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QUESTIONS

1. Define products life cycle of a ladies garment, say a royal jeans from lifestyle
2. What do you mean by maturity stage in PLC?
3. Explain the PLC of new product.
4. Describe major strategic consideration in PLC.
5. Explain the significant of PLC for managers.
6. What do you mean by products life cycle? How do you develop PLC for an IT product like SPSS?
7. Describe the important of PLC for gaining competitive advantage in FMCG – consumer durable say, personal computer in India.

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Case Study - 1

Kellogg's

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Kellogg the $ 10 billion Michigan – based food major, is knocking at corporate doors. Retails strategy did encourage consumers to try cereal for breakfast, but it was painful slow going. If what Kellogg's Indian subsidiary is doping in Delhi is any indication, the company seems to have settled on an alternative route of the consumer's palate. It's abandoning its breakfast plank in favour of round the clock consumption and not just at home either. As a part of its new strategy, k0lloss India recently installed cereal dispensers in 120 odd officers in Delhi.

The results have encourage the company to contemplate similar efforts in other metros, even as it expand its chain of dispensers in Delhi officers. At a details off-take of 4-5 kg per office per day (which amount to over 100 helpings a day) this could be just the tip of the iceberg for Kellogg's. the new strategy is in line with current trends, with companies emphasizing health consciousness, the time is right for Kellogg to perk up and get in on the action.

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For years, Kellogg's been focusing on retail marketing and new products launches, without any significant breakthrough. Its small sachet initiative early this year didn't make a significant impact either. With no fresh infusion of investment from the parent in sight, the Indian arm clearly had to manager on it own. This is one step in that director. In marketing you've to do a 360-degree job, explain R.C.Venkateish managing director. Kellogg India."

You just can't afford to bombard the consumer with products and communication and relax, hoping that she will lap them up", he says. For the last eight years Kellogg had done just that. Now it wants a more calibrated approach to new products a launches and consolidate gains it's made for. The key lies in expanding penetration fro home to out-of-home situations, while increasing more occasions to eat the products. And by targeting offices Kellogg is trying to do just that. Kellogg roped in solutions, a Delhi based marketing consultancy, for the track.

The mandate was to see how best the consumption of Kellogg cereals could be perked up. Solutions, along with Kellogg's three – member marketing team, decided to test the concept of snack junction Kellogg as a snack for office staff. "Snack because there are many more opportunities for the consumer to pick up snacks through out the day", says Kanika Mathur COO and director, solutions.

The 'healthy breakfast' plank had restricted space for Kellogg to operate. With the traditional 9to 5 officer culture going out of fashion corporate seemed to be the obvious target to test the concept, especially as most companies are now willing to provide employees as much facilities as possible within the office itself. Solution shortlists around 1,000 large companies to start with and its 30-member team fanned out t sell the idea.

The customer includes MNCs like whirlpool, Electrolux, Coke, Samsung, Amex; call center like spectramind and consultancies like PWC and KPMG. According to a KSA grow fast study, there are over one-lakh officers in Delhi with 50 or more employees. And for 50 employees, an average company spends Rs.6, 000 - 8,000 per month on test and coffee alone. At a cost of Rs.4,000 – 5,000 per dispensing unit (depreciable and to be written off), payback for the new approach seems pretty attractive.

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It's created much needed awareness for a concept that's much in nature", says Mathur. The company is capitalizing on this excitement by poster campaigns at the 'snack junction' within the site. The exercise has helped Kellogg increase visibility, generate trails, which weren't quick in retaining alone and make it popular.

Case Study – 2

Sara Lee

In the processed meat industry, Sara Lee Meats (SLM) is a star. It owns and operates meat-processing plants in 40 different nations. SLM's business strategy includes product innovation, acquisitions and mergers, and market leadership in a number of different categories. Its growth strategies support an annual 6 percent growth in sales. Important U.S. brands in the Sara Lee product line are Kahn's, Jimmy Dean, Hillshire Farms, Bryan, State Fair, Best's Kosher, and Tastefuls!.

According to SLM executive George Chivari, "We work very hard at Sara Lee on brand equity. . . . We have to make sure our new ideas are not only profitable and achieve big volume for our [retail] customers, but also that they are consistent with the quality of the brand and there is a good fit." Tastefuls! is a product that SLM feels is a particularly good fit with the company's other products. The lunch combination features two small sandwiches, chips, and dessert and was developed and marketed by a subsidiary of SLM, Jimmy Dean foods. Up until the development and marketing of Tastefuls!, Jimmy Dean has just made produced sausage.

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Questions

1. Given what you have read about Sara Lee Meats, you would think its executives want you to classify the SLM products as
2. One method SLM can use to maintain its brand equity would be to:

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UNIT – III

Lesson 3.1 - Pricing Decisions

Objectives

In this lesson, we will introduce you to the 2nd P of marketing – Price. While the other 3 Ps represent costs, this element in the marketing mix produces revenue. After you work out this lesson, you should be able to:

- Appreciate the importance of pricing decision
- Identify the considerations that come to bear on pricing decisions
- Understand why customers may be price sensitive

Learning Objectives

In this lesson, we will discuss the following

- Product costs
- Customer value
- Elements in the pricing decision

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Introduction

A price is an expression of value. The value rests in the usefulness and quality of the product itself, in the image that is conveyed through advertising and promotion, in the availability of the product through wholesale and retail distribution systems, and in the service that goes with it. A price is the seller's estimate of what all of this is worth to potential buyers, recognizing the other options buyers will have for filling the need the product is intended to satisfy.

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To the extent that the product or service finds markets and is profitable at given price levels, it provides a viable economic base for building and maintaining a business.

In the competitive marketplace, pricing is a game. The struggle for market share focuses critically on price. Pricing strategies of competing firms, therefore, are highly interdependent. The price one competitor sets is a function not only of what the market will pay but also of what other firms charge. Prices set by individual firms respond to those of competitors; they also are intended often to influence competitors' pricing behaviour. All of marketing comes to focus in the pricing decision.

A way to think about making a pricing decision is that price should be set somewhere between what the product costs to make and sell and its value to the customer. If price exceeds the perceived value of the product to potential purchasers, it has no market. If the price is below what the product costs to produce, the business cannot survive for very long. Where a price should be set between cost and customer value is a strategic decision.

Many factors can influence this decision, viz., competitors' product/ price strategies, governmentally imposed constraints and the seller's and the buyer's sense of what is fair. Finally the most important determinant of price is the marketer's objectives – what is the firm trying to do. The discussion on pricing objectives is taken up in the next lesson.

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Product costs

Costs may be classified as variable, fixed and semi-fixed. Take the case of an airline. It may consider the annual depreciation on an aircraft as a fixed cost. Taking the plane off the ground to fly from one city to another incurs certain semi-fixed costs like the fuel, the compensation of flight personnel, the airport fees and so on. These costs are approximately the same for any given flight whether the plane is empty, half-loaded or completely full of passengers. The variable costs of the flight would include primarily the costs of food and beverage. They vary directly with the number of passengers.

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If fixed and semi-fixed costs make up a larger portion of total costs, as in the airline example, pricing to get maximum capacity utilization is crucial. Until the seller covers fixed costs, money is lost. After fixed costs are covered, each incremental sale contributes proportionally large amounts to profits.

If variable costs are a relatively high percentage of total costs (which is quite likely in many manufacturing firms), pricing to maximize unit contribution (i.e. the difference between the unit variable cost and price) will be critical to profitability. Under these cost conditions, the manufacturer would naturally work to maximize unit prices and to reduce variable costs.

Above are two examples. In the first one, the objective of the airline's pricing strategy will be to generate enough total revenue to cover its fixed costs and above that to get maximum capacity utilization to make profits. In the second one, a manufacturer will price to cover its high variable costs per unit and get enough contribution to amortize fixed costs and make a profit.

Under certain conditions, firms may elect to price at less than full cost. In conditions of capacity underutilization, for instance, firms with high fixed costs may take business at prices that cover variable costs and make some incremental contribution to fixed costs (or overheads). The idea is to get through bad times, keep the factory running and hold some critical team of managers, skilled technicians and labour.

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Pricing temporarily at less than full cost may also be used as a strategy to get a particularly large order. The expectation is that by taking the business, the firm may be able to reduce its unit costs and/or later raise its prices so as to make a profit on subsequent orders. Taking business below cost with the hope of offsetting near-term losses with longer-term profits may be a risky tactic, since there is no assurance that the losses can be made up.

Pricing near or below cost may also be done to gain a large market share. Generally pricing low to preempt market share is predicted on the assumption that unit costs will come down significantly as volume increases. This may happen through gaining manufacturing experience.

In fact, in many firms, a so-called experience or learning curve is used to calculate what the effect will be of volume growth on unit costs. To a large extent, learning curve experience reduces the variable cost component of unit costs. Labour gains in efficiency and purchases of materials and parts in larger volumes all result in lower prices and manufacturing process improvements produce cost savings.

Indeed, the fixed-cost component of unit costs may also come down with volume increases. Larger plants may be more cost efficient. Large-scale selling and advertising programs may also be more cost efficient. If product sales are particularly sensitive to heavy advertising, or the product requires widespread distribution or extensive field service support, fixed marketing expenditures for these purposes must usually be at a high level.

These so-called scale economies come in certain cost categories depending on the product, the processes used to manufacture it and the level of marketing spending required to be competitive. If significant scale economies are achievable, some competitors may be willing to price low enough to gain volume, thus preventing other competitors from going down the learning curve and hoping to emerge as low-cost producers with dominant market shares.

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Product cost, then, is not a simple ‘hard’ number. How cost is calculated for pricing purposes is a matter of managerial judgment. It may be construed as full cost or as variable cost. It may be the cost levels being experienced or experience curve estimates of future costs. The interpretation of cost factors for pricing will depend greatly on product/market objectives.

Customer value

Some business managers set prices simply by adding a percentage over costs to provide an acceptable profit. That approach has two advantages. Price is simple to calculate and if a firm is a low-cost producer, relative to competitors, so-called ‘cost-plus’ pricing may seem to provide some protection from competitive attack. The trade-off for simplicity and security may be lost profits. In theory, the amount of profit that is sacrificed is the difference between what customers actually paid and what they would have been willing to pay. Compared with cost-plus pricing,

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pricing according to the value of the product to the customer is more difficult and speculative. The challenge is to determine what the value of the product is in the customer's mind.

First, it is useful to distinguish between perceived value and potential value. Perceived value is what the buyer now recognizes. Potential value is what the buyer can be educated to see in the product. That is the task of marketing. It may be accomplished through advertising, personal selling and getting the buyer to try the product.

Second, product value may be perceived differently by different customer groups or market segments. Different segments may place different values on the several elements that make up the set of product (which in the broadest sense, includes the product or service itself, its brand image, its availability, and the service that the seller provides) attributes.

For example, a large firm may place little value on the technical service a supplier offers it (the large firm) has comparable or superior technical resources of its own. But a small company may be highly dependent on the supplier's technical services and place high value on them in making purchasing decisions.

A third factor to consider in establishing customer value is the options that a potential buyer may have. Clearly, if the buyer can purchase a product at a lower price from one source than another, the lower price sets the upper bound in the marketplace. But for the buyer to have such effective options, he/she must have knowledge of them.

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Another option the customer has may be not to buy the product at all but to make-do with what one has. Given this choice, the buy-not buy decision may be made by comparing the outcome of one course of action with the other.

These actions are quantifiable. One may calculate the operative savings in either instance and relate this to the cost of buying new, as the case may be. The anticipated savings may be expressed as a percentage return on investment (ROI). This, the amount of realizable savings establishes the value of a product to the customer. Calculated for each of several possible uses for available funds, ROI measures may serve to

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establish the buyer's purchasing priorities. The choice between buy-not buy, of course, may not always be easily quantified with reference to expected savings. Nevertheless, it is a real and important consideration.

Finally, the price set by the seller is often taken by the potential customer as one measure of the value of the product. It is often interpreted by buyers as the supplier's estimate of the worth of the product it sells. If the seller does not value the product highly, it is not likely that the buyer will. Therefore, pricing a product significantly below what the buyer might pay for its functional equivalent can be self-defeating. The buyer may infer that value is, in fact, connoted by price and choose the higher-priced option.

Value, then, for a given product tends to be a function of (1) the utility of its several attributes to the prospective buyer, (2) the options the buyer has and is aware of (i.e. the offerings of competing suppliers and the option of not buying at all), and (3) the extent to which the buyer perceives price itself as a measure of product value.

If the seller truly value-prices, then different prices would be charged for the product to different customer groups. It is referred as price discrimination. A relevant consideration in thinking about price as an expression of product value is how sensitive is the buyer to price. Price sensitivity will vary considerably among purchasers and, for the same purchaser, it will vary from one time and one set of circumstances to another. Buyers who can pass on the cost of the purchase are less sensitive to price than those who cannot.

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Price sensitivity also relates to the performance standards by which the purchaser measures. Viewed differently, performance measures effectively establish the relative worth of different product attributes for the manager who has to make the decision and be judged for it. Another factor in price sensitivity is the uncertainty that attends switching from one supplier to a lower-priced source. Modest price differences are often insufficient to overcome the purchaser's uncertainties about an untried supplier's product quality, reliability and service.

Factors affecting price decisions:

There are a number of factors which influence the pricing decisions of marketers. While some of these are external or environmental factors (such as competition, demand conditions and so on), others are internal factors (like marketing objectives, cost conditions and so on).

Figure 3.1.1 represents these factors. The important factors affecting the pricing decision are the following.

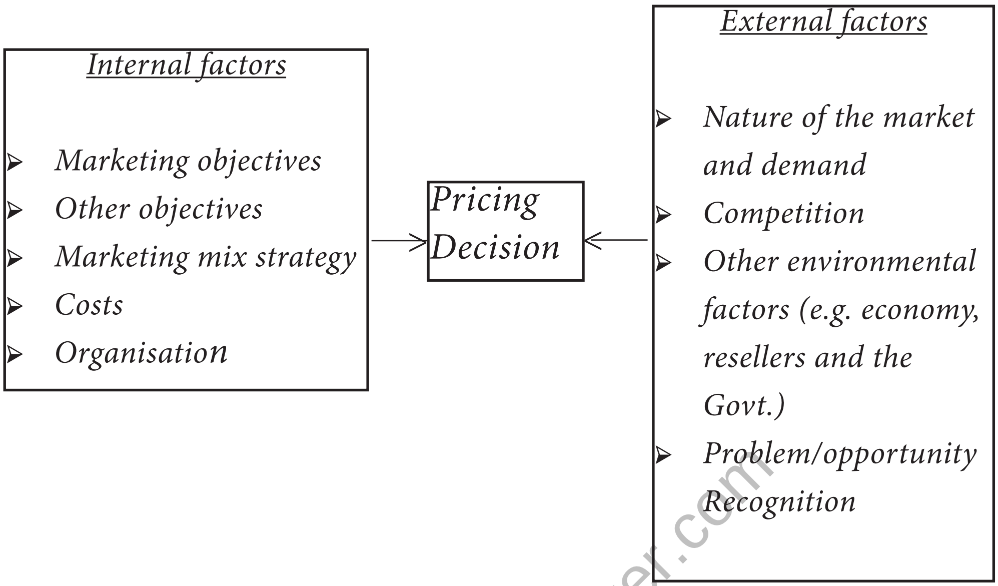

Figure 3.1.1 Factors affecting a firm's pricing decision

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Internal factors

The internal factors, as the term implies, are mostly internal to the organization and therefore, largely controllable by the organization. They also have a direct bearing on the firm's pricing decision. The following are the important internal factors that must considered in pricing a firm's product/service.

- Marketing objectives – Before setting price, the firm must decide on its strategy for the product. This reiterates the idea that the corporate strategy must precede the marketing strategy and then marketing strategy must precede the pricing strategy. If the firm has selected its target market and positioning carefully, then its marketing-mix strategy (i.e. the 4 Ps) will be fairly straightforward.

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For example

If the Coimbatore-based Paramount Airways decide to target the corporate/business travelers with its single-class airplanes, this suggests charging a high price. Whereas, a no-frills, low cost carrier would charge a low price, as dictated by its targeting and positioning.

Thus pricing strategy is largely determined by past decisions on marketing strategy. At the same time, the firm may seek additional objectives. The clearer a firm is about its marketing objectives, the easier it is to set price. Some of the common objectives include survival, current profit maximization, market-share leadership and product-quality leadership.

Other objectives

Sometimes a firm might set prices so low as to prevent competition from entering the market as they might lead the competition to regard the market as less attractive. Non-profit organizations may adopt a number of other pricing objectives such as full cost recovery, partial cost recovery or set a social price geared to the distributed income situations of different clients.

Marketing-mix strategy

Price is only one of the marketing-mix elements that a firm uses to achieve its marketing objectives. Therefore, logically pricing decisions must be coordinated with product design, distribution and promotion decisions to form a consistent and effective marketing program. Decisions made for other marketing-mix elements may affect pricing decisions.

For instance, the decision to position the product on quality plank will imply that the seller must charge a higher price to cover higher costs and/or to match the price-quality perception in the mind of the customers. It is common for marketers to design a price position wherein a target cost is set, then met and the target price is set. However some marketers deemphasize price and use other marketing-mix elements to create non-price positions.

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The marketer must consider the total marketing mix when setting prices. If the product is positioned on non-price factors, then decisions about quality, promotion and distribution will strongly affect price. If price is a crucial positioning factor, then price will strongly affect decisions made about the others marketing-mix elements. In most cases, the company will consider all of the marketing-mix decisions together when developing the marketing program.

Costs

Though this topic was dealt with earlier in this lesson, some finer aspects related to costs are described here. Costs set the floor for the price that the firm can charge for its product. A firm's costs may be an important element in its pricing strategy. The firm wants to charge a price that both covers all its costs for producing, distributing and selling the product and delivers a fair rate of return for its effort and risk. The types of costs were explained earlier.

To price wisely, managers need to know how costs vary with different levels of production. The concept of economies of scale comes into play here. Also, costs vary as a function of production experience. There is a drop in the average cost with accumulated production experience and this is attributed to the experience curve or the learning curve.

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Consider the semiconductor industry as an example. It has a strong experience curve effect. As a given chip is produced, manufacturing speeds go up, defect rates drop and costs plummet. These effects are seen dramatically in the PC market, where computing power increases and costs drop every year.

Organisation for pricing

Management must decide who within the organization should set prices. Firms handle pricing in a variety of ways. In small firms, prices are often set by top management rather than by the marketing or sales departments. In large firms, pricing typically is handled by product line managers. In industrial markets, salespeople may be allowed to negotiate with customers within certain price ranges.

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Even so, top management sets the pricing objectives and policies, and it often approves the prices proposed by lower-level management or salespeople. In industries where pricing is a key factor, companies will often have a pricing department to set the best prices or help others in setting them. Others who have an influence on pricing decisions include sales managers, production managers, finance managers and accountants.

External factors

The external factors, as the term implies, are external to the organization and therefore, treated as uncontrollable by the organization. They have an indirect, but definite bearing on the firm's pricing decision. The following are the important external factors that must considered in pricing a firm's product/service.

Nature of the market and demand

While costs set the lower limit of prices, the market and demand set the upper limit. Buyers balance the price of a product or service against the benefits of owning it. Therefore, before setting prices, the marketer must understand the relationship between price and demand for his product. Price-demand relationship varies for different types of markets and how buyer perceptions of price affect the pricing decision. Economists recognize four types of markets, viz. pure competition, monopolistic competition, oligopolistic competition and pure monopoly. Each presents a different pricing challenge and pricing freedom.

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Under pure competition, the market consists of many buyers and sellers trading in a uniform commodity. A seller cannot charge more than the going price because buyers can obtain as much as they need at the going price. Nor would sellers charge less than the market price because they can sell all they want at this price. Example: The prices of vegetables are subject to day-to-day variations because of supply and demand factors.

Under monopolistic competition, the market consists of many buyers and sellers who trade over a range of prices rather than a single market price. A range of prices occurs because sellers can differentiate their product/service offering to buyers. Buyers see differences in sellers' offerings and will pay different prices for them.

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Toilet soaps, shampoos, hair oils, and fairness screams are in this competition. One would find the different brands in popular category in one price range and premium category in another range.

Under oligopolistic competition, the market consists of a few sellers who are highly sensitive to each other's pricing and marketing strategies. The product may be uniform (as a commodity) or non-uniform. Each seller is alert to competitors' strategies and moves. An oligopolist is never sure that it will gain anything permanent through a price cut or a price hike. In many a case they come to an agreement in price fixation.

Cement manufacturers offer a particular grade cement at almost similar prices because they have a common understanding to maintain prices.

In a pure monopoly, the market consists of one seller. The seller may be a government monopoly (the Indian Postal service), a private regulated monopoly (a power company) or a private non-regulated monopoly (e.g. Sify, when it introduced Virtual Private Networks for corporate users). Pricing is handled differently in each case.

A government monopoly can set the price below cost to make the product/service affordable, or set price to recover costs or set a high price to slow down consumption (an instance of demarketing). In a regulated monopoly, the government permits the firm to set rates that will yield a fair return. Non-regulated monopolies are free to price at what the market will bear. However, they will be careful not to attract competition nor invite government regulation.

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Being government monopolies, Indian Railways and Indian Post and Telegraph fix the tariff keeping in mind the costs and affordability of consumers.

The price-demand relationship must also be studied before taking the price decision. Each price the firm might charge will lead to a different level of demand. The relation between the price charged and the resulting demand level is described as the Demand curve.

In the normal case, demand and price and inversely related. For 'prestige' goods, raising the price may result in more sales. In measuring the price-demand relationship, the marketer must not allow other factors affecting demand to vary. They also need to know price elasticity, that is, how responsive demand will be to a change in price. If demand hardly changes with a small change in price, the demand is said to be inelastic. If demand changes greatly, it is said to be elastic. Price elasticity of demand is determined by many situations.

For example, buyers are less price sensitive when the product they are buying in unique or when it is high in quality, prestige or exclusiveness. They are also less price sensitive when substitute products are hard to find or when they cannot easily compare the quality of substitute products. Buyers are less price sensitive when the total expenditure for a product is low relative to their income or when the cost is shared by another party.

Competition

Another external factor affecting the company's pricing decisions is competitors' costs and prices and possible competitor reactions to the company's own pricing moves. For so-called commodities (i.e. virtually undifferentiated products), all competitors generally charge identical prices. If one goes above the market price, sales will drop off sharply; if one goes below, all others are likely to follow or risk significant reductions in market share. How much any individual firm is constrained by competitors' prices, therefore, depends largely on how differentiated its product is.

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A product that is set apart from other market offerings by its functional design, appearance, brand image and the supplier's reputation for service and availability in ways that have value to customers can command a price premium. There are circumstances, however, in which firms will price over competitive levels even though the price differences are not really justified by superior product quality and service. A company may consciously elect, for example, not to meet competitive prices in a strategy of 'milking' the business, that is, yielding market share and gradually withdrawing from the market.

It may continue to sell profitably for some time to its loyal customers, in the mean time gradually cutting back on selling and promotional expenses until it eventually phases out of the market. Some companies may choose not to price competitively because to do so would mean selling below cost. These so-called marginal firms eventually go out of business. Some large companies may not elect to meet the low price of a smaller competitor because to do so might mean giving up unit profits on a large sales base. It may be less costly in the short run to hold prices and give up some small percentage of market share.

In the long run, the smaller competitor encroaches increasingly on the market positions of its major competitors until it becomes, itself, a major factor. Under shortage conditions, some firms may price opportunistically above prevailing market levels, knowing that demand far exceeds available supply and that some buyers will pay the high price. Finally, some firms may unknowingly be underpriced by competitors on some of their products.

These products may be part of a broad line and the reporting system may not allow for monitoring the sales-profit performance of each item on the list. Thus the company may be losing sales and market position because of price and never realize, until too late, that the business has gone to more aggressive competitors. Generally, pricing strategies must inevitably be shaped with regard for present and future competition.

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In this respect, there is significant pricing interdependency among firms in an industry with each being heavily influenced by others' strategies and tactics. Some firms follow price trends; others, the larger ones, seek to lead them. Accordingly, in contemplating price changes, the marketing manager will often seek to anticipate competitive responses.

Other environmental factors

When setting prices, the firm also must consider other factors in its external environment. Economic conditions can have a strong impact on the firm's pricing strategies. Economic factors such as inflation, boom or recession, and interest rates affect pricing decisions because they affect both the costs of producing a product and consumer perceptions of the product's price and value.

The firm also must consider what impact its prices will have on other parties in its environment. How will resellers react to various prices? The firm should set prices that give resellers a fair margin, encourage their

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support, and help them to sell the product effectively. The government is another important external influence on pricing decisions. In regulated industries such as utilities, transport and so on, the government has the authority to approve or reject price changes. Finally, social concerns may have to be taken into account. In setting prices, a firm's short-term sales, market share and profit goals may have to be tempered by broader societal considerations.

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Lesson 3.2 - Pricing Objectives and Approaches

Objectives

In this lesson, we will introduce you to the pricing objectives and highlight the reasons because of which pricing has come to occupy center-stage in marketing rivalries. After you work out this lesson, you should be able to:

- Understand the different pricing objectives
- Identify the developments that have added to the importance of the pricing decision
- Classify the different pricing approaches

Learning Objectives

In this lesson, we will discuss the following:

- Situations that have pushed pricing to marketing center-stage
- Pricing objectives
- Cost-bases pricing approach
- Buyer-based pricing approach
- Competition-based pricing approach

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Introduction

Ancient philosophers recognized the importance of price in an economic system. Some early written accounts refer to attempts to determine fair and just prices. Price continues to serve as a means of regulating economic activity. All the four factors of production, viz. natural resources, capital, human resources and entrepreneurship, depends on the prices that those factors receive. An individual firm's prices and the

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resulting purchases by its customers determine how much revenue the firm receives. Prices, therefore, influence a firm's profits as well as its employment of the factors of production.

Traditionally, price has operated as the major determinant of buyer choice. This is still the case in the poorer economies and with commodity-type products. Although non-price factors have become more important in recent decades, price still remains one of the most important elements determining market share and profitability. Pricing has come to occupy center-stage in many marketing rivalries. Many reasons can be attributed to this. Some of them are outlined below:

- In some cases, product differentiation is getting blunted, thanks to the homogenization of technology. This is more relevant in the context of global business where the million dollar question is whether the firms should offer a standardized offering or a differentiated offering.

- There is intense inter-firm rivalry in some industries. It may be attributed to the removal of entry/exit barriers. Also the cost of fighting these marketing wars must be recovered and often, it is transferred to the customer.

- In certain industries, the products and the markets are mature. The only way to differentiate may be is through an augmented service or price cuts. Here again, pricing decisions are crucial to the survival of the firm.

- Customers' value perception correlates with the quoted price. To a customer, price always represents product's value. The price-quality perception must be taken into account during the product decision and the price decision.

- Inflation in the economy may also contribute to the significance of pricing decision in a marketing program. It lowers customer's purchasing power and increases input costs. As a result, the marketer has to make the price decision after careful evaluation.

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Pricing objectives

Just as price is a component of the total marketing mix, pricing objectives also represent components of the organization's overall objectives. The objectives of the firm and its marketing organization guide the development of pricing objectives, which in turn lead to development and implementation of more specific pricing policies and procedures.

For example, a firm might set a major overall objective of becoming the dominant producer in its domestic market. It might then develop a marketing objective of achieving maximum sales penetration in each region, followed by a related pricing objective to set prices at levels that maximize sales. These objectives might lead to adoption of a low-price policy implemented by offering substantial price discounts to channel members.

While pricing objectives vary from firm to firm, they can be classified into four major groups:

(1) Profitability objectives

(2) Volume objectives

(3) Meeting competition objectives, and

(4) Prestige objectives

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Profitability objectives include profit maximization and target-return goals. Volume objectives pursue either sales maximization or market-share goals.

Profitability objectives: Classical economic theory bases its conclusions on certain assumptions. It presumes that firms will behave rationally. Theorists expect that rational behaviour will result in an effort to maximize gains and minimize losses. Profits are a function of revenue and expenses.

$$\text{Profits} = \text{Revenue} - \text{Expenses}$$

Revenue is determined by the product's selling price and number of units sold:

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Total revenue = Price * Quantity sold

A profit maximizing price, therefore, rises to the point at which further increases will cause disproportionate decreases in the number of units sold. A 10% price increase that results in only an 8% cut in volume will add to the firm's revenue. However, a 10% price hike that results in an 11% sales decline will reduce revenue. Profit maximization is identified as the point at which the addition to total revenue is just balanced by the increase in total cost.

Consequently, marketers set target return objectives – short-run or long-run goals usually stated as percentages of sales or investments. Target return objectives offer several benefits for marketers in addition to resolving pricing questions. For example, they serve as tools for evaluating performance. They also satisfy desires to generate 'fair' profits as judged by management, stockholders and the public.

Volume objectives

Many marketers argue that pricing behaviour actually seeks to maximize sales within a given profit constraint. They set a minimum acceptable profit level and then seek to maximize sales in the belief that the increased sales are more important than immediate high profits to the long-run competitive picture. Such a firm continues to expand sales as long as its total profits do not drop below the minimum return acceptable to management.

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Another volume-related pricing objective – the market share objective – sets a goal to control a portion of the market for a firm's good or service. The company's specific goal may target maintaining its present share of a particular market or increasing its share. Volume-related goals such as sales maximization and market share objectives play important roles in most firms' pricing decisions.

Meeting competition objectives

A third set of pricing objectives seeks simply to meet competitor's prices. In many lines of business, firms set their own prices to match

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those of established industry price leaders. These kinds of objectives de-emphasize the price element of the marketing mix and focus competitive rivalries more strongly on non-price variables.

Pricing is a highly visible component of a firm's marketing mix and an easy and effective tool for obtaining a differential advantage over competitors; still other firms can easily duplicate a price reduction themselves.

Because such price changes directly affect overall profitability in an industry, many firms attempt to promote stable prices by meeting competitors' prices and competing for market share by focusing on product strategies, promotional decisions and distribution – the non-price elements of the marketing mix. When price discounts become normal elements of a competitive marketplace, other marketing mix elements gain importance in purchase decisions.

In such instances, overall product value, not just price, determines product choice. Value pricing emphasizes benefits a product provides in comparison to the price and quality levels of competing offerings. This strategy typically works best for relatively low-priced goods and services. Value-priced products generally cost less than premium brands, but marketers point out that value does not necessarily mean cheap. Value is not just price, but also is linked to the performance and meeting expectations and needs of consumers.

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The challenge for those who compete on value is to convince customers that low-priced brands offer quality comparable to that of a higher-priced product.

Prestige objectives

The final category of pricing objectives, unrelated to either profitability or sales volume, encompasses prestige objectives. Prestige pricing establishes a relatively high price to develop and maintain an image of quality and exclusiveness that appeals to status-conscious consumers. Such objectives reflect marketers' recognition of the role of price in creating an overall image for the firm and its goods and services.

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General pricing approaches

The price the firm charges will be somewhere between on that is too low to produce a profit and one that is too high to produce any demand. Product costs set a floor to the price and consumer perceptions of the product's value set the ceiling. The firm must consider competitors' prices and other external and internal factors to find the best price between these two extremes. Firms set prices by selecting a general pricing approach that includes one or more of these three sets of factors. Let us examine the following approaches:

(1) Cost-based approach
(2) Buyer-based approach, and
(3) Competition-based approach

Cost-based approach

The simplest pricing method is cost-plus or markup pricing - adding a standard markup to the cost of the product. Markups vary greatly among different goods. Some common markups (on price, not cost) in supermarkets are 9% on baby foods, 14% on tobacco products, 27% on dried foods and vegetables and 50% on greeting cards.

Markups are generally higher on seasonal items (to cover the risk of not selling) and on specialty items, slower moving items, items with high storage and handling costs and items with inelastic demand. It must be noted that any pricing method that ignores current demand and competition is not likely to lead to the best price. Hence markup pricing only works if that price actually brings in the expected level of sales.

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Advantages

(1) It covers all the costs
(2) It is designed to provide the target rate of margin
(3) It is generally a rational and widely accepted method
(4) It is an easy to comprehend and simple method

Disadvantages

1. The cost calculations are based on a predetermined level of activity. If the actual level of activity varies from this estimated level, the costs may vary, rendering this method unrealistic.
2. If the costs of the firm are higher than its competitors, this method would render the firm passive in relation to price.
3. Another drawback is that sometimes the opportunity to charge a high price is foregone.
4. It ignores the price elasticity of demand.
5. The cost-based pricing would not be helpful for some of the objectives or tasks like market penetration, fighting competition and so on.
6. It imparts an in-built inflexibility to pricing decisions.
7. Another cost-based pricing approach is break even pricing, or a variation called target profit pricing. The firm tries to determine the price at which it will break even or make the target profit it is seeking.

Buyer-based approach

An increasing number of firms are basing their prices on the product's perceived value. Perceived-value pricing uses buyers' perceptions of value, not the seller's cost, as the key to pricing. The company uses the non-price variables in the marketing mix to build up perceived value in buyers' minds. Price is set to match the perceived value. A company using perceived-value pricing must find out what value buyers assign to different competitive offers.

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Sometimes consumers are asked how much they would pay for each benefit added to the offer. If the seller charges more than the buyers' perceived value, the firm's sales will suffer. Many firms overprice their products, and their products sell poorly. Other firms under-priced products sell very well, but they produce less revenue than they would if prices were raised to the perceived-value level.

Competition-based pricing

Many firms follow the dominant competitors, particularly the price leader, in setting the price. The main advantages of this method are:

1. It is a very simple method
2. It follows the main market trend
3. It has relevance to the competitive standing of the firm
4. Holding to the going price will prevent harmful price wars

The major disadvantages and limitations of following competitors are:

1. If the competitors' price decisions are unrealistic, the follower will also be going wrong on the price
2. The cost factors of the follower may not be similar to that of the competitors'
3. The pricing objective of the firm could be different from that of the competitors'
4. Sometimes the competitor may initiate price change for wrong reasons

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Competition-based pricing approach may take the form of going-rate pricing or sealed-bid pricing. In going-rate pricing, the firm bases its price largely on competitors' prices, with less attention paid to its own cost or to demand. In oligopolistic industries that sell commodities, firms normally charge the same price. It is a popular pricing method.

When demand elasticity is hard to measure, firms feel the going price represents the collective wisdom of the industry concerning the price that will yield a fair return. Competition-based pricing is also used when firms bid for jobs. Using sealed-bid pricing, a firm bases its price on how it thinks competitors will price rather than on its own costs or on the demand.

The firm wants to win a contract and winning the contract requires pricing lower than other firms. Yet, the firm cannot set its price below a certain level. It cannot price below cost without hurting its position. In

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contrast, the higher the firm sets its price above its costs, the less its chance of getting the contract.

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Lesson 3.3 - Pricing Policies and Constraints

Objectives

In this lesson, we will introduce you to Pricing policies and constraints. After you work out this lesson, you should be able to:

- Understand the procedure in formulating a pricing policy
- Identify the constraints that come to bear on pricing decisions
- Appreciate the nuances of pricing in industrial marketing

Learning Objectives

In this lesson, we will discuss the following:

- Pricing policy – as a 6-step procedure
- Pricing and product life cycle
- Pricing across the four product life cycle stages
- Distinguishing characteristics of pricing the industrial products/services
- Pricing on the Internet (Pricing in E-Commerce)

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Introduction

Firms do their pricing in a variety of ways as discussed in the previous lesson. Executives complain that pricing is a big headache and one is wary of committing a go/drop error in the pricing decision. Pricing less than what the customer wants to pay and pricing more than what the customer wants to pay are both costly errors. 'There are two fools in every market: one asks too little, one asks too much', says a Russian Proverb. Many companies do not handle pricing well. Some common mistakes are:

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- Price is not revised often enough to capitalize on market changes
- Price is set independently of the rest of the marketing mix rather than as an intrinsic element of market-positioning strategy
- Price is not varied enough for different product items, market segments, distribution channels and purchase occasions

The importance of pricing for profitability was demonstrated in a 1992 study by McKinsey & Company. Examining 2,400 companies, McKinsey concluded that a 1% improvement in price created an improvement in operating profit of 11.1%. By contrast, 1% improvements in variable cost, volume and fixed cost product profit improvements of only 7.8%, 3.3% and 2.3% respectively. Effectively designing and implementing pricing strategies requires a systematic approach to setting, adapting and changing prices.

Procedure for a pricing policy

A firm must set a price for the first time when it develops a new product, when it introduces its regular product into a new distribution channel or geographical area, and when it enters bids on new contract work. The firm has to consider several factors in setting its pricing policy. A useful 6-step procedure to develop the pricing policy is discussed below.

Selecting the pricing objective

The firm first decides where it wants to position its market offering. The clearer a firm's objectives, the easier it is to set price. A firm can pursue any of the objectives classified under four major groups, viz. profitability objectives, volume objectives, meeting competition objectives and prestige objectives. This was discussed in the previous lesson.

Determining demand

Each price will lead to a different level of demand and therefore have a different impact on a firm's marketing objectives. The relation between alternative prices and the resulting current demand is captured in a demand curve. In the normal case, demand and price are inversely related: the higher the price, the lower the demand. In the case of prestige

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goods, the demand curve sometimes slopes upward. However, if the price is too high, the level of demand may fall. The demand curve sums the reactions of many individuals who have different price sensitivities. The first step is estimating demand is to understand what affects price sensitivity. Generally speaking, customers are most price sensitive to products that cost a lot or are bought frequently.

They are less price sensitive to low cost items or items they buy infrequently. They are also less price sensitive when price is only a small part of the total cost of obtaining, operating and servicing the product over its lifetime. Firms, of course, prefer customers who are less price sensitive. The following is a list of factors leading to less price sensitivity, as identified by Nagle and Holden.

- The product is more distinctive
- Buyers are less aware of substitutes
- Buyers cannot easily compare the quality of substitutes
- The expenditure is a smaller part of the buyer's total income
- The expenditure is small compared to the total cost of the end product
- Part of the cost is borne by another party
- The product is used in conjunction with assets previously bought
- The product is assumed to have more quality, prestige or exclusiveness
- Buyers cannot store the product

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Most firms make some attempt to measure their demand curves using methods like statistical analysis, price experiments and surveys. In measuring the price-demand relationship, the marketer must control for various factors that will influence demand. The competitor's response will make a difference. Also, if the company changes other marketing mix factors besides price, the effect of the price change itself will be hard to isolate and measure.

Estimating costs

In the earlier discussion on costs, it was noted that demand sets a ceiling on the price, whereas costs set the floor. Also, the types of costs and the impact of economies of scale and learning curve on pricing was explained. To price intelligently, management needs to know how its costs vary with different levels of production. It is important to be aware of the risks presented by pricing based on the experience/learning curve. It assumes that competitors are weak followers.

It leads the company into building more plants to meet the demand, while a competitor may be innovating a lower-cost technology. Then the market leader will be stuck with the old technology. Today's firms try to adapt their offers and terms to different buyers. A manufacturer may negotiate different terms with different retail chains. One retailer may want daily delivery (to keep inventory lower) while another may accept twice-a-week delivery in order to get a lower price.

The manufacturer's cost will differ with each chain and so will its profits. To estimate the real profitability of dealing with different customers with differing requirements, the manufacturer needs to use activity-based cost (ABC) accounting instead of standard cost accounting. ABC accounting tries to identify the real costs associated with serving each customer. It allocates indirect costs like clerical costs, office expenses, supplies and so on, to the activities that use them, rather than in some proportion to direct costs. Both variable and overhead costs are tagged back to each customer. Another interesting costing concept is target costing.

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Costs change with production scale and experience. They can also change as a result of a concentrated effort by designers, engineers and purchasing agents to reduce them through target costing. Market research is used to establish a new product's desired functions and the price at which the product will sell, given its appeal and competitors' prices. Deducting the desired profit margin from this price leaves the target cost that must be achieved. Each cost element - design, engineering, manufacturing, sales – must be examined and different ways to bring down costs must be considered.

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The objective is to bring the final cost projections into the target cost range. If this is not possible, it may be necessary to stop developing the product because it could not sell for the target price and make the target profit.

Analysing competitors' costs, prices and offers

Within the range of possible prices determined by market demand and company costs, the firm must take competitors' costs, prices and possible price reactions into account. The firm should first consider the nearest competitor's price. If the firm's offer contains features not offered by the nearest competitor, their worth to the customer should be evaluated and added to the competitor's price.

If the competitor's offer contains some features not offered by the firm, their worth to the customer should be evaluated and subtracted from the firm's price. Now the firm can decide whether it can charge more, the same or less than the competitor. But competition can change their prices in reaction to the price set by the firm.

Selecting a pricing approach

Given the three Cs – the Customer's demand schedule, the cost function and the competitors' prices – the firm is now ready to select a price. Figure 3.3.1 summarizes the three major considerations in price setting. Costs set a floor to the price. Competitors' price and the price of substitutes provide an orienting point.

Customers' assessment of unique features establishes the price ceiling. Firms select a pricing approach that includes one or more of these three considerations. The pricing approaches are cost-based or buyer-based or competition-based. These approaches were discussed at length in the previous lesson.

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High price

(No possible demand at this price)

Competitors' prices and prices of substitutes

Cost

Floor price

Low Price

(No possible profit at this price)

Figure 3.3.1 The three Cs model for price setting
(Source: Marketing Management, 12e, Kotler and Keller)

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Selecting the final price

Pricing methods narrow the range from which the company must select its final price. In selecting that price, the company must consider additional factors, including the impact of other marketing activities, company pricing guidelines, gain-and-risk-sharing pricing and the impact of price on other parties. The final price must take into account the brand's quality and advertising relative to the competition.

The price must be consistent with the firm's pricing guidelines. When a firm establishes pricing penalties, it must be done judiciously so as not to unnecessarily alienate customers. Sometimes, buyers may resist accepting a seller's proposal because of a high perceived level of risk. The seller has the option of offering to absorb part or all of the risk if it does not deliver the full promised value.

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Management must also consider the reactions of other parties to the contemplated price. For instance, the reaction of marketing intermediaries must be thought about. The reaction of the sales force must be taken note since they will be the ones to sell at that price in the marketplace. All these reactions might hold clues to fine tune the final price.

Pricing and Product Life Cycle

From a strategic point of view, the product life cycle provides a framework for thinking about pricing decisions. You may recall the discussion in Unit-2 about the product life cycle (Figure 3.3.2). Four phases may be identified in the product life cycle: introduction, growth, maturity and decline as shown in the figure below.

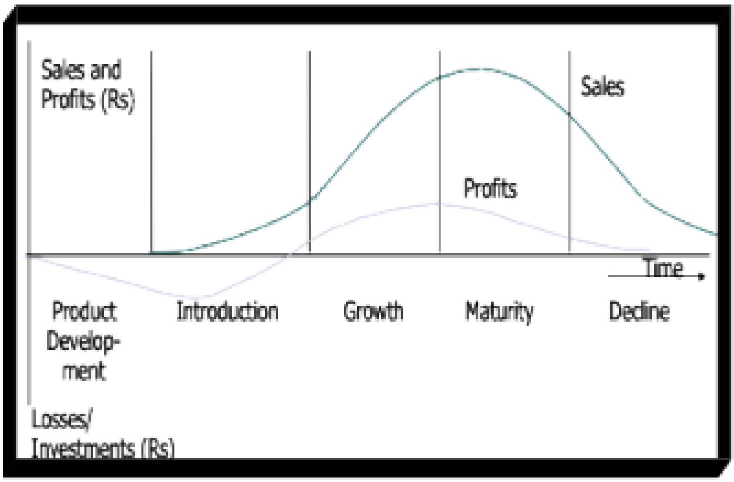

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Figure 3.3.2 The Product Life Cycle curve

Each phase presents different opportunities and constraints on price.

Introduction phase

During the introduction phase, pricing can be a quandary, especially if you enjoy a temporary monopoly. In that situation, there may be no direct competitor and thus no benchmark for what buyers will tolerate or for their sensitivity to price differences. There may be indirect competitors (substitutes), however, and they can be used as starting points for the pricing decision.

The total economic value equation becomes relevant, wherein the price of the best alternative is known but the value of the performance differential of the new product is unknown. Customers themselves may have difficulty in sizing up the value of something that is new and different. They too lack benchmarks of value. In such instances, any of the following strategies may be adopted:

- Skimming: Some people will be happy to pay a high price for anything that is new and unique. This strategy, of course, is short term and contains dangers like attracting competition. IT companies offer their software products at high price as the life cycle for them is short. At the time of introduction, computers, mobile phones, washing machines, were high priced as the investment costs were high.

- Penetration pricing: A low price may have the threefold benefits of (1) getting established as the market share champion, (2) discouraging market entry by competitors, and (3) creating broad-based demand for the product. This is more suitable to consumer convenience products which can be sold in large volumes.

- Maruti –Udyog introduced Maruti -800 with the price tag of Rs.50,000 which subsequently was raised to Rs.1 lakh, as demand exceeded supply. Tatas are going launch the Nano car at Rs.1 lakh.

- Cost-plus: In a monopoly, the producer can administer its own price and cost-plus is one way of determining that price. However, product monopolies are short-lived.

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Pricing decisions in this introductory phase are not only difficult but also deadly important. Putting too high a price on a newly introduced product may kill it in its infancy, undoing the work of many employees over a long period of development.

Growth phase

The growth phase is characterized by increasing unit sales and accelerating customer interest. If competitors have not yet surfaced (which is an unlikely event), skimming may be appropriate. All the deep-pocketed

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buyers who simply had to be the first in their neighborhoods to own the product have already been skimmed in the introduction phase. So now, the price must be reduced gradually, skimming other market segments that are progressively more price sensitive.

A producer that enjoys prime position on the experience curve will also want to progressively reduce prices during this phase. Doing so will maintain its margins even as the strategy expands unit sales and punishes late-into-the-game rivals in the marketplace. Some of these rivals will either take a loss on every sale or simply wind up.

Mature phase

By the time a product enters this phase, growth in unit sales is leveling off and the remaining competitors are trying to find ways to differentiate their products. During this phase, one may see sellers offer different versions of the product, each version trying to colonize a targeted segment. Price is one of the factors used in this strategy (i.e. by developing and pricing good, better and best versions to expand the product line).

Decline phase

Competition gets ugly in this phase. Total demand for the product category is now visibly slipping, perhaps because of the appearance of superior substitutes or because of market saturation. Whatever the case, unit sales will continue to decline. Some companies will get out of the business entirely; those that remain will aggressively try to take business away from the rivals. Every player in the market is trying to harvest as much as possible from a contracting market. Price tactics include the following:

- Beat a retreat on price, but work overtime to reduce production costs. Success in the latter will maintain a decent profit margin
- Increase the price on the few remaining units in inventory. This is because there may be a small number of customers who still rely on that particular product. This is particularly true of replacement parts. Here the seller hopes that the higher price will compensate for fewer sales. When the inventory is exhausted, the product line is terminated.

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Pricing is one of the linchpins of marketing strategy and success. How is the company making its pricing decisions? Are these decisions appropriate for the current phase of the product life cycle? The most reliable method of pricing is to get inside the heads of customers, because how they value the firm's products relative to those of competitors and substitutes matters more than anything else.

Pricing in industrial (business-to-business) markets

As Lesson 1.1 outlined the differences between consumer marketing and industrial marketing, those differences can further be explained based on the distinguishing characteristics of industrial pricing. Some of those characteristics are listed below:

- The true price as industrial customer pays is often different from the list price because of factors like delivery and installation costs, discounts, training costs, trade-in allowance, financing costs and so on.
- Pricing is not an independent variable. It is highly intertwined with product, promotion and distribution strategies.
- Price for industrial products cannot be set out without considering other products that are compliments or substitutes sold by the firm. Cross elasticities exist, where the price of one item affects sales of other items.
- Prices can be changed in numerous ways such as changing the quantity of goods and services provided by the seller, changing the premiums and discounts that are offered, changing the time and place of payment, and so on. This implies that pricing is often a more flexible decision than product or distribution decisions.
- Industrial prices are established, in many cases, by competitive bidding on a project-by-project basis. In a number of cases, prices are resolved through negotiation.
- Industrial pricing is often characterized by an emphasis on fairness. Industrial buyers, who are experienced and able to estimate the

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vendors' approximate production costs expect the price increases to be justifiable on the basis of either the cost increases or product improvements.

- Industrial prices are affected by a host of economic factors such as inflation, interest rate changes, exchange rate fluctuations and so on. This problem is particularly critical for the marketer locked into a long term contract with no escalation cause.

Pricing on the Internet

E-Commerce has been arguably the Web's hottest application. Yet the Internet is more than simply a new 'marketspace'. Internet-based technologies are actually changing the rules of the market. Here is a short list of how the Internet allows sellers to discriminate between buyers and buyers to discriminate between sellers.

Buyers can …

- Get instant price comparisons from thousands of vendors – Consumers now regularly check online prices, compare them with those in their local stores and may well take a peek at what customers in other places/countries are paying and order from overseas. Consumers also may unbundle product information from the transaction themselves. For instance, someone might use the Internet to research on a holiday destination, but visit a travel agency to get some procedural requirements done, go home to use a search engine to find the lowest airfare to that destination. Sites like PriceScan.com lure thousands of visitors a day, most of them corporate buyers. Intelligent shopping agents (known as 'bots') take price comparison a step further and seek out products, prices and reviews from as many as 2,000 merchants.

- Name their price and have it met – Taking the example of Priceline.com, the customer states the price he wants to pay for an airline ticket, hotel or car rental and Priceline checks whether any seller is willing to meet that price. Consumers can fix their own prices, and sellers can use it too. Airlines can fill in demand for empty seats and hotels welcome the chance to sell vacant rooms at near zero marginal cost. Volume-aggregating sites combine the orders

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of many customers and press the supplier for a deeper discount.

- Get products free – Open Source, the free software movement that started with Linux, will erode margins for just about any company doing software. Open Source software is popping up everywhere. The biggest challenge confronting major software producers is now: how to compete with programs that can be had free?

Sellers can …

- Monitor customer behaviour and tailor offers to individuals – Although shopping agent software and price comparison web sites provide published prices, consumers may be missing out on the special deals they can get with the help of new technologies. GE Lighting, which gets 55,000 pricing requests a year, has Web programs that evaluate about 300 factors that go into a pricing quote, such as past sales and discounts, so that it can reduce processing time from up to 30 days to 6 hours.

- Give certain customers access to special prices – CDNOW, an online vendor of music albums, emails certain (loyal) buyers a special website address with lower prices. Unless you know the secret address, you pay full price. Business marketers are already using extranets to get a precise handle on inventory, costs and demand at any given moment in order to dynamically adjust prices.

Bother buyers and sellers can …

- Negotiate prices in online auctions and exchanges – Want to sell hundreds of excess and slightly worn widgets? Post a sale on ebay.co.in (formerly, Bazee.com). Want to purchase air tickets at a bargain price? Go to air ticket auctions at Rediff.com. Thanks to the Internet, pricing is no longer a rigid entity of marketing. It is the era of dynamic pricing in many categories.

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Lesson 3.4 - Pricing Methods

Objectives

In this lesson, we will introduce you to the Pricing dynamics. This lesson examines the major dynamic pricing strategies available to the marketer. After you work out this lesson, you should be able to understand:

- The new product pricing strategies for products in the introductory stage of the product life cycle
- The product-mix pricing strategies for related products in the product mix
- The price-adjustment strategies that account for customer differences and changing situations.

Learning Objectives

In this lesson, we will discuss the following:

- New Product pricing strategies
  - Market Skimming pricing
  - Market Penetration pricing
- Product Mix pricing strategies
  - Product-line pricing
  - Optional-product pricing
  - Captive-product pricing
  - By product pricing
  - Product-bundle pricing
- Price Adjustment strategies
  - Discount and allowance pricing

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- Discriminatory pricing
- Psychological pricing
- Value pricing
- Promotional pricing
- Geographical pricing
- International pricing

Introduction

Firms translate pricing objectives into pricing decisions in two major steps. First, someone must accept responsibility for making pricing decisions and administering the resulting pricing structure. Second, someone must set the overall pricing structure – that is, basic prices and appropriate discounts for channel members, quantity purchases, and geographic and promotional considerations. Hence a firm sets not a single price, but rather a pricing structure that covers different items in its line. This pricing structure changes over time as products move through their life cycles. The company adjusts product prices to reflect changes in costs and demand and to account for variation in buyers and situations.

New Product Pricing Strategies

Pricing strategies usually change as the product passes through its life cycle as illustrated in the previous lesson. The introductory stage is especially challenging. Firms bringing out an innovative patent-protected product can choose between two options, viz. market-skimming pricing and market-penetration pricing.

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Market-skimming pricing: Many firms that invent new products initially set high prices to 'skim' revenues layer by layer from the market. At product introduction in the marketplace, the firm may charge the highest price it could given the benefits of its new product over competing products. The firm sets a price that made it just worthwhile for some affordable segments of the market to adopt the new product.

After the initial sales slowdown, the firm may lower the price to draw in the next price sensitive layer of the customers. In this way, a

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firm skims a maximum amount of revenue from the various segments of the market. It is important to note that skimming works well only under certain conditions.

The quality and image must support its higher price and enough buyers must want the product at that price. Also the cost of producing a small volume cannot be so high that they cancel the advantage of charging more. In the mean time, competitors should not be able to enter the market easily and undercut the price. A skimming strategy offers several benefits to the markets, as listed below:

- It allows a manufacturer to quickly recover its research and development costs.
- It also allows a firm to maximize revenue from a new product before competitors enter the field.
- A skimming strategy offers a useful tool for segmenting a product's overall market on a price basis.
- It permits marketers to control demand in the introductory stages of a product's life cycle and then adjust productive capacity to match demand.

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The chief disadvantage of skimming strategy is: it attracts competition. Potential competitors see innovative firms reaping big financial gains and decide to enter the market. This new supply forces the price even lower than its eventual level under a sequential skimming procedure. However, if patent protection or other proprietary ability allows a firm to exude competitors from its market, it may continue a skimming strategy for a relatively long period.

Market-penetration pricing

Rather than setting a high initial price to skim off small but profitable market segments, some firms set a low initial price in order to penetrate the market quickly and deeply – to attract a large number of buyers quickly and win a large market share. A penetration pricing strategy may also extend over several stages of the product life cycle as the firm seeks to maintain a reputation as a low-price competitor. Since many firms begin penetration pricing with the intention of increasing prices in

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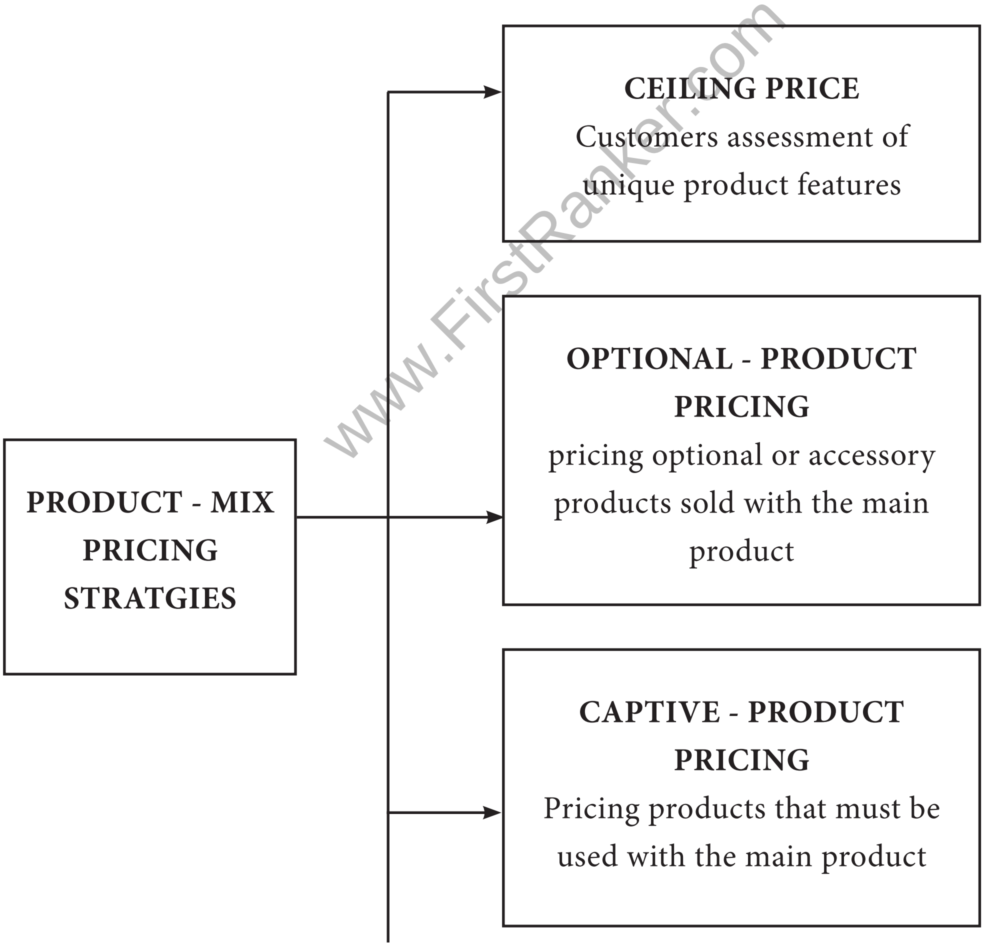
the future, success depends on generating many consumer trial purchases. Penetration pricing works well under the following conditions:

- A good or service experiences highly elastic demand
- The market is highly price sensitive and a low price stimulates market growth
- Production and distribution costs fall with accumulated production experience
- A low price helps discourage actual and potential competition

Product-Mix pricing

The strategy for setting a product's price often has to be changed when the product is part of a product mix. In this case, the firm looks for a set of prices that maximizes the profits on the total product mix. This pricing is difficult because the various products have related demand and costs and face different degrees of competition. The following section outlines the five product-mix pricing situations depicted in Figure 3.4.1



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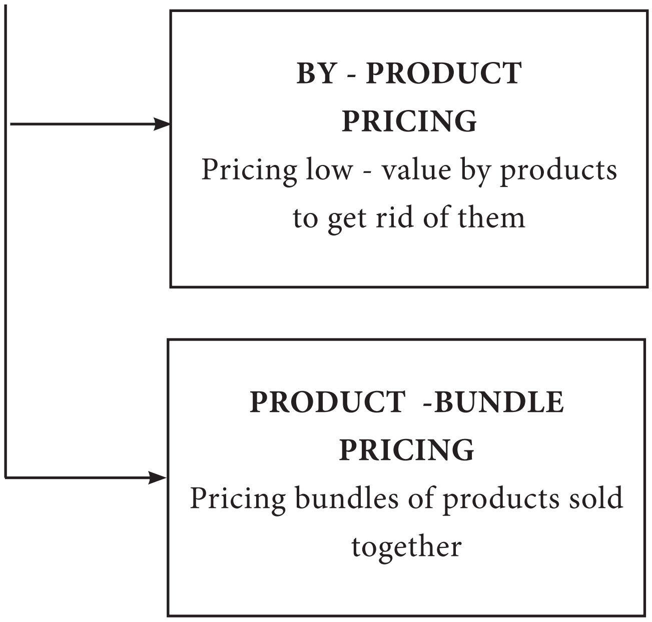

Figure 3.4.1 Product Mix pricing strategies Product-line pricing

Since most firms market multiple product lines, an effective pricing strategy must consider the relationships among all of these products instead of viewing each is isolation. In product line pricing, management must decide on the price steps to set between the various products. The price steps should take into account cost differences between the products, customer evaluations of their different features and competitors' prices.

In many industries, marketers use well-established price points for the products in their line. The customer will probably associate low, average and high quality with the price points. The marketers task is to establish perceived quality differences that support the price differences.

Optional-product pricing

Many firms use this strategy by offering to sell optional or accessory products along with their main product. These firms have to decide which items to include in the base price and which to offer as options. Often the basic model which is stripped of many comforts and conveniences sought by the customers gets rejected.

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Captive-product pricing

Firms that make products that must be used along with a main product are using this pricing strategy. Producers of the main products often price them low and set high markups of the supplies. For a competitor who does not sell these supplies, he will have to price his product higher in order to make the same overall profit.

In case of services, this strategy is called two-part pricing where the price of the service is broken into a fixed fee plus a variable usage rate. The service firm must decide how much to charge for the basic service and how much for the variable usage. The fixed amount should be low enough to induce usage of the service and profit can be made on the variable usage fees.

By-product pricing

In producing certain products, there are by-products. If these by products have no value and if getting rid of them is costly, this will affect the pricing of the main product. Using by-product pricing, the manufacturer will seek a market for these by-products and should accept any price that covers more than the cost of storing and delivering them. This practice allows the marketer to reduce the main product's price to make it more competitive.

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Product-bundle pricing

Using this strategy, marketers combine several of their products and offer the bundle at a reduced price. Price bundling can promote the sales of products consumers might not buy otherwise, but the combined price must be low enough to get them to buy the bundle.

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Price-adjustments

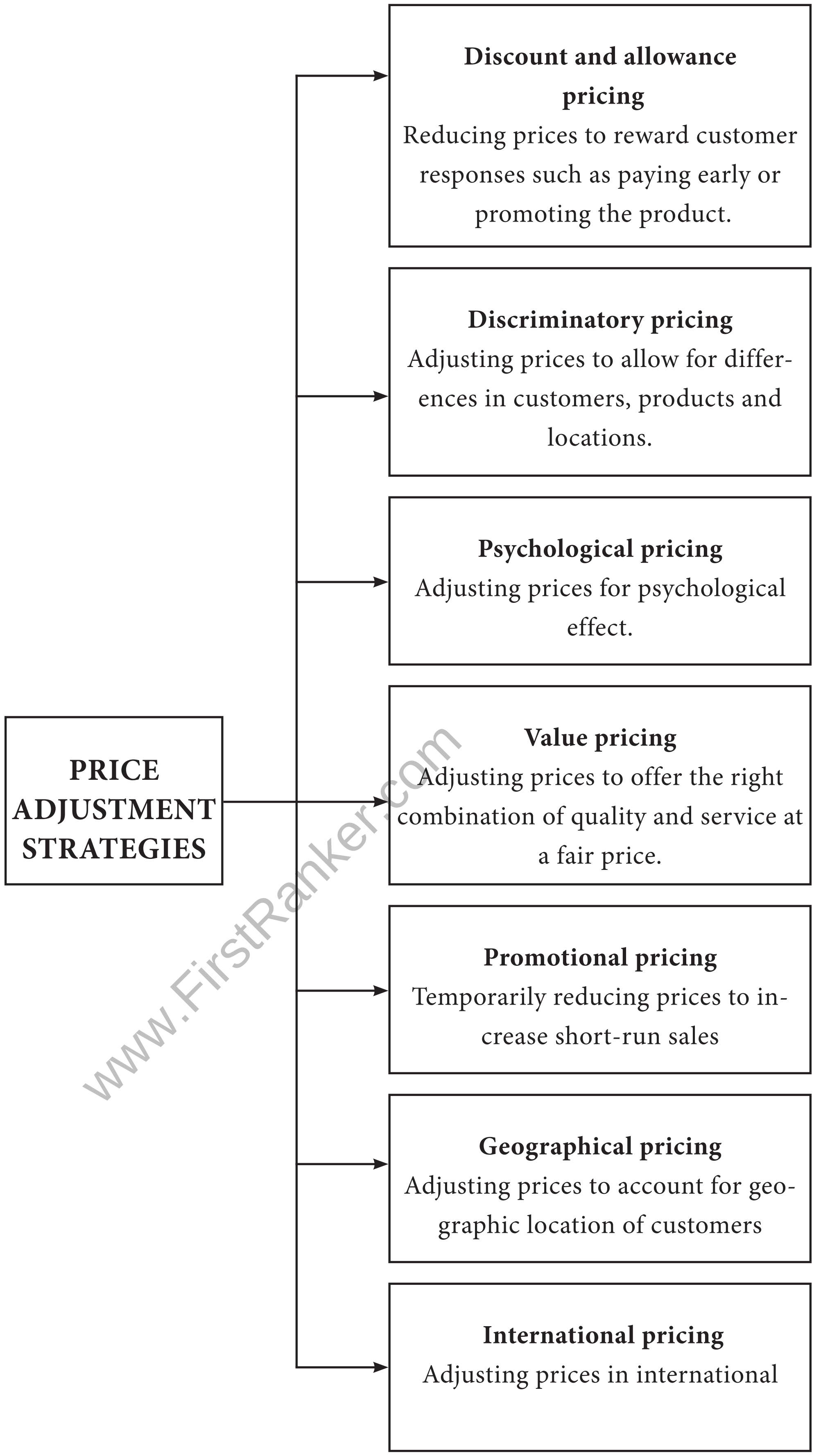

Figure 3.4.2 Price adjustment strategies

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Firms usually adjust their basic prices to account for various customer differences and changing situations. Figure 3.4.2 summarizes seven price-adjustment strategies.

Discount and allowance pricing

Most firms adjust their basic price to reward customers for certain responses, such as cash payment, early payment of bills, volume purchases and off-season buying. Some of those adjustments are described below:

- Cash discounts – A cash discount is a price reduction to buyers who pay their bills promptly. The discount must be granted to all buyers meeting these terms. Such discounts are customary in many industries and help to improve the sellers' cash situation and reduce bad debts and credit collection costs.

- Quantity discounts – A quantity discount is a price reduction to buyers who buy large volumes. It must be offered to all customers and must not exceed the seller's cost savings associated with selling large quantities. These savings include lower selling, inventory and transportation expenses. Discounts provide an incentive to the customer to buy more from one given seller, rather than from many different sources.

- Functional discounts – A functional discount (also called trade discount) is offered by the seller to trade channel members who perform certain functions, such as selling, storing and record keeping. Manufacturers may offer different functional discounts to different trade channels because of the varying services they perform, but manufacturers must offer the same functional discounts within each trade channel.

- Seasonal discounts – A seasonal discount is a price reduction to buyers who buy out of season. It allows the seller to keep productions steady during the entire year.

- Allowances – They are another type of reductions from the list price. Trade-in allowances are price reductions given for turning in an old item when buying a new one. Promotional allowances are

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payments or price reductions to reward dealers for participating in advertising and sales-support programs.

Discriminatory pricing

Firms will often adjust their basic prices to allow for differences in customers, products and locations. In discriminatory pricing, the firm sells a product or service at two or more prices, even though the difference in prices is not based on differences in costs. Discriminatory pricing takes many forms as indicated below:

- Customer-segment pricing – Different customers pay different prices for the same product or service. Electricity power tariffs are different to industrial and domestic consumers.
- Product-form pricing - Different versions of the product are priced differently, but not according to differences in their costs. Book publishers offer same book at different prices- hard bound at high prices and paper packs at low prices.
- Location pricing – Different locations are priced differently, even though the cost of offering in each location is the same. Hotel chains charge tourists differently at different locations for the same type of accommodation
- Time pricing – Prices vary by the season, month, day and even hour. Museums and parks charge higher prices on Sundays and lower prices on week days.

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Psychological pricing

It applies the belief that certain prices or price ranges make products more appealing to buyers than others. In using psychological pricing, sellers consider the psychology of prices and not simply the economics.

- Pricing based on perceptions – The relationship between price and quality perceptions indicate that consumers perceive higher-priced products as having higher quality. When consumers cannot judge quality because they lack the information or skill, prices becomes an important quality signal. In case of cloth, if

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fabric is smooth and attractive in colour, high prices are fixed as consumers cannot judge the real quality. Hotels maintain good ambience to charge high prices.

- Reference pricing – Reference prices are those prices that buyers carry in their minds and refer to when looking at a given product. It might be formed by noting current prices, remembering past prices or assessing the buying situation. Sellers can influence or use these consumers' reference prices when setting price. Colour TVs are supposed to be higher in price with reference to black and white TVs. Consumers will judge the price by finding how much high it is when compared to B-W TV.

- Odd pricing – In odd pricing, marketers set prices at odd numbers just under round numbers. An odd ending conveys the notion of a discount or bargain to the customer. Bata pricing is famous for this. Instead of pricing at Rs 1000/- they price it as Rs. 999.99

Value pricing

During slow-growth times, many firms adjust their prices to bring them into line with economic conditions and with the resulting fundamental shift in consumer attitudes toward quality and value. Value pricing is offering just the right combination of quality and good service at a fair price. In many cases, value pricing has involved redesigning existing brands in order to offer more quality for a given price or the same quality for less.

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Bajaj Auto Ltd has its slogan which reads: Value for money, indicating that their products are budget sensitive.

Promotional pricing

In promotional pricing, a lower-than-normal price is used as a temporary ingredient in a firm's selling strategy. Some promotional pricing arrangements form part of recurrent marketing initiatives. Some may be to introduce a promotional model or brand with special pricing to begin competing in a new market. Promotional pricing takes several forms and some of them are described below.

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- Loss-leader pricing – It happens when retailers drop price on well-known brands to stimulate store traffic in the hope that customers will buy other items also, at normal mark-ups.
- Special-event pricing – Sellers use special-event pricing in certain seasons to draw in more customers. The seasonal need of the customers is capitalized on by the sellers using this pricing strategy. Festivals, new year days, and national celebrations and sports events form the occasions. At the time of Olympics, TVs and mobile phones are offered at lower prices to stimulate demand.
- Cash rebates – Manufacturers will sometimes offer cash rebates to consumers who buy the product from dealers within a specified time. Cash rebates during festival seasons are common in case of clothing especially the Khadi products.
- Low-interest financing, longer payment times, longer warranties – all these represent the promotional incentives offered by the sellers to the buyers. Since they provide some flexibility and also bring down the perceived risks (in case of longer warranties), buyers are motivated to make the buying decision. Automobile companies arrange 0% interest financing in India to their buyers. .
- Psychological discounting – The seller may simply offer discounts from normal prices to increase sales and reduce inventories. For the buyer, the motivation to buy below normal prices may be compelling. Super markets show two prices on the label. –list price and the retail shop price with discount.

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Geographical pricing

Geographical considerations strongly influence prices when costs must cover shipping heavy, bulky, low-unit-cost materials. Buyers and sellers can distribute transportation expenses in several ways: (1) The buyer pays all transportation charges; (2) The seller pays all transportation charges; or (3) the buyer and the seller share the charges. This choice has particularly important effects for a firm seeking to expand its geographic coverage to distant markets. The seller's pricing can implement several alternatives for handling transportation costs.

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- FOB-origin pricing – It means that the goods are placed free on board (FOB) a carrier, at which point the title and responsibility pass to the customer, who pays the freight from the factory to the destination. Though it looks fair, the disadvantage is that the firm will be a high-cost firm to distant customers.

- Uniform delivered pricing – It is the exact opposite of FOB pricing. The company charges the same price plus freight to all customers, regardless of their location. An advantage is that it is fairly easy to administer and it lets the firm advertise its price nationally.

- Zone pricing – It falls between FOB-origin pricing and uniform delivered pricing. The company sets up two or more zones. All customers within a given zone pay a single total price; the more distant the zone, the higher the price.

- Basing-point pricing – The seller selects a given city as a 'basing point' and charges all customers the freight cost from that city to the customer location, regardless of the city from which the goods actually are shipped.

- Freight-absorption pricing – The seller who is anxious to do business with a certain customer or geographical area might use freight-absorption pricing. This strategy involves absorbing all or part of the actual freight charges in order to get the desired business. It is used for market penetration and to hold on to increasingly competitive markets.

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International pricing

A wide variety of internal and external conditions can affect a marketer's global pricing strategies. Internal influences include the firm's goals and marketing strategies, the costs of developing, producing and marketing its products, the nature of the products and the firm's competitive strengths. External influences include general conditions in international markets, especially those in the firm's target markets, regulatory limitations, trade restrictions, competitors' actions, economic events, customer characteristics and the global status of the industry. In

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general, a firm can implement one of three export pricing strategies, as described below.

- Standard worldwide price – Exporters often set standard worldwide prices, regardless of their target markets. This strategy can succeed if foreign marketing costs remain low enough that they do not impact overall costs, or if their prices reflect average unit costs. A firm that implements a standard pricing program must monitor the international marketplace carefully, however, to make sure that domestic competitors do not undercut its prices.

- Dual pricing – It distinguishes prices for domestic and export sales. Some exporters practice cost-plus pricing to establish dual prices that fully allocate their true domestic and foreign costs to product sales in those markets. Others opt for flexible cost-plus pricing schemes that allow marketers to grant discounts or change prices according to shifts in the competitive environment or fluctuations in the international exchange rate.

- Market-differentiated pricing – It makes even more flexible arrangements to set prices according to local marketplace conditions. Effective market-differentiated pricing depends on access to quick, accurate market information.

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Activity

Read the Pricing lesson's learning goals that follow and consider the questions for each goal. Answering these questions will reinforce your understanding of the key concepts in this unit and allow you to check how well you have achieved these learning goals. Where a blank appears before a question, answer with true or false; for multiple choice questions, circle the letter of the correct answer.

Major categories of pricing objectives

1. _ _ _ _ Pricing objectives include all of the following except

   a. profit maximization objectives
   b. meeting competitors' prices
   c. market-share objectives

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d. quality performance objectives
e. prestige objectives

2. _ _ _ _ Profits are
a. the most important objective for a firm
b. the result of supply and demand
c. a function of revenue and expenses
d. depend primarily on the quantity of product sold

The concept of price elasticity and its determinants

3. _ _ _ _ Elasticity measures the responsiveness of manufacturers and distributors to inventory levels

4. _ _ _ _ If customers can easily find close substitutes for a good or service, producers tend to encounter elastic demand for it.

Major cost-plus approaches to price setting

5. _ _ _ _ Cost-plus pricing methods include incremental cost pricing and full cost pricing

6. _ _ _ _ Full cost pricing bases decisions on competition and demand for the product

Major issues related to price determination in international marketing

7. _ _ _ _ Global pricing strategies almost always depend on demand in the domestic market
8. _ _ _ _ A firm's global pricing strategy reflects its global marketing strategy

Comparing alternative pricing strategies

9. _ _ _ _ Marketers often practice penetration pricing in industries with few products and little competition

10. _ _ _ _ A skimming pricing strategy sets a high market-entry price for a product with little or no initial competition

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Pricing policy decisions that marketers must make

11. _ _ _ _ Marketers follow pricing policies in making long-term competing pricing decisions

12. _ _ _ _ Pricing policy choices includes psychological pricing, price flexibility, product line pricing and promotional pricing

Relating price to consumer perceptions of quality

13. _ _ _ _ In general, consumers perceive a high price as a symbol of high quality

14. _ _ _ _ Price limits are directly associated with supply and demand

15. _ _ _ _ The concept of price limits suggests that unusually low prices may indicate poor quality

Price negotiations

16. _ _ _ _ Buyers and sellers negotiate prices most often when
    a. Multiple suppliers compete for an order
    b. Only one available supplier can fill an order
    c. Contracts over unchanging and routine purchases
    d. Prices are set once and remain unchanged

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Alternative strategies for pricing exports

17. _ _ _ _ Firms almost always implement the same pricing strategies for domestic and export sales

18. _ _ _ _ Market-differentiated pricing allows a firm to price its products according to local marketplace conditions

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Answer key

1. d
2. c
3. F
4. T
5. T
6. F
7. F
8. T
9. F
10. T
11. F
12. T
13. T
14. F
15. T
16. a
17. F
18. T

Glossary of terms

Price:

The exchange value of a good or service

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Profit maximization:

The point at which the additional revenue gained by increasing the price of a product equals the increase in total costs

Target return objective:

A short-run or long-run pricing practice intended to achieve a specified return on either sales or investment

Value pricing

A pricing strategy that emphasizes benefits a product provides in comparison to the price and quality levels of competing offerings

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Demand:

A schedule of the amounts of a firm's product that consumers will purchase at different prices during a specified time period

Supply

A schedule of the amounts of a good or service that a firm will offer for sale at different prices during a specified time period

Elasticity:

A measure of the responsiveness of buyers and suppliers to changes in price

Cost-plus pricing:

The practice of adding a percentage or specified amount (as markup) to the base cost of a product to cover unassigned costs and provide a profit

Price skimming

A pricing strategy involving the use of a high entry price relative to competitive offerings

Penetration pricing:

A pricing strategy involving the use of a relatively low entry price as compared with competitive offerings to help secure initial market acceptance

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Psychological pricing:

A pricing policy based on the belief that certain prices or price ranges make a good or service more appealing than others to buyers

Product line pricing:

The practice of setting a limited number of prices for a selection of merchandise

Promotional pricing:

A technique that temporarily lowers prices below normal levels in a temporary marketing campaign

By-product pricing:

Setting a price for by-products in order to make the main product's price more competitive

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Captive-product pricing:

Setting a price for products that must be used along with a main product

FOB-origin pricing

A geographic pricing strategy in which goods are placed free on board a carrier; the customer pays the freight from the factory to the destination

Going-rate pricing:

Setting price based largely on following competitors' prices rather than on firm's costs or demand

Mark-up:

The percentage of the cost or price of a product added to cost in order to arrive at a selling price

Product-bundle pricing:

Combining several products and offering the bundle at a reduced price

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Case study: Dynamic pricing – smart pricing?

DHL used to have one-price-fits-all list prices for shipping packages in the United States and around the world, and when potential customers called for rates DHL scared them off by asking for more than FedEx or UPS. With Web pricing tools, DHL tested the market by offering cold callers different prices to see how low prices could go and still make a profit. In the end, DHL wound up changing hundreds of prices.

There were plenty of surprises. Most prices did go down, but the company did not have to match the competition. In fact, by lowering prices a bit, DHL's "ad hoc" business not only stabilized but it also grew. For instance, of people who called to get a quote, 17% actually shipper prior to the pricing overhaul. The new prices have increased the ratio to nearly 25%.

Constant price revision, however, can be tricky where consumer relationships are concerned. Research shows it tends to work best in situations where there is no bond between the buyer and the seller. One way to make it work is to offer customers a unique bundle of products and services to meet their needs precisely, making it harder for them to make price comparisons.

This tactic is being used to sell software, which is vulnerable to price wars because the cost of producing more copies is near zero. Application service providers are 'renting' their software and support by the month instead of selling an unlimited-use license.

The tactic most companies favour, however, is to market perfect pricing as a reward for good behaviour rather than as a penalty. For instance, shipping company APL, Inc., rewards customers who can better predict how much cargo space they will need with cheaper rates for booking early. Customers are getting savvier about how to avoid buyer's remorse.

They are changing their buying behaviour to accommodate the new realities of dynamic pricing – where prices vary frequently by channels, products, customers and time.

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Questions

1. Under what conditions will dynamic pricing be smart and successful pricing?
2. Explain the success of DHL's ad-hoc business from a pricing perspective.

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UNIT – IV

Lesson 4.1 - Marketing Channels

At the end of the chapter, you will be familiar with

- What are marketing channels?
- Types of channel flows
- Functions of distribution channels

What's new in marketing channels in India?

Project Shakti: Among the new channels is Project Shakti, which is already operational in 11 states. The vision is to reach over 100,000 small villages, touching over 100 million rural Indians. Project Shakti provides micro-enterprise opportunities for women from Self-help Groups, making them direct-to-home distributors of HLL. The 'Shaktiammas' work as brand ambassadors for HLL and they sell its products directly to village consumers at their homes.

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Hindustan Lever Network: Hindustan Lever Network leverages the opportunity of Direct Selling, and already presents customized offerings in 11 Home & Personal Care and Foods categories. With a consultant base of over 250,000 entrepreneurs, it operates in over 1,500 towns and cities, covering 80% of the urban population.

Out-of-Home Opportunity: HLL is also aggressively responding to the rapidly growing trend of out-of-home consumption. The company is already the largest in hot beverages vending with over 15,000 tea and coffee vending points. This is being aggressively expanded in offices, the burgeoning services sector and, through specially designed kiosks, in the education, entertainment, leisure and travel segments.

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Health & Beauty Services: To respond to the increasing consumer need for health and beauty services and products, HLL has pioneered Lakme Salons and Ayush Therapy Centres. Lakme already has 64 salons in 26 cities, servicing over 4 lakh consumers a year. The Ayush Therapy Centres provide easy access to authentic Ayurvedic treatments and products, addressing the ever-growing concern for health among consumers.

Mr. Banga of HLL concluded, "Our distribution initiatives create significant employment and vocational opportunities. Our countrywide network of 7,000 Stockists and 6,000 sub-stockists employs over 60,000 people. In our current channels, we work with the local retail trade, which has dispersed ownership and already involves a large number of people. Our new initiatives by themselves create large vocational opportunities for people. Hindustan Lever Network aims to create over a million self-employed entrepreneurs. Project Shakti aims to engage 25,000 underprivileged rural women, giving them economic independence. Services, by their very nature, are employment intensive and will also provide significant employment. All our channel initiatives are thus completely aligned with the national interest and priority of employment generation."

One of the major purposes of marketing is to satisfy the human needs and wants by delivering products to buyers when and where they want them at a reasonable cost. One of the key aspects we find in this process is delivery. Over the past two decades, economic clout has shifted from the producers of goods to distributors of goods. The shift in economic power has been significant in the retail level of marketing channels, where mass merchandisers like Wal-Mart, Big Bazaar have become dominant players. As a strategic marketing tool, the distribution channels had for many years taken something of a backseat to the other three strategic areas of the marketing mix namely the product, price and promotion. Today there has been a shift in the emphasis and this has been credited to four developments, viz.

- Explosion of information technology and e-commerce
- Greater difficulty of gaining a sustainable competitive advantage
- Growing power of distributors especially retailers
- The need to reduce distribution costs

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Defining Distribution Channels

Different people perceive marketing channels in different ways, some see it as a route taken by a product as it moves from the producer to the consumer, and others describe it as a loose coalition of business firms that have come together for purpose of business. Customers may view marketing channels as simply 'a lot of middlemen' standing between the producer and the product. Given all these different perspectives it is not possible to have one single definition for marketing channels. Marketing channels can be defined as the external contractual organization that management operates to achieve its distribution objectives.

There are four terms in this definition that has to be given a special mention namely external, contractual organization, operates and distribution objectives. The term external means that the marketing channel exists outside the firm. Managing of the marketing channel therefore involves the use of inter-organizational management (managing more than one firm) rather than intra-organizational management (managing one firm). The term contractual organization refers to those firms who are involved in the negotiatory function as the product moves from the producer to the end user.

The function of these firms involves buying, selling and transferring of goods and services. Transportation companies, public warehouses, banks ad agencies do not come under these and are referred to as facilitating agencies. The third term operates suggests the involvement of management in the channels and this may range from the initial development of the channel structure to the day-to-day management. Finally the distribution objectives explain the distribution goals the organization has in mind. When the objectives change, variations can be seen in the external contractual organizations and the way in which the management operates. In simpler terms a channel then consists of producer, consumer and any intermediary.

Marketing channel strategy is one of the major strategic areas of marketing. In most cases eliminating middlemen will not reduce prices, because the amount that goes to the intermediaries compensates them for the performance of tasks that must be accomplished regardless of whether or not an intermediary is present. In simple terms, a company can eliminate

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intermediaries but cannot eliminate the functions they perform.

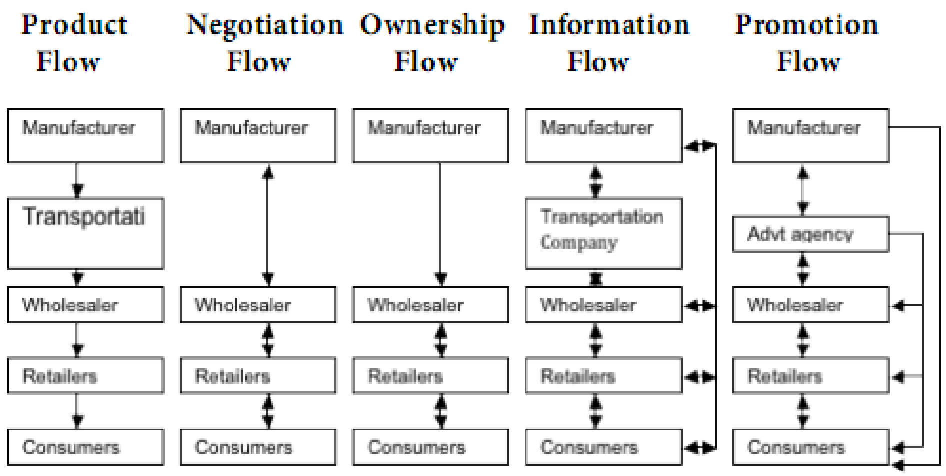
Flows In Marketing Channels

As discussed a conventional channel of distribution consist of a manufacturer, a wholesaler, a retailer and the ultimate consumer. Not all the channels include all these marketing institutions. At times the product passes directly from the manufacturer to consumer. When a marketing channel has been developed a series of flows emerge. These flows provide the links that tie channel members and other agencies together in the distribution of goods and services. There are five most important flows namely

- Product flow
- Negotiation flow
- Ownership flow
- Information flow
- Promotion flow

4.1 Flows in the Marketing channel

Product Flow Negotiation Flow Ownership Flow Information Flow Promotion Flow



The orgin and concept of flows in marketing channels is generally attributed to Ronald S. Valie, E.T Grether and Reavis Cox

The **Product flow** refers to actual physical movement of the product from the manufacturers through all the parties who take physical possessions of the product from the point of production to the final consumer.

In the **negotiation flow,** this represents the interplay of the buying and the selling functions associated with the transfer of title.

If you note the diagram you find the transportation firm is not included in the flow because it does not participate in the negotiation function, also you can find the arrows flow in both the directions, indicating the negotiation is mutual at all levels of the channels. The ownership flow shows the movement of the title to the product as it is passed along from the manufacturer to the consumer, here as well we find the transportation function missing since the transportation firm does not take title or is actively involved in the facilitating function. It merely involves in transporting physical products

In case of the **Information flow**, we can see that the transportation function has reappeared and all the arrows are two-directional. All the parties participate in the exchange of information. For example Coke may obtain information from the transportation company about its shipping schedules and the rates, while the transportation firm may seek information regarding when and in what quantities it plans to ship its products. Some times the information bypasses the transportation company directly to the wholesaler or the retailer when the information does not concern the transportation firm. If there is an offer, or a price reduction these information are not needed by the transportation firms.

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Finally the **Promotion flow** refers to the persuasive communication in the form of advertising, personal selling, publicity. There is a new component that is added to the flow and that is the advertising agency and this actively provides and maintains the information flow. The organizations work closely with the promotional organizations so we find a two-directional arrow.

From the management view, the concept of channel flows provides a useful framework for understanding the scope and complexity of channel management. Changing scenario does make the role of the firms' complex,

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as a result of which innovative channel strategies and effective channel management are needed to make this happen.

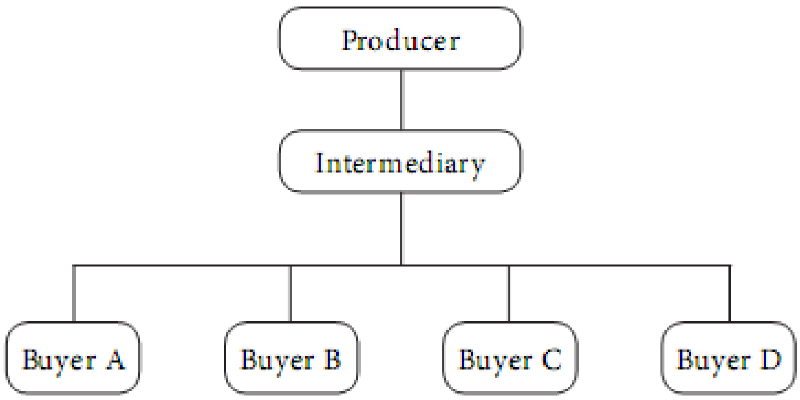
Functions Of Distribution Channels

Some of the major functions performed by the intermediaries are mainly physical distribution, communication and facilitating functions. When we talk about physical functions, they include braking bulk, accumulating bulk, creating assortments, reducing transactions and transporting and storing.

Breaking bulk

One of the important role intermediaries perform is bulk-breaking function. Here these organizations buy in large quantities and break them into smaller quantities and pass them to the retailers, wholesalers or even to the customers. By doing so, the intermediaries reduce the cost of distribution for the manufacturers as well as the consumers. This particular function is also termed as 'resolution of economic discrepancies'. Exhibit 4.2 gives a pictorial description of bulk breaking

4.2 Bulk-breaking function



Adapted from William Zikmund &Michael d'Amico, Marketing Seventh Edition

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