MARKETING MANAGEMENT

MBA First Year
Semester-II, Paper-III

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FOREWORD

Since its establishment in 1976, Acharya Nagarjuna University has been forging ahead in the path of progress and dynamism, offering a variety of courses and research contributions. I am extremely happy that by gaining 'A+' grade from the NAAC in the year 2024, Acharya Nagarjuna University is offering educational opportunities at the UG, PG levels apart from research degrees to students from over 221 affiliated colleges spread over the two districts of Guntur and Prakasam.

The University has also started the Centre for Distance Education in 2003-04 with the aim of taking higher education to the door step of all the sectors of the society. The centre will be a great help to those who cannot join in colleges, those who cannot afford the exorbitant fees as regular students, and even to housewives desirous of pursuing higher studies. Acharya Nagarjuna University has started offering B.Sc., B.A., B.B.A., and B.Com courses at the Degree level and M.A., M.Com., M.Sc., M.B.A., and L.L.M., courses at the PG level from the academic year 2003-2004 onwards.

To facilitate easier understanding by students studying through the distance mode, these self-instruction materials have been prepared by eminent and experienced teachers. The lessons have been drafted with great care and expertise in the stipulated time by these teachers. Constructive ideas and scholarly suggestions are welcome from students and teachers involved respectively. Such ideas will be incorporated for the greater efficacy of this distance mode of education. For clarification of doubts and feedback, weekly classes and contact classes will be arranged at the UG and PG levels respectively.

It is my aim that students getting higher education through the Centre for Distance Education should improve their qualification, have better employment opportunities and in turn be part of country's progress. It is my fond desire that in the years to come, the Centre for Distance Education will go from strength to strength in the form of new courses and by catering to larger number of people. My congratulations to all the Directors, Academic Coordinators, Editors and Lesson-writers of the Centre who have helped in these endeavors.

Prof. K. Gangadhara Rao
M.Tech., Ph.D.,
Vice-Chancellor I/c
Acharya Nagarjuna University.

MASTER OF BUSINESS ADMINISTRATION (MBA)
203EM24 - MARKETING MANAGEMENT
SYLLABUS

COURSE LEARNING OUTCOMES (CLOs):

on successful completion of the course the rearner will be able to:

l. Understand the concepts of Marketing Management

2. To learn about Marketing process for different types of products and services

3. To understand the tools used by Marketing managers in decision situations

4. To understand the Marketing Environment and to analyse and examine the implementation of Marketing concepts and strategy to firms.

Unit -I: Importance and Scope of Marketing: Concepts of Marketing; Marketing Management Tasks; Marketing Environment; Marketing and Customer Value - Industrial Marketing, Services Marketing, Global Marketing.

Unit -II: Marketing Information System and Marketing Research: Consumer Behaviour and Buying Decision Process - Organization Buyer Behavioui Market Segmentation and Targeting. Unit JII. Development of Marketing Offerings Strategy: New Product Development-product line and Decisions-Product-mix-Product Differentiation -Product Life Cycle Management – Brand Management -Packaging.

Unit- IV: Pricing Strategies and Programs: Setting the Price - Adapting the price -initiating Response to Price Changes - Delivering Value: Designing and Managing Value Networks - Channels of Distribution.

Unit -V: Communicating Value: Designing and Managing Marketing Communications - Advertising - Direct Marketing and Personal Selling – Sales Promotion -Events and public Relations and Competitive Marketing Strategies- Emerging Trends in Marketing: Network Marketing-viral Marketing-Ambush/Guerilla Marketing-Green Marketing- etc.

Reference Books:

L Kotler,Keller,Koshy & Jha, Marketing Management, pearsono New Delhi
2. william J Stanton, Fundamentals of Marketing, MiGraw-Hill, New Delhi.
3. Arun Kumar and Meenakshi, Marketing Management, vikas, New Delhi
4. Pride and Ferrell, Marketing Management: Planning, Implementation & Control, Cengage India.
5. Rajan Sexena, Marketing Management: Text cases in Indian context.
6. Keith Blois - oxford rextbook of Marketing oxford university press.
7. zinkota & Kotabe : Maketing Management , prentice Hail of India.
8. Joel R.Evans & Barry Berman : Marketing, wiley India, New Delhi.
9. Ramanuj Majumdar, Consumer Behaviour insights from Indian Market, pHI,20l0

Course Code: 203M24

Title: Marketing Management

Time: Three hours **Max. Marks:70**

SECTION – A (5X3=15 Marks)

I. Answer any Five of the following

a) Customer value

b) Next Generation product

c) Publicity

d) Channel Design

e) Consumerism

f) Viral Marketing

g) Labeling

h) Digital Marketing

SECTION – B (5 X 8 = 40 marks)

II. Answer the following:

UNIT – I

2. a) Explain Micro factors and their impact on Marketing decisions.

(or)

b) Describe Global Marketing in detail.

UNIT - II

3. a) Explain both Consumer Behaviour and Organisational Buyer Behaviour.

(or)

b) Describe Market Segmentation and Targeting.

UNIT – III

4. a) Define Product and explain the New Product Development Process.

(or)

b) Explain the different stages in the Product Life Cycle Management (PLC).

UNIT – IV

5. a) Describe the major Pricing Strategies adopted by Marketers.

(or)

b) Describe the concept of Marketing Channel System.

UNIT – V

6. a) Explain Advertising as tool of Marketing Communication.

(or)

b) Explain the concept of Green Marketing.

SECTION – C (1 X=15 Marks)

Case Study (Compulsory)

The Launch of a brand is a festive occasion. Usually, a brand is launched by holding a brand conference. Formerly, brand launches were a laid-back affair. These days, the launches have become spectacular and memorable occasions. A soap with fresh time in it is launched with limes all over the venue. There were lime garlands too. Even the welcome drink was ' **nimboo-paan**i'.The approach is to use all these activities in a synergistic manner.Some launches are called fire cracker launches. Here, the product is launched by cracking fire crackers to open up the pack with the accompanying music, lights etc. Yes there is a thin line that divides an innovative launch and gimmicky. The litmus test is the relevance of the launch time activity. Launches have become professional with the Event Management companies offering their services.

Questions:

1. Analyse the above Case study critically.
2. Suppose a non-cola beverage is to be launched, how would you go about it?

CONTENTS

LESSON 1

INTRODUCTION TO MARKETING

1.0 OBJECTIVES

The objectives of this Lesson are to help you to understand:

- The meaning of Marketing;
- The Marketing concept;
- The Marketing mix;
- How Marketing concept and marketing mix are integrated in practice, thus resulting in the marketing process and strategy; and
- The concept of Industrial and Global Marketing

STRUCTURE

1.1 INTRODUCTION

First of all, we welcome you to this course. Different people with different objectives would opt to learn marketing. However, marketing, as you will soon see, is important whether you are in the marketing function or any other function of a business. Besides, marketing is a very exciting field. It requires creativity for success. Thus, you have embarked on the study of an exciting subject, which can also increase your creativity.

This course has been designed primarily to develop your awareness of the marketing-orientation. It is assumed that such knowledge about marketing decisions and processes will not only improve your personal competence but will also help in attaining your organisations' objectives.

1.2 THE MEANING OF MARKETING

Let us start by first understanding the meaning of the word marketing. Thereafter, we will offer you some definitions, and develop the theme further.

Let us raise the following question:

What do you understand by the word `marketing' You may write your answer in the space provided.

The objective of this question is to make you start thinking on your own: While answering the above question have you thought that

Marketing and its Applications

Marketing is selling

or

Marketing is advertising

or

Marketing is promotion

If yes, then you are certainly on the right track.

In USA, 300 college administrators were asked about the meaning of marketing. As many as 90 per cent said that marketing was selling, advertising and/or public relations. It is no wonder that the Americans are bombarded with TV commercials, newspaper advertising, sales calls, etc.

Even in our own country when managers are asked this question the majority of them give a similar reply. It is important to understand that marketing is much more than selling or advertising, although these do form part of the marketing functions.

The American Marketing Association defines marketing as follows:

"Marketing is the performance of business activities that directs the flow of goods and services from producer to consumer or user."

Do you agree with the above definition? Give your comments. Identify at least 20 products and services that are being currently marketed in India.

This definition is undoubtedly an improvement on describing marketing as selling as it shows that marketing does encompass other activities besides selling. Schematically, this definition can be reproduced as shown below:

We can see that Marketing, as per this definition, starts with a `product'. This is very common idea among many people, for example, in advertising agencies, as they normally are required to advertise to sell a product, which already exists. Similarly, salesmen are also given `products' and asked to sell them. Therefore, to them marketing often, starts with a product,

Human Needs and Marketing Concept

We would now like you to fill in what you think come before a product comes into existence in the box marked (a) in Figure I. Also complete the box marked (c) with what you think should happen when the product or service has reached the consumer or user.

Let us now analyse what could have been written in box (a) in Figure I, for what ' comes before the product. You must remember that if you are an entrepreneur who wants to start a new business, you do not have a product. In fact you will have to decide what product you should manufacture and sell. How do you decide this? The answer to this question helps you in filling up (a). Please do so. The entrepreneur has first to decide what product he should select. This he can do only if he can identify the needs, which require satisfaction among human beings. Once he has identified the need of a group of human beings (called market segment), he can determine the product, which can help to satisfy that need. This is a part of the modern philosophy of marketing or the marketing concept.

Philip Kotler, a well-known author in the area of marketing, defines marketing as

"A human activity directed at satisfying needs and wants through exchange processes."

Thus the most fundamental concept, which must be realised as being the basis of all marketing activities, is the existence of human needs.

The human need is a state in which a person feels deprived of something. There are many human needs described in many ways. Briefly, these needs can be divided into two types.

1. Physiological needs; and

2. Psychological and Sociological needs.

The physiological needs consist of the need for food, clothing, shelter and even sex. Similarly, there are social needs for belonging, affection and love from others. Of course, there are higher order psychological needs of self-actualization.

It is important to understand that at any time some needs in a human being are dormant and unsatisfied whereas others are active and are being satisfied. A marketing man may thus devise a product or service aimed at satisfying a certain dormant need and thus provide satisfaction to the user as shown in photographs. This is why a man is often described as `a bundle of dormant wants'. The need exists but these have to be converted into `wants' by a marketing strategy.

In a socially competitive society, people may have unlimited wants but the ability to buy may be restricted on account of their economic background. They will, therefore, select from among those products, which give satisfaction or are needed more. Thus, when they are backed by ability to buy, the wants are converted into demand for your product. Therefore, when people decide to satisfy their needs and wants, in terms of marketing activities, exchange takes place. This explains in detail the definition given by Kotler. However, does this completely define marketing? Let us analyse this still further.

If yes, then we can develop a process-oriented definition of marketing, as "the process of ascertaining consumer needs, converting them into products or services, and then moving the product or service to the final consumer or user to satisfy' certain needs and wants of specific consumer segment or segments with emphasis on profitability, ensuring the optimum use of the resources available to the organisation".

In practice, often, separate departments with their own way of thinking perform the business functions, such as production, finance and marketing. Production is often considered the more important function as compare to marketing. This practice is, gradually losing ground and it is being recognised that unless you can sell a product, you should not manufacture it.

Production-orientation evolved because often products were designed and developed by inventors who hoped that they would sell. However, if these products fail to satisfy some needs they would never sell in the market place. Therefore, consumer oriented thinking becomes necessary for any business to survive and grow.

Peter Drucker stresses this by saying that marketing is so important that it is not enough to have a strong sales department entrusted with marketing. In his view, "concern and responsibility for marketing must permeate all areas of the enterprises".

Normally, a salesman would like to think of his activity as a `selling' process. When he does this, he is more concerned with handing over his product and receiving money in exchange.

However, if he adopts the modern philosophy of treating it as a `buying' process, his job becomes easier. He puts himself in the shoes of the customer and asks the question-Why should I buy this article? When he does this, he will start feeling and thinking as the customer does. His job will become smoother, as he will then know both the benefits and the disadvantages of the product or the service he is offering. This is an illustration of customer-oriented focus.

1.3 THE MARKETING MIX

Marketing is performed within a certain environment which itself is always changing. The marketing activities have, therefore, to change in consonance with environment to be continuously effective. In order to appreciate this process it is easier to divide the marketing activities into four basic elements, which are together referred to as the marketing mix. These four basic elements are:

i) Product,
ii) Place
iii) Price,
iv) Promotion, and
v) Place (or physical distribution).

As all these four start with the letter `P' they are, at times, referred to as the four Ps of the marketing mix or the 4Ps in marketing.

The word product stands for the goods or services offered by the organisation: Once the needs are identified, it is necessary to plan the product and after that keep on analysing whether the product still satisfies the needs which were originally planned for, and if not, to determine the necessary changes. You will learn this in greater detail when we talk about product strategies, about how new products are introduced, how they have to be modified in due course to continue to be successful in sales and why marginal or non-profitable products should be removed, unless they are contributing in some way to the overall benefit of the organisation.

Price refers to the money value that the customer has to pay. The product has to be adequately priced. This involves considerations of the profit margin, the cost, the possibility of sales at different prices and the concept of the right price.

Promotion is the aspect of selling and advertising, or communicating the benefits of the product or service, to the target customers or the market segment involved in order to persuade them to purchase such products or services.

It includes selling through advertising as well as the sales force. Besides, a certain amount of promotion is done through special seasonal discounts, competitions, special price reductions, etc. collectively called sales promotion.

Finally, physical distribution refers to the aspect of the channels of distribution through which the product has to move before it reaches the consumer. It also includes the logistics aspects of distribution such as warehousing, transportation, etc. needed for geographical distribution of the products.

It is also concerned with the selection of distribution channels. The organisation must decide whether it should sell through wholesalers (who buy in large quantities and sell to retailers) and then to retailers (i.e., the shopkeepers, who ultimately sell to consumers), or whether directly to the consumers. There are many ways in which a product can be moved from the producer to the consumer. The optimum method has to be determined in terms of both consumer satisfaction and profitability to the organisation, or optimum use of the organisation's resources.

1.4 THE MARKETING STRATEGY

Having now understood the importance of consumer orientation as well as the elements of the marketing mix, it should be remembered that the marketing strategy consists in directing a proper marketing mix towards a target group of customers or market segment. This is illustrated in Figure II. It will be noticed that the "Four Ps" are decided and directed at the consumers on the basis of proper diagnosis of firm-market system arrived through the process of marketing research.

This chart also gives you a bird's eye view of marketing. Let us take an illustration to show you how in practice one would go about determining the marketing activities in terms of consumer orientation. We will take a hypothetical example.

As we learnt, the first step in the marketing process is the identification of the needof a group of persons or market segment. Let us presume that the need is `to be more attractive to the opposite sex'. In terms of this need, we can select many different types of products. The one, which comes first to mind, is perfumes. Therefore, let us take our product as perfumes. Let us now design our marketing strategy.

Market Segmentation

You should now decide on the type of consumers for whom you wish to market perfumes.

Write down below the characteristics of a group of customers whom you would like to aim your product at.

Perfumes can be purchased by both men and women can purchase perfumes. Suppose you have selected `women' as your group of customers and removed men from your target group. Assume that you have gone still further in defining your consumer target by deciding to aim only at the sophisticated group. But, this is rather vague.

We should, define the word sophisticated. Our definition perhaps would give us two more characteristics: (1) the high-income group and (2) in the urban areas. Let us presume that the circles given in Figure III represent these three types of groups.

Product Planning

Now we need to go into details about the exact product. We have defined it as a perfume and that the perfume must be of high quality.

Can you now describe the bottle that you would use? Give your suggestions here:

Even the selection of the bottle is important. You cannot use a large bottle, even though the cost of the perfume actually may not be high. You are aiming at a `sophisticated' group of women. Therefore, a very small delicate bottle must be selected.

As against this, had you selected men as your customers, what type of bottle would you have selected? Please write down your answer below:

The bottle would be square looking and solid in appearance. It would create the image that `it is manly to use perfumes'.

An attractive package obviously must be used with good colour design and high quality paper. By now you may have realised perhaps that the cost of the perfume is relatively very low as compared with the beautiful bottle, the packaging and the marketing or the promotional effort, which is likely to follow.

Promotion

In connection with promotion, please list below the magazines and newspapers that you would use.We are sure you must have selected appropriate high quality magazines in the Indian context. What about an advertising theme?

What would be your advertisement line?

Give some of your suggestions here.

Perhaps you would show a woman passing by and the men swooning, or a group photograph where men are clustered around one particular woman who seems to have used our perfume. Thus `exclusivity' has to be built in through advertising.

Physical Distribution

With regard to distribution, you would now have to think of adequate shops which would need to be induced to store the product, how these products would be sent to the shops and so on. Perhaps you would use `exclusive shops' for this purpose, such as large well-known departmental stores, which must be induced to stock your perfumes. As against this distribution system, some organisations may even decideon selling entirely through the sales force, although that would be perhaps a more expensive method. This is where discretion and creativity comes into designing of an adequate marketing mix strategy. This is what makes marketing so exciting and challenging.

Pricing

Finally, the aspect of pricing has to be considered carefully. Suppose all your calculations have brought you to a total cost per unit of Rs. 6. At what price would you offer this product? Suppose the margin of profit which would satisfy you is Rs. 2. Would you offer this at Rs. 8?

Give below your preference with the reasons for it.

We are sure you must have remembered, when arriving at the final pricing figure, that the price must be high enough to appeal to this so called `sophisticated' group. If the price is too low, an image might be created that by the use of this product the user would develop some skin rash or trouble. This is what is meant by the concept of the `right' price.

The above illustration has dealt with the marketing mix very briefly, as each of these elements will be dealt with in separate units in great depth. The objective of the above illustration is to show you how these 4Ps of marketing have to be aimed at the consumers and ultimately must result in both consumer-satisfaction and profitability for the organisation. Thus, starting with identification of needs requiring satisfaction, we have ended with marketing decisions.

1.5 INDUSTRIAL MARKETING

The Marketing concept for the business enterprises of industrial buyer is to define the needs of a target market and modify the organization’s product or service to satisfy those needs more successfully than its competitors. The marketing concept is applicable and important in both the industrial and consumer markets due to the differences in terms of the nature of markets. It is evident that consumer marketers have embraced the marketing concept more fully than their industrial counterparts because Industrial customers like organizations -businesses, institutions, and Government Agencies have unique needs. The industrial marketing concept involves more than facilitating exchange with these customers because it is based upon the structure of a partnership between buyer and seller for the purpose of achieving the organizational goals of both.

Generally, industrial organizations tend to be technically oriented- much more interested in a particular product and its technical development. Many managers in such firms are promoted out of engineering and research and development departments.

Sometimes technical values tend to dominate their decision- making. When it happens, there is a risk of becoming so charmed with a technical accomplishment or particular product parameters that the necessary flexibility for responding to customer needs in a competitive market place disappears. The ultimate success in industrial marketing does not lie in projecting one own competence in technical proficiency but in catering to the exact need of the industrial customer.

For marketing effectiveness, the product should always be regarded as a variable and should be viewed from the perspective of the customer. Customer benefits and need satisfaction, rather than the physical product, should be the center of attention. Further, customer satisfaction should be do maintain all corporate decision making; so, it cannot be the exclusive domain of the marketing department a holistic marketing approach must be tried by the vendor or marketer. Providing customer satisfaction must involve all decision makers and will affect product design, demand analysis, manufacturing techniques, resource utilization, delivery of the offerings in pattern of delivery schedule ‘and long-range profits of the industrial customer and the vendor.

Moreover, the understanding of the concept of industrial marketing is compulsory for industrial marketing manager: to provide proper guidance and stimulation for research and development of new products; to exploit and develop markets for new products; to define the methods for promoting products to customers considering the major increase in the cost of media advertising and personal selling; to innovate in distribution and other areas to keep up with changing requirements of industrial customers doing business on a multinational basis. Again, to meets tiff competition through modernized business; it must adapt itself to plans of modifying and reformulation of product, refining the product positioning and approach the problems using modern techniques of planning and implementation.

1.6 GLOBAL MARKETING

In order to take advantage of global opportunities, as well as meet the challenges presented by so doing a number of concepts can be particularly useful. Every organization needs an understanding of what is involved in “strategy”, or else the haphazardness involved in chance exporting can be accepted as the norm with all inherent dangers involved. Also potential exporters need to know what is going on in the global “environment”. Just as in domestic marketing “Government” “competition”, “social” and other factors need to be accounted for; such is the case in international marketing. If one can place products or services at a point on an environmental sensitivity/insensitivity continuum, one can see more clearly the need to account for differences in the marketing mix. By comparing the similarities and differences between domestic and international marketing needs and planning requirements, then the organization is in a better position to isolate the key factors critical to success. Environmental analysis allows the organization to cluster markets according to similarities and differences, based on the environmental “uncontrollable” factors. The international “uncontrollable” are in addition to the organization’s domestic “uncontrollable” so need to be treated with extra care.

1.6.1 INTERNATIONAL MARKETING

International Marketing is any marketing activity which supports business activity, in a country other than the one that the business is located in. International marketing enables businesses to provide benefits (in the form of products and services) to consumers around the world. Global Marketing Global marketing is “Marketing on a worldwide scale reconciling or taking commercial advantage of global operational differences, similarities and opportunities in order to meet global objectives".

1.6.2 WHY TO GO GLOBAL?

- There are a number of reasons why businesses decide to trade internationally including: Competition within the national market is becoming too intense.
- Sales and profit are declining in national markets.
- International expansion (market development) is suggested as an option to plug falling sales. International markets offer the opportunity for products with a life cycle coming to an end in national markets. Overseas markets contain similar markets as national markets.
- Easy international travel and technology are turning national brands into international brands and facilitating the move into international markets. Consumers and buyers in other countries may already have become familiar with the brand during trips abroad and through the internet The business is doing well in national markets and the firm have decided to become a global player.

1.6.3 EVOLUTION TO GLOBAL MARKETING

Global marketing is not a revolutionary shift, it is an evolutionary process. While the following does not apply to all companies, it does apply to most companies that begin as domestic companies. Domestic Marketing A marketing restricted to the political boundaries of a country, is called "Domestic Marketing". A company marketing only within its national boundaries only has to consider domestic competition. Even if that competition includes companies from foreign markets, it still only has to focus on the competition that exists in its home market. Products and services are developed for customers in the home market without thought of how the product or service could be used in other markets. All marketing decisions are made at headquarters.

The biggest obstacle these marketers face is being blindsided by emerging global marketers. Because domestic marketers do not generally focus on the changes in the global marketplace, they may not be aware of a potential competitor who is a market leader on three continents until they simultaneously open 20 stores in the Northeastern U.S. These marketers can be considered ethnocentric as they are most concerned with how they are perceived in their home country. Domestic market is a large market that every nation needs. These markets are all restricted to be under control of certain boundaries in that company or country. This type of marketing is the type of marketing that takes place in the headquarters. The disadvantage that this brings is that they really don't have that much of a say of what happens within the company. In domestic markets it helps reduce the cost of competition. By reducing competition the company has a better shot of being more successful in the long run. Also if the company's competition is not a big factor that will affect their business, they have a good shot at making prices higher and people will still purchase that product.

A domestic market also gets the opportunity to operate in different areas and this gives the company an opportunity to have bigger markets to advertise to. Even in Domestic markets businesses are still trying to trade with each other to promote their business to other businesses in the area. A good thing that helps out Domestic market is that they might be able to receive tax benefits, because they offer jobs to the nation and give people opportunities for work. Domestic market helps country's out by offering more jobs bring in good business to the market and also helps with the trading around the market.

1.7 SUMMARY

You have now some idea of what comes under the study of `Marketing for Managers'. You have noticed that marketing is not really an activity, which should be looked upon in a vacuum or in isolation. It is in essence taking a view of the whole business organisation and its ultimate objectives. Concern for marketing must penetrate all areas of the

Enterprises. Marketing emphasizes the belief, handed down for a long time by good marketing people, that the `customer is the king' and his satisfaction must be the ultimate aim of a business activity, if the business unit desires continued success over a long period of time. It is because of this that all business thinking in management must start with identification of a `need' of a group of likely customers or persons. This leads to identification of the type of `product' or service to be offered. The product or service is aimed at satisfying the needs of a group of consumers, known as customer segment or segments. This is followed by a host of decisions and activities known as the marketing mix directed to secure consumer-satisfaction as well as profitability for the organisation.

1.8 KEY WORDS

Marketing concept: It emphasizes consumer-orientation and satisfaction as well as profitability for the organisation.

Need: A human need is a state in which a person feels deprived of something.

Price: This is the money value for the product or service offered by an organisation.

Retailer: This is the shopkeeper who buys generally from wholesalers or at times from manufacturers and then sells directly to consumers or users. The retailers may range from a small pan shop to a large departmental store.

Selling: This consists of exchange of a product by the salesman or shopkeeper with the

Customer for money and, in case of the modem concept of selling, it must result in satisfaction of the consumer and profitability for the organisation.

Want: A need has to be converted into a want for our product or service through adequate marketing strategy, such as promotion.

Wholesaler: He is a person who buys large quantities from the manufacturer and then sells in smaller quantities to the shopkeeper or retailer who ultimately sells it to the consumer or user.

1.9 SELF-ASSESSMENT QUESTIONS

Questions

1. Define `Marketing' and distinguish it from mere `Selling'.

2. As an illustration, take the consumer item `after-shave lotion'. Design your marketing strategy, describing the steps in the marketing process starting with defining the `market segment', then explaining the designing of the `Four Ps' in Marketing and ending with the ultimate objectives of marketing.

1.10 FURTHER READINGS

1. Kotler, Philip, 2002 Marketing Management, 11 'h Edition, Prentice-Hall of India Pvt. Ltd., New Delhi
2. S.Neelamegham - Marketing in India, 3rd edition - 2000, Vikas Publications, New Delhi

Dr B.V.H. Kameswara Sastry

LESSON- 2

MARKETING IN A DEVELOPING ECONOMY

2.0 OBJECTIVES

The objectives of this Lesson are to introduce to you:

- The concept of a developing economy;
- The relevance of marketing in a developing economy;
- The relevance of social marketing; and
- The role of marketing in relation to some selected industry and service sectors.

STRUCTURE

2.1 INTRODUCTION

You will agree that before we discuss the relevance and the role of marketing in a developing economy we should try to understand what a developing economy actually signifies. To put it in simple terms a developing economy is one where the process of development has started. But a developing economy, relatively speaking is less developed in terms of gross national product, per capita income, industrial development, infrastructure facilities, motivations and attitudes of its people etc. as compared to developed countries.

In other words a developing economy is one which is trying to achieve growth in the gross national product through generation of additional income in various sectors of an economy such as agriculture, industry, mining, internal and external trade.

Let us pose an issue.
Whether developing countries achieve this growth in a planned or an unplanned manner?
Check the one with which you agree.
Planned manner----------------------

Unplanned manner-------------------

Your answer would obviously be in a `planned manner'. So we can state that planning is a sine qua non in achieving the economic growth. Thus what we are really talking about is the planned economic growth of a developing nation.

But would you say that, so far as the development of a nation is concerned, the growth or change is needed only in the economic field or would you cover the social field as well?

Your answer would be `both' i.e. both the economic and social changes are necessary to bring about the development of a nation. Like economic change, social change has also to be brought about in a planned manner.

2.2 MARKETING AT DIFFERENT LEVELS OF ECONOMIC DEVELOPMENT

You must have seen from the above description that `developing country' is a stage in the economic development of a country. Now you should first try to think of different stages in the economic development of a country both preceding as well as following it. Next you should relate these stages to the type of marketing functions, which are performed at each stage. Such an exercise will help you to appreciate the role of marketing in a developing economy.

The following table will help you to gain a very broad understanding of this relationship.

2.3 RELEVANCE OF MARKETING IN A DEVELOPING ECONOMY

We have in the previous section briefly described what we mean by a developing economy and also what type of marketing functions is performed at different levels of development. We will now discuss in greater detail the relevance of marketing in a developing economy. Earlier we emphasized the importance of planned economic and social changes in the development or growth of a nation.

In discussing the relevance of marketing in a developing economy we will follow the same approach with reference to `planned economic growth' as well as `planned social change'.

Marketing and Planned Economic Growth

The issue that needs to be examined by you in this context is whether marketing has any role to play and if so whether it is relevant to the planned economic growth of a developing economy.

You may argue that economic situation in a developing country is characterised by a scarcity of essential goods, services and ideas, inflationary price trends and excessive unemployment. So marketing effort is needed at a minimal level in a developing economy since most of the economic resources have to be mobilized for additional production of ideas, goods and services resulting in greater employment.

How to view the Marketing Effort?

Marketing is relevant to growth provided it is viewed as a total business effort. Further you can view the marketing effort in turn in two different ways based on who initiates the same-the firm or the state. You will find Governments in several developing countries involving themselves in marketing activities like setting ceiling and floor prices of foodgrains and industrial raw materials, setting maximum wholesale and retail prices of scarce consumer goods, regulating physical movement to ensure smooth flow of essential goods and even influencing the decisions pertaining to distribution and advertising. Such state intervention is justified on grounds of equitable distribution at minimum social cost.

Significance of Macro and Micro-marketing Concepts

You should further note that marketing effort both on the part of the firm as well as the state i.e. both at the macro and micro levels is relevant to growth. When the involvement of Government in the marketing and distribution of ideas, essential goods and services is significant it is called macro marketing. As against this where a firm enjoys sufficient freedom to design its marketing effort, it is considered to be a case of micro marketing.

General Role of Marketing

In the context of the above background we would now introduce you to a more general role of marketing.

The first and foremost role is that it stimulates potential aggregate demand and thus enlarges the size of the market. You might ask how does it help in the economic growth of a country. The answer is that through stimulation of demand people are motivated to work harder and earn additional money to buy the various ideas, goods and services being marketed. An additional advantage, which accrues in the above context, is that it accelerates the process of magnetizing the economy, which in turn facilitates the transfer of investible resources. (In India, it is believed that about one-fourth of GNP and more than one-third of agricultural output are still non-monetised).

Another important role which marketing plays is that it helps in the discovery of entrepreneurial talent. Peter Drucker, a celebrated writer in the field of management, makes this point very succinctly when he observes that marketing is a multiplier of managers and entrepreneurs.

If you study the history of Indian industrial development during this century, you will find that several Indian industrialists began their business careers as distributors and wholesalers, and from the experience so gained ventured into the more risky fields of manufacturing and production activities.

Still another important contribution which marketing makes is that it helps in sustaining and improving the existing levels of employment.

You would naturally like to ask, how does it happen? The answer is that when a country advances economically it takes more and more people to distribute goods and proportionately a lesser number to make them. That is from the employment point of view production becomes relatively less significant than marketing and the related services of transportation, finance, communication, insurance, etc. which spring around it.

In the context of the above discussion regarding general benefits which arise from marketing, would you recommend that planning marketing sub-system of an economics should be closely integrated into the general programmes of economic development?

First answer the question before you read ahead.
(Yes, otherwise it would result in the creation of imbalances between supply and demand situations. Instances are not wanting where new enterprises had to face severe problems and even face a shut down due to inadequate attention given to market's capability to absorb the additional supply).

Would you subscribe to the view that in an economy of shortages of most consumer and industrial goods there is not much scope for persuasive or aggressive marketing? First answer the question before you read ahead.

(The point to note is that marketing has been very narrowly interpreted in the above question. The marketing function revolves around a wide spectrum of activities ranging from product planning to after exchange servicing, as discussed in Unit 1, all of which need not necessarily be relevant to all stages of growth or to different sectors of an economy at a given stage of growth).

An individual firm has a limited degree of freedom in designing its marketing strategy as is the case in India where the state has imposed restrictions on products to be manufactured, raw material to be used, prices to be charged and even the market intermediaries to be employed.

Does this in your opinion eliminate the necessity of marketing functions? First answer the question before you read ahead. It does not. What happens is that the marketing functions in the process get partly shifted from the micro level of an individual firm (micro-marketing) to the macro level of the Governments or total economy (macro-marketing).

2.4 AREAS OF RELEVANCE

Does the answer to the above question mean that in the wake of prevailing Government control, no room is left for manipulating the marketing effort? It would be an oversimplification to argue in this manner. Even when a favourable demand situation exists, the absence of careful assessment of demand and customer's needs may result in serious loss to a firm. Consider the following example:

An Indian manufacturer of ball bearings fell victim to a major accumulation of stock in the smaller diameter range of tapered roller bearings because it had failed to realise that the existing capacity in this particular size range was far in excess of the demand and its assumption of an overall shortage was rather faulty.

You should remember that even in a planned economy an enterprise can ill-afford to ignore the demand trends and forget the essential marketing functions such as product development and marketing research. But it does not mean that marketing function is relevant equally to all business firms in various sectors of a developing economy. Considering the typical characteristics of a developing economy and its growth needs, it appears that certain sectors of the economy need relatively greater level of marketing effort than others.

Marketing in Agriculture, Basic Industries, Mining and Plantation

These sectors comprising agriculture (food grains and agricultural raw materials), basic industries (steel and power generation) and mining and plantation call for a minimal level of marketing effort for distributing the output. The finished products of these sectors because of frequent scarcity conditions call for minimal product development, packing, storing and physical distribution. However, demand forecasting at a national level is a critical marketing function in this sector. The manufacturers or for that matter the Government may have to discourage the users of these products from excessive consumption. Situations of shortages like these also result in the development of substitute products.

Intermediate Industrial Goods

The engineering goods, machine tools, components, accessories, etc. fall in this category. The marketing effort required is at a medium level and calls for careful product planning informative advertising and personal selling in addition to essential packaging, storing and physical distribution. The pricing is either competitive or Government regulated.
Semi-industrial Products, etc.

The level of marketing effort required is high in the case of semi-industrial products, pharmaceuticals and fertilisers, appliances for business and house-hold use, consumer non-durables and certain categories of engineering goods and machine tools.

Export Trade and Services like Tourism and Banking

Finally, in respect of certain product categories, the level of marketing effort will have to be on the peak if the much-sought-after fruits such as foreign exchange and savings are to be realised.

2.5 THE RELEVANCE OF SOCIAL MARKETING

You remember that we have mentioned earlier that both the economic and social changes are necessary for bringing about the development of a nation. We will now discuss how social change is brought about in a planned manner through social marketing technology.

Marketing and its Applications

Before we discuss the role of social marketing we should understand what social marketing signifies. Too often, social advertising as practised by social campaigners is confused with social marketing. What is at fault, to a large extent, is the tendency of social campaigners to assign advertising the primary, if not the exclusive, role in accomplishing their social objectives. As' explained in Unit 1, a given marketing objective requires the coordination of the promotional mix with the product (ideas, goods and services) mix and the distribution mix. Kotler and Zaltman have defined social marketing as the design, implementation and control of programmes calculated to influence the acceptability of social ideas and involving consideration of product planning, pricing, communication, distribution and marketing research.

To understand the social marketing fully it would be best to examine the applicability of the 4Ps of the marketing mix in terms of some well-known social issues.

Product You will remember the first stands for Product. Also remember that the word product is used in a broad sense, that is, it includes ideas, goods and services. In social marketing as in the case of marketing of other products, sellers have to study the target audiences and design appropriate products. But product design is more challenging in the social area than it is in the business area.

Illustration: Suppose the social objective is to create `safer driving habits and attitudes' in the population. Now, how will you design the `product'?

Remember, there is no one product that can accomplish this. Various products have to be designed that will make partial contribution to the social objective. A public education media campaign providing tips on safe driving is one such product; the offering of `defensive driving courses' is another; the creation of insurance policies, which reduce premiums for safer drivers, is still another product. In general, you can say, the social marketeer remains aware of the core product which in this case is safer driving and tries to create various tangible products and services which are `buyable' and which advance the social objective.

To help you to design a suitable product for each of the above causes proceed as follows; define the change sought, which may be a change in values, beliefs, effects, behaviour or some mixture next segment the markets in a meaningful manner then design social products for each market which are `buyable', and which instrumentally serve the social cause.

You should remember that in some social causes, the most difficult problem will be to. innovate appropriate products; in other cases it will be to motivate purchase.

Promotion

We next take up promotion as an element in the social marketing mix. It is promotion i.e. persuasive communication that will make the social goals familiar, acceptable and even desirable to the audience. The social campaigning strategist will tend to think of promotion as mass media communication only. But you will remind the marketing man that promotion is actually a much larger idea and includes besides advertising, personal selling, publicity and sales promotion. Each of these promotional tools involves complex issues in strategy and tactics and needs sophisticated knowledge and techniques in handling them effectively, This is especially apparent when one examines social campaigns developed by amateurs, where the appeals and copy seem very naive. This is because of their inability or reluctance to view the issue in broad marketing terms instead of in strictly social or ethical terms.

Note in this connection the criticism leveled by Nathaniel Martin against the Family Planning agencies for failing to handle family planning as a marketing problem in the sixties:

"Selling birth control is as much a marketing job as selling any other consumer product. And where no manufacturer would contemplate developing and introducing a new product without a thorough understanding of the variables of the market, planners in the highest circles of Indian Government have blindly gone ahead without understanding that marketing principles must determine the character of any campaign of voluntary control. The Indians have done only the poorest research. They have mismanaged distribution of contraceptive devices. They have ignored the importance of `customer service'. They have proceeded with grossly inadequate under trained staff; they have been blind to the importance of promotion and advertising."

This is not to deny that the Indian Government has undertaken some innovative promotional approaches. But Martin feels that the total programme lacks the qualities of an organised, well-planned and continuous marketing effort.

Place

We will now examine the role of the third element of the marketing mix in social campaigns. It calls for providing accessible outlets, which permit the translation of motivations into actions, i.e., the motivated persons should know where the product can be obtained. Planning this area entails selecting or developing appropriate outlets, deciding on their number, average size, locations, and giving them proper motivation to perform their part of the job.

Suppose you have successfully organised a promotional campaign to Interest people in the pollution problem and the respiratory diseases arising from this defect.

Do you think this would be sufficient to move people to do something about it? First answer the question before you read ahead.

(Your answer should be `no' because clear action outlets have not been suggested for those who have been motivated to acquire the product by your campaign).

It is all right that you have succeeded so far as making people aware of environmental pollution and the risks arising from it are concerned. But remember you cannot arouse the interest of the people and leave them there. People want to do something about it. But for the most part they cannot act because there is no specific `product' to buy, such as

- a petition to sign
- an election in which to choose an anti-pollution candidate
- or a pending piece of national legislation
- Nor does the average person have a clear picture of his interests in the issue.

Price

The final element of the marketing mix that must be planned is price. Price represents the costs that the buyer must accept in order to obtain the product. It involves money costs but also opportunity costs, energy costs, and psychic costs.

What types of cost are required to be borne by:
persons who are asked to take immunization shots
Persons who are persuaded to give up smoking
First, answer the question before you read ahead.

(The costs in the case of the persons who are asked to take immunization shots include any possible money charge; any opportunities foregone, the expenditure of energy, and the psychological concerns aroused by inoculation.

The cost of giving up smoking is largely psychological, since there is actually a financial saving in breaking the habit).

You must, however, remember that the marketing man's approach to pricing the social product is based on the assumption that members of a target market perform a cost-benefit analysis when considering the investment of money, time or energy in the issue. They somehow process the major benefits and compare them to the major costs, and the strength of their motivation to act is directly related to the magnitude of the excess benefit.

The Social Marketing Planning Process

After understanding the applications of each of the `four Ps' we shall now try to present an integrated view of the administrative process framework that you could use for. planning purposes. The first step is to collect information on a continuous basis from the environment by the change agency.

Plans and messages are created and sent through channels to audiences, and the results are monitored by the change agency. (see Figure I)

A more detailed listing of the functions performed by the change agency are given below:

Change Agency
Research unit-collects several types of information:

- on the environment for important developments;,
- on the past effectiveness of various programmes; and
- on audience attitudes, desires and behaviour

Planning unit-formulates short and long-range social marketing plans on the basis of information.

What categories of buyers in your opinion would fall in the different target market categories as listed in the Social Marketing Planning diagram? First answer the question before you read ahead.

MARKETS

Primary target market-large and low-income families
Secondary target market-other childbearing families
Tertiary target market-sources of funds and additional volunteer efforts
Miscellaneous target market-politicians and religious groups
You should, however, remember that a marketing planning approach does not necessarily mean or guarantee that the social objectives will be achieved but it offers a useful framework for effective social planning.

Implications of Social Marketing

The preceding discussion in relation to social marketing explains how special causes could benefit from marketing thinking and approach. A number of present day social problems like drug abuse, pollution control, safer driving, immunization, non-smoking, birth control, etc. are in need of innovative solutions and approaches for gaining public attention and support. Marketing men by their training are finely tuned to market needs, product development, pricing and channel issues, and mass communication and promotional techniques, all of which are critical in the social area.

Remember, social marketing is sufficiently distinct from business marketing and requires fresh thinking and new approaches to the solution of social problems. Social marketing typically has to deal with market's core beliefs and values, whereas business marketing often deals with superficial preferences and opinions. Social marketing has to work with channel systems that are less well defined and less motivated. Only through applying concepts and tools to a large number of social cases one would be able to learn the powers and limits of the social marketing approach.

2.6 THE ROLE OF MARKETING IN RELATION TO SOME SELECTED SECTORS

Agriculture Development and Farm Productivity

Many of you probably know this that in many developing countries agriculture still occupies a high degree of importance and the nation's economic development is closely tied to agricultural development.

If asked to identify the factors for low farm productivity in these nations you would probably list factors such as:

- inefficient methods of irrigation;
- lack of mechanization in farming;
- inadequate supplies of fertilizers; and
- natural disasters.

But one of the most fundamental problems, which is often not recognised, is the lack of a market system. There are millions of small farmers who cultivate ten or fewer acres of land, and these account for more than 60 per cent of the population in the third world. However, many of these fanners do not have access to the market system prevailing in these developing countries.

Proper incentives should exist for such farmers to produce more. The most basic incentive is their access to the national market. No doubt, marketing technology can play a major role in enabling this phase of institutional development.

Fortunately in India, we have been successful in improving our farm productivity to a significant extent, but the marketing side of agriculture was neglected. India's plans for economic development did not envisage the magnitude of distribution tasks entailed in the marketing of essential food grains and agricultural raw materials. The drought of 1966-67 was an eye-opener for the Government and made everyone in the administration realise the urgency of a planned programme for food grains distribution. Success in achieving a satisfactory rate of agricultural growth hinges on the willingness of people to adopt both new production as well as marketing techniques. And it is here that marketing technology can help. Lack of education and adherence to tradition are generally two major obstacles in the adoption process. And it has been found that marketing techniques like product demonstration, word-of-mouth publicity and point of sale display play an effective role in the adoption of new ideas.

Industrial and Entrepreneurial Growth

We will now introduce you to some of the important issues in this area which the developing countries are facing and how these need to be approached.

One of the issues relates to technology transfer and development. Many developing nations in their quest for industrial growth have imported sophisticated intensive technology from the West. This has put an enormous burden on the nation's scarce resources of foreign exchange. In this process the technological and capital needs of small industries have been largely neglected. The plight of small industries is parallel to the plight of small farmers mentioned earlier. If Japan's experience teaches any single lesson regarding the process of economic development in Asia, it is the cumulative importance of a myriad of simple improvements in technology which do not depart radically from tradition or require large units of new investment.

The growth and productivity of small industries scattered through the nation (rural and urban) help in a number of ways. Some of these are:

- provide the basic infrastructure that is needed to industrialize a developing nation
- create more new jobs because they are labour intensive
- suffer less from the scarce resource of managerial talent because the running of a small business is relatively less complicated
- enhance buying power because of increased employment which is needed for the expansion of consumer markets
- provide the nation with a vast pool of individual entrepreneurs with management skills learned on the job.

And so far as the infusion of marketing philosophy in small industries is concerned, organisationally speaking, it is relatively a simple task. Further, such a growth of local economies through the spreading of small industries could prove to be the future points of distribution for products that need to be mass marketed.

Export Promotion and Tourism

Export trade and tourism represent sectors, which are extremely crucial to the growth of a developing economy insofar as the building up of foreign exchange reserves is concerned. These are areas where the Government should try to attain the least bureaucracy, but ensure the strictest form of quality control on products leaving the nation's shores and service packages provided to the visiting tourist.

One of the important shortcomings of India's drive for export promotion is its inability to view export trade as a marketing problem. Export promotion measures had for a long time neglected the need for dynamic market information and product adaptation. It is gratifying to note that export institutions such as Export Promotion Councils and the Trade Development Authority (TDA) in India have started taking serious steps in this direction. The export promotion task also requires looking into the domestic front e.g. development of potential exporters and dissemination of information on market opportunities to all potential entrepreneurs in the field.

Similarly, promotion of tourism calls for a comprehensive marketing strategy designed to provide a well-knit package of services such as hotel foreign exchange, transportation and sight-seeing.

2.7 SUMMARY

The thrust of this Unit is to emphasise the all important idea that marketing as a total system or a business concept is not a neutral or passive agent in economic growth but a catalyst which accelerates the pace of development and facilitates the process of economic and social change. Further, marketing is relevant to economic growth at all stages of development and also at micro and macro-marketing levels. The degree of relevance, however, will vary from sector to sector. The concept of marketing and its tools and techniques are equally applicable in the design, implementation and control of social programmes. To highlight most social causes to be effectively promoted, whether it be family planning or environmental pollution, one needs as vigorous a marketing approach as new product or service. Finally, the discussion on role of marketing in relation to some selected sectors like agriculture development and farm productivity, industrial and entrepreneurial growth highlights the importance of viewing marketing in a development sense and shows how the knowledge and technology of marketing could solve the problems of national development.

2.8 SELF-ASSESSMENT QUESTIONS

Questions

1. How does social marketing differ from business marketing in terms of objectives, approaches and the applicability of the `four Ps'?

2. How marketing can in your opinion help in India's economic growth at the current juncture? (For answering this question first identify the major economic issues which India is currently facing and then discuss how marketing approach can help in addressing these problems.)

3. Take any one of the following sectors or any other sector of your choice and collect the relevant recent material that has been published during the last three months, which indicates the type of marketing effort that is being made to develop and promote these sectors:
   a) Export Promotion
   b) Family Planning
   c) Tourism
   d) Quality Control Movement.

2.9 FURTHER READINGS

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2. S.Neelamegham - Marketing in India, 3rd edition - 2000, Vikas Publications, New Delhi

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LESSON 3

MARKETING OF SERVICES

3.0 OBJECTIVES

The learning objectives of this Lesson are:

- To understand the basis for making a distinction between products and services •
- To understand the concept of service in terms of its special characteristics
- To understand the implications of these characteristics in designing a marketing strategy
- To identify the various elements of a marketing strategy required to successfully market a service
- To develop familiarity with each element of the marketing strategy as it is applicable in the case of services

STRUCTURE

3.1 INTRODUCTION

Economists have divided all industrial and economic activities into three main groups: primary, secondary and tertiary. Primary activities include agriculture, fishing and forestry.

Secondary activities cover manufacturing and construction, and tertiary activities refer to the services and distribution. In the pre-industrialised era, primary activities were the mainstay of the economy. The Industrial Revolution marked the beginning of increasing importance of secondary activities and the gradually decreasing status of agriculture and allied activities. The period following World War II saw USA become the world's first `service economy' with more than fifty per cent of the working population employed in producing services.

Today 75 million Americans are employed in the service sector and as much as seventy per cent of the US economy is service-oriented. This led a New York Congressman to remark that America is becoming a nation of people who are "serving each other hamburgers or taking in each other's laundry". However, the US service industry is a very technical and sophisticated one comprising computer and software development, business consultancy, telecommunication, banking and insurance.

This pattern of economic development is not universally applicable to all countries. In many African and Asian countries the agriculture sector is still the dominant one. In countries like, India, we can observe the growing importance of the manufacturing and service sectors while agriculture still continues to retain its stronghold on the economy. The manufacturing and service sectors are growing not only in volume but also in 27

Sophistication and complexity. The wide array of services found in the metropolitan cities of Mumbai, Bangalore, Delhi, Calcutta, and' Chennai compare favourably with those found anywhere in the world.

Daniel Bell, in his book `The Coming of the Post-Industrial Society' called this period of dominance by the service sector as the post-industrial society. According to him: "If an industrial society is defined by the quantity of goods as marking a standard of living, the post-industrial society is defined by the quality of life as measured by the services and, amenities-health, education, recreation, and the arts-which are now deemed desirable and possible for everyone".

3.2 THE CONCEPT OF SERVICE

The term service is rather general in concept, and it includes a wide variety of services. There are the business and professional services such as advertising, marketing research, banking, insurance, computer-programming, legal and medical advice. Then there are services which are provided by professionals but consumed for reasons not of business, rather for leisure, recreation, entertainment and fulfilment of other psychological and emotional needs such as education, fine arts, etc.

Faced with such a broad spectrum we need to define the concept' of service from a marketing view-point. Kotler offers one such definition: "A. service is any activity or benefit that one party can offer to another that is essentially intangible and does not. result in the ownership of anything. Its production may or may not be tied to a physical product".

W.J. Stanton views services as fulfilling certain wants and states that, "services are those separately identifiable, essentially intangible activities which provide want-satisfaction, and that are not necessarily tied to the sale of a product or another service. To produce a service may or may not require the use of tangible goods. However, when such use is required, there is no transfer of title (permanent ownership) to these tangible goods".

As in the case of a product, in the case of services also your starting point for understanding the marketing dynamics is the want satisfaction of the customers. It is important to correctly identify the particular want(s) which your service is fulfilling, since this will provide the clue for designing the most appropriate marketing strategy.

A restaurant provides satisfaction to its customers on the basis of type and quality of its food, its decor and environment and the behaviour of its staff and its location in a busy commercial-cum-office complex. For instance, `Class Touch' was started as a restaurant serving exclusive Western and Chinese cuisine with expensive decor, a live band, beautifully liveried waiters and a high-price menu. The venture was a flop right from the start. On the advice of its marketing consultant, the restaurant changed over from serving elaborate, expensive meals to a `fast-food' character providing quick, reasonably priced meals for consumption both within and outside the restaurant. Today this restaurant is a big success. It was the correct identification of the want-satisfaction which helped the restaurant become successful. Located in a predominantly office area, the restaurant's major clientele was office going people. During office lunch-break, people do not visit a restaurant for relaxation or status satisfaction. They have limited time at their disposal and want a quick clean meal at a reasonable price, with minimum frill and fancy. In this case, the restaurant was satisfying the basic hunger need, but was catering to a very specific class of customers (office-goers) with a special kind of constraint (that of time and money).

To be successful, you have to firstly, identify the basic need which is being fulfilled by your service, and secondly, find ways and means to differentiate it from that of the competitors so that you can increase your number of customers and also command their loyalty. In our earlier example of the restaurant it was only after the basic need had been correctly identified that the restaurant could adopt an appropriate marketing strategy and turn the corner. Thus, as a marketing manager involved in the marketing of services your first concern should be the identification of the customers' needs. A clue to this can be provided by looking into the reasons for the phenomenal growth of the service sector in recent times.

3.3 REASONS FOR GROWTH OF THE SERVICE SECTOR

Manufacturing industries grew because they produced tangible goods which satisfied man's physiological needs of food, shelter and clothing. As the basic need was fulfilled there was demand for improved satisfaction, and this led to a proliferation of variations of the same product and a number of companies involved in its manufacture. The growth of service industries can be traced to the economic development of society and the socio-cultural changes that have accompanied it. Table 2 presents the reasons for growth of service industries.

Sometimes, the growth of specific service industry is the result of a combination of several reasons. Increasing affluence coupled with the desire to utilise leisure time for leisure rather than for doing odd repair jobs in the house had led to the growing tribe of plumbers and electricians. Increasing affluence combined with increasing complexity of life and increasing insecurity has led to the phenomenon of credit cards and travellers cheques which have proved to be almost perfect substitutes for money. These credit cards provide convenience and safety. In fact, convenience is proving to be a key concept in the provision of services.

3.4 CHARACTERISTICS OF SERVICES

Services have a number of unique characteristics that make them so different from products. Some of the most commonly accepted characteristics are:

a) intangibility
b) inseparability
c) heterogeneity
d) perishability
e) ownership.

Intangibility

When you buy a cake of soap, you can see, feel, touch, smell and use to check its effectiveness in cleaning. But when you pay fees for a term in college, you are paying for the benefit of deriving knowledge and education which is delivered to you by teachers. In contrast to the soap where you can immediately check its benefits, there is no way you, can do so in case of the teachers who are providing you the benefits. Teaching is an intangible service. When you travel by aeroplane, the benefit which you are deriving is a service (transportation) but it has some tangible aspects such as the particular plane in which you fly (Boeing, Avro, Concorde, and the food and drink which is served). In this case the service has both a tangible and intangible aspect as compared to teaching which has no tangible aspect at all. Figure 1 presents the tangible-intangible dominant aspect on a goods-service continuum. This continuum highlights the fact that most services are in reality a combination of product and service having both tangible and intangible aspects. There are only a few truly pure tangible products or pure intangible services.

The distinguishing feature of a service is that its intangible aspect is dominant. J Bateson has described the intangible characteristics of services which make them distinct from products. These intangible features are:

- a service cannot be touched
- precise standardisation is not possible
- there is no ownership transfer
- a service cannot be patented
- production and consumption are inseparable
- there are no inventories of the service
- middlemen roles are different
- the consumer is part of the production process so the delivery system must go to the market or
- the customer must come to the delivery system.

Inseparability

In most cases service cannot be separated from the person or firm providing it. Service is provided by a person who possesses a particular skill (singer), by using equipment to handle a tangible product (dry cleaning) or by allowing access to or use of physical infrastructure (hotel, train). A plumber has to be physically present to provide the service, the beautician has to be available to perform the massage. This is in direct contrast to products which can be produced in the factory today, stocked for the next two, three or more months and sold when an order is procured.

Heterogeneity

The human element is very much involved in providing and rendering services and this makes standardisation a very difficult task to achieve. The doctor who gave you his complete attention in your last visit may behave a little differently the next time. The new bank clerk who cashes your cheques may not be as efficient as the previous one and you have to spend more time for the same activity. This is despite the fact that rules and procedures have been laid down to reduce the role of the human element and ensure maximum efficiency. Airlines, restaurants, banks, hotels have a large number of standardised procedures. You have to reserve a room in a hotel and this is a straight forward procedure for which all the steps are clearly defined. Human contact is minimal in the computerised reservation systems, but when you go to the hotel there will be a person at the reception to hand over the key of your room. The way this person interacts with you will be an important factor in your overall assessment of the service provided by the hotel. The rooms, the food, the facilities may be all perfect, but it is the people interacting with you who make all the difference between a favourable and unfavourable perception of the hotel.

Perishability

Services cannot be stored and are perishable. A car mechanic who has no cars to repair today, or spare berths on a train, unsold seats in a cinema hall represent service capacity which is lost forever. Apart from the fact that a service not fully utilised represents a total-loss, the other dimension of this perishability aspect is that most services may face a fluctuating demand. There is a peak demand time for buses in morning and evening (office hours), certain train routes are always more heavily booked than others. This fluctuating demand pattern aggravates the perishability characteristic of services. 33

Ownership

When you buy a product you become its owner-be it a pencil, book, shirt, refrigerator or car. In the case of service, you may pay for its use but you never own it. By buying a ticket you can see the evening film show in the local cinema theatre; by paying wages you can hire the services of a chauffer who will drive your car; by paying the required charges you can have a marketing research firm survey into the reasons for your products' poor sales performance, etc. In case of service, the payment is not for purchase, but only for the use or access to or for hire of items or facilities.

A service is purchased for the benefits it provides. If we closely examine the reasons why products are purchased, we find that they are bought not because of their physical, tangible features but because they provide certain intangible benefits and satisfactions.

Detergent powder provides the primary benefit of cleanliness, air-conditioner provides the benefit of a cool, comfortable environment, a mixer-cum-grinder provides convenience. The only difference between products and services is that in the latter the intangible component is greater than in the former. Thus, services can be treated as a special kind of product.

From a marketing view-point the same concepts and techniques are applicable for both products and services. The successful marketing of both requires market research, product design, product planning and development, pricing, promotion and distribution. However, for marketing of services, the marketing manager must understand the nature of the five characteristics of services and the manner in which they impinge on the marketing strategy.

The small size of many service organisations such as beauty parlours, repair shops, barber shops etc. also limits the use of marketing techniques which can be successfully used in larger organisations and then there is the case of service organisation such as schools, hospitals, universities which enjoy more demand than they can cope with. These institutions have therefore never felt the need for actively marketing their services.

3.5 ELEMENTS OF MARKETING MIX IN SERVICE MARKETING

For marketing of products, the four elements of marketing mix are product, price, distribution and promotion, which are used in a specific combination to arrive at the marketing strategy. In the case of services, there are three additional elements. These elements are people, physical evidence and process. We shall now take up each of these elements for discussion.

3.6 PRODUCT

The most important issue in the service product is understanding what benefits and satisfaction the consumer is seeking from the service. From the view-point of a restaurant's manager, the restaurant simply provides food. But the customers coming to the restaurant may be seeking an `outing', an atmosphere different from home, relaxation, entertainment or even status. The marketing of services can be a success only if there is a match between the service product from the consumer's view-point and the supplier's view-point. To find this match, as a manager you would have to analyse your service at the following levels:

a) the customer benefit concept;
b) the service concept;
c) the service offer; and
d) the service delivery system.

Customer Benefit Concept: The service product which you offer in the market place must have its origin in the benefits which the customers are seeking. But the problem is that customers themselves may not have a clear idea of what they are seeking or they may find it difficult to express or it may be a combination of several benefits and not a single one. Over a period of time, the benefits sought may also change. This change in customers may come about by a satisfactory or unhappy experience in utilising the service, through increased sophistication in service use and consumption, and changing expectations. All these make the issue of marketing a service product very complex.

Service Concept: Using the customer benefits as the starting point, the service concept defines the specific benefits which the service offers. At the generic level the service concept refers to the basic service which is being offered. A centre for the performing arts may offer entertainment and recreation. But within this broad framework, there can be specific choice paths for satisfying the entertainment objective, such as, drama, musical concerts, mime, poetry recitation, dance etc. Defining the service concept helps answer the fundamental question, `What business are we in?'

Service Offer: Having defined the business in which you are operating, the next step is to give a specific shape and form to the basic service concept. To refer to the example of centre for the performing arts, the service concept is to provide entertainment. The service offer is concerned with the specific elements that will be used to provide entertainment: drama, music, mime, poetry recitation, dance. In the category of musical concerts the choice may be vocal or instrumental, within. vocal whether light or classical, Hindustani, Carnatic or Western. While these represent the intangible items of the service offer, the physical infrastructure of the centre, in terms of its setting capacity, comfortable seats, quality and acoustics, provision of air-conditioning, snack bar and toilets are the tangible items. The tangible aspects can be controlled by offering the best possible benefit, but the quality and performance of the actors, singers, musicians cannot be controlled. Theoretically, a manager must control both the tangible and intangible components. But in practice, he can control only the tangible components and lay down norms for the intangible components (e.g. maximum duration of recital, brief introduction before each dance item, etc.)

Service Forms: In what form should the services be made available to the customers is another area of decision-making. Should all the shows of the centre be available in a package deal against a yearly membership fee or a seasonal ticket? Should there be daily tickets with the consumer having freedom to watch any one or more performances being staged on that particular day? Or should each performance have a separate entrance ticket, with a higher priced ticket for a well-known performer. Service form refers to the various options relating to each service element. The manner in which they are combined gives shape to the service form.

Service Delivery System: When you go to your bank to withdraw money from your account, you either use a cheque or a withdrawal slip in which you fill all the particulars and hand it over to the clerk, who, after verifying the details, gives you money. The cheque or withdrawal slip and the clerk constitute the delivery system. In a restaurant, the waiters are the elements of the delivery system. The two main elements in a delivery system are the people and the physical evidence. The competence and public relations ability of a lawyer represent the `people' component, while his office building, office door, letterhead, etc. are all elements of the `physical evidence'. The physical evidence components have also been called `facilitating goods' and `support goods'. These are the tangible elements of the service and they exert an important influence on the quality of the service as perceived by the consumers. Figure II presents a graphical conceptualisation of the service product.

As a manager marketing services, you would like to market not just one service but a range of services. You would need to take decisions on the length and width of the range of services, the manner in which they complement and support each other, and how well they face up to the competitor's offerings. Figure III illustrates the concept of range of services, using the example of a club.

3.7 PRICING

In the case of products, the term `price' is used for all kinds of goods, fruits, clothes, computers, building etc. but in the case of services, different terms are used for different services. Table 4 presents the term used for some selected services.

In determining the prices of services, the one characteristic which has great impact is their perishability and the fact that fluctuations in demand cannot be met through inventory. Hotels and airlines offering lower rates in off-season and lower telephone charges for outstation calls after office hours are examples of how pricing strategy can be used to offset the perishable characteristic of services.

Another characteristic of services that creates problem in price determination is the high content of the intangible component. The higher the intangibility the more difficult it is to calculate cost and greater the tendency towards non-uniform services, such as fees of doctors, management consultants, lawyers. In such cases, the price may sometimes be settled through negotiation between the buyer and seller.

On the other hand, in services such as dry cleaning the tangible component is higher, and the service provided is homogeneous. It is easier to calculate cost on a unit basis and have a uniform pricing policy. In general, the more unique a service the greater the freedom to fix the price at any level. Often the price may be fixed according to the customer's ability to pay. In such cases price may be used as an indicator of quality.

The third characteristic to be kept in mind while determining prices is that in many services, the prices are subject to regulations, either by the government or by trade associations. Bank charges, electricity and water rates, fare for rail and air transport in India are controlled by the government. In many other cases, the trade or industry association may regulate prices in order to avoid undercutting and maintain quality standards. International air fares are regulated by international agreement of airlines, sea freight fares may be regulated by shipping conferences. In all such cases, the producer has no freedom to determine his own price.

The two methods which a service organisation may use to determine prices are cost-based pricing and market-oriented pricing. In the former, the price may be regulated by the government or industry association on the basis of the cost incurred by the most efficient unit. Such a pricing strategy is effective in restricting entry and aiming at minimum profit target. The market-oriented pricing may either be competition or customer-oriented. In case of competition-oriented pricing, the price may be fixed at the level which the competitor is charging, or fixed lower to increase market share. Customer-oriented pricing is varied according to customers' ability to pay.

The pricing tactics that may be used to sell services are:

i. differential or flexible pricing;
ii. discount pricing;
iii. diversionary pricing;
iv. guaranteed pricing;
v. high price maintenance pricing;
vi. loss leader pricing; and

vii. offset pricing.

i) Differential or flexible pricing is used to reduce the `perishability' characteristic of services and iron out the fluctuations in demand. Differential price implies changing different prices according to:

a) customer's ability to pay differentials (as in professional services of management consultants, lawyers);

b) price tune differentials (used in hotels, airlines, telephones where there is the concept of season and off-season and peak hours); and

c) place differential used in rent of property-theatre seat pricing (balcony tickets are more expensive than front row seats) houses in better located colonies command high rent.

Discount pricing refers to the practice of offering a commission or discount to intermediaries such as advertising agencies, stock brokers, property dealers for rendering a service. It may also be used as a promotional device to encourage use during low-demand time slots or to encourage customers to try a new service (such as an introductory discount).

Diversionary pricing refers to a low price which is quoted for a basic service to attract customers. A restaurant may offer a basic meal at a low price but one which includes no soft drink or sweet dish. Once the customer is attracted because of the initial low price he may be tempted to buy a drink or an ice-cream or an additional dish. Thus he may end up buying more than just the basic meal.

Guaranteed pricing refers to pricing strategy in which payment is to be made only after the results are achieved. Employment agencies charge their fee only when a person actually gets a job, a property dealer charges his commission only after the deal is actually transacted.

High price maintenance pricing strategy is used when the high price is associated with the quality of the service. Many doctors, lawyers and other professionals follow this pricing strategy.

Loss leader pricing is one in which an initial low price is charged in the hope of getting more business at subsequently better prices. The danger is that the initial low price may become the price for all times to come.

Offset pricing is quite similar to diversionary pricing in which a basic low price is quoted but the extra services are rather high priced. A gynaecologist may charge a low fee for the nine months of pregnancy through which she regularly checks her patient, but may charge extra for performing the actual delivery and post-delivery visits.

3.8 PROMOTION

The fundamental difference which must be kept in mind while designing the promotion strategy for services is that the customer relies more on subjective impressions rather than concrete evidence. This is because of the inherent intangible nature of services. Secondly, the customer is likely to judge the quality of service on the basis of the performer rather than the actual service. Thirdly, since it is difficult to sample the service before paying for it, the customer finds it difficult to evaluate its quality and value. Thus, buying a service is a riskier proposition than buying a product. As a marketing manager you must design a promotion strategy which helps the customer overcome these constraints. The four methods used for promoting services, viz.,. advertising, personal selling, publicity and sales promotion, are the same as used in the promotion of products. We shall now discuss them in the context of services.

Advertising

Advertising is any kind of paid, non-personal method of promoting by an identified organisation or individual. Certain services such as entertainment (cinema, theatre), passenger and freight transport (roadways, airlines, trains), hotel, tourism and travel, insurance have been advertising heavily in newspapers magazines, radio, TV to promote greater usage and attract more customers. However, certain service professionals such as doctors and lawyers, have rarely used advertising as a means of increasing their clientele. A study conducted by J.R. Darling and D.W. Hackett in 1978 revealed that doctors, dentists, lawyers and accountants have a negative attitude towards advertising their services. These groups have traditionally relied on word-of-mouth for attracting new customers. But this situation is changing and you can occasionally see an advertisement in the daily newspaper giving information about the location and timings that a particular doctor is available for consultation. These advertisements may also carry the message `Honorary doctor to the President of India' or ex-director of a prestigious medical college or institution. Such messages help create positive image and credibility.

The guidelines which can be kept in mind while promoting services are as follows:

a) use-simple, clear messages;
b) emphasise the benefits of service;
c) promise only that which can be delivered and do not exaggerate claims;
d) built on the word-of-mouth communication by using testimony of actual consumers in advertisements; and provide tangible clues to services by using well-known personalities or objects to help customers identify the service. This is being done by Indian Railways in their advertising on TV wherein they are using well-known sports personalities to talk about the importance of railways to the nations' economic development and protection of railway property.

One other aspect which is of importance in designing an appropriate advertising strategy is the high level of consumer-organisation interaction required in certain types of services (beauty saloons, management consultant, doctor). In these types of services, the objectives of advertising have been identified as:

- creating an understanding of the company in the customers' mind by describing the companys' services, activities and its areas of expertise
- creating a positive image for the company

- building a strong sense of identification with the customer by tuning in onto his needs, values and attitudes
- creating a positive background for the sales people to sell the services by providing all relevant information about the company.

Personal Selling: The problem with using personal selling to promote services is that in certain types of services, the service cannot be separated from the performer. Moreover, it is not a homogeneous service in which exact standards of performance can be specified. In such situations, personal selling implies using an actual professional rather than a salesman to sell the service. A firm of management consultants may send one of its consultants (junior or senior depending on the kind of customer being attended to) for soliciting new business.

This kind of personal selling is certainly effective but also very expensive. One way of making personal selling more cost effective is to create derived demand by tying up with associated products and services. A management consultant may associate with a bank, so that the bank recommends his (consultant) name to any new entrepreneur coming for a loan. A chain of hotels may team up with an airline to offer a concessional package tour (as has been successfully done for promoting Nepal, and is being done by Vayudoot and Indian Airlines and Jammu and Kashmir Tourism Department). The other way is to maintain a high visibility in professional and social organisations, getting involved in community affairs and cultivating other professionals so as to maximise personal exposure and the opportunities for getting work from new sources.

Publicity: Publicity is unpaid for exposure which is derived by getting coverage as a news or editorial item. It is possible to-get publicity when the service which you are offering is unique and, therefore, newsworthy, by holding a press conference in which you can associate your service with some issues of greater social relevance or by involving the interest of the newspaper or its staff in covering your service. The important point about publicity is that your choice of the newspaper, magazine and journal should be correct. The vehicle which you choose must be credible and enjoy a reputation of being trustworthy. Wrong choice of media vehicle will result in adverse publicity.

Sales Promotion

In the case of services, the sales promotion techniques which are used are varied and various in number. A doctor may charge lesser amount of fee on subsequent visits to encourage the patient's loyalty, paediatrician may send reminder cards to parents about their children's pending inoculations, a car mechanic may offer a guarantee for repairs undertaken up to three months, a chartered accountant may offer his services free for the first two visits to allow the customer to evaluate his work.

In services, sales promotion techniques are used to offset their perishability characteristic (family discounts offered by hotels in off-season in which two children under twelve are allowed free of charge) and to overcome the problem faced by customers in evaluating and judging the quality before making the purchase. Sales promotion techniques reduce the risk associated with the purchase.

3.9 DISTRIBUTION

The most important decision element in the distribution strategy relates to the issue of location of the service so as to attract the maximum number of consumers. The inseparability characteristic of services such as those of doctors, teachers, consultants, mechanics etc. poses a distribution constraint since they are able to serve only a limited, localised market. The other characteristic of services which affects the distribution strategy is the fixed location of services such as universities, restaurants, hospitals which necessitates the customer to go to the service location rather than vice-versa.

The first decisional variable in planning the distribution strategy relates to the location of the service. In deciding where to locate your service, you should raise the following questions as they would help you arrive at the right decision.

How, important is the location of the service to the customers? Will an inconvenient location lead to purchase being postponed or being taken over by a competitor? The answer is yes in case of services such as dry cleaning, fast food outlets where convenience is the most critical factor. The answer is no in case of services provided by doctors and beauty parlours, where the customers' involvement with the provider of the service is very high and the decision is made on the basis of reputation, competence and past experience.

a) Is the service, technology-based or people-based? How does the technology or people factor affect the choice of locations? How flexible is the service? Can the equipment and people be moved to another location without any loss in quality?
b) How important are complementary services to the location decision? Can the clientele be increased by locating services where complementary products or services already exist? Garages and mechanic shops located next to petrol stations are examples of complementary location decision.
c) The second decisional variable in the distribution strategy is whether to sell directly to the customers or through intermediaries. In case of services which are inseparable from the performer, direct sale is the only possible way of reaching the consumer. In case of other services such as hotels, airlines, property, life insurance, they may operate through middlemen. Table 5 provides an illustrative list of the intermediaries who sell services.

The third decisional variable in the distribution strategy is how to provide the service to maximum number of customers in the most cost-effective manner (if the service is not of the kind that is inseparable). Some of the recent innovations in the area are rental or leasing, franchising and service integration.

India has witnessed a boom in the leasing business since 1982. Leasing or rental offers an easy solution for companies which want to expand and diversify but do not have the necessary resources to buy the required plant and machinery. Leasing offers them use of equipment, machines and building on the basis of a `rental' rather than outright purchase. Leasing is also available for buying cars and other consumer durables. This trend is now also becoming popular in services. Today we have the concept of time-sharing for holiday resorts. By making a one-time payment or paying an annual rental you become eligible to use accommodation facilities for a holiday in the place of your choice. Some holiday resort companies offer you the facility forever while others offer it for a limited time duration. Sterling Resorts, MS Resorts, Punjab Tourism Resorts and Dalmia Resorts are some of the companies offering this service.

The other recent trend in distribution of services is that of franchising. Franchising is the granting of right to another person or institution to exploit a trade name, trade mark, or product in return for a lump-sum payment or a royalty. Companies have paid to use `Appu' the elephant which was used as the mascot for New Delhi Asian Games in 1982 to promote their products. This is an example of franchising in which companies have sought to increase their sales or enhance their image by associating with a well-known. international event or personality (Walt Disney Characters such as Mickey Mouse). The other variation of this kind of franchising is when companies pay for use f the phrase `official suppliers'. Franchising is also widely used in services where some kind of homogeneity is possible as in the case of restaurants, beauty saloons, health cubs etc. Kwality (manufacturers of Kwality ice-creams and managers of chain restaurants) have established restaurants in major cities on the basis of franchise arrangements. International hotel chains such as Holiday Inn, Sheraton, Inter-Continental, have expanded world-wide using this franchising strategy.

Recent times have also witnessed the growth of integrated service system. Hotels may also offer local tours. This is being done by India Tourism Development Corporation (ITDC) which offers to its clients conducted tours to important tourist spots besides the hotel facility. This facility is offered under the name of Ashoka Travels and Tours. Hotel chains such as Taj, Oberoi, Welcom-group offer the facility of making reservations in any of their associate hotels in the chain. Travel agencies offer `package tours' in which they take care of all formalities such as visa, foreign exchange, reservations, local travel etc. Many computer companies offer free training for the employees of their customers on how to operate the computer.

All these trends highlight the importance of using innovative methods to overcome the inherent characteristics of service products which make their distribution a complex affair.

3.10 PEOPLE

People constitute an important dimension in the management of services in their role both as performers of service and as customers. People as performers of service are important because, "A customer sees a company through its employees. The employees represent the first line of contact with the customer. They must, therefore, be well informed and provide the kind of service that wins customer approval. The firm must recognise that each employee is a salesman for the company's service".(E.M. Johnson, "An Introduction to the Problems of Service Marketing Management".) The importance of customers in services stems from the fact that most services imply active and involved customer-organisation interface.

Service Personnel: Service Personnel are important in all organisations but more so in an organisation involved in providing services. The behaviour and attitude of the personnel providing the service is an important influence on the customers' overall perception of the service and he can rarely distinguish between the actual service rendered and the human element involved in it. How often have you had the experience of holding onto a telephone receiver after dialling for Assistance or Trunk Booking and receiving no response? What do you think has been the role and contribution of the telephone operators towards giving our telephone system the image which it has today?

The case of telephone operators is still controllable because the telephone system presents a low contact organisation. Higher or low contact is defined on the basis of percentage of total time the customer has to spend in the system compared with the relative time it takes to service him. By this definition, restaurants, hospitals, schools represent a low contact organisation. High or low contact is defined on the basis of organisations. The other- important distinction of service personnel is between those that are visible to the customer and those that are not. In a restaurant the waiters are visible while the cook in the kitchen is not. As a marketing manager you have to devote more time training the visible personnel, since they have greater responsibility in maintaining relations with the customer. The rice dish which is not cooked properly is the cook's fault but it is the waiter who will have to bear the brunt of the customers' anger. The manner in which the waiter behaves with the customer will be an important determinant in the restaurant losing that customer forever or retaining him as a regular client.

As a marketing manager your primary concern is the visible service personnel and especially so if yours is a high contact organisation. You have to be concerned with ways in which you can improve the quality and performance of your service personnel. This can be done through:

- careful selection and training of personnel;
- laying down norms, rules and procedures to ensure consistent behaviour;
- ensuring consistent appearance; and
- reducing the importance of personal contact by introducing automation and computerisation wherever possible.

Customers: Customers are important because they are a source of influencing other customers. In the case of doctors, lawyers, consultants one satisfied customer will lead to a chain reaction bringing in his wake a number of other customers. Thus as a marketing manager, your first task should be to ensure complete satisfaction of the existing customers.

The kind of customers that you attract exerts an important influence on prospective customers. The prospective customer may feel attractive towards the organisation (it may be a restaurant, club, school, college) because it has his `type' of customers or it has the customer clientele towards which he himself is aspiring. On the other hand, the customer may turn away if he perceives the existing customers to be the kind with whom he would not like to be associated. You have to decide about the class of customers you would like to have and work towards providing your service organisation an image which will fetch you your future customers. The physical appearance of your organisation, the looks and behaviour of service personnel, the delivery of the service have all to be tuned into a desirable composite package.

3.11 PHYSICAL EVIDENCE

Cleanliness in doctor's clinic, exterior appearance and interior decor of restaurant, the comfort of the seating arrangement in a cinema hall, adequate facility for personal needs at the airport all contribute towards the image of the service (organisation) as perceived by the customer. The common element in these is that they are all physical, tangible and controllable aspects of a service organisation. They constitute the physical evidence of the service. There may be two kinds of physical evidence:

i) peripheral evidence; and
ii) essential evidence,

Peripheral evidence is actually possessed as a part of the purchase of service but by itself is of no value. Airline ticket, cheque book, receipt for a confirmed reservation in a hotel are examples of peripheral evidence. A cheque book is of value only if you have money in the bank-without that it is of no significance. Peripheral evidence adds on' to the - value of essential evidence. In a hotel you may find matchbox, writing pad, pen, complimentary flowers and drinks, which you may take away. These are representations of peripheral evidence. Such evidence must be designed keeping in mind the overall image which the organisation wishes to project and the reminder value of the evidence in its ability to remind the customer about the organisation.

Whereas peripheral evidence is possessed and taken away by the customer the essential evidence cannot be possessed by the customer; the building, its size and design, interior Layout and decor, logo and mnemonic device of the organisations are constituents of the essential evidence. The essential evidence is a very critical input in determining the atmosphere and environment of the service organisation. Contrast the essential evidence of a Five-star hotel (its long driveway, grand entrance manned by a liveried doorman, sophisticated decor of lobby) with that of a fast food outlet (with bright colours, loud music, bright lights) and judge the kind of rich and formal atmosphere of the former with the relaxed and casual atmosphere of the latter. You can use physical evidence to build a strong association in the customers' minds and also to differentiate your service from the competition. As a marketing manager it is your responsibility to manage the physical evidence in order to create the ideal environment for your service. You can do this in two ways: one by making the service more tangible, and two, by making it easier for the customer to grasp the concept of the service.

One obvious way of making the service more tangible is by developing a tangible representation of the. service as is done in case of credit cards. Credit cards have a physical entity and are identifiable by their brand name (American Express, Diners, Visa, BOB, i.e., Bank of Baroda) and distinct looks of the card. Other ways by which a service can be made more tangible is by standardising the physical attributes such as location, interior decor, colour scheme etc. Most airlines use a dress for all their staff to help create a sense of identification Kwality ice-cream vendors and the packaging container for ice-creams have a standardised design of blue stripes on a white background. Similarly, Indian Airline's white and orange colour combination is well recognised:

The second way is to make it easier for the consumer to understand the concept of the service which you are offering with easily perceived objects and ideas. Promoters of package tours may provide detailed information about the hotel, food and transport facility they would be using to help the consumers understand the concrete dimensions of the tour and thus reduce their anxiety arising out of uncertainty. Information which helps reduce uncertainty and provides specific: information about the various dimensions of the service should be provided to prospective consumers.

As a marketing manager you can help the consumers to understand the service you are offering by stressing the organisation and consumer relationship. Advertising agencies assign one accounts executive or a team to a particular client to help him identify with the agency.

3.12 PROCESS

In service organisation the system by which you receive delivery of the service constitutes the process. In fast food outlets the process comprises buying the coupons at one counter and picking up the food against that at another counter.

The process of delivery function can be compared with that of operation management in a manufacturing unit. In a factory situation operations management implies the conversion of input into the finished product, But in a service organisation there is no clear cut input or output. Rather it is the process of adding `value' or `utility' to system inputs to create outputs which are useful for the customers.

Services can be described on the basis of type of process used in the delivery of the service. The three kinds of delivery processes that are applicable in case of service products are line operations, job shop operations and intermittent operations. Self-service restaurants and shops are examples of line operations. The consumer moves through logically arranged operations which are arranged in a sequence. In a self-service departmental store, the consumer starts picking up the items he needs and pays for them near the exit. This kind of delivery process is relevant when the service you are providing is fairly standard and the consumers' requirement is of a routine nature.

When the consumers require a combination of services using different sequences, the job shop type of operation is more useful. Hospitals, restaurants and educational institutions usually have this type of delivery process. In a hospital, some patients need only consultation in the Out Patient Department, some others may need consultation at well as medication or X-ray, some patients require hospitalisation for surgery, medication or investigations. All these, categories of consumers require a different combination of the hospital's services. In a restaurant consumers order their own combination of dishes. A college may offer courses for full-time students, as well as for working people through correspondence.

Intermittent operations are useful when the type of service is rarely repeated. Firms offering consultancy for projects use this kind of delivery system. Advertising agencies also use the intermittent delivery system since each advertising campaign requires a unique set of input factors.

As a manager you are interested in optimising the efficiency of your organisation without sacrificing the qualitative aspect. Some of the critical questions you need to focus upon are:

1. What are the specific steps involved in delivering the service to the consumer?
2. Are they arranged in the most logical sequence?
3. If not, can some steps be eliminated, combined or rearranged to form a smoother sequence?
4. What are the steps in which the consumer is involved?
5. Can the consumers' contact be reduced or totally eliminated?

6. Can we introduce automation to speed up the delivery process?

3.13 INDUSTRIAL MARKETING AND GLOBAL MARKETING

The industrial market (also called the producer market or business market) is the set of all individuals and organizations that acquire goods and services that enter into the production of other products or services that are sold, rented, or supplied to others. The major types of industries making up the industrial market (business market) are agriculture, forestry, and fisheries; mining; manufacturing; construction and transportation; communication and public utilities; banking, finance, and insurance; and services.

DEFINING INDUTRIAL MARKETING

Industrial marketing consists of all activities involved in the marketing of products and services to organizations which may be commercial, profit or non profit institutions, government agencies or resellers that use products or services in the produc-tion of consumer or industrial good and service, and to facilitate the operations of the enterprise.

There can be four different types of exchanges in industrial marketing

1.Product exchange:
Supply of raw materials to the organization to process the finished goods for the end user or consumer. Examples can be many. Supply of soap/ detergent powder to the manufacturers of soaps or detergents. To HLL there must be suppliers of the raw materials of soap/ detergent raw materials to give the end product s like Rin Detergent Bar or Surf Excel.

2. Information Exchange:
When one organization gives the technical knowledge, economic consultancy, or giving replies to organizational questions to another organization it is termed as information exchange. To site an example we say that the installation of sophisticated software's in an organization and operating system of that software can be termed as information exchange.

3. Financial Exchange:
Grant of credit facilities to an organization is financial exchange.
Exchange of currency from one organization to another country.
Example of this we can say the functioning of Industrial Development Bank of India (IDBI), which grants loans to industries.

4. Social Exchange:
Social exchange is important in areas of reducing uncertainty between buyer and seller, avoiding short-term difficulties and thus maintaining a better relation over a long period of time.

INTERNATIONAL (GLOBAL) MARKETING

International Marketing refers to exchange of goods, services and ideas among different countries. In other words, the **International Marketing** *is the application of marketing principles to satisfy the diverse needs and wants, fulfil desires and demand of different customers residing across the* *varied and differentiated international markets.* The concept of marketing has undergone a radical change in the past few years and some of the key drivers of this change are:

- Globalization and gated-globalization
- Liberalization of the economies;
- Globally aware customer
- Increased competition;
- Emergence of big retail players;
- Convergence of various industries.
- Ease in financial transactions
- E-Commerce and evolving digital space
- Logistics as business differentiator
- Business readiness for volatile and uncertain times

A firm cannot apply the standard marketing mix when launching a product into international markets. A firm has to adapt the marketing mix to suit the target country. Hence, the concept of International Marketing Mix is applied to carry out the business activities in international markets. A firm need to factor the economic, socio-cultural, technological, legal environment while framing the elements of its International Marketing Mix It depends on international market analysis, whether a firm can introduce a standardized marketing mix or has to adapt it to needs of targeted international market.

3.14 SUMMARY

Services can be distinguished from products on the basis of their characteristics of intangibility, inseparability, heterogeneity, lack of ownership and perishability. These characteristics pose a challenge to the marketing manager who has to find solution to constraints imposed by these features.

The marketing of services requires an extended marketing mix comprising production pricing, promotion and distribution as well as people, physical evidence and process. The marketer has to lay great stress on the last three elements of the marketing strategy and combine them with the first four to achieve a harmonious blend which fulfils the customers want-satisfaction.

3.15 KEY WORDS

Intangible: That which cannot be seen, touched, smelt or tasted but can only be perceived.

Perishable: If not used or consumed will be lost forever. Cannot be stored.

Inseparable: Cannot be separated from the person responsible for providing the service.

Loss leader pricing: Initial low pricing to attract more customers/repeated usage or consumption at subsequently higher prices.

Physical evidence: Building, decor, lighting, logo, letterhead, labels, design of product, physical representative (credit card, life insurance, policy document) which contributes to the `looks' and `atmosphere' of the service organisation.

3.16 SELF-ASSESSMENT QUESTIONS

1. Define Service and explain the characteristic of Service.
2. Explain the concept of Services Marketing -Mix in detail.
3. Explain both Industrial marketing and Global Marketing.

3.17 FURTHER READINGS

1. V.S.Ramaswamy & S. Nama Kumar, 2002 Marketing Management planning, implementation & Control, 3rd edition, Macmillan India Ltd., New Delhi.
2. Steve Baron 1995, Services Marketing, Macmillian India Ltd. New Delhi

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LESSON- 4

CONSUMER BEHAVIOUR

4.0 OBJECTIVES :

By the end of this lesson, learners will be able to:

1. Explain the concept and significance of consumer behaviour in marketing decision-making.
2. Identify and differentiate the various types of consumer buying behaviour and the factors influencing them.
3. Analyze how psychological, social, cultural, and economic factors shape consumers' purchasing decisions and post-purchase evaluations.

STRUCTURE OF THE LESSON

4.1 INTRODUCTION

Consumer behaviour is a complex and evolving field, involving numerous factors that collectively shape purchasing decisions. To grasp consumer behaviour, one must explore the intricate influences affecting how people choose, buy, use, and discard products and services. These influences include internal psychological processes—such as perception, motivation, and attitude formation—that affect how consumers interpret information and make choices. External factors like social interactions, cultural norms, and economic conditions also play crucial roles, as individuals are influenced by others' opinions, societal trends, and economic pressures. Marketers aiming to develop effective strategies must navigate this complexity by thoroughly understanding these diverse forces. This involves not only identifying the primary drivers of consumer behaviour but also recognizing how these factors interact and influence each other. For example, a consumer's cultural background may shape their attitudes toward certain products, while social influences like recommendations or online reviews can affect their final purchase decision.

Economic factors, such as price sensitivity and income levels, further add to this complexity, necessitating that marketers balance multiple elements when crafting their strategies. In today’s rapidly changing marketplace, driven by advancements in technology, changing consumer values, and evolving social norms, it’s crucial for marketers to stay attuned to the subtleties of consumer behaviour.

Effective marketing strategies must address both immediate consumer needs and anticipate future trends. By gaining a comprehensive understanding of what influences consumer behaviour, marketers can create strategies that resonate with their target audience, fostering engagement, loyalty, and business success. Understanding consumer behaviour is vital for any marketing strategy. Before implementing a strategy, it’s essential to grasp the needs and expectations of the target consumers. This involves understanding how consumers will respond to and be influenced by marketing efforts. To gain deeper insights into your target market’s preferences, consider these questions:

- How do consumers perceive the information provided?
- How can you capture and maintain their attention?
- What are their specific needs?
- What factors—such as price, quality, or commercial offers—affect their purchasing decisions?

The ultimate aim for entrepreneurs is to meet public and market demands, boosting sales and customer satisfaction. To achieve this, studying consumer behaviour through surveys and research is crucial for making informed decisions and enhancing customer relationships. Consumer behaviour refers to the actions and decisions of individuals or households in choosing, buying, using, and disposing of products or services. It encompasses a multi-stage process involving problem identification, data collection, option exploration, purchase decision-making, and post-purchase evaluation.

Factors influencing consumer behaviour include personal values, social norms, marketing efforts, product features, and environmental conditions. For businesses, understanding consumer behaviour is essential for crafting effective marketing plans and presenting products, services that meet customers' needs. Analysing consumer behaviour data helps identify trends, forecast demand, and make informed decisions about product design, pricing, promotion, and distribution. Consumer behaviour is critical in marketing as it reveals how consumers decide what products to buy, when to buy them, and from whom. By understanding these patterns, marketers can create targeted strategies that effectively reach the right consumers with the appropriate message at the right time.

4.2 TYPES OF CONSUMER BEHAVIOUR FOR EFFECTIVE MARKETING STRATEGIES:

To create successful marketing strategies and address customer needs effectively, marketers must understand different types of consumer behaviour.

Here are four key types of consumer behaviour and their impact on businesses:

1. Complex Buying Behaviour This occurs when consumers are highly involved in the purchasing process and perceive significant differences between brands. Customers engage in thorough research, gather extensive information, and carefully evaluate alternatives before deciding.

2. Dissonance-Reducing Buying Behaviour This behaviour arises when consumers make expensive or risky purchases and later experience discomfort or uncertainty about their choice. To alleviate this discomfort, they may seek reassurance, gather additional information, or consult others for feedback.

3. Habitual Buying Behaviour Habitual buying happens when consumers make purchases with minimal thought or effort. Their decisions are often based on past experiences, leading to brand loyalty and consistent buying habits. Purchases are driven by convenience, familiarity, or routine.

4. Variety-Seeking Buying Behaviour This type of behaviour is characterized by a lack of deep involvement in the purchasing process. Consumers who exhibit variety-seeking behaviour frequently switch brands or products to fulfil their curiosity or desire for novelty.

4.3 FACTORS INFLUENCING CONSUMER BEHAVIOUR

Consumer behaviour is shaped by a range of factors, both internal and external, including:

1. Situational Factors: Contextual elements that affect decision-making, such as time constraints or environmental conditions.

2. Environmental Factors: External conditions such as social norms, cultural influences, and economic environment.

3. Marketing Factors: Promotional activities, product features, and pricing strategies.

4. Personal Factors: Individual characteristics including age, occupation, and lifestyle.

5. Family and Cultural Influences: The impact of family dynamics and cultural background on purchasing decisions.

6. Psychological Factors: Internal influences like perception, motivation, and attitudes that impact how consumers interpret and react to information.

7. Social Factors

8. Cultural

9. Economic Factors

4.3.1 SITUATIONAL FACTORS AFFECTING CONSUMER BEHAVIOUR

Situational factors refer to the specific circumstances or contexts that can influence consumer decisions at the time of purchase. These factors often impact how consumers evaluate and choose products or services.

Key situational factors include:

1. Physical Environment

- Store Layout and Atmosphere: The design, cleanliness, and ambiance of a store can affect consumer comfort and purchase decisions.
- Product Placement: Strategic positioning of products can influence their visibility and attractiveness.

2. Social Environment

- Influence of Others: The presence of other people, such as friends or family, can impact purchasing choices. Peer pressure or recommendations can sway decisions
- Social Interactions: Customer service and interactions with sales staff can enhance or detract from the shopping experience.

3. Time Constraints

- Urgency: Limited time or urgency can lead to quicker, less deliberate purchasing decisions.
- Shopping Occasion: The timing of a purchase, such as during sales events or special occasions, can influence buying behaviour.

4. Economic Conditions

- Budget and Financial Situation: A consumer’s current financial status can affect their willingness to spend and influence their choice of products and brands.

5. Task Definition

- Purpose of Purchase: The reason for the purchase, whether it’s for a specific need, a gift, or leisure, can shape decision-making processes and preferences.

6. Personal Context

- Mood and Emotional State: A consumer’s current mood or emotional state can impact their purchasing decisions, often leading to impulse buying or preference changes.

7. Seasonality and Timing

- Seasonal Factors: Certain times of the year, such as holidays or back-to-school periods, can drive specific buying behaviours and preferences.

Understanding these situational factors helps marketers tailor their strategies to align with the specific contexts in which consumers make purchasing decisions, ultimately enhancing the effectiveness of marketing efforts.

4.3.2 ENVIRONMENTAL FACTORS AFFECTING CONSUMER BEHAVIOUR

Environmental factors encompass external conditions and influences that impact consumer decision-making. These factors shape how consumers perceive and interact with products and services. Key environmental factors include:

1. Social Influences

- Family and Friends: Recommendations, opinions, and behaviours of family and friends can significantly impact purchasing decisions.
- Social Networks: Online social networks and peer reviews can influence consumer perceptions and choices.

2. Cultural Factors

- Cultural Norms: Shared values, beliefs, and traditions within a culture can guide consumer preferences and behaviours.
- Subcultures: Distinct groups within a larger culture, such as ethnic or regional subcultures, can have unique purchasing patterns and preferences.

3. Economic Conditions

- Economic Climate: The overall economic environment, including factors like inflation, unemployment rates, and economic growth, can influence consumer spending and purchasing power.
- Income Levels: Variations in income affect consumers' ability to purchase and their choice of products based on affordability.

4. Technological Advancements

- Digital Innovations: Technology impacts consumer behaviour through online shopping, mobile apps, and digital marketing. Innovations can change how consumers discover and purchase products.
- Access to Information: The availability of information through the internet and other digital platforms influences consumer research and decision-making.

5. Legal and Regulatory Environment

- Regulations and Policies: Government regulations and industry standards can affect product availability, quality, and pricing.
- Consumer Protection Laws: Legal protections influence consumer trust and confidence in purchasing decisions.

6. Market Trends

- Industry Trends: Current trends and developments within specific markets can shape consumer preferences and expectations.
- Product Innovations: New product features or advancements can drive interest and influence buying behavior.

7. Environmental and Ecological Factors Global Research Journal of Social Sciences and Management

- Sustainability: Growing awareness of environmental issues and sustainability practices can affect consumer preferences for eco-friendly or socially responsible products.
- Climate and Weather: Seasonal weather conditions and climate can influence purchasing decisions, especially for products related to weather or outdoor activities. Understanding these environmental factors helps marketers develop strategies that resonate with consumers and address their needs in the context of external influences.

4.3.3 MARKETING FACTORS AFFECTING CONSUMER BEHAVIOUR

Marketing factors are the elements within a company's control that directly impact consumer decisions. These factors include:

1. Product Features

- Quality: The perceived quality of a product affects consumer satisfaction and purchase intentions.
- Design: A product's design, including aesthetics and functionality, can influence consumer preferences and perceived value.
- Branding: Strong branding and brand reputation can affect consumer trust and loyalty.

2. Pricing Strategies

- Price Points: The price of a product or service influences consumer decisions, with considerations of affordability, perceived value, and price positioning.
- Discounts and Promotions: Special offers, sales, and discounts can drive purchases and affect consumer perceptions of value.

3. Advertising and Promotion

- Advertising Channels: The use of various media (TV, online, print, etc.) affects how and where consumers encounter marketing messages.
- Promotional Tactics: Techniques such as limited time offers, contests, and sponsorships can engage consumers and influence buying behaviour.

4. Distribution Channels

- Availability: The ease of accessing products through different channels (retail stores, online platforms, etc.) affects consumer convenience and purchase decisions.
- Channel Selection: Choices about where and how products are distributed can impact consumer reach and market penetration.

5. Sales Tactics

- Sales Techniques: Methods used by sales staff, including personal selling and customer service, can influence consumer purchase decisions.
- Customer Experience: The overall shopping experience, including interactions with sales personnel and the ease of the purchasing process, can affect consumer satisfaction.

6. Packaging o Packaging Design: Attractive and functional packaging can draw consumer attention and impact product perception.

- Information on Packaging: Clear, informative labelling can help consumers make informed decisions and enhance product appeal.

7. Brand Positioning

- Market Positioning: How a brand is positioned in the market relative to competitors influences consumer perceptions and preferences.
- Unique Selling Proposition (USP): Highlighting unique aspects of a product or brand can differentiate it from competitors and appeal to target audiences.

8. Public Relations

- Media Coverage: Positive media coverage and public relations efforts can enhance brand image and consumer trust.
- Community Engagement: Involvement in community initiatives and corporate social responsibility can positively influence consumer attitudes toward a brand.

By effectively managing these marketing factors, businesses can tailor their strategies to better meet consumer needs, enhance brand appeal, and drive purchasing decisions

4.3.4 PERSONAL FACTORS AFFECTING CONSUMER BEHAVIOUR

Personal factors are individual characteristics that influence consumer purchasing decisions. These factors include:

1. Age and Life Cycle Stage

- **Age**: Different age groups have varying needs and preferences, influencing their buying behaviour. For example, younger consumers may prioritize technology and fashion, while older consumers may focus on health and comfort.
- Life Cycle Stage: A consumer's stage in the life cycle, such as single, married, or retired, affects their purchasing needs and priorities.

2. Occupation

- Job Role: An individual's occupation can influence their purchasing choices based on their work-related needs and preferences. For instance, professionals may invest in business attire or technology, while tradespeople might focus on tools and equipment.
- Income Level: Occupation often impacts income level, which in turn affects purchasing power and spending habits.

3. Economic Situation

- Income: A consumer's income level directly affects their purchasing decisions and ability to afford certain products or services.
- Financial Stability: Economic stability or instability can influence spending behaviour, with consumers possibly adjusting their purchasing habits based on their financial situation.

4. Lifestyle

- Activities and Interests: Consumers' lifestyles, including their hobbies, interests, and daily activities, affect their preferences for products and services. For example, outdoor enthusiasts may prioritize sporting goods, while tech enthusiasts may focus on the latest gadgets.
- Values and Beliefs: Personal values and beliefs shape preferences and purchasing decisions. For instance, individuals who prioritize environmental sustainability may prefer eco-friendly products.

5. Personality and Self-Concept

- Personality Traits: Individual personality traits, such as openness to new experiences or risk-taking, can influence buying behaviour. For example, adventurous individuals may seek out novel products, while cautious consumers may prefer established brands.
- Self-Concept: How consumers perceive themselves and their self-image can affect their purchasing choices. Consumers often buy products that align with their desired self-image or social identity.

6. Education Level

- Knowledge and Awareness: Higher education levels can impact consumers' awareness of product features, benefits, and quality. Educated consumers may conduct more research and make more informed purchasing decisions.

7. Social Status

- Social Class: A consumer's social class influences their buying behaviour, with different social classes having distinct preferences and spending patterns. Social status can also affect brand choices, and the types of products sought. Understanding these personal factors helps marketers tailor their strategies to better align with individual consumer needs, preferences, and behaviours, enhancing the effectiveness of marketing efforts.

4.3.5 FAMILY AND CULTURAL INFLUENCES ON CONSUMER BEHAVIOUR:

Family and cultural influences play a significant role in shaping consumer behaviour. These factors affect how individuals make purchasing decisions and their overall consumption patterns.

Family Influences

1. Family Roles and Decision-Making

- **Role of Family Members**: Different family members may have varying roles in the decision making process. For example, parents might influence children's purchases, while partners might share responsibilities for major household purchases.
- **Decision-Making Dynamics**: Family decisions can be influenced by collective input or by individual preferences. Understanding these dynamics helps marketers tailor their messages to address the primary decision-makers.

2. Family Life Cycle

- **Stage of Life:** The stage of a family's life cycle (e.g., newlyweds, young families, empty nesters) affects their purchasing needs and priorities. For instance, young families might focus on baby products and household items, while empty nesters might prioritize travel and leisure.

3. Family Influences on Brand Preferences

Inherited Preferences: Brand loyalty and preferences can be passed down from one generation to the next. For example, children might adopt the same brand preferences as their parents.

4. Family Values and Beliefs

- Shared Values: Family values, such as a focus on health or environmental sustainability, can influence collective purchasing decisions and brand choices.

Cultural Influences

1. Cultural Norms and Values

- Cultural Beliefs: Cultural norms and values shape consumer attitudes toward products and services. For example, cultural attitudes toward luxury goods, health, or technology can affect buying behaviour. o Traditions and Rituals: Cultural traditions and rituals, such as festivals or holidays, influence consumption patterns and the types of products purchased during these times.

2. Subcultures

- Ethnic and Regional Subcultures: Different ethnic or regional subcultures may have distinct preferences and behaviours. Marketers need to understand these variations to effectively target specific subgroups.
- Lifestyle Subcultures: Subcultures based on lifestyle choices, such as eco-conscious consumers or tech enthusiasts, can drive specific purchasing behaviours and preferences.

3. Socialization Process

- Cultural Socialization: Individuals are socialized into their culture through family, education, and social interactions. This socialization process influences their values, attitudes, and consumer behaviour.

4. Cultural Symbols and Meanings

- Symbols and Icons: Cultural symbols and icons can affect product perception and brand affinity. Understanding cultural significance helps in creating meaningful marketing messages and product positioning.

By recognizing and addressing these family and cultural influences, marketers can develop strategies that resonate with consumers' backgrounds and values, leading to more effective engagement and connection.

4.3.6 PSYCHOLOGICAL FACTORS:

Psychological factors play a pivotal role in shaping consumer behaviour, influencing how individuals perceive, interpret, and respond to marketing messages and products. These factors are deeply rooted in the mental and emotional processes that guide decision-making, often operating at both conscious and subconscious levels.

Key psychological factors that affect consumer behaviour include perception, motivation, learning, beliefs and attitudes, and personality.

1. Perception: Perception refers to the process by which consumers select, organize, and interpret sensory information to form a coherent picture of the world around them. This process is subjective, meaning that different consumers can perceive the same product or advertisement in different ways based on their prior experiences, expectations, and current needs. Marketers must carefully consider how their messages are likely to be perceived by their target audience, as this will influence the effectiveness of their campaigns.

2. Motivation: Motivation is the driving force behind consumer actions, derived from an internal need or desire that seeks fulfilment. According to Maslow's hierarchy of needs, consumers are motivated by a range of needs, from basic physiological necessities to higher-level psychological desires such as self-esteem and self-actualization. Understanding what motivates a particular consumer segment allows marketers to tailor their products and messages to align with these motivations, increasing the likelihood of purchase.

3. Learning: Learning in the context of consumer behaviour refers to the process through which consumers acquire knowledge and experience that influence their future behaviour. This can occur through direct experience, observation, or interaction with marketing stimuli. For example, a consumer who has had a positive experience with a brand is likely to develop brand loyalty, while negative experiences can lead to avoidance. Marketers can leverage learning theories, such as classical conditioning and operant conditioning, to shape consumer behaviour by associating their products with positive experiences or outcomes.

4. Beliefs and Attitudes: Beliefs are the convictions that consumers hold about a product or brand, while attitudes are the evaluative feelings they have toward it. These elements are shaped by personal experiences, cultural influences, and marketing communications. Once established, beliefs and attitudes are relatively stable and can strongly influence consumer behaviour. Marketers must understand the existing beliefs and attitudes of their target audience to craft messages that either reinforce positive associations or work to change negative ones.

4. Personality: Personality encompasses the unique psychological characteristics that consistently influence how a person responds to their environment, including their behaviour as a consumer. Traits such as extroversion, openness to experience, and conscientiousness can all impact purchasing decisions. For example, an extroverted consumer may be more inclined toward products that are associated with social interaction and status, while a highly conscientious individual may prioritize products that align with their values, such as sustainability. Marketers can segment their audience based on personality traits to better align their offerings with consumer preferences.

By understanding these psychological factors, marketers can gain deeper insights into the mental processes that underlie consumer behaviour. This knowledge enables them to design more effective marketing strategies that resonate with the psychological makeup of their target audience, ultimately driving more successful outcomes.

4.3.7 SOCIAL FACTORS:

Social factors significantly influence consumer behaviour by shaping the way individuals interact with others, form opinions, and make purchasing decisions. These factors are rooted in the social environment and the various relationships that individuals maintain, from close family ties to broader societal interactions. Key social factors that impact consumer behaviour include reference groups, family, social roles and status, and social media influence.

1. Reference Groups: Reference groups are groups of people that an individual use as a point of reference when forming attitudes, beliefs, and behaviours. These groups can include family, friends, colleagues, or even celebrities and influencers. Reference groups can have a direct influence, where members actively advise or share opinions, or an indirect influence, where individuals aspire to emulate the behaviours of those they admire. For marketers, understanding the reference groups of their target audience is crucial, as these groups often shape purchasing decisions. Marketing strategies may involve leveraging testimonials, endorsements, or social proof to align products with the values and preferences of influential reference groups.

2. Family: The family is one of the most influential social factors affecting consumer behaviour. Family members play a central role in shaping an individual's values, beliefs, and purchasing habits from a young age. Decisions within a family often involve multiple members, each with varying degrees of influence depending on the product or service in question. For instance, children may influence the purchase of snacks or toys, while parents may make decisions about larger household items. Marketers can tailor their strategies to address the needs and dynamics of families by emphasizing products that offer value, convenience, and appeal to all family members.

3. Social Roles and Status: Social roles refer to the set of behaviours expected of an individual in a particular position within a group or society, while status reflects the level of esteem or respect that an individual hold in the eyes of others. Both social roles and status can have a strong impact on consumer behaviour, as individuals often make purchasing decisions that align with their roles and seek products that reinforce or elevate their social status. For example, a business professional might choose a luxury brand to convey success and sophistication, while a parent might prioritize practical and reliable products to fulfil their caregiving role. Marketers can appeal to consumers by positioning their products as symbols of status or as tools that help fulfil social roles effectively.

4. Social Media Influence: In the digital age, social media has become a powerful social factor influencing consumer behaviour. Platforms like Instagram, Facebook, and TikTok allow consumers to connect, share experiences, and discover new products through peer recommendations and influencer endorsements. Social media amplifies the impact of reference groups by providing a vast, interactive space where opinions are shared, and trends are set. Marketers can harness social media by engaging with consumers directly, creating shareable content, and collaborating with influencers who resonate with their target audience. The viral nature of social media also allows for rapid dissemination of marketing messages, potentially reaching a wider and more diverse audience.

These social factors highlight the importance of understanding the broader social context in which consumers operate. By recognizing the influence of social groups, family dynamics, societal roles, and the pervasive reach of social media, marketers can develop strategies that resonate more deeply with their audience. This approach not only enhances the relevance of marketing messages but also fosters stronger connections with consumers, ultimately leading to increased brand loyalty and market success.

4.3.8 CULTURAL FACTORS:

Cultural factors are integral to understanding consumer behaviour, as they encompass the shared beliefs, values, customs, and practices that define a society or group. These factors profoundly influence how individuals perceive products, brands, and marketing messages, as well as their purchasing decisions. The key cultural factors that impact consumer behaviour include cultural values, subcultures, social class, and cultural norms and taboos.

1. Cultural Values: Cultural values represent the collective principles and ideals that are widely embraced within a society. These values shape consumer behaviour by influencing what is deemed important, desirable, and acceptable. For instance, in cultures where material success and status are highly valued, consumers may be more inclined to purchase luxury goods or brands that symbolize prestige. Conversely, in cultures that emphasize environmental sustainability, consumers might prefer eco-friendly products. Marketers must align their strategies with the prevailing cultural values of their target markets to ensure that their offerings resonate with consumers' deeply held beliefs and priorities.

2. Subcultures: Within the broader culture, subcultures exist as distinct groups that share specific characteristics, such as ethnicity, religion, geographic location, or lifestyle. Each subculture may have unique preferences, consumption patterns, and brand loyalties that differ from the mainstream culture. For example, a religious subculture may have specific dietary restrictions that influence food purchases, or a youth subculture may be drawn to particular fashion trends or digital platforms. Understanding the nuances of these subcultures allows marketers to create tailored messages and products that speak directly to these groups' needs and desires, thereby enhancing brand relevance and loyalty within these segments.

3. Social Class: Social class refers to the divisions within a society based on factors such as income, education, occupation, and wealth. These divisions influence consumer behaviour by determining the level of access to resources and shaping consumption patterns. Higher social classes may have greater purchasing power and a preference for premium, luxury, or exclusive products that convey status and sophistication. In contrast, lower social classes might prioritize affordability, value, and practicality in their purchasing decisions. Marketers can segment their audience based on social class and design products, pricing, and promotional strategies that appeal to the specific aspirations and constraints of each class. For example, luxury brands might focus on exclusivity and quality, while mass-market brands might highlight cost-effectiveness and convenience.

Cultural Norms and Taboos: Cultural norms are the unwritten rules that guide acceptable behaviour within a society, while taboos are behaviours that are strongly discouraged or prohibited. These norms and taboos can significantly influence consumer behaviour, as individuals are often motivated to conform to societal expectations and avoid actions that could lead to social disapproval. For instance, in some cultures, certain colours, symbols, or numbers are associated with specific meanings, which can affect product packaging, branding, and advertising choices. Marketers must be sensitive to these cultural norms and taboos to avoid alienating consumers or damaging the brand's reputation. A deep understanding of cultural nuances can help marketers navigate potential pitfalls and create campaigns that are culturally appropriate and resonant.

By comprehending cultural factors, marketers can better understand the underlying influences that drive consumer behaviour across different societies and groups. This knowledge enables them to develop culturally informed marketing strategies that align with consumers' values, address the needs of specific subcultures, and respect social class distinctions. Ultimately, a strong grasp of cultural factors helps marketers create more effective and relevant marketing campaigns, fostering deeper connections with consumers and achieving greater success in diverse markets.

4.3.9 ECONOMIC FACTORS: Economic factors are crucial determinants of consumer behaviour, as they directly influence consumers' purchasing power, spending habits, and overall financial decision-making. These factors reflect the broader economic environment in which consumers operate and play a significant role in shaping how individuals allocate their resources. Key economic factors that impact consumer behaviour include income levels, economic conditions, inflation, interest rates, and consumer confidence.

1. Income Levels: Income is one of the most direct economic factors affecting consumer behaviour. It determines an individual's or household's purchasing power and influences their ability to afford goods and services. Consumers with higher incomes generally have more disposable income, allowing them to spend on luxury items, premium brands, and non-essential goods. In contrast, consumers with lower incomes may prioritize basic needs, value, and affordability when making purchasing decisions.

Marketers can segment their audience based on income levels and tailor their products, pricing, and promotions accordingly. For instance, luxury brands might focus on affluent consumers by emphasizing exclusivity and quality, while mass-market brands might highlight affordability and value for money to attract budget-conscious shoppers.

2. Economic Conditions: The overall economic climate, including factors such as employment rates, GDP growth, and economic stability, has a significant impact on consumer behaviour. During periods of economic prosperity, when employment is high and the economy is growing, consumers tend to feel more confident in their financial situation and are more likely to spend on non-essential items, luxury goods, and experiences. Conversely, during economic downturns or recessions, consumers may become more cautious with their spending, focusing on necessities and seeking out discounts or cheaper alternatives. Marketers must be attuned to the current economic conditions and adjust their strategies to align with consumers' changing attitudes and behaviours. For example, during a recession, marketers might emphasize value, durability, and cost savings in their messaging to appeal to more frugal consumers.

3. Inflation: Inflation, or the rate at which the general level of prices for goods and services rises, affects consumer purchasing power by eroding the value of money. When inflation is high, consumers may experience reduced purchasing power, leading them to cut back on discretionary spending or switch to lower-cost alternatives. Inflation can also lead to changes in consumer behaviour, such as stockpiling essential goods in anticipation of future price increases or delaying purchases in hopes that prices will stabilize. Marketers need to consider the impact of inflation on their pricing strategies and product offerings. In an inflationary environment, businesses might focus on promoting value oriented products, offering smaller package sizes, or providing incentives such as discounts or loyalty rewards to retain customers.

4. Interest Rates: Interest rates, set by central banks, influence the cost of borrowing money and the return on savings. High interest rates can lead to higher borrowing costs for consumers, which may reduce their disposable income and lead to more conservative spending habits. Conversely, low interest rates can encourage borrowing and spending, as consumers may find it more affordable to finance large purchases such as homes, cars, or appliances. Interest rates also impact consumer behaviour in terms of saving versus spending; higher rates may incentivize saving, while lower rates may encourage consumption. Marketers should be aware of how changes in interest rates might affect consumer behaviour and adjust their strategies accordingly. For example, during periods of low interest rates, marketers might promote financing options or credit offers to encourage purchases.

4. Consumer Confidence: Consumer confidence refers to the level of optimism or pessimism that consumers feel about the overall state of the economy and their personal financial situation. High consumer confidence typically leads to increased spending, as consumers feel secure in their financial prospects and are more willing to make significant purchases. Low consumer confidence, on the other hand, can lead to reduced spending and a focus on saving or debt repayment, as consumers become more cautious about their financial future. Marketers can track consumer confidence indices to gauge the likely mood of their target audience and adjust their messaging to either capitalize on high confidence or reassure and encourage spending during times of low confidence.

Understanding economic factors is essential for marketers as these elements directly influence consumer behaviour and purchasing decisions. By staying informed about income trends, economic conditions, inflation, interest rates, and consumer confidence, marketers can develop strategies that are responsive to the economic environment. This allows businesses to effectively position their products, adjust pricing strategies, and create marketing campaigns that resonate with consumers' financial realities, ultimately leading to more successful outcomes in the marketplace.

4.4 SUMMARY

Consumer behaviour is a multifaceted phenomenon influenced by psychological, social, cultural, and economic factors. Successful marketing strategies hinge on understanding these influences and crafting messages and products that resonate with consumer needs and preferences. Future research should continue to explore evolving factors such as digital technology and environmental consciousness in shaping consumer behaviour. This research paper provides a structured overview of the key factors influencing consumer behaviour, offering insights into how marketers can leverage these factors to develop effective marketing strategies.

4.5 TECHNICAL TERMS

1. Consumer Behaviour – The study of how individuals or groups select, buy, use, and dispose of products or services to satisfy their needs and wants.
2. Complex Buying Behaviour – A type of purchase decision involving high consumer involvement and significant brand differences.

3. Dissonance-Reducing Behaviour – Buying behaviour where consumers experience post-purchase anxiety or doubt and seek reassurance.
4. Habitual Buying Behaviour – Routine purchases made with minimal thought due to brand loyalty or convenience.
5. Variety-Seeking Behaviour – Buying behaviour where consumers switch brands for novelty or change, despite satisfaction with the previous one.
6. Psychological Factors – Internal elements like motivation, perception, learning, and attitude affecting consumer choices.
7. Cultural Factors – Values, traditions, and norms learned from society that influence consumer preferences.
8. Social Factors – Influences from family, reference groups, or social status impacting purchase decisions.
9. Post-Purchase Evaluation – The process of assessing satisfaction or dissatisfaction after using a product.
10. Marketing Stimuli – External marketing elements such as product design, pricing, promotion, and distribution that influence consumer responses.

4.6 SELF-ASSESSMENT QUESTIONS

1. Define consumer behaviour and explain its relevance in marketing.
2. List and briefly describe any four factors influencing consumer behaviour.
3. How do psychological and social factors influence consumer purchasing decisions?
4. Explain why understanding consumer behaviour is important for marketers in today's dynamic market.
5. How can marketers use knowledge of consumer behaviour to improve customer satisfaction and loyalty?

4.7 SUGGESTED READINGS

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Dr. K. Naga Sundari

LESSON- 5

CONSUMER BEHAVIOUR AND DECISION MAKING PROCESS

5.0 OBJECTIVES :

By the end of this lesson, learners will be able to:

1. Explain the concept of consumer behaviour and understand how buying motives, internal and external forces influence consumer decisions.
2. Identify and classify types of buying behaviour and describe the stages, participants, and factors affecting consumer decision-making.
3. Analyse the buying process and the determinants of involvement, differentiation, and time pressure in consumer decision-making.

STRUCTURE

5.1 BUYER BEHAVIOUR – MEANING

Consumer buyer behaviour refers to the buying behaviour of final consumers – individuals and households who buy goods and services for personal consumption. All of these final consumers combine to make up the consumer market. The Indian consumer market consists of more than 124 crores people who consume many lakh of crores worth of goods and services each year, making it one of the most attractive consumer markets in the world.

Consumers vary tremendously in age, income, education level, and tastes. They also buy an incredible variety of goods and services. How these diverse consumers connect with each other and with other elements of the world around them impact their choices among various products, services and companies. Consumer behaviour is a complex, dynamic, multidimensional process, and all marketing decisions are based on assumptions about consumer behaviour.

Consumer behaviour describes how consumers make purchase decisions and how they use and dispose of the purchased goods or services. The study of consumer behaviour also includes s factors that influence purchase decisions and product use.

The marketer first, tries to understand the consumers and their response, then he studies the basic characteristics of their behaviour. It can be said that consumers are the pivot, around which the whole marketing system revolves. The selection or choice of products or services by consumers greatly determines the fate of the Producers. As such, the marketer must know the consumers, more and more, in order to manufacture the products, which give them satisfaction, in the way, the customers need. The marketing programmes and policies depend upon the consumer behaviors. If one makes out the marketing programme, neglecting the consumer behaviour, one will naturally invite failure. A careful study of consumer behaviour will facilitate the Marketer in determining the size, form, style, colour, package, brand etc of any product. It is in this context the marketing tries to understand:

(a) Who is the customer?
(b) What do consumers buy?
(c) When do consumers buy?
(d) How do consumers buy?
(e) From where do consumers buy?
(f) Why do consumers buy?

Buying Motives

The consumer purchases a product, due to certain motives. Motives refer to thought, urge, strong feelings, emotion, drive etc. They make a buyer to react in the form of a decision. Motivation explains the behaviour of a buyer. Motives induce a consumer to purchase a particular product. The motives may be generally controlled by economic, social, psychological influences etc. When a consumer buys a product, his aims are desire for security, rest, comfort, curiosity, self-preservation, fashion etc. People purchase products urged mental and economic forces. Which create a desire; and this desire is satisfied by the articles displayed for sale. Motive is an inner urge that prompts one to action; it is not a mere desire. The stimulated desire is called a **motive.** Every Marketing manager must have knowledge of buying motives of consumers. The changes in the market are brought by the consumers. The needs and desire of the consumers and their buying behaviour greatly depend upon their income, social status, psychology etc.

Customers purchase any goods as a result of certain mental and economic forces that create desire or wants that they know can be satisfied by the articles offered for purchase. The forces that are motivating an individual to buy be broadly classified into two, namely, external forces and internal forces.

1. **External Forces:** External forces include nationality, religion, education, occupation, income, social status, area of residence, culture of the society in which the customer moves.

2. **Internal Forces:** Internal forces are those forces which have an origin in minds of the people. These forces may be of physical and psychological nature. Internal forces which motivate the buying behaviour may be classified into two groups:

   (i) ***Rational motives*** include dependability in quality, durability, happiness, efficiency in operation and use, economy in use, enhancement of earnings and productivity of property.

   (ii) ***Irrational motives*** include pride and ambition, security personal comfort, security from danger, comfort and obtaining greater leisure, cleanliness and emotional appetite.

Consumer and Customer

The consumer and the customer are two different terms. Customer is not always the customer. Customers, like middlemen, agent etc., may or may not purchase products for their own use, whereas consumers get the products for their own consumption. Here we are concerned with consumer behaviour and the consumer is the important factor. "Buyer behaviour is all psychological, social and physical behaviour of potential customers, as they evaluate, purchase, consume, and tell others about the product and services."

5.2 TYPES OF BUYING BEHAVIOUR:

There is a lot of difference between the purchase of a new car and a toothpaste. Therefore, based on the degree of buyer's involvement and the degree of difference among brands, buying behaviour can be classified into four types:

1. Complex buying behaviour,
2. Dissonance reducing buying behaviour,
3. Habitual buying behaviour, and
4. Variety-seeking buying behaviour.

1. **Complex Buying Behaviour:** The complex buying behaviour is characterized by high consumer involvement in a purchases. Consumer undertakes complex buying behavior when he is highly involved in a purchase and perceived significant differences among brands. Consumers may be highly involved when the product is expensive, risky purchased infrequently, and highly self-expressive. Typically, the consumer has much to learn about the product category.
2. **Dissonance-Reducing Buying Behaviour:** Consumer buying behaviour in situations characterized by high involvement. Dissonance-reducing buying behaviour occurs when consumers are highly involved within an expensive, infrequent, or risky purchase, but see little difference among brands. For example, consumers buying a washing machine may face a high-involvement decision because washing machine is expensive and self-expressive. Yet buyers may consider most carpet brands in a given price range to be the same. In this case, because perceived machine differences are not large, buyers may shop around to learn what is available, but buy relatively quickly. They may respond primarily to a good price or to purchase inconvenience. After the purchase consumers might experience post purchase

dissonance (after sale discomfort) when they notice certain disadvantages of the purchased machine brand on hear favourable things about brand not purchased.

3. **Habitual Buying behaviour:** Consumer buying behaviour in situations characterized by low consumer involvement. Habitual buying behaviour occurs under conditions of low consumer involvement and little significant brand difference. For example, take salt. Consumers have little involvement in this product category – they simply go to the store and reach for a brand. If they keep reaching for the same brand, it is out of habit rather than strong brand loyalty. Consumers appear to have low involvement with most low cost, frequently purchased products. In such cases, consumer behaviour does not pass through the usual belief attitude behaviour sequence. Consumers do not search extensively for information about the brands, evaluate brand characteristics, and make weighty decisions about which brands to buy. Instead they passively receive information as they watch television or read magazines. Ad repetition creates brand familiarity rather than brand conviction Consumers do not form strong attitudes toward a brand; they select the brad because it is familiar. Because they are not highly involved with the product, consumers may not evaluate the choice even after purchase.

4. **Variety – Seeking Buying Behaviour:** Consumer buying behavior in situations characterized by low consumer involvement. Consumers undertake variety seeking buying behaviour in situations characterized by low consumer involvement but significant perceived brand differences. In such cases, consumers often do a lot of brand switching. For example, when buying biscuits, a consumer may hold some beliefs, choose a cookie brand without much evaluation, then evaluate that brand during consumption. But the next time, the consumer might pick another brand out of boredom or simply to try something different. Brand switching occurs for the sake of variety rather than because of dissatisfaction. In such product categories, the marketing strategy may differ for the market leader and minor brands.

All consumer buying decisions generally fall along a continuum of these broad categories; routine response behaviour, limited decision making, and extensive decision making. Goods and services in these categories can best be described in term of five factors; level of consumer involvement, length of time to make a decision, cost of the goods or service, degree of information search, and the number of alternatives considered. The level of consumer involvement is perhaps the most significant determinant in classifying buying decisions.

5.3 PROCESS OF DECISION MAKING

The most basic and important requirement for the marketer is to understand how consumers make choices. There are three factors which influence the degree of active reasoning that is undertaken by the consumer in his process of decision-making. These are: (i) Involvement, (ii) Alternative differentiation, and (iii) Time pressure

Involvement: When a product is perceived to be of great personal importance to the customer, such as personal clothing, or its purchase involves a great deal of money or risk such as jewelry, car, house, company shares, the level of involvement in making the decision is likely to be very high. The consumer is likely to spend a great deal of time before arriving at the final decision. In contrast, when buying items which do not reflect much on the consumer's personality or their purchase involves small amount of money or the risk associated with them is not high, the degree of involvement of the consumer is likely to be low. Products such as shoes, polish, toilet soap, toothpaste, biscuits, etc. would fill in this category.

(vii) **Differentiation:** When the consumer perceives that the various alternatives which are available are very different from one another in terms of their features and benefits offered, he is likely to spend more time in gathering information about and evaluating these different features. On the other hand, in case of products which are not very different from one another either in terms of their features or benefits offered, the consumer is bound to perceive them as being almost the same and buy the first available product/brand which satisfies his minimum expectation. He will not like to spend much time in evaluating the various alternatives. The various brands of washing powder available in the market today are an excellent example of low level of differentiation with the consumer perceiving the different brands to be offering almost identical benefits. All the brands, such as Nirma, Vimal, Charan, etc. look similar with identical packing and carry almost the same price tag.

Time Pressure: When you are under pressure to make a decision quickly, you cannot afford to spend a long time finding out about the various products or brands. You would probably buy whatever is readily available. While traveling in your car to a hill station your car tyre bursts and you need to buy a new one. At that time, you would buy the brand that is available at whatever price without giving it too much thought. But under a different situation, when you need to buy new tyres, you would certainly like to find the features of nylon and radial tyres

(viii) and evaluate various brands, e.g., Modi, MRF, Dunlop and Apollo, etc. on their individual advantages and disadvantages.

Participants in the Buying Process:

There are five different roles that persons can play in a buying decision:

(1) **Initiator:** The initiator is a person who first suggests or thinks of the idea of buying the particular product. Example – publisher of a book on marketing management initiates the professor to ask the students of his class to purchase the book. Here publisher is initiator, the first person in buying process.

(2) **Influencer:** He is a person who explicitly or implicitly has some influence on the final buying decision of others. Students are influenced by the advice of the professor while taking a decision to purchase a book. Here Professor is the influencer.

(3) **Decider:** He is a person who ultimately determines any part or whole of the buying decision. i.e., whether to buy, what to buy, how to buy, when to buy or where to buy. Children are the deciders for buying the toys, house lady for kitchen provisions and head of the family for durable or luxury items.

(4) **Buyers:** The buyer is the person who actually purchases. Buyer may be the decider or he may be some other person. Children are the deciders for purchasing the toys, but purchases are made by the parents. Thus parents are buyers.

(5) **User:** He is the person who actually uses or consumes the service or products.

The idea to buy a television set might come from the child studying in the school. The opinion leader in the village might advise on the model of TV the family should buy. The husband might make the final decision and children will be seeing the television most. When the product is expensive, bought infrequently (Motorcycle or Moped) the consumer takes a longer time to make a decision to buy the product. The consumer will first learn about the product before making thoughtful purchase choice. As regards insurance in rural market, the head of the family is the decision maker and he decides after consulting many people in the village. There are cases where rural consumers have purchased premium models of colour television designed for urban markets and also made cash down payments though they were not richer than their urban counterparts. The fact being that a joint family system calls for a wider screen so that a large number of members can watch T.V.

The marketer's task is to study the buying process and its main participants and their role in the buying process. He should initiate to purchase of his product at different stages and through different strategies.

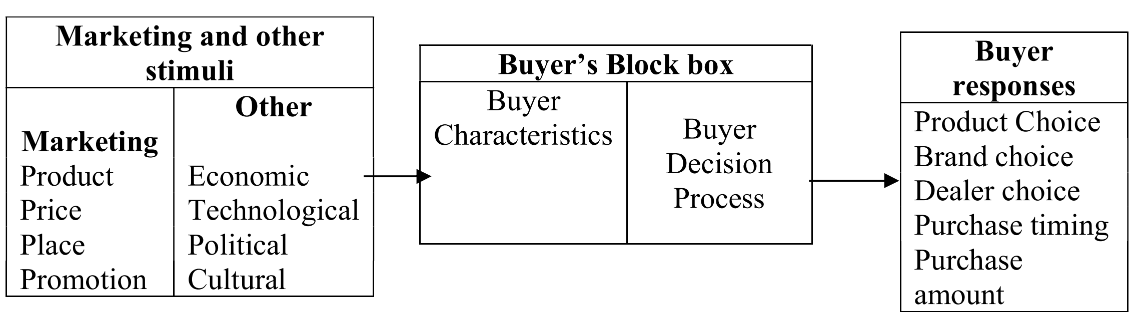
5.4 FACTORS INFLUENCING CONSUMER BEHAVIOUR

Consumers make many buying decisions every day. Most large companies research consumer buying decisions in great detail to answer questions about what consumers buy, where they buy, how and show much they buy, when they buy, where and how much. But learning about the Whys of consumer buyer behavior is not so easy – the answers are often locked deep within the consumer's head.

Penetrating the dark recesses of the consumer's mind is no easy task. Often consumers themselves don't know exactly what influences their purchase. Ninety-five percent of the thought, emotion, and learning (that drive our purchase) occur in the unconscious mind – that is, without our awareness", notes one consumer behaviour expert.

The central question for marketers is: How do consumers respond to various marketing efforts the company might use? The starting point is the stimulus-response model of buyer behavior shown in Fig.5.4. The figure shows that marketing and other stimuli enter the consumer's black box and produce certain responses. Marketers must figure out what is in the buyer's block box.

Fig.5.4: Model of buyer behaviour



Marketing stimuli consists of the four Ps: product, price, and promotion. Other stimuli include major forces and events in the buyer's environment: economic, technological, political and cultural. All these inputs enter the buyer's black box, where they are turned into a set of observable buyer responses: product choice, brand choice, dealer choice, purchase timing and purchase amount.

The marketers want to understand how the stimuli are changed into responses inside the consumer's black box, which has two parts. First, the buyer's characteristics influences how he or she perceives and reacts to the stimuli. Second, the buyer's decision process itself affects the buyer's behaviour.

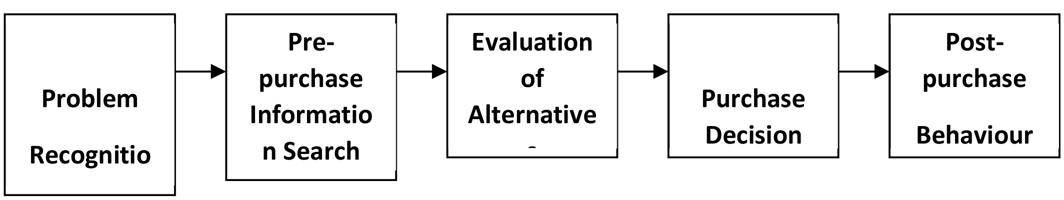
5.5 STAGES IN THE BUYER DECISION PROCESS

Even buying decision involves an element of active reasoning. In making a purchase decision, the consumer goes through the five stages of:

(i) Problem recognition,
(ii) Pre-purchase information search,
(iii) Evaluation of alternatives,
(iv) Purchase decision, and
(v) Post-purchase behaviour.

However, in case of routine purchases, the consumer may skip the second and third stages and straight away go to the stage of purchase decision. But in case of purchase decision involving extensive problem-solving, the consumer is likely to go through all the five stages in the specified sequence. Infact, the buying process starts much before the actual purchase and has implications even after the purchase has been made. The buying decision process can be seen from the following figure.

5.4 Stages in Buyer Decision Process



The purchaser or consumer takes his buying decision, for some commodities immediately without much consideration such as items of daily use while for some other commodities mainly luxury or durable items, he thinks much before taking a decision to purchase it. Sometimes, he consults others. Generally, the purchaser passes through the following five distinct stages in taking a decision for purchasing a particular commodity.

These stages are: (i) need arousal (ii) information search (iii) evaluation behaviour (iv) purchase decision (v) post-purchase feelings. Let us understand the stages in decision-making process with the help of one consumer by name Mr. Mahesh's in the purchase a briefcase.

1. **Need Arousal:** The buying process starts with need arousal. A need can be activated through internal or external stimuli. The basic needs of a common man arise to a threshold level and becomes a drive and he knows from his previous experience how to satisfy those needs like hunger, thirst, etc. This is a case of internal stimulus. Let us assume that Mr. Mahesh feels very uncomfortable carrying his papers, files and lunch packet in his hand or in a plastic bag to his work place. Sometimes, the papers and files even fall from his hand. Mr. Mahesh feels the need for a suitable receptacle to carry papers to and for from his office and has identified a briefcase as the solution to his problem.

2. **Pre-purchase Information Search:** In response to the stimuli provided by the need for a briefcase, Mr. Mahesh starts searching for information on the kinds of briefcases available in the market. Search can be of two types: internal and external. *Internal search* refers to recalling relevant information stored in the memory. For instance, Mr. Mahesh may recall having seen the different kinds of briefcases used by his colleagues. Or he may recall having seen some advertisements for briefcases on the television or in some magazines and newspapers. *External search* refers to the deliberate and voluntary seeking of new information regarding the product/brand under consideration.

By tapping all these sources of information, Mr. Mahesh is able to identify the different types of briefcase on the basis of material, branded versus unbranded, high-medium-low priced. A wide variety of materials are used for making briefcases ranging from the best leather to rexine to plastic. There are branded briefcases available Mr. Mahesh can choose from the well-known VIP, Safari ad Aristocrat and some less known local brands, or he can choose to buy an unbranded briefcase. The price ranges from Rs.240 to Rs. 1,400. Also, there are a number of other features which can influence the choice, such as type of lock, and number of partitions and pockets for keeping different documents.

By the end of this stage, Mr. Mahesh has gathered enough information about different kinds of briefcases available and has narrowed down his alternatives to moulded plastic, branded briefcase. Within this broad range there are various brands and price ranges to make the final choice from.

Information Sources: If need is more intense, the individual enters a state of active information search and he tries to collect more information about the product, its key attributes, qualities of various brands and about the outlets where they are available. There are four consumer information sources:

(1) Personal sources (family, friends etc.)
(2) Commercial sources (advertisements, salesman)
(3) Public sources (mass-media, consumer-rating)
(4) Experimental source (handling, examining)

The marketer will find it worthwhile to study the consumer information sources whenever (a) a substantial percentage of the target market engages in overt search and (b) the target market shows some stable patterns of using the respective information. Identify the information sources and their respective roles and importance calls for interviewing consumer about the sources of information and can use the finding to plan advertisement.

3. **Evaluation of Alternatives:** Having collected the information, Mr. Mahesh starts evaluate the alternative. The most current process of evaluation is to judge the product largely on a conscious and rational basis. Various considerations from the part of judgement such as product attributes, importance weight, brand image, utility function for each attribute, and attitude etc. After evaluation of various alternatives, he takes the decision to buy. On the basis of the evaluation of consumer, the marketer can improve or develop the product, segment the market on the basis of product-attributes. He can compare the competitors' product attributes and take the decision about marketing strategies.

Mr. Mahesh will make his final decision using certain evaluative criteria. The most commonly used criteria are: (i) product attributes, (ii) the relative importance of each attribute to the consumer, (iii) brand image, and (iv) attitudes towards the different brands or alternatives under considerations. For instance, the product attributes of the (plastic branded briefcase) alternatives identified by Mr. Mahesh attaches maximum importance to the product attributes of light weight and spaciousness as compared to other attributes. He already has some kind of attitude towards the various brands developed in the stage of information search which will affect his final decision.

This stage of the buying-decision process gives the marketer a chance to modify his product offering in keeping with the relative importance attached to each attitude by various consumer segments, altering beliefs and attitude about his own brand, and calling attention to neglected product attributes.

4. **Purchase Decision:** Evaluation behaviour leads Mr. Mahesh to forms a ranked set of preference. Normally the consumer buys the article, he or she likes most but there are three more important considerations for taking the buying decision:

   (a) attitude of others such as of wife, relatives and friends, but it depends upon the intensity of their negative attitude and the consumer's motivation to comply with the other person's wishes;
   (b) anticipated situational factors as expected family income, total cost of the product and expected benefits of the product.
   (c) Unanticipated situational factors as look or manner of the salesman or the way business is carried on or worry about his income situation.

The marketer must consider these factors and should try to provide information and support that will help him. In the evaluation stage, Mr. Mahesh may have ranked the various brands in terms of his first, second and third preferences. In short, he may have made up his mind about which brand he wants to buy. However, Mr. Mahesh may finally end up buying a brand which is not is most preferred. This may happen because attitudes of others and situational factors.

For instance, when Mr. Mahesh goes to the shop to make his purchase, the shopkeeper's negative remarks about his (Mr. Mahesh's) most preferred brand may make him change his mind. Also, it is possible that Mr. Mahesh's preferred brand is not available, or there is a very attractive price discount on the brand ranked third by him which eventually makes him change his mind.

5. **Post purchase behaviour:** After buying and trying the product, the consumer will feel some level of satisfaction or dissatisfaction. The level of satisfaction depends very much on the expectation and the product's perceived performance. If the product matches upto his expectation, the consumer is satisfied; if it exceeds, he is highly satisfied; and if it falls short of expectations, he is dissatisfied. If sellers make exaggerated claims, the consumer will naturally feel dissatisfaction. As such, the smart seller must make claims about the performance of the product that are congruent with its quality so that the consumer would feel satisfied.

However, if Mr. Mahesh feels that the briefcase which he has purchased is not upto his expectation, then he is likely to feel dissatisfied. The gap between expected (or perceived) and the actual performances cause discomfort or dissonance to the buyer. As a result of this, Mr. Mahesh may decide to stop buying other products sold by the same company and also warn his friends about the poor utility of his briefcase. To reduce his own state of discomfort or dissonance arising from the feeling that he has not made the right choice, Mr. Mahesh can: (i) re-evaluate the unchosen brands and downgrade their desirability by identifying some negative features, and (ii) search for information to confirm his choice. A satisfied customer is thus a very powerful source of influence for potential customers.

5.6 SUMMARY

Consumer behaviour refers to how individuals make decisions regarding the purchase, use, and disposal of products and services. It forms the foundation of marketing because the entire marketing system revolves around understanding consumer needs, preferences, and motivations. Marketers must study consumer behaviour to determine product design, size, colour, packaging, branding, and pricing strategies. Consumers buy products due to various buying motives, which consist of internal and external forces. External forces include nationality, religion, income, occupation, and culture. Internal motives may be rational (quality, durability, economy) or irrational (comfort, pride, ambition).

The consumer decision-making process depends on three key factors: involvement, level of alternative differentiation, and time pressure. Consumers also take on multiple roles during the buying process—initiator, influencer, decider, buyer, and user. Since most consumer decisions occur at an unconscious level, marketers rely on models such as the stimulus–response model to understand how consumers respond to marketing stimuli.

5.7 TECHNICAL TERMS

1. Consumer Behaviour – Study of how individuals select, purchase, use, and dispose of goods and services.
2. Buying Motives – Inner urges or forces that prompt consumers to buy.
3. Rational Motives – Logical and economic factors driving purchase decisions (e.g., durability, quality).
4. Irrational Motives – Emotional or psychological motives (e.g., pride, comfort).
5. Involvement – The level of importance or personal relevance associated with a buying decision.
6. Differentiation – Perceived differences among available brands or alternatives.
7. Habitual Buying Behaviour – Purchases made routinely with low involvement.

5.8 SELF-ASSESSMENT QUESTIONS

1. Define consumer behaviour and explain why it is critical for marketers.
2. Distinguish between a consumer and a customer with examples.
3. What factors determine the level of involvement in the buying process?
4. Discuss the roles and responsibilities of each participant in the buying process.
5. Analyse how involvement, differentiation, and time pressure influence consumer decision-making.
6. Describe how internal and external factors influence consumer buying motives with examples.

5.9 SUGGESTED READINGS

1. Philip Kotler & Gary Armstrong – *Principles of Marketing* (Pearson Education).
2. Leon G. Schiffman & Leslie Lazar Kanuk – *Consumer Behaviour* (Prentice Hall).
3. Loudon, D.L. & Della Bitta, A.J. – *Consumer Behavior: Concepts and Applications* (McGraw-Hill).
4. Solomon, Michael R. – *Consumer Behavior: Buying, Having, and Being* (Pearson).
5. Blackwell, R.D., Miniard, P.W., & Engel, J.F. – *Consumer Behavior* (Cengage Learning).

Dr. K. Naga Sundari

LESSON-6

MARKET SEGMENTATION

6.0 OBJECTIVES

By the end of this lesson, learners will be able to

1. Understand the concept and importance of market segmentation in addressing diverse consumer needs in heterogeneous markets.
2. Identify and explain different types of consumer preference patterns and how they influence segmentation strategies.
3. Examine the major types of marketing strategies—undifferentiated, differentiated, and concentrated—used by firms based on segmentation.

STRUCTURE

6.1 MARKET SEGMENTATION - DEFINITIONS

Consumers differ widely in terms of tastes, habits, perception and value. They are not homogeneous. If the market is made up of people whose characteristics and wants are different, the market is known as heterogeneous market. Marketers who wish to do an effective job of marketing to people in such a market must identify the characteristics and wants of different groups of people within the overall market, because one marketing mix will not satisfy all of them.

Market segmentation is the process of identifying smaller markets that exist within a larger market. These groups are called market segments. It helps marketers develop marketing mixes for specific market segments. It also helps marketers develop marketing mixes that are more specifically tailored to the characteristics and wants of people of the segments that are identified and selected as target markets. Let us go through definitions.

Schewe and Smith: "Market segmentation breaks the larger heterogeneous market into small homogeneous segments. The elements of each smaller segment are more similar in terms of wants, needs and behaviour than the total market is. A separate marketing programme is developed to best match each segment, individual needs and wants."

W.J. Stanton: "The process of taking the total heterogeneous market for a product and dividing it into several submarket or segments, each of which tends to be homogeneous in al l significant aspects."

Phillip Kotler: "Market segmentation is sub-dividing a market into distinct and homogeneous subgroups of customers, where any group can conceivably be selected as a target market to be meet with distinct marketing mix."

Thus, the market segmentation is aimed at one or more homogeneous segments and try to develop different marketing mix for each segment. Segmenters may make more basic changes in marketing mixes, perhaps in the product itself-because they are aiming at smaller target markets. Instead of assuming that the whole market consists of a fairly small set of customers (like the mass marketer does or merging various sub markets together making super segments), a segmenter sees sub-markets with their own demand curves. Segmenters believe that aiming at one or some of these smaller markets will provide greater satisfaction to the target customers and greater profit potential for the firm.

Consumer Preference Patterns:

Markets are made up of buyers, who differ in their buying habits, buying attitudes, sex, income, geographic location etc. All these variables can be used to segment a market. Apart from these, buyers can be segmented on the basis of their preferences. For example, if we want to segment the tooth paste market on the basis of two attributes say freshness and tooth decay prevention, we can find out the preference level of out tooth paste. The preferences of consumers may be divided into the following.

(a) Homogeneous preferences: If all the customers show the same level of preference based on these two attributes, it is called as homogeneous preferences. The market shows no natural segments.

(b) Diffused preferences: At the different extreme, the consumer preferences may be scattered throughout the space and it looks that no customer have same intensity preference for these two attributes in a tooth paste.

(c) Clustered Preferences: The third category may be preferences that are clustered in groups which are called as natural market segments. Here the firm has three options for positioning. The firm might position its brand hoping to appeal to all groups (undifferentiated marketing). It may position in the largest market segment (concentrated marketing) or it might develop several brands each positioned in a different segment (differentiated marketing).

6.2 REASONS FOR MARKET SEGMENTATION

The reasons for market segmentation are given below

(1) Adjustment of product and marketing appeals: Market segmentation presents an opportunity to understand the nature of the market. The seller can adjust his thrust to attract the maximum number of customers by various publicity media and appeals. More resources may be allocated to market segments where sales opportunities are better.

(2) Better position to spot marketing opportunity: The producer makes a fair estimate to the volume of his sale and the possibilities of furthering his sales. In the regions where response of the customers is poor the strategy of approach can be readjusted accordingly to push the sales on the basis of marketing research. On the basis of research, habits, tastes, hobbies, and nature of consumers of different market can be understood deeply to harness marketing opportunities.

(3) Allocation of marketing budget: It is on the basis of market segmentation that marketing budget is adjusted for a particular region or locality. In the place where the sales opportunities are limited, it is no use allocating a huge budget there.

(4) Making the competition effectively: It helps the producers to face the competition of his rivals effectively. The producers can adopt different policies, programmes and strategies for different policies, programmes and strategies for different markets taking into account the rivals' strategies, policies and programmes.

(5) Effective marketing programme: It also helps the producer to adopt an effective marketing programme and serve the consumer better at comparatively low cost. Different programmes can be attached for different segment.

(6) Evaluation of marketing activities: Thus market segmentation helps the manufacturer to find out and compare the marketing potentialities of the product. It helps to adjust production and using his resources in the most profitable manner. As soon as the product becomes obsolete, the product line could be diversified or discontinued.

(7) Increase in Sales Volume: By segmenting the market, the producer can increase his sales volume. As we know, each segment has different demand pattern and the producer satisfies the demand of each segment, by improving his product. The total sales volume for the enterprise increase. It is based on the fact that multiple demand curves in a market are better than a single demand curve.

Thus we can conclude that market segmentation helps the producer to increase his sales volume. Customer is also benefited by the market segmentation as the producer supplies those goods which serves his interest and satisfy his needs and wants.

6.3 BENEFIT OF MARKET SEGMENTATION

Market segmentation is a customer oriented philosophy. The marketing manager first identify the needs of customers with in a segment and then satisfy those needs. Benefits offered by segmentation can be summarized as follows:

1. **Identification of specialized market segments:** By developing strong position in specialized market segments, medium sized firms can achieve a rapid growth rate.
2. **Efficient use of marketing resources:** By tailoring the marketing programmes to individual market segments, marketer can do a better marketing job and make more efficient use of marketing resources.
3. **Fulfilling the needs of all customers:** People awareness is increasing in relation to their preferences. In these circumstances it is necessary that marketer must segment and then try to fulfill the needs of that segment.
4. **Evaluation of promotional tools:** It helps in determining the kinds of promotional devices that are effective and also helps to evaluate their results.
5. **Decision making easy:** Appropriate decision making, relating to introducing of few products, promotion, distribution, pricing could be easily taken.

Limitations of market segmentation:

While market segmentation can provide a lot of benefits, this strategy has some drawbacks with respect to cost and market coverage.

(1) **Expensive propositions:** Market segmentation can be an expensive proposition in both production and marketing of products. From marketing point of view, the marketer has to develop different marketing mixes for different segments. In production, producing in mass quantities is much cheaper than making variety of products.

(2) **Additional burdens:** Other expenses like keeping adequate inventories of each style, colour, promotional expenses also go up because different promotional mixes have to formulated for different elements.

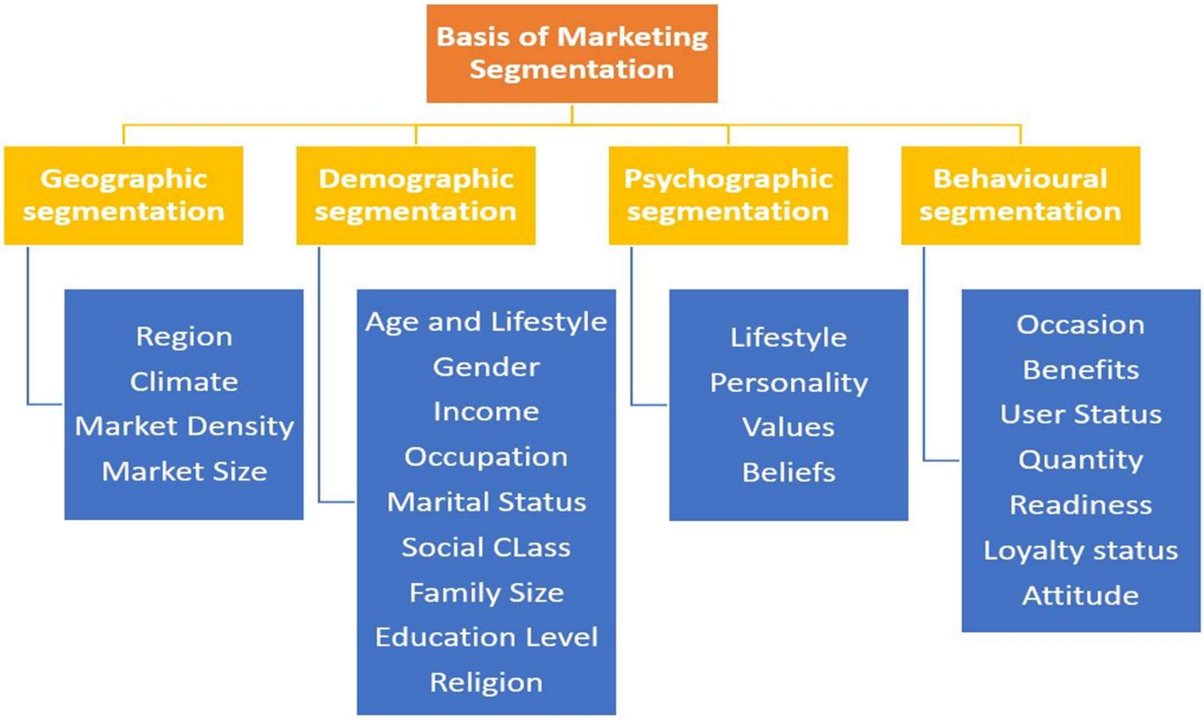
(3) **Increase in Administrative expenses:** Administrative expenses also go up because marketer must plan and implement several different marketing programmes.

6.4 BASIS FOR SEGMENTING CONSUMER MARKETS

Markets can be segmented in many ways. Segmentation variables are the criteria that are used for dividing a market into segments. There is no single way to segment a market. A marketer has to try different segmentation variables, alone and in combination, to find the best way to view the market structure. The major bases for segmenting markets are: geographic, demographic, psychographic and behaviour variables

But in practice segmentation may not follow this logical sequence. Often profile variables will be identified first and then the segments so described will be examined to see if they show different behavioral responses. For instance, different age or income groups may be examined to see if they show different attitudes and requirements.

Fig.6.4 Basis of Market Segmentation



6.4.1 Geographic Segmentation

A marketer can use pure geographic segmentation or a hybrid of geographic and demographic variables to segment the market. Geographic segmentation is useful when there are geographic locational differences in consumption patterns and preferences. Variations in food preferences may form the basis of geographic segmentation. Both the geographic and demographic variables help a marketer to point to their segments more precisely. Geographic Segmentation calls for dividing the market into different geographical units such as nations, regions states, countries, cities, or even neighborhoods. A company may decide to operate in one or a few geographical areas, or to operate in all areas but pay attention to geographical differences in needs and wants. The following Table-6.4.1 clearly shows the sub-groups in Geographic segmentation.

Table – 6.4.1 : Major Segmentation on Geographic base

Geographic :	
World region or country	North America, Western Europe, Middle East, Pacific Rim, China, India, Canada, Mexico
Country region	Pacific, Mountain, West North Central, West South Central, East North Central, East South Central, South Atlantic, Middle Atlantic, New England
City or metro size	Under 4,000; 4,000-20,000, 20,000-40,000, 40,000-1,00,000; 1,00,000-2,40,000; 2,40,000-4,00,000; 4,00,000-10,00,000; 10,00,000-40,00,000; over 40,00,000.
Density	Urban, suburban, rural
Climate	Northern, Southern

6.4.2 Demographic Segmentation

Due to the relative case of obtaining information, demographic variables are most popularly used to segment markets. They serve as background variables to classify customers into various groups that are heterogeneous. Demographic Segmentation divides the market into groups based on variables such as age, gender, family size, family life cycle, income, occupation, education, religion, race, generation, and nationality. Demographic factors are the most popular bases for segmenting customer groups. One reason is that consumer needs, wants, and usage rates often vary closely with demographic variables. Another is that demographic variables are easier to measure than most other types of variables. Even when market segments are defined using other bases, such as benefits sought or behaviour, their demographic characteristics must be known in order to assess the size of the target market and to reach it efficiently. The following table clearly explain the division of markets on the basis of demographic variables.

Age: Age is used to segment many consumer markets, like food and clothing.

Gender: Differing tastes and customs between men and women are reflected in specialist products aimed at these market segments. Gender segmentation has long been used in clothing, cosmetics, toiletries, and magazines. For example, Procter & Gamble was among the first with Secret, a brand of antiperspirant specially formulated for a woman’s chemistry. Packaged and advertised to reinforce the female image. More recently, other marketers have noticed opportunities for targeting women.

Life cycle: Disposable income and purchase requirement vary according to life cycle stage (young singles versus married). Young couples without children may be a prime target for consumer durables. The use of life cycle analysis gives a better precision in segmenting markets than age because family responsibilities and presence of children have a greater bearing on what people buy than age.

Income: Income segmentation has long been used by the marketers or products and services such as automobiles, boats, clothing, cosmetics, financial services, and travel. Many companies target affluent consumers with luxury goods and convenience services.

Table – 6.4.2 : Major Segmentation on Demographic base

Age	Under 5, 5-11, 12-19, 20-34, 34-49, 40-54, 54 +
Gender	Male, Female
Family size	1-2, 3-4, 4-10 1-+
Family life-cycle	Young, single; young, married, no children; young, married with children; older, married with children; older, married, no children under 18; older, single; other
Income	Under ` 30,000; ` 30,000- 40,000; ` 40,000-1,00,000;  ` ,1,00,000-2,00,000; ` 2,00,000-4,00,000; ` 4,00,000 and above
Occupation	Professional and technical; managers, officials, and proprietors; clerical; sales; craftspeople; supervisors; operatives; farmers; retired; students; homemakers; unemployed
Education	Elementary or less; high school; Junior College, Degree College, University
Religion	Catholic, Protestant, Jewish, Muslim, Hindu, other
Race	Asian, Hispanic, black, white
Generation	Baby boomer, Generation X, Generation Y
Nationality	Indian, Chainese, American, British, French, German, Italian, Japanese

6.4.3 Psychographic Segmentation

Another means of segmentation involves analyzing the psychological makeup of a customer, to unearth deeper motivations for purchasing specific products or brands. This often involves studying a customer's values, opinions, activities and lifestyles to establish patterns, which can be used as a basis for clustering similar customers. Psychographic segmentation divides buyers into different groups based on social class, lifestyle, or personality characteristics. People in the same demographic group can have very different psychographic makeups.

Loyalty Status: A market can also be segmented by consumer loyalty. Consumers can be loyal to brands (Tide), stores (Wal-Mart), and companies (Ford). Buyers can be divided into groups according to their degree of loyalty. Some consumers are completely loyal-they buy one brand all the time. Others are somewhat loyal-they are loyal to two or three brands of a given product or favor one brand while sometimes buying others. Still other buyers show no loyalty to any brand. They either want something different each time they buy or they buy whatever's on sale.

Lifestyle: A company groups people according to their way of living as reflected in their activities, interests and opinions. The company identifies groups of people with similar patterns of living.

The question that arises in this type of segmentation is whether general lifestyle patterns are predictive of purchasing behaviour in specific markets. The company will relate a brand to a particular lifestyle.

Personality: In some product categories there is relationship between brand personality and the personality of the buyer. Buyer and brand personalities are likely to match where brand choice is a direct manifestation of personal values, but for most FMCG goods, people buy a repertoire of goods. Personality and lifestyle segmentation will work best when brand choice is a reflection of self-expression, i.e. the brand becomes a badge which makes public an aspect or personality. Successful personality based segmentation is found in categories such as cosmetics, alcoholic drinks and cigarettes.

Table –6.4.3: Major Segmentation on psychographic base

Social class	Lower lowers, upper lowers, working class, middle class, upper middles, lower uppers, upper uppers
Lifestyle	Achievers, strivers, survivors
Personality	Compulsive, gregarious, authoritarian, ambitious

6.4.4 Behavioural Segmentation:

Segmentation can be done on the basis of the purchase behaviour of customers. Product or brand purchases of customers can be tracked to identify differences in patterns of such purchases, which can be used a means of segmenting the market.

Behavioral segmentation divides buyers into groups based on their knowledge, attitudes, uses, or responses to a product. Many marketers believe that behaviour variables are the best starting point for building market segments.

Benefit Sought: People may seek different benefits from a product. Benefits sought in the fruit drink market are extra energy, vitamins, being natural, low calories, low price. There are brands targeting each segment. Benefit segmentation provides an understanding on why people buy in a market and aids in identification of opportunities, as some of the benefits that customers seek may not be provided by the existing companies.

Benefit segmentation is fundamental because the objective of marketing is to provide customers with benefits which they value. Profile analysis can then be performed to identify types of people (age, gender) in each benefit segment so that targeting becomes easier. Benefit segmentation requires finding the major benefits people look for in the product class, the kinds of people who look for each benefit, and the major brands that deliver each benefit. For example, our chapter-opening example pointed out that Procter & Gamble has identified several different laundry detergent segments.

Purchase Occasion: Products like tyres may be purchased as a result of an emergency or as a routine unpressurized buy. Price sensitivity is likely to be lower when products are bought in emergency situations. Some products may be bought as gifts or self-purchases. Gift markets are concentrated at festivals period. While the advertising budget for these will be concentrated in the pre-festival period. Package designs may differ during this period, and special offers may also be made. In this base, the Buyers can be grouped according to occasions when they get the idea to buy, actually make their purchase, or use the purchased item. Occasion segmentation can help firms build up product usage. For example, orange juice is most often consumed at breakfast, but orange growers have promoted drinking orange juice as a cool and refreshing drink at other times of the day. In contrast, Coca-Cola's "Coke in the Morning" advertising campaign attempts to increase Coke consumption by promoting the beverage as an early morning pick-me-up.

Purchase Behaviour: Differences in purchase behaviour can be based on the time of purchase relative to the launch of the product or on patterns of purchase. When a new product is launched. A key task is to identify the innovator segment of the market. These people allow communication to be specifically targeted at them. Innovators are more likely to be willing to buy products soon after launch. Other segments of the market may need more time to assess the benefits and delay purchase until after the innovators have taken the early risks of purchase.

Brand Loyalty: The degree of brand loyalty can be the basis for segmenting customers. Some buyers are totally brand loyal, buying only one brand in a product group. Most buyers switch brands. Some may buy one particular brand on most occasions but also buy two or three other brands. Others might show no loyalty to any individual brand but switch brands on the basis of special offers to buy, because they are variety seekers who look to buy a different brand each time. By profiling the characteristics of each group a company can target each segment accordingly.

Usage: Consumers can be segmented on the basis of heavy users, light users and non-users of a product category. Profiling of heavy users allow this group to receive most marketing attention because creating brand loyalty among the people will pay heavy dividends. Attacking the heavy user segment (20% customers consuming 80% of the product) can have drawbacks if all competitors are following this strategy. Analyzing the light and non-user category provides insights that permit development of appeals that are not mimicked by competition as they will be concentrating on the heavy users.

Markets can also be segmented into groups of nonusers, ex-users, potential users, first-time users, and regular users of a product. For example, one study found that blood donors are low in self-esteem, low risk takers, and more highly concerned about their health; nondonors tend to be the opposite on all three dimensions.

Perception and Beliefs: Perceptions and beliefs are strongly linked to behaviour. Consumers are grouped by identifying theses people who view the products in a market in a similar way (perceptual segmentation) and have similar beliefs (belief segmentation). In the early 90s several Indian consumers held negative perceptions about microwaves. It was believed that Indian food rich in oil and spices cannot be cooked in microwaves, and the waves emanating inside were harmful to health. Another segment that was more open to adapting microwaves consisted of those consumers who were well aware about the functioning of the microwave, and were health conscious. They also sought convenience of cooking faster, and cooking other types of cuisines. For these purposes, a microwave was found to be suitable by them. Therefore, marketers initially focused on the second segment.

Table – 6.4.4: Major Segmentation on Behavioural base

Occasions	Regular, occasional; special occasion
Benefits	Quality, service, economy, convenience, speed
User status	Nonuser, ex-user, potential user, first-time user, regular user
User rates	Light user, medium user, heavy user
Loyalty status	None, medium, strong, absolute
Readiness stage	Unaware, aware, informed, interested desirous, intending to buy
Attitude toward product	Enthusiastic, positive, indifferent, negative, hostile

6.5 REQUIREMENTS FOR EFFECTIVE SEGMENTATION

The segmentation of consumer markets is not an easy task. There is no meaning in segmenting the market unless it reachable or profitable. The following factors are to be considered in effective segmentation of markets.

1. **Measurability:** The first condition is measurability, the degree to which information exists or is obtainable on the particular buyer characteristic. Unfortunately, many suggestive characteristics are not susceptible to easy measurement. Thus it is hard to measure the respective number of automobile buyers who are motivated primarily by considerations of economy versus status versus quality.
2. **Accessibility:** The second condition is accessibility the degree to which the firm can effectively focus its marketing efforts on chosen segments. This is not possible with all segmentation variables. It would be nice if advertising could be directed mainly to opinion leaders, but their media habits are not always distinct from those of opinion followers.
3. **Substantiality:** The third condition is substantiality, the degree to which the segments are large and/or profitable enough to be worth considering for separate marketing cultivation. A Segment should be the smallest unit for which it is practical to tailor a separate marketing cultivation. A segment should be the smallest unit for which it is practical to tailor a separate marketing programme. Segmental marketing is expensive, as we shall shortly see. It would not pay for example, for an automobile manufacturer to develop special cars for midgets.

6.6 UNDIFFERENTIATED MARKETING (MASS MARKETING)

Meaning:
The firm treats the entire market as one large group and uses **a single marketing mix** (one product, one price, one promotion strategy).

When used:

- When consumer needs are similar.
- When the product has universal appeal (e.g., basic salt, sugar).

Advantages:

- Low marketing cost
- Simple strategy

Disadvantages:

- Cannot satisfy differences among customers
- High competition risk

Example:
Coca-Cola's original strategy of offering one Coke product worldwide.

6.7 DIFFERENTIATED MARKETING (SEGMENTED MARKETING)

Meaning:
The firm targets **several market segments** and designs **a separate marketing mix for each** segment.

When used:

- When consumer needs vary significantly
- When the company wants to expand its market reach

Advantages:

- Higher customer satisfaction
- Larger sales volume
- Stronger competitive position

Disadvantages:

- Higher cost (more products, promotions, distribution channels)

Example:
Maruti Suzuki offering multiple car models for different segments—Alto (budget), Swift (mid-range), XL5 (premium family segment).

6.8 CONCENTRATED MARKETING (NICHE MARKETING)

Meaning:
The firm focuses all its resources on **one specific, well-defined segment** and creates **one highly specialized marketing mix** for that segment.

When used:

- When the company is small with limited resources

- When targeting a niche or specialized market

Advantages:

- Strong brand loyalty
- Better serving of one segment
- Efficient use of limited resources

Disadvantages:

- High business risk (if the segment declines)
- Limited customer base

Example:
Rolex targeting only the luxury watch segment.
A baby-products company focusing only on newborn care items.

6.9 SUMMARY

Market segmentation is the process of dividing a large, heterogeneous market into smaller, homogeneous groups of consumers who share similar characteristics, needs, or behavioural patterns. Since consumers vary widely in tastes, preferences, income, lifestyle, and attitudes, a single marketing mix cannot satisfy everyone. Segmentation allows marketers to design specific marketing mixes for each selected segment, thereby improving customer satisfaction and enhancing organizational profitability. Market segmentation thus helps firms identify profitable segments, design targeted strategies, and achieve a competitive edge by serving consumer needs more effectively.

6.10 TECHNICAL TERMS

1. Market Segmentation – Dividing a large, heterogeneous market into smaller, homogeneous groups to design targeted marketing mixes.
2. Heterogeneous Market – A market where consumers differ in needs, preferences, and characteristics.
3. Homogeneous Market/Segment – A segment where consumers share similar needs or characteristics.
4. Target Market – The specific segment(s) a company chooses to serve with a tailored marketing mix.
5. Marketing Mix – A combination of product, price, place, and promotion strategies designed for a target market.
6. Consumer Preference Patterns – The ways in which consumers differ in their tastes and preferences; can be homogeneous, diffused, or clustered.
7. Undifferentiated Marketing – A marketing strategy where a firm uses one mix to appeal to the entire market.
8. Differentiated Marketing – Designing separate marketing mixes for different segments.

9. Concentrated Marketing – Targeting a single, larger, or most profitable segment with a focused strategy.

6.11 SELF-ASSESSMENT QUESTIONS

1. What is market segmentation? Why is it necessary in modern marketing?
2. Differentiate between heterogeneous and homogeneous markets.
3. Explain the meaning of a target market with an example.
4. How do marketing mixes differ between mass marketing and segmented marketing?
5. Discuss the importance of market segmentation in designing effective marketing strategies.
6. Describe the three patterns of consumer preferences and explain how each influences segmentation strategy.

6.12 SUGGESTED READINGS

1. Philip Kotler & Gary Armstrong – *Principles of Marketing* (Pearson Education).
2. Leon G. Schiffman & Leslie Lazar Kanuk – *Consumer Behaviour* (Prentice Hall).
3. Loudon, D.L. & Della Bitta, A.J. – *Consumer Behavior: Concepts and Applications* (McGraw-Hill).
4. Solomon, Michael R. – *Consumer Behavior: Buying, Having, and Being* (Pearson).
5. Blackwell, R.D., Miniard, P.W., & Engel, J.F. – *Consumer Behavior* (Cengage Learning).

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LESSON – 7

MARKET TARGETING

7.0 OBJECTIVES :

After studying this lesson, learners will be able to:

1. Explain the concept and importance of market targeting and its relationship with segmentation and positioning in marketing strategy.
2. Identify and evaluate different market segments to select the most suitable target market for a given product or service.
3. Apply appropriate targeting approaches to design focused and effective marketing communication strategies for the core target.

STRUCTURE OF THE LESSON

7.1 MARKET TARGETING

Along with upstream segmentation and downstream positioning, marketing targeting is at the heart of any marketing management strategy, whether BtoB or BtoC.

How do you know which target prospects and customers to address? What criteria should be used to determine the best strategy for reaching your core target? How do you define your marketing target? Essential to successful prospecting and an efficient lead generation process, proper segmentation and clear marketing targeting are real weapons of mass conversion. Market targeting is the technique of selecting one market segment rather than another on which to focus communication and marketing efforts.

Following on from the segmentation stage, it enables us to address one or more categories of customers, prospects, influencers, distributors or investors very precisely, to boost marketing effectiveness. When the targeted segment corresponds to your ideal customer, we speak of your core target.

Marketing targeting therefore involves:

- Selecting the segments with the greatest affinity with your product or service;
- Identifying target expectations that your offer can meet,
- Personalize your interactions with your core target.

Targeting criteria in marketing

It would actually be **more accurate to speak of segmentation criteria**, rather than targeting criteria. In fact, the choice of criteria makes it possible to divide a given population into homogeneous segments (segmentation stage), whereas the targeting stage consists of selecting a segment.

7.2 TYPES OF TARGETING IN MARKETING

- **Behavioral targeting**. This is based on data collected on the behavior of visitors browsing your website, or interacting with advertisements:
  - pages visited,
  - click-through rates,
  - average length of visit,
  - traffic origin,
  - behavior, etc.

- **Retargeting**. Thanks to cookies on the site, you can track your visitors once they've left, and automatically offer them advertising on other sites, based on what they've visited.

- **Segment targeting**. This involves choosing a segment (sometimes several) on which to focus marketing efforts, adapting the message to suit the individual.

  Examples of marketing targets

- Example 1: you offer room rentals → find out which companies need to organize an event in the medium term and where;
- Example 2: you're a web agency → you could target companies in the middle of a fund-raising campaign to propose a website redesign;
- Example 3: you sell human resources management software → target HR managers in companies with more than 14 employees;
- Example 4: you sell childcare products → target women aged between 24 and 34, etc.

7.3 MARKETING TARGETING AND ITS BENEFITS

- **Stop wasting time and money** on low-potential segments, where your offer is unsuitable or too competitive;
- **Attract more qualified prospects** through personalized marketing and communication actions;
- **Gain relevance** and efficiency by tailoring your approach to each identified segment;
- **Detect new business opportunities** and consumer trends by regularly reviewing your targeting
- **Adapt your offer** to always better meet your target's needs.

7.4 WHAT ARE MARKETING TARGETING STRATEGIES?

Marketing Targeting Strategies play a crucial role in helping companies effectively reach and engage their desired customer segments. These strategies involve the careful selection of target markets based on various factors such as resources, product characteristics, market dynamics, and competition. By understanding the unique needs, preferences, and behaviours of their target customers, companies can tailor their marketing efforts to deliver personalized experiences, create value, and build strong customer relationships. Whether it's through undifferentiated marketing, differentiated marketing, concentrated marketing, or micro marketing, selecting the right targeting strategy sets the foundation for successful marketing campaigns and sustainable business growth.

There are various types of marketing targeting strategies, some of which are discussed here:

1. Undifferentiated Marketing

Undifferentiated Marketing, also referred to as Mass Marketing, is a strategy where a company chooses to ignore market segment differences and instead targets the entire market with a single offer. This approach focuses on what consumers have in common regarding their needs, rather than what sets them apart. It is worth noting, however, that most contemporary marketers hold reservations about this strategy. Difficulties often arise when attempting to develop a product or brand that can effectively satisfy the diverse range of consumers' needs. Furthermore, mass marketers often encounter challenges when competing against more focused firms that excel at satisfying the specific needs of distinct segments and niches.

2. Differentiated Marketing

Differentiated Marketing, also known as Segmented Marketing, is a strategy where a firm targets multiple market segments and creates distinct offers for each segment. This approach involves tailoring products or services to meet different customer groups' specific needs and preferences.

There are several examples of differentiated marketing that can be observed. General Motors aims to cater to various customer segments by producing cars that cater to different budgets, purposes, and personalities. Hindustan Unilever and Procter & Gamble offer multiple variants and brands of soaps and laundry detergents, respectively, targeting different consumer preferences.

VF Corporation, a prominent company in the apparel industry, employs differentiated marketing extensively. Their brands, such as Riders, Rustler, and Wrangler, target specific segments within the jeanswear category. VF Corporation further divides its brands into major segments, including Jeanswear, Imagewear (workwear), Outdoor, and Sportswear, each serving distinct consumer needs. The company's portfolio also includes specialized brands like Nautica for high-end casual apparel inspired by sailing and the sea, Vans for skate shoes, Reef for surf-inspired footwear and apparel, Lucy for upscale activewear, and 6 for All Mankind for premium denim and accessories. Through differentiated marketing, VF Corporation effectively taps into different consumer aspirations and preferences, allowing them to cater to diverse customer segments in various lifestyle categories.

3. Concentrated Marketing

Concentrated Marketing, also known as Niche Marketing, is a strategic approach where a company chooses to target one or a few smaller segments or niches instead of pursuing a small share of a larger market. This strategy allows the company to focus its efforts on capturing a significant portion of a specific customer group.

By catering to niche markets, the company gains a deep understanding of the unique needs and preferences within those segments, establishing a distinct reputation for fulfilling those requirements. This specialized knowledge enables the company to fine-tune its products, pricing, and marketing strategies to precisely meet the demands of the carefully defined customer segments. Moreover, concentrated marketing enables efficient resource allocation, as the company can concentrate its resources on serving the customers it can serve best and most profitably.

In contrast to larger market segments that attract multiple competitors, niches are smaller and may have limited competition, sometimes even with only one or a few players. This provides an opportunity for smaller companies to focus their resources on serving niche markets that might be overlooked or deemed unimportant by larger competitors. Many successful companies initially establish themselves as niche players, utilizing their expertise and unique offerings to gain a foothold against more resourceful rivals. As they grow, these companies often expand into broader markets while leveraging their initial success in the niche segment. For instance, a notable example is Nirma, which began by exclusively targeting the market for low-priced detergent in rural and semi-urban areas and eventually became one of India's leading detergent brands.

Concentrated Marketing empowers companies to leverage their specialization and knowledge of niche markets to create a competitive advantage. By focusing on specific customer needs, these companies can deliver tailored solutions and establish strong relationships with their target audience. This approach allows for strategic growth, effective resource allocation, and a more precise and efficient marketing strategy.

4. Real Marketing

Real Marketing, often referred to as Genuine Marketing or Authentic Marketing, is a concept that emphasizes the importance of building meaningful and honest connections with customers. It involves creating and implementing marketing strategies that genuinely reflect the values, mission, and identity of the company.

In real marketing, the focus goes beyond superficial advertising techniques and empty promises. Instead, it revolves around understanding the needs, desires, and aspirations of the target audience and developing products, services, and messaging that resonate with them on a deeper level. Real marketing is driven by authenticity, transparency, and integrity.

This approach involves building trust and credibility with customers by delivering on promises, providing value, and engaging in ethical business practices. Real marketing aims to establish long-term relationships with customers based on mutual respect and shared values. It involves actively listening to customer feedback, addressing concerns, and continuously improving products and services to meet customer expectations.

Real Marketing also recognizes the power of storytelling and emotional connections. It leverages narratives and experiences to create meaningful brand associations and forge emotional bonds with customers. By conveying the company's genuine purpose and passion, real marketing seeks to inspire and engage customers on an emotional level. Ultimately, real marketing is about fostering authenticity, trust, and customer-centricity. It is a holistic approach that goes beyond promotional tactics and focuses on creating real value for customers, building strong relationships, and nurturing a genuine brand identity.

4. Micromarketing

Micromarketing is a marketing approach that involves tailoring products and marketing programs to cater to the unique preferences and needs of specific individuals and locations**.** Unlike differentiated or concentrated marketing that focuses on specific market segments or niches, micromarketing goes a step further by customizing offerings to suit individual customers.

The example of Zappos demonstrates micromarketing in action. Zappos, an online shoe retailer, emphasizes creating value for its target customers through personalized experiences. They offer features like free and fast shipping, easy returns, and exceptional customer service. By understanding the individual preferences of customers, Zappos aims to provide a tailored and satisfying shopping experience.

Micromarketing recognizes that each customer is unique and aims to cater to their specific tastes and needs. It goes beyond mass customization by focusing on delivering personalized offerings and experiences to individual customers. By treating each customer as an individual, micromarketing seeks to build strong customer relationships and enhance customer satisfaction. Overall, micromarketing is a customer-centric approach that acknowledges the importance of catering to the specific preferences and needs of individual customers. It involves tailoring products, services, and marketing efforts to create unique and personalized experiences, fostering customer loyalty and satisfaction.

5. Local Marketing

Local Marketing is a strategic approach that involves customizing brands and promotional efforts to meet the unique needs and preferences of local customer groups, including neighbourhoods and individual stores**.** It allows companies to create tailored experiences that resonate with the specific characteristics of each local market. A notable example of successful local marketing can be seen in Walmart's approach. They adapt their merchandise and store formats to cater to the distinct preferences and demands of customers in different neighbourhoods.

With advancements in communication technology, a new era of location-based marketing has emerged. Marketers now can reach customers wherever they are, leveraging mobile phone services and GPS devices. This enables them to provide relevant information and offers to customers when they are near their stores and actively seeking to make a purchase decision. Studies have shown that customers perceive location-specific information as valuable rather than intrusive advertising, enhancing the overall customer experience.

For instance**,** Starbucks has embraced location-based marketing by introducing a store locator service for mobile devices. Customers can easily find the nearest Starbucks shop by sending a text message with their zip code and receiving a prompt response with up to three nearby store locations. This service not only helps customers locate stores conveniently but also positions Starbucks as a brand that values customer feedback and actively listens to their preferences. As the use of GPS devices continues to grow, the potential for location-based marketing is expected to expand significantly.

6. Individual marketing

Individual Marketing, also known as One-to-One Marketing or Personalized Marketing, is a customer-centric approach that focuses on tailoring products and marketing programs to meet the specific needs and preferences of individual customers**.** Unlike traditional mass marketing, which treats customers as a homogeneous group, individual marketing recognizes and embraces the uniqueness of each customer.

In the past, customers were treated as individuals by craftsmen who created custom suits, shoes, and furniture based on their specific requirements. With the advancement of technology, companies now can engage in customized marketing on a larger scale. This has given rise to the concept of mass customization, where firms interact with customers one-on-one to design and deliver products and services that are uniquely tailored to their individual needs.

For example**,** companies like Dell allow customers to configure their custom computers, while Branches Hockey produces personalized hockey sticks based on individual preferences. Nike offers the option to personalize sneakers with various colours and custom embroidery, and websites like myMMs.com enable customers to order batches of M&Ms with their photos and personal messages printed on each candy.

Moreover, individual marketing extends beyond product customization. Marketers are finding innovative ways to personalize promotional messages, such as using facial recognition technology to deliver targeted ads based on individual shopper attributes. In the business-to-business sector, companies like John Deere offer highly configurable products, allowing customers to customize seeding equipment to their specific requirements.

7.5 CHOOSING A TARGETING STRATEGY

When it comes to choosing a market-targeting strategy, companies face several important considerations. The selection of the best strategy depends on factors such as available resources and the nature of the product being marketed. Limited resources often make concentrated marketing the most logical choice, allowing companies to focus their efforts on specific target markets and allocate resources efficiently. On the other hand, undifferentiated marketing is better suited for uniform products like grapefruit or steel, whereas products with design variations, such as cameras and automobiles are more compatible with differentiation or concentration strategies.

The life-cycle stage of the product is another significant factor to take into account. For newly introduced products, it may be practical to launch a single version, making undifferentiated or concentrated marketing the preferred approach. However, as the product matures, differentiated marketing becomes increasingly important as it enables companies to cater to the diverse needs of specific market segments.

Market Variability is yet another consideration. If most buyers have similar tastes, purchasing patterns, and responses to marketing efforts, undifferentiated marketing is appropriate. However, when there is significant variability among buyers, differentiated or concentrated marketing proves to be more effective in addressing the distinct needs of different customer segments.

Lastly, the strategies employed by competitors also play a role in the decision-making process. If competitors are utilizing differentiated or concentrated marketing, adopting an undifferentiated approach can be disadvantageous. Conversely, when competitors rely on undifferentiated marketing, a company can gain a competitive advantage by employing differentiated or concentrated marketing strategies, thereby focusing on the specific needs of buyers within particular segments.

7.6 SUMMARY

Market targeting is a vital step in the marketing process that follows market segmentation and precedes market positioning. It involves selecting one or more specific customer segments on which an organization will focus its marketing efforts. Since markets are diverse and consumers have varying needs, targeting helps a firm choose the groups that align best with its products or services and offer the greatest potential for success.

7.7 TECHNICAL TERMS

1. Market Targeting – The process of selecting one or more specific segments of a market to focus marketing efforts on.
2. Market Segmentation – The division of a broad market into homogeneous sub-groups based on similar characteristics.
3. Positioning **–** Creating a specific image of a product or brand in the minds of the target customers.
4. Core Target – The segment that best matches the organization's ideal customer profile.
5. Target Audience – The specific group of consumers intended to be reached by a marketing campaign.
6. Lead Generation – The process of attracting and converting prospects into potential customers.
7. Homogeneous Segment – A group of customers with similar needs, preferences, or characteristics.
8. Personalization – Tailoring marketing messages and offers to meet the specific needs of the target segment.

7.8 SELF-ASSESSMENT QUESTIONS

1. What is market targeting? How does it differ from market segmentation?
2. What is meant by a core target**?** How is it identified?
3. Explain the link between segmentation, targeting, and positioning.
4. List and explain three factors that influence the selection of a target market.
5. Differentiate between B2B and B2C targeting with suitable examples.

7.9 SUGGESTED READINGS

1. Philip Kotler & Gary Armstrong – *Principles of Marketing* (Pearson Education).
2. Leon G. Schiffman & Leslie Lazar Kanuk – *Consumer Behaviour* (Prentice Hall).
3. Loudon, D.L. & Della Bitta, A.J. – *Consumer Behavior: Concepts and Applications* (McGraw-Hill).
4. Solomon, Michael R. – *Consumer Behavior: Buying, Having, and Being* (Pearson).
5. Blackwell, R.D., Miniard, P.W., & Engel, J.F**.** – *Consumer Behavior* (Cengage Learning).

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LESSON-8

INTRODUCTION TO MARKETING MIX

OBJECTIVES OF THE LESSON

After studying this lesson, students will be able to:

1. Understand the concept of the Marketing Mix and explain the significance of the 4 Ps.
2. Describe the concept and characteristics of services.
3. Understand the services marketing mix (7 Ps) and its relevance.
4. Explain the three levels of a product: Core, Actual, and Augmented product.
5. Analyse strategic decisions involved in product design, and service delivery.
6. Identify how organisations create value through product and service offerings.

STRUCTURE OF THE LESSON

8.1 INTRODUCTION TO MARKETING MIX

Marketing management involves developing strategies that best meet customer needs while helping the organisation achieve its objectives. One of the most significant frameworks in marketing is the Marketing Mix, which is a set of controllable variables that organisations use to influence consumer responses. The term Marketing Mix was first introduced by Prof. Neil H. Borden, and later the concept was structured into the well-known 4Ps—Product, Price, Place, and Promotion—by E. Jerome McCarthy. These four elements collectively assist firms in planning and implementing effective marketing strategies.

Definition:

"Marketing Mix is the set of marketing tools that the firm uses to pursue its marketing objectives in the target market."

— Philip Kotler

Concept of Marketing Mix

The Marketing Mix enables organizations to communicate value, deliver customer satisfaction, differentiate themselves from competitors, and align marketing activities with their overall objectives. It provides marketers with a practical toolkit for deciding what to offer, how to price it, how to make it available to consumers, and how to promote it. The Marketing Mix is commonly represented through the 4Ps: Product, Price, Place, and Promotion.

8.1.1 THE 4 PS OF MARKETING MIX

Marketing mix- 4P's

1. Product

The Product refers to the goods or services a company offers to meet customer needs and desires. Product-related decisions include selecting the product range, quality level, design, features, branding, packaging, and support services. A successful product must deliver value to customers and clearly address their needs or solve a specific problem. Product strategy also involves planning warranties, after-sales services, and upgrades to ensure customer satisfaction and loyalty.

2. Price

Price is the amount customers are willing to pay for the product. Pricing decisions affect the firm's revenue, profit, and market perception. When setting prices, organisations consider factors such as production costs, customer demand, competitor pricing, and overall brand positioning. Companies may use various pricing strategies, such as cost-based pricing, value-based pricing, or competition-based pricing. Strategies like price skimming or penetration pricing may also be employed, depending on whether the aim is to maximise early profits or secure quick market share.

3. Place (Distribution)

Place refers to how the product is made available to customers at the appropriate location and time. It involves choosing distribution channels such as wholesalers, retailers, agents, or online platforms. Place decisions also encompass transportation, warehousing, inventory management, and supply chain coordination. The aim is to ensure that products reach customers conveniently and efficiently. The selection of distribution strategy—whether intensive, selective, or exclusive—depends on factors like product type, target customers, and market conditions.

4. Promotion

Promotion involves communicating with customers to inform, persuade, and remind them about the product. It plays a key role in building brand awareness and influencing purchasing decisions. Promotion includes advertising, sales promotions, personal selling, public relations, and digital/social media communication. An effective promotional strategy ensures the right message is delivered through the appropriate media channels to the right audience. The goal is to encourage trial, maintain interest, and strengthen customer relationships.

Importance of Marketing Mix

1. **Guides Strategic Decision-Making:** Helps firms plan customer-centred strategies.
2. **Ensures Competitive Advantage:** Differentiates offerings in the marketplace.
3. **Enhances Customer Satisfaction:** Aligns product, price, availability, and messaging.
4. **Supports Brand Positioning:** Creates a consistent value perception in consumer minds.
5. **Improves Resource Efficiency:** Ensures optimal use of marketing resources.

8.2 PRODUCT INTRODUCTION:

In marketing, the product plays a central and essential role. It forms the foundation upon which all other elements of the marketing mix—price, place, and promotion—are determined. An organisation can only exist and compete in the market when it provides something valuable to the customer, whether in the form of a physical good, a service, an experience, or an idea. A product is therefore not merely an object of consumption; it is a strategic offering that demonstrates the company's understanding of customer needs, preferences, aspirations, and behavioural patterns.

In today's markets, customer expectations are continuously evolving. To remain competitive, companies must regularly analyse consumer behaviour and convert those insights into meaningful products. This involves decisions about product design, quality, technology, packaging, branding, and after-sales support. The key to long-term success is not just satisfying needs but delivering greater value and positive customer experiences. As markets shift towards more customer control and choice, products are seen more as bundles of benefits rather than just tangible items. Customers evaluate products based on their usefulness, emotional impact, symbolic meaning, and service experience.

Top companies across various sectors exemplify this modern approach. For instance, Apple prioritises innovation, design, and user experience to foster a strong emotional connection with its customers. Samsung emphasises technological advancement and diversity to cater to different consumer groups. Maruti Suzuki builds trust through affordability, fuel efficiency, and extensive service networks. HDFC Bank delivers value by combining reliability with digital convenience in financial services. Similarly, Amazon enhances customer satisfaction with a wide range of products, personalised recommendations, and rapid delivery networks. These examples demonstrate that successful companies do not merely sell products—they create value-driven offerings that align with the evolving priorities, expectations, and lifestyles of their customers.

Definition:
"A product is anything that can be offered to a market for attention, acquisition, use, or consumption and that might satisfy a want or need."

– **Philip Kotler**

Products may be:
- **Tangible:** such as cars, furniture, clothing, and packaged foods.
- **Intangible:** such as banking services, insurance, hotel stay, or online education platforms.

Examples:
- **Hyundai Motors** manufactures automobiles (tangible).
- **ICICI Bank** provides credit and digital banking services (intangible).

8.3 CONCEPT OF SERVICE

A service refers to an activity, performance, or benefit provided by one party to another, which is intangible and does not lead to ownership of anything. Services are consumed when they are produced and often involve direct participation from both the provider and the customer. Unlike physical goods, services cannot be touched, stored, or transferred, and their quality may fluctuate depending on who delivers them and the circumstances. Examples of services include banking, healthcare, education, transportation, hospitality, and telecommunications. Services seek to meet customer needs by delivering value through experiences, convenience, efficiency, support, and professional expertise. They play a crucial role in modern economies, particularly with the expansion of sectors such as banking, healthcare, education, transportation, telecommunications, tourism, retail, and digital platforms.

Definition

Any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything.

- ***Philip Kotler***

8.3.1 CHARACTERISTICS OF SERVICES

Services have certain unique features that clearly distinguish them from physical goods. Recognising these traits is essential for creating effective marketing strategies in the service sector. The primary characteristics of services include intangibility, inseparability, variability (heterogeneity), and perishability.

1. Intangibility

Services are intangible, meaning they cannot be seen, touched, smelled, or physically possessed before purchase or consumption. Unlike physical products such as furniture or mobile phones, services lack a tangible form for customers to evaluate beforehand. Therefore, customers rely on brand reputation, past experiences, reviews, and word-of-mouth to assess service quality. To reduce customer uncertainty, service providers often use tangible cues like the physical environment, employee appearance, printed materials, and technology infrastructure.

Example: Patients cannot physically judge the quality of medical treatment in advance. They depend on the hospital's reputation, the doctor's qualifications, and previous patient feedback.

2. Inseparability

Services are usually produced and consumed at the same time, making it impossible to separate them from their providers. The service provider, whether human or technological, plays a crucial role in the customer's experience. The interaction between the customer and the provider becomes central to service delivery, making customer involvement a vital part of service quality.

Example: A haircut cannot be separated from the hairdresser providing the service. The customer must be present and engaged while the service is carried out, and the quality largely depends on the skill of the provider.

3. Variability (Heterogeneity)

Since services often involve human participation, their quality can vary considerably between providers, customers, and even individual service encounters. Factors such as employee mood, skill level, workload, and customer behaviour influence service outcomes. This makes it difficult for service organisations to maintain consistency. To reduce variability, service firms implement standardised procedures, employee training, automation, and quality control systems.

For example, a restaurant may provide excellent service on one occasion, but during a different visit—perhaps with different staff or busier crowds—the quality might decline. This variability shows how service quality can change.

4. Perishability

Services are perishable, meaning they cannot be stored for future sale or use. Once a service opportunity passes, it is lost forever. If a service is not utilised when offered, the revenue associated with it cannot be recovered. This characteristic requires service organisations to carefully manage demand and supply, often through pricing strategies, advance reservations, appointment scheduling, and flexible staffing.

For example, an unsold airline seat on a flight results in lost revenue because once the flight departs, that seat cannot be sold. Similarly, vacant hotel rooms or unbooked appointment slots cannot be saved for later.

8.3.2 THE SERVICES MARKETING MIX (7 PS)

The Services Mix, also known as the Extended Marketing Mix, is a framework used to design and deliver services effectively. While the traditional marketing mix for physical goods consists of the 4 P's—Product, Price, Place, and Promotion—services require an expanded approach due to their unique characteristics such as intangibility, inseparability, variability, and perishability. These features pose challenges in service delivery, customer experience, and quality management. Therefore, the marketing mix for services includes three additional elements: People, Process, and Physical Evidence, creating a comprehensive 7 P's model.

1. **Product:** In services, the product isn't a tangible object but the experience or advantage provided to the customer. It encompasses the service design, features, quality, and the problem-solving value it offers. For example, a bank delivers reliable financial transactions and advisory services.
2. **Price:** Pricing for services depends on factors such as time, expertise, customisation, and value perception. Service charges may vary according to demand, season, location, or complexity. Transparent and fair pricing fosters customer trust.
3. **Place:** Place refers to how the service is provided and made accessible to customers. Services can be delivered physically (hospitals, hotels) or digitally (online banking, streaming platforms). Efficient service distribution ensures convenience and accessibility satisfaction.
4. **Promotion:** Since services cannot be physically showcased, promotion concentrates on building awareness and establishing credibility. Advertisements, online communication, public relations, and customer testimonials help lower perceived risk and promote purchase.
5. **People:** Service delivery often relies on employees and customer interactions. The attitude, skills, behaviour, and communication of service staff significantly impact customer satisfaction. Well-trained and customer-focused employees improve service quality.
6. **Process:** Process refers to the systems, workflows, and procedures through which services are delivered. A simple, efficient, and standardised process ensures consistency and minimises errors. For example, quick check-in systems in hotels enhance customer experience.
7. **Physical Evidence:** Since services are intangible, customers depend on tangible cues to assess quality. This includes the physical environment, interior design, employee appearance, brochures, website layout, receipts, and branded materials. Physical evidence helps to build trust and assurance.

8.4 LEVELS OF A PRODUCT & STRATEGIC CONSIDERATIONS IN PRODUCT DESIGN

In marketing theory and practice, recognising what a "product" truly signifies is crucial for effective product planning, positioning, and value creation. Marketing experts—particularly Philip Kotler—argue that a product should be seen not just as a physical item or service, but as a complete solution offered to the customer. This solution can be understood through three levels, each representing a different layer of value. These levels are depicted as concentric circles, starting with the core benefit and expanding outward to encompass tangible features and supplementary enhancements.

The idea of analysing a product at different levels stems from understanding that customers do not only buy the physical item. Instead, they seek the utility, satisfaction, and experience it offers. Each purchasing decision is influenced by rational factors such as performance and price, as well as emotional and psychological aspects like trust, comfort, prestige, and brand reputation. Therefore, when marketers develop a product, they must focus on what the customer genuinely values, beyond merely its technical specifications or functional features.

This layered approach helps organisations stand out in increasingly crowded markets. In many product categories, the core product may be quite similar across brands, so the competitive advantage often comes from the augmented elements such as warranty services, accessibility, delivery options, digital features, customer support, and loyalty programmes. As markets evolve and technology advances, augmentation becomes essential in shaping customer perception, increasing satisfaction, and fostering brand loyalty. For example, in the smartphone industry, brands like Apple and Samsung differentiate themselves not just through hardware and design but also via ecosystem integration, automatic software updates, app connectivity, and after-sales support. Similarly, automakers like Toyota and Hyundai strengthen their competitive edge with reliable vehicles, extensive service networks, roadside assistance, and cost-effective maintenance plans.

Understanding the three levels of a product also supports strategic decision-making in several marketing domains, including:

- Product positioning: how the brand communicates its unique value.
- Targeting and segmentation: matching product benefits to the needs of specific customer groups.
- Pricing strategies: determining how much customers are willing to pay for additional benefits.
- Brand management: building associations that elevate perceived value.
- Customer experience management: crafting satisfaction through service and support.

Three Levels of a Product:

The three levels are:

1. **Core product** — the fundamental benefit or need the customer seeks to satisfy.
2. **Actual product** — the tangible (or directly experienced) attributes that deliver the core benefit.
3. **Augmented product** — the supplementary services, guarantees and intangible enhancements that add extra value.

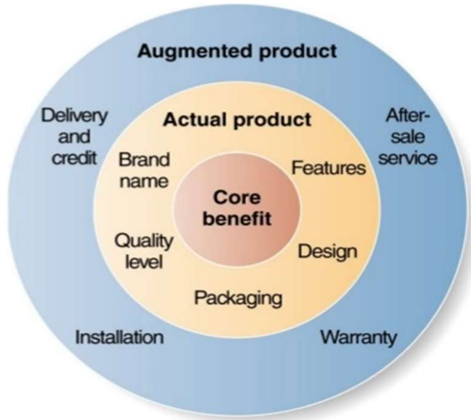

Figure 8.1: Three Levels of Product

These levels are best visualised as concentric circles: the core need at the centre, the actual product as the middle layer, and augmentation as the outer layer that often influences final purchase decisions and loyalty.

Core Product — Meaning, Implications and Managerial Considerations
Nature: The core product is the primary problem-solving benefit that the customer truly purchases. It is inherently intangible because it signifies the reason for the purchase rather than a particular attribute or feature.

Examples of core benefits
- Mobility (when purchasing a car)
- Communication (when subscribing to a telecom plan)
- Food preservation (when buying a refrigerator)
- Convenience and time-saving (when using a ride-hailing app)

Managerial implications
- **Research the real need:** Use qualitative and quantitative research to uncover the true underlying benefit (functional, emotional, social).
- **Positioning:** The core benefit defines the positioning statement (“we deliver X”). For instance, Volvo positions around safety; Apple often positions around creativity, ease and status.
- **Segmentation & targeting:** Different segments may value the same core benefit differently (e.g., safety vs. fuel economy in cars), so segment decisions should start from the core benefit.

Strategic actions

- Translate benefits into value propositions.
- Prioritise which customer needs to satisfy when multiple core benefits exist.
- Align internal capabilities (R&D, operations) to deliver the core benefit consistently.

2. Actual Product — Components, Design Tradeoffs and Examples

Nature: The actual product is the physical or experienced expression of the core benefit: the tangible attributes and service features a customer interacts with. For goods, this includes design, features, materials, and brand; for services, it includes the service package and delivery format.

Principal components

- **Features & specifications:** Functional capabilities (e.g., camera megapixels).
- **Design & aesthetics:** Form, ergonomics, usability.
- **Quality level:** Performance, reliability, durability.
- **Brand name & identity:** Signalling value, trust and promise.
- **Packaging & labelling:** Protection, information, shelf-impact (for goods); interface and UX for digital services.

Managerial tradeoffs

1. **Performance versus Cost:** When designing the actual product, companies must balance performance levels with the cost of production. Higher performance features—such as stronger materials, advanced technology, greater durability, or superior functionality—generally increase the product's manufacturing and development costs. As costs rise, the selling price must also increase to maintain profitability. This may move the product into a different target market segment, often one that is more premium and willing to pay for better performance. However, if the performance level is too low, the product may fail to meet customer expectations, while excessively high performance can make the product unaffordable for many consumers. Therefore, firms must find an optimal balance that aligns performance with price and customer willingness to pay.

2. **Standardisation versus Customisation:** A key strategic choice in product design is whether to provide standardised products or permit customisation.

- **Standardisation** means offering a uniform product to all customers. This reduces production, inventory, and distribution costs due to economies of scale. It also simplifies quality control because the product remains consistent.
- **Customisation**, on the other hand, involves modifying the product to match the specific needs, preferences, or usage patterns of individual customers or customer segments. Customisation can significantly **increase perceived value**, improve customer satisfaction, and build stronger brand loyalty. However, it also leads to **greater complexity**, higher production costs, a need for flexible manufacturing, and challenges in maintaining consistent quality.

Companies must therefore evaluate whether customer satisfaction gained from customisation outweighs the additional operational costs.

3. **Branding Investment:** A strong and recognisable **brand** increases the perceived value of a product in the minds of consumers. Branding includes developing brand identity, image, personality, consistent communication, customer relationships, and trust. A well-established brand allows a company to **charge premium prices** because customers associate the brand with reliability, status, or superior quality. However, building and maintaining such a brand requires continuous **investment**—not only in advertising and

promotion but also in product quality, customer service, and innovation. Branding is, therefore, a **long-term strategy** that demands sustained commitment. Companies that successfully invest in branding, such as **Apple, Nike, and BMW**, benefit from strong customer loyalty and competitive advantage, but this success depends on ongoing effort and consistency.

Examples

- **Apple iPhone (Actual product):** hardware specifications, iOS experience, industrial design, Apple brand.
- **Samsung Refrigerator (Actual product):** cooling technology, capacity, finish, energy rating, panel design.
- **Amazon's e-commerce platform (Actual product for service):** website UI, recommendation algorithms, checkout flow.

Managerial actions

- Translate core benefits into concrete features.
- Determine quality levels and acceptable tolerances.
- Design packaging/UX to signal value and reduce risk.

3. Augmented Product — Scope, Competitive Role and Management

Nature: The augmented product consists of all **additional services and benefits** that surround the actual product—those extras that buyers often use to evaluate the offering and that frequently determine the final choice. Augmentation converts a commodity into a differentiated offering.

Elements:

- **After-sales service & support** (warranty, helpline, service centres)
- **Installation & setup** (appliances, enterprise software onboarding)
- **Delivery & logistics** (free/fast delivery, white-glove service)
- **Guarantees & return policies** (money-back, satisfaction guarantees)
- **Finance & payment options** (EMI, leasing)
- **Training & customization** (software training, vehicle custom packages)
- **Loyalty programs & value-added memberships** (Amazon Prime, airline frequent-flyer programs)

Competitive importance

- **Differentiation:** Augmented elements are often the easiest way to differentiate in mature markets with similar actual products.
- **Switching costs & loyalty:** Strong augmentation (e.g., dependable service network) increases switching costs and customer retention.
- **Perceived risk reduction:** Guarantees and visible after-sales infrastructure reduce perceived risk for intangible or expensive purchases.

Examples

- **Toyota / Hyundai:** Extensive authorised service network, roadside assistance, scheduled maintenance programs.

- **Amazon:** Fast delivery options, easy returns, Prime membership benefits (augmentation beyond the product itself).
- **Microsoft (Enterprise software):** Implementation services, SLAs, training, and ongoing upgrades.

Managerial actions

- Design augmentations to support brand promise and to target key purchase inhibitors (e.g., risk, complexity).
- Cost–benefit analysis: determine which augmentation items can be profitably offered or outsourced.
- Integrate augmentation into pricing and communication (explicitly advertise warranties, helplines, and delivery guarantees).

8.5 SUMMARY

The Marketing Mix is a fundamental framework in marketing that aids organisations in creating effective strategies to meet customer needs. The traditional mix comprises the 4 Ps—Product, Price, Place, and Promotion—which collectively assist firms in planning offerings, setting prices, distributing products, and engaging with customers. Products can be tangible goods or intangible services designed to satisfy customer needs. Services have unique characteristics such as intangibility, inseparability, variability, and perishability, which demand specialised marketing approaches. Consequently, the Services Mix expands to 7 Ps by including People, Process, and Physical Evidence alongside the original 4 Ps. Products are understood at three levels: Core Product (the basic benefit), Actual Product (the tangible form), and Augmented Product (additional value-added services). Strategic product decisions involve balancing performance and cost, standardisation and customisation, and investing in branding. Successful organisations focus on delivering superior value, customer satisfaction, and positive experiences to foster loyalty and competitive advantage.

8.6 TECHNICAL TERMS

1. **Marketing Mix:** A set of controllable marketing tools used by a firm to influence consumer buying behaviour and achieve marketing goals.
2. **Product**: Anything offered to the market to satisfy a need or want, which may be tangible (goods) or intangible (services).
3. **Service:** An intangible activity or benefit provided to a customer that does not result in ownership, such as banking, education, or healthcare.
4. **Actual Product:** The tangible and visible form of the product that includes features, design, brand name, quality level, and packaging. It is what the customer physically uses or experiences.
5. **Augmented Product:** Additional services or benefits offered along with the actual product, including warranties, after-sales service, free delivery, customer support, and installation.

8.7 SELF-ASSESSMENT QUESTIONS

1. Explain the concept of Product Mix.
2. List the 7 Ps of the Services Marketing Mix.
3. Explain the characteristics of services with suitable examples.
4. Describe the three levels of a product and explain their managerial importance.

8.8 SUGGESTED READINGS

1. Kotler, Philip & Keller, Kevin Lane — *Marketing Management*, Pearson Education.
2. Ramaswamy, V.S. & Namakumari, S. — *Marketing Management*, McGraw Hill.
3. Stanton, William J. — *Fundamentals of Marketing*, McGraw Hill.
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Dr G. Malathi

LESSON-9

PRODUCT LINE, PRODUCT MIX & BRANDING

OBJECTIVES OF THE LESSON

After studying this lesson, students will be able to:

1. Understand the meaning and concept of Product Line and its strategic importance.
2. Explain the concepts of Product Line Length, Stretching, and Filling.
3. Understand the concept and dimensions of Product Mix – width, depth, length, and consistency.
4. Learn the process of Brand Building and key factors that strengthen a brand.
5. Distinguish between different branding decisions — Line Extension, Brand Extension, Multi-Branding, and New Brands.

STRUCTURE OF THE LESSON

9.1 MEANING AND CONCEPT OF PRODUCT LINE

A product line refers to a group of similar products in use, belonging to the same category, marketed to similar customer groups, distributed through the same channels, and within a specific price range. These products may vary in features, sizes, quality levels, packaging styles, or price points, but they serve the same fundamental function. The purpose of a product line is to offer variety within a category, allowing customers to choose the product that best fits their needs and budget.

Example:

Colgate-Palmolive offers various types of toothpaste, such as Colgate Regular, Colgate MaxFresh, Colgate Sensitive, Colgate Charcoal, and Colgate Total. All these products are part of the oral care category and are aimed at individuals concerned with dental hygiene. Therefore, they collectively constitute the toothpaste product range.

Samsung offers multiple models within the smartphone category—such as Galaxy A series, Galaxy M series, Galaxy S series, and Galaxy Z series—to cater to different price points and performance expectations. These models collectively constitute Samsung's smartphone product line.

Product Line Length

The Product Line Length refers to the total number of products or individual items within a product line. Companies may increase or reduce the length depending on market conditions, demand patterns, or competition..

- When new product variants are introduced, the product line length becomes *longer*.
- When products are withdrawn from the market, the product line length becomes *shorter*.

The objective is to maintain an ideal product line length that avoids both:

- **Line Too Short:** Fails to satisfy different customer needs.
- **Line Too Long:** Leads to higher production costs and internal competition among the company's own products.

9.2 PRODUCT LINE DECISIONS

Companies continuously evaluate whether to expand, reduce, or modify their product lines. Two key decisions are involved:

1. Product Line Stretching

Product Line Stretching involves the strategic extension of an existing product line by adding new products that fall outside the current price or quality range of the existing items. Companies use line stretching to reach new customer segments, expand their market coverage, compete more effectively, and boost profits. The core idea is that customers vary in their purchasing power, preferences, and expectations. A single set of products may not fully satisfy all segments. Therefore, companies extend the line towards either lower-priced markets, higher-priced markets, or both.

Product line stretching can take place in three primary directions: Downward Stretch, Upward Stretch, and Two-Way (Both-Way) Stretch**.**

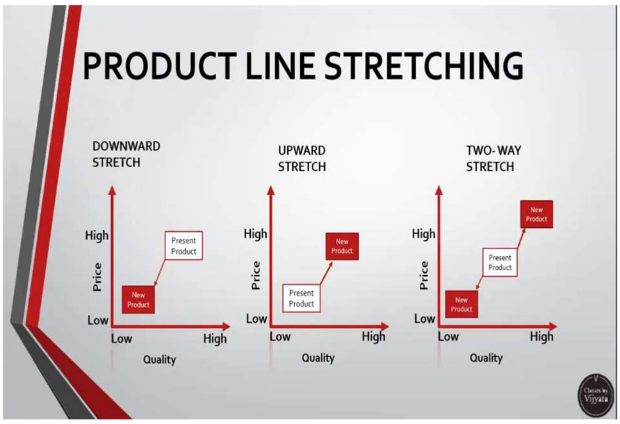


Figure 3.2

a) Downward Stretch

A downward stretch happens when a company initially positioned in the premium or higher-priced market launches more affordable or lower-priced products.

Why Do Companies Stretch Downward?

- To capture larger customer bases, especially those who are price-sensitive.
- To defend their market share if lower-priced competitors enter the market.
- To increase sales volume by appealing to middle-income or value-seeking consumers.

However, downward stretching must be carefully managed. If done poorly, it may:

- Damage the brand image, as customers may begin to see the brand as less prestigious.
- Causes cannibalisation, where the lower-priced product reduces the sales of the firm's own high-priced products.

Example:

Toyota has traditionally been associated with high-quality, reliable, and well-engineered cars. To reach customers looking for more budget-friendly options, Toyota introduced models like the Etios. This allowed Toyota to enter the middle-income segment without abandoning its existing premium reputation.

b) Upward Stretch

An upward stretch occurs when a company that typically sells low-priced or basic-quality products introduces higher-priced, premium, high-quality offerings.

Why Do Companies Stretch Upward?

- To increase profit margins, since premium products usually offer higher profits.
- To enhance brand image by associating with higher quality.
- To retain customers who may have increased income and desire more advanced products.

This strategy can help companies move from being perceived as "affordable" to being seen as reliable and aspirational. However, success requires:

- Improved design and quality
- Strong marketing and brand positioning

Example:

Tata Motors was once known mainly for economical cars like the Tata Indica and Nano. Over time, the company developed cars that reflected superior design, safety, and performance, such as the

Tata Harrier and Tata Safari. This allowed Tata to compete in the premium SUV segments, elevating its brand image.

c) Two-Way (Both-Way) Stretch

In two-way stretching, a company extends its product line in both directions simultaneously, introducing both lower- and higher-priced products. This approach helps the company serve the entire market spectrum, from budget-conscious consumers to premium buyers.

Why Do Companies Stretch Both Ways?

- To maximise market reach across all income levels.
- To block competitors from occupying market gaps.
- To retain customers throughout different life stages and income changes.

However, managing a two-way stretch requires:

- Clear positioning of each product variant to prevent confusion.
- Strong brand architecture to avoid overlap or internal competition.

Example:

Maruti Suzuki is a perfect example of two-way stretching.

- For budget customers, it offers Alto and S-Presso.
- For middle-income customers, it offers Swift, Baleno, and WagonR.
- For premium customers, it offers Nexa showroom brands like Ciaz and XL6.

This allows Maruti Suzuki to remain a market leader, serving customers from entry-level car buyers to higher-end buyers.

Product Line Stretching is an important strategy that helps companies adapt to market changes, reach new customer groups, and remain competitive. Whether the stretch is downward, upward, or both ways, it must be carefully planned to protect the brand's image and ensure that each product variation has a clear and distinct identity in the marketplace.

2. Product Line Filling

Product Line Filling means adding more items within the existing range of the line. The new products do not change the price category largely but add variety to satisfy specific tastes and needs.

Companies fill product lines to:

- Offer more variety to customers
- Respond to competition

- Utilize unused production capacity
- Strengthen market share

Example:
Lays frequently introduces new flavors like Magic Masala, Hot & Sweet, Cream & Onion, and many seasonal flavors to cater to diverse customer tastes without changing the basic price range.

Importance of Effective Product Line Management

Well-managed product lines offer several advantages:

1. **Better customer satisfaction** – Customers can choose products according to their preferences and budget.
2. **Higher sales and profitability** – A wider product line attracts more buyers.
3. **Stronger brand presence** – Multiple products strengthen brand recognition in the market.
4. **Efficient use of company resources** – Production capacity, distribution channels, and marketing can be shared across products.
5. **Competitive advantage** – Offering more variety than competitors helps the firm remain market-relevant.

9.3 PRODUCT MIX

A Product Mix, also called a Product Assortment, represents the complete set of products and product lines that a company offers its customers. It includes all the individual products a firm markets, whether they are related or entirely different. Each company may offer a single product line or multiple lines, and each line can contain numerous product items. According to marketing expert Philip Kotler, "A product mix is the set of all product lines and items that a particular seller offers for sale to buyers." Understanding a company's product mix aids in analysing the breadth and variety of offerings, as well as strategic decisions related to production, marketing, and sales.

The dimensions of a product mix provide a framework for assessing a company's range of offerings. These dimensions include width (breadth), depth, length, and consistency, each emphasising a different aspect of the product assortment.

1) Product Mix Width (Breadth): The width of a product mix refers to the number of product lines that a company offers. A product line is a group of related products marketed under a single brand or category. A wider product mix indicates that the company is catering to diverse customer needs across multiple markets or industries. For example, the Tata Group operates in several industries, offering automobiles, steel, FMCG products, electronics, and chemicals. This diversity reflects a broad product mix, as the company provides multiple distinct product lines to capture varied customer segments.

2) Product Mix Depth: Depth refers to the number of variations or versions of a product offered within each product line. These variants may differ in size, colour, flavour, model, quality, or specific features, allowing the company to meet diverse consumer preferences. For instance, Colgate's toothpaste line includes Colgate Strong Teeth, Colgate Total, Colgate Sensitive, and Colgate Fresh Gel. By offering multiple variants under the same product line, Colgate achieves a deep product mix, giving customers more choices and potentially increasing brand loyalty.

3) Product Mix Length: The length of a product mix measures the total number of products offered across all product lines. It is calculated by multiplying the number of items in each product line by the number of product lines the company has. For example, if a company has three product lines and each line has five individual items, the total product mix length is 15 items. Understanding product mix length helps businesses track their overall market offerings, manage inventories, and plan marketing strategies effectively.

4) Product Mix Consistency: Consistency refers to how closely related the company's product lines are in terms of end use, production processes, marketing channels, or target customers. High consistency occurs when product lines are similar, while low consistency indicates unrelated products across the company's portfolio. For example, Amul sells milk, curd, butter, cheese, and ice cream. These are all dairy products, reflecting high product mix consistency. In contrast, Reliance sells clothes, groceries, digital products, and petroleum, which are unrelated, resulting in a low-consistency product mix. Maintaining the right level of consistency is crucial for branding, operational efficiency, and strategic alignment.

By analysing these dimensions, companies can strategically expand, modify, or streamline their product mix to maximise market coverage, meet consumer demands, and improve overall business performance.

Example of AMUL Product Mix:

Amul, one of India's leading dairy companies, offers a diverse range of products across multiple categories, making it an excellent example of a broad and well-managed product mix. Its offerings include milk, butter, cheese, paneer, dahi (curd), ghee, beverages, sweets, and other dairy-based products. By analyzing Amul's product mix through the dimensions of width, depth, length, and consistency, we can better understand the company's strategy and market presence.

Milk	Bread	Cheese	Beverages	Paneer	Dahi	Ghee	Mithai
Amul Gold	Amul Butter	Processed Cheese	Amul Kool Flavoured Milk	Amul Malai Paneer	Amul Masti Dahi	Amul Ghee	Gulab Jamun
Amul Taaza	Amul Lite	Amul Gouda Cheese	Amul Kool Cafe	Amul Fresh Paneer	Amul Probiotic Dahi	Sagar Ghee	Amul Basundi
Amul Slim And Trim	Delicious Table Margarine	Mozzarella Cheese	Amul Kool Koko flavor milk		Amul Flaavyo	Amul Brown	Avsar Ladoo
Amul Tea Special	Garlic Butter		Amul Kool Milk Shake			Amul Yellow	Amul Shrikhand
Amul Shakthi			Amul Stamina				
Amul Fresh Cream			Amul rose flavoured lassi				
			Nutramul energy drink				

1) Product Mix Width (Breadth): Product mix width refers to the number of product lines a company offers. Amul has a wide product mix because it operates across multiple product categories. For example, Amul's product lines include milk (Amul Gold, Amul Taaza, Amul Lite, Amul Slim and Trim), butter (Amul Butter, Garlic Butter, Amul Yellow), cheese (Processed

Cheese, Gouda Cheese, Mozzarella Cheese), paneer (Amul Malai Paneer, Amul Fresh Paneer), dahi (Amul Masti Dahi, Amul Probiotic Dahi), ghee (Amul Ghee, Sagar Ghee), beverages (Amul Kool, Amul Kool Cafe, Nutramul Energy Drink), and sweets (Gulab Jamun, Avsar Ladoo, Amul Basundi). Each of these product categories represents a separate product line, giving Amul a broad product mix that caters to various customer needs across the dairy market.

2) **Product Mix Depth:** Depth refers to the number of variants offered within a particular product line. Amul demonstrates considerable depth in almost all its lines. For example, in the milk category alone, it offers Amul Gold, Amul Taaza, Amul Lite, and Amul Slim and Trim—each variant targeting different customer preferences such as fat content, price, or health considerations. Similarly, in the cheese line, Amul provides Processed Cheese, Gouda Cheese, and Mozzarella Cheese to meet different taste preferences and usage needs. This depth allows Amul to appeal to a wide range of consumer segments and enhance brand loyalty by offering multiple choices under each category.

3) **Product Mix Length:** Product mix length measures the total number of individual items across all product lines. Amul's total product mix length is substantial, given the numerous variants within each line. For instance, combining milk, butter, cheese, paneer, dahi, ghee, beverages, and sweets, Amul offers dozens of individual products. This long product mix ensures that the company can satisfy diverse consumer demands, ranging from budget-conscious customers to premium buyers looking for speciality products.

4**) Product Mix Consistency:** Consistency refers to how closely related the product lines are in terms of end use, production processes, and target customers. Amul exhibits high product mix consistency because all its product lines are dairy-based. Despite the variety of products—milk, butter, cheese, dahi, ghee, beverages, and sweets—they all share common production processes, target the same consumer group, and are marketed through similar distribution channels. High consistency helps Amul maintain a strong brand identity as a trusted dairy company and allows efficient use of production and marketing resources.

Amul's product mix exemplifies strategic management of breadth, depth, length, and consistency. Its wide product lines (breadth), extensive variants within each line (depth), large total number of individual items (length), and closely related dairy-based offerings (consistency) allow the company to satisfy a broad customer base, strengthen brand loyalty, and maintain a competitive advantage in the dairy market. By carefully managing these dimensions, Amul maximises market coverage while reinforcing its reputation as a comprehensive dairy solutions provider.

9.4 BRANDING

Branding is one of the most powerful tools in modern marketing. It goes beyond just a name or logo — it is the identity and personality of a product or company. A strong brand creates recognition, builds trust, and establishes an emotional connection with consumers, influencing how they perceive and choose products in a competitive marketplace.

Definition

"*A brand is a name, term, design, symbol, or any other feature that identifies one seller's good or service as distinct from those of other sellers.*"

— American Marketing Association (AMA)

This definition highlights that a brand is much more than just a logo or a name — it embodies the entire identity and promise of a product or organisation. It sets one company's offerings apart from another's and fosters recognition and emotional connection in consumers' minds.

Meaning of Branding

Branding is the systematic process of developing and managing a brand to create a unique identity in the market. It involves shaping a distinct personality, image, and perception for a product, service, or organisation. A strong brand conveys trust, quality, and consistency, thereby influencing consumer preferences and loyalty. Effective branding ensures that when customers think of a product category, your brand name comes to mind first. It acts as an intangible asset that adds long-term value to a business by shaping perceptions and guiding customer choices. Branding transforms a product into an experience and a name into a reputation.

Examples

- Apple Inc.: The bitten apple emblem represents innovation, simplicity, and high quality. Customers link Apple products with advanced technology and prestige.
- • Nike: The phrase "Just Do It" and the famous "Swoosh" logo evoke motivation, energy, and resolve, highlighting the brand's commitment to performance and empowerment.
- • Amul: The tagline "Utterly Butterly Delicious" and the Amul girl mascot serve as symbols of trust, humour, and quality within the Indian dairy sector.

Brand Building

Building a successful brand is not an overnight task—it is a continuous and strategic process. Brand building involves creating awareness, shaping perceptions, and nurturing customer loyalty through consistent communication and performance.

According to marketing experts, seven key factors contribute to strong and sustainable brand development.

1. Quality: Quality is the foundation upon which all successful brands are built. A brand that consistently delivers superior quality gains customer satisfaction and loyalty. Quality acts as a promise — it assures consumers that they can trust the brand to deliver value every time. For example, Toyota is recognised worldwide for reliability and long-lasting performance, making it one of the most trusted automobile brands.

2. Positioning: Brand positioning refers to the process of creating a distinct and desirable place for the brand in the minds of the target audience. It involves identifying the target market, analyzing competitors, and highlighting the brand's unique value proposition.

An effective positioning strategy communicates why the brand is different and why customers should choose it. For instance, Volvo positions itself around *safety*, while BMW focuses on *driving pleasure.*

3. Repositioning: Markets evolve, consumer preferences shift, and competitors innovate. Hence, brands must occasionally reposition themselves to remain relevant and competitive. Repositioning involves altering the brand's image, target audience, or product offering.

For example, Old Spice successfully repositioned itself from being perceived as an "old-fashioned" brand to a youthful and humorous one through modern advertising campaigns.

4. Well-balanced Communication: Effective communication is vital to brand success. A brand must communicate its core message clearly, consistently, and creatively across all platforms — advertising, social media, packaging, and customer service.

Balanced communication ensures that every message reinforces the brand's identity and values. Coca-Cola, for instance, consistently communicates joy, sharing, and togetherness in its global campaigns.

5. Being First: Being the first brand in a market segment provides a strategic advantage. First movers often establish strong customer associations and become synonymous with the category itself.

For example, Xerox became synonymous with photocopying, and Google with internet searching. These brands gained early recognition and built strong mental ownership in consumers' minds.

6. Long-term Perspective: Brand building is a marathon, not a sprint. Developing brand awareness, communicating values, and earning customer loyalty take years of consistent effort. A long-term perspective ensures that the brand remains sustainable, trustworthy, and adaptable.

For example, Nestlé has spent decades nurturing its brands such as *Nescafé* and *Maggi*, ensuring consistency in quality and emotional connection with consumers.

7. Internal Marketing: Internal marketing focuses on communicating brand values and vision to employees. Employees are brand ambassadors — their behavior, communication, and service delivery directly impact the customer's perception of the brand.

In service industries, this becomes even more critical. For instance, Taj Hotels trains its staff to embody the brand's essence of hospitality and excellence, ensuring that customers experience the brand promise at every interaction.

Branding Decisions

Branding decisions refer to the strategic choices a company makes to manage its brand portfolio and market presence. These decisions determine how new products are introduced and how existing brands are extended or diversified.

There are four major types of branding decisions:

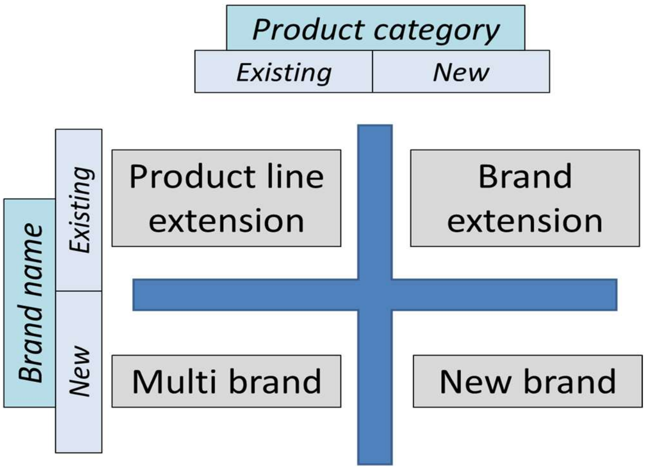


Figure 3.3: Branding Decisions

1. Line Extension

A line extension involves introducing additional items in the same product category under the same brand name. These may include new flavors, sizes, or variations to meet diverse consumer preferences.

Example: Coca-Cola launching *Diet Coke* and *Coke Zero* as variations of the original Coca-Cola product.

Purpose: To attract new customers and retain existing ones without creating an entirely new brand.

2. Brand Extension

A brand extension uses an existing successful brand name to launch new or modified products in a different category. This strategy leverages existing brand equity to reduce marketing costs and increase customer acceptance.

Example: *Dove* extending from beauty soap to shampoos, body lotions, and deodorants.

Purpose: To capitalize on customer trust in the parent brand while expanding into new markets.

3. Multi-brands

A multi-brand strategy involves introducing multiple brands within the same product category. This approach allows companies to capture different market segments, price points, or consumer preferences.

Example: *Unilever* offers several soap brands — *Lifebuoy*, *Lux*, and *Dove* — each targeting different consumer needs and perceptions.

Purpose: To increase market share and reduce dependency on a single brand.

4. New Brands

When a company enters a new product category for which its existing brand name is not suitable, it creates a new brand.

Example: *Toyota* launched *Lexus* as a separate luxury car brand to appeal to premium customers.

Purpose: To establish a new identity and target a different customer base without diluting the parent brand.

9.5 SUMMARY

A Product Line refers to a group of related products under a single brand that fulfil similar functions and cater to the same customer segments. Companies manage the length of a product line by adding (stretching or filling) or removing items to efficiently meet market demand. Product Line Stretching helps companies expand their reach to new markets — upward, downward, or both ways — while Product Line Filling adds variety within the existing range.

The Product Mix represents the total assortment of product lines and items that a company offers. Its four dimensions — width, depth, length, and consistency — help evaluate the diversity and focus of a company's offerings. A well-balanced product mix enhances customer satisfaction, profitability, and brand strength. Amul's product portfolio serves as an excellent example of a broad yet consistent product mix within the dairy sector.

Branding goes beyond a name or logo — it represents the identity, values, and promise of a product. Through consistent quality, clear positioning, and effective communication, branding builds consumer trust and emotional connection. Brand Building involves maintaining quality, repositioning when needed, communicating effectively, and taking a long-term perspective.

Branding Decisions, such as Line Extension, Brand Extension, Multi-Brands, and New Brands, determine how companies expand their presence and manage customer relationships strategically. Together, effective management of the product line, product mix, and branding ensures a strong market position and long-term customer loyalty.

9.6 TECHNICAL TERMS

1. **Product Line:** A group of related products offered by a company under a single brand that serve similar purposes and target the same customer segment.
2. **Product Line Length:** The total number of individual products or items within a particular product line.
3. **Product Line Stretching:** Expanding the product line beyond its current range—either toward higher or lower price levels—to reach new market segments.
4. **Product Line Filling:** Adding more items within the existing price and quality range to offer variety and fill market gaps.
5. **Product Mix (Product Assortment):** The complete range of all product lines and items offered by a company to its customers.
6. **Branding:** The process of creating a unique name, design, or identity for a product to distinguish it from competitors and build recognition.
7. **Brand:** A distinctive name, term, symbol, or design that identifies one seller's product as different from another's.
8. **Brand Building:** The process of developing and strengthening a brand's reputation, recognition, and customer loyalty over time.
9. **Brand Positioning:** Creating a distinct image or identity for a brand in the minds of consumers relative to competitors.
10. **Brand Repositioning:** Changing a brand's image, target market, or marketing strategy to stay relevant or attract new audiences.

9.7 SELF-ASSESSMENT QUESTIONS

1. Define product line. Explain how companies use product line extensions to target different segments of the market.
2. Discuss the factors that influence decisions related to product line length, and illustrate with suitable examples.
3. What is a product mix? Describe the four dimensions of a product mix—width, length, depth, and consistency—with examples.
4. Explain how changes in product mix help a company respond to market competition and consumer preferences.
5. Explain the role of branding in creating customer loyalty. Provide examples of brands that have successfully established substantial brand equity.

9.8 SUGGESTED READINGS

1. Philip Kotler, Kevin Lane Keller – *Marketing Management*, Pearson Education.
2. Stanton, Etzel, and Walker – *Fundamentals of Marketing*, McGraw Hill.
3. Ramaswamy & Namakumari – *Marketing Management: Indian Context*, McGraw Hill.

Dr G. Malathi

LESSON-10

NEW PRODUCT DEVELOPMENT

10.0 OBJECTIVES OF THE LESSON

After studying this chapter, students will be able to:

1. Understand the concept, importance, and stages involved in the New Product Development (NPD) process.
2. Explain how innovation, marketing strategies, and systematic planning contribute to successful new product launches.

STRUCTURE OF THE LESSON

10.1 INTRODUCTION

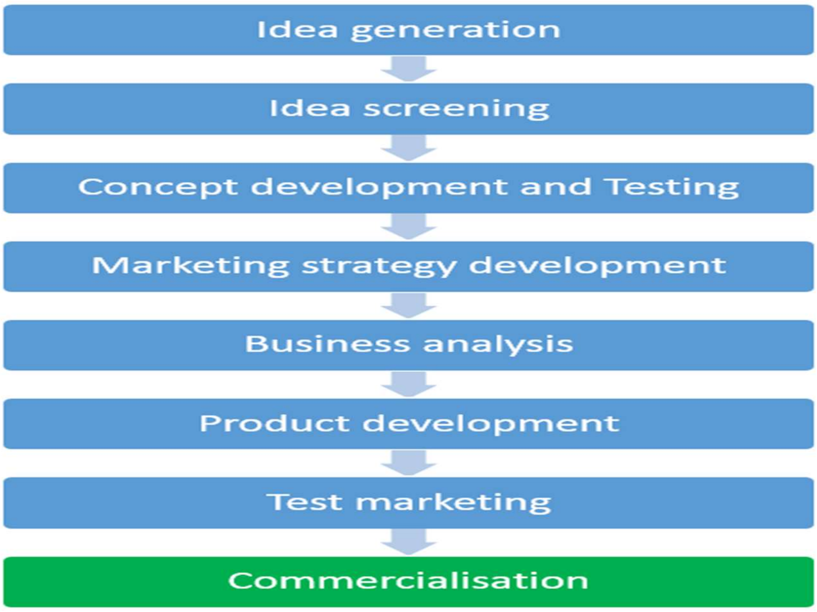
In the modern business environment, change is the only constant. The rate of transformation in markets today is faster than ever before. Rapid advances in technology, shifts in consumer preferences, and increasing competition continuously reshape the marketplace. Organisations that want to stay relevant and profitable cannot rely solely on their existing product lines. Customers today are more informed, selective, and demanding. Their expectations regarding quality, design, convenience, and innovation are constantly evolving. As a result, companies must innovate, adapt, and diversify their offerings to keep pace with market trends and consumer needs.

The success stories of leading companies like Apple, Samsung, Nestlé, and Amul show that ongoing innovation through New Product Development (NPD) is essential for staying competitive. It helps firms to find new opportunities, lessen reliance on existing products, and achieve long-term growth.

Therefore, the process of New Product Development (NPD) is essential for the survival, success, and sustainability of modern businesses. It not only allows a company to meet changing customer preferences but also supports organisational growth, profitability, and brand leadership in the marketplace.

10.2 THE NEW PRODUCT DEVELOPMENT PROCESS

New Product Development (NPD) refers to the systematic process through which companies conceive, design, develop, and introduce new products into the market. The NPD process consists of eight systematic stages, each designed to ensure that only the most feasible, profitable, and customer-oriented ideas reach the market.



Stage 1: Idea Generation:

Idea generation is the systematic and creative process of searching for new product ideas that can meet customer needs or open up new market opportunities. It forms the foundation of the New Product Development (NPD) process. At this stage, businesses aim to gather as many potential ideas as possible without evaluating or filtering them. The goal is to foster innovation and imagination, which can later be refined into viable product concepts.

Successful organisations recognise that good ideas can come from anywhere — inside or outside the company. Therefore, they utilise structured techniques such as brainstorming, customer feedback, market research, and research & development (R&D) to generate a pool of promising ideas.

Sources of New Product Ideas

New ideas can emerge from internal sources (within the organisation) or external sources (outside the organisation).

1. Internal Sources

These are the ideas that come from within the company, especially from employees, departments, and research activities**.**

- **Employees and Staff:** Employees who work closely with the products or customers often have valuable insights into improvements or new product possibilities. ***Example:*** At 3M, employees are encouraged to spend a portion of their time experimenting with their own ideas, which led to the invention of products like Post-it Notes.
- **Research and Development Department:** The company's R&D team performs experiments and research to find new technologies or designs that can result in product innovation. ***Example:*** Samsung invests heavily in R&D to design advanced smartphone displays and processors that give it a competitive edge.
- **Brainstorming Sessions:** Teams within the company hold creative meetings to generate multiple ideas in a short time. The focus is on the quantity of ideas rather than the immediate quality or feasibility. ***Example*:** Google often conducts brainstorming workshops, known as "innovation sprints," to develop new product concepts, such as Google Maps features or AI tools.
- **Market Research Units**: Internal research teams collect data on customer behaviour, emerging trends, and competitor activities to inspire new ideas. ***Example:*** Coca-Cola uses market research insights to introduce new beverage flavours that suit changing consumer preferences.

2. External Sources

External sources provide a broader perspective by collecting ideas from people or organisations outside the company**.**

- **Customers:** Customers are one of the most valuable sources of new product ideas. Their suggestions, complaints, and feedback help companies understand unmet needs or desired improvements. ***Example:*** Apple continuously gathers customer feedback to refine iPhone features such as battery life, camera quality, and user interface design.
- **Competitors:** Studying competitors' products, advertisements, and strategies can reveal market gaps and inspire innovation. Companies can develop better versions or entirely new products to stay ahead. ***Example:*** When PepsiCo noticed the growing popularity of Coca-Cola's zero-sugar drinks, it developed its own line of Pepsi Zero Sugar beverages.
- **Distributors and Suppliers:** These partners often have firsthand knowledge of market demand, logistics challenges, and emerging materials or technologies that can inspire

product ideas. ***Example:*** Automobile manufacturers often collaborate with suppliers to develop new materials for lighter and more fuel-efficient vehicles**.**

- **Consultants, Trade Shows, and Universities:** External experts, industry fairs, and academic research are valuable sources of innovative ideas. Trade shows showcase the latest trends and technologies, while universities contribute through research and development partnerships. ***Example:*** Procter & Gamble (P&G) collaborates with universities and external researchers under its "Connect + Develop" program to source new product ideas and technologies.

Example: Apple Inc.

Apple is known for its consistent innovation through effective idea generation. The company uses customer feedback, technological research, and market trend analysis to develop new features for its products. For instance, the introduction of Face ID, AirPods, and the dynamic island design in iPhones emerged from understanding user needs and technological advancements. Apple's open culture of innovation allows both internal teams and external feedback to shape its product evolution.

Stage 2: Idea Screening

After generating numerous product ideas from sources such as employees, customers, competitors, and research activities, the next step in the New Product Development (NPD) process is Idea Screening. Idea Screening involves carefully evaluating and filtering these ideas to identify those with the highest potential for success in the market. It helps eliminate weak, impractical, or unprofitable ideas early on, ensuring that only viable and strategically aligned ideas move forward. This step is vital to prevent the organisation from wasting valuable time, money, and effort on unproductive ideas. By systematically assessing each idea against specific criteria, companies can focus on innovations that align with their market demand, resources, and organisational goals.

Objectives of Idea Screening

The main purpose of idea screening is to select the most promising ideas for further development and testing. The key objectives include:

1. Feasibility Check: To evaluate whether the idea is technically and financially feasible for the company to develop and produce.
2. Market Potential: To determine whether there is sufficient demand and customer interest in the proposed idea.
3. Alignment with Company Goals: To ensure that the idea fits within the company's mission, vision, and long-term strategic plans.
4. Risk Reduction: To minimise the risk of product failure by eliminating ideas with low potential or excessive uncertainty.
5. Resource Optimisation: To make efficient use of available resources—time, manpower, and capital—by focusing only on high-potential ideas.

Methods of Idea Screening

Several methods are used by organisations to evaluate and shortlist product ideas. The commonly used methods include:

1. Preliminary Evaluation by Experts: In this method, a panel of experts from different departments—such as marketing, finance, production, and research—reviews each idea. They assess the practicality, uniqueness, and profitability of the idea based on their experience and knowledge.
2. Scoring Model: This is a systematic approach where each idea is rated or scored against specific criteria such as market potential, estimated cost, profitability, competitive advantage, and customer acceptance.
    - Each criterion is given a weight according to its importance.
    - The total score helps in ranking and comparing the ideas objectively.
    - The highest-scoring ideas are selected for further analysis.
3. Checklist Method: A checklist of essential factors—like product safety, legal feasibility, production capability, and market trends—is used to screen ideas quickly. Any idea that fails to meet the basic requirements is discarded.
4. SWOT Analysis: Some companies use SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis to evaluate each idea. This helps in understanding the internal and external factors that may influence the success of the product.
5. Decision Matrix: A decision matrix helps compare multiple product ideas side by side based on different parameters, allowing managers to visualise which ideas perform best overall.

Example

For instance, a company like Nestlé might generate hundreds of new food product ideas through market research and consumer feedback. However, not all ideas will be feasible or profitable. Through the idea screening process, Nestlé's team may evaluate these ideas based on factors such as consumer taste preferences, production cost, nutritional value, and availability of raw materials. Finally, only a few high-potential ideas—such as a new healthy snack or beverage—will be shortlisted for further development and testing.

Stage 3: Concept Development and Testing

An idea becomes commercially valuable only when it is translated into a product concept — a clear, concrete description of the product that customers can understand, imagine, and evaluate. A product concept explains what the product is, who it is for, what benefits it delivers, and how it will be used. Concept development turns an abstract idea (e.g., "an energy drink") into a compelling value proposition that can be tested with real customers to predict market acceptance.

Objectives

- Convert raw ideas into customer-facing concepts that are concrete, testable, and comparable.
- Identify which concepts are attractive, believable, and relevant to target consumers.
- Uncover potential product improvements, positioning cues, and likely barriers to adoption.
- Reduce risk before committing to expensive product development and manufacturing.

Process — Step by Step

1. Concept Development

Concept development expands the selected idea into one or more detailed product concepts. Each concept should describe, at a minimum:

- Target user(s): who will buy or use the product (demographics, lifestyles, needs).
- Core benefit or value proposition: the main reason a consumer would choose this product.
- Key features and attributes: ingredients, functions, format, packaging, price range, usage occasions.
- Usage and context: where, when, and how the product will be used.
- Emotional/brand positioning: the feelings, image, or status the product will convey.

2. Concept Testing

Once the concept is developed, it is tested with a group of potential customers to obtain their opinions and reactions. The main aim is to understand how consumers perceive, prefer, and respond to the product concept before investing in large-scale development.

Concept testing can be conducted through:

- Interviews and Focus Groups – to collect detailed feedback and suggestions.
- Surveys and Questionnaires – to measure how many people find the concept appealing or would consider buying it.
- Prototype or Sample Testing – to give customers a real experience of the product and record their reactions.

Customer feedback from this stage helps refine the concept, making it more attractive and marketable.

Example

Idea: A drink that boosts energy.

Concept Developed: “A natural, sugar-free energy drink made with herbal extracts for fitness-conscious individuals.”

Image in Customers' Minds: Customers perceive it as a healthy, modern, and refreshing alternative to regular energy drinks.

Through concept testing, if consumers show strong interest in the idea and appreciate its "natural and sugar-free" qualities, the company can move forward with confidence. If not, the concept can be revised or replaced.

Stage 4: Marketing Strategy Development

Once a new product concept has been tested and found promising, the next crucial step in the New Product Development Process is Marketing Strategy Development. Marketing Strategy Development refers to the process of designing an initial marketing plan for introducing a new product into the market. It outlines how the product will be positioned, who the target customers are, how it will be priced, distributed, and promoted, and what financial goals the company aims to achieve. This stage ensures that the company has a clear and realistic plan for launching the product successfully and achieving profitability.

Objectives of Marketing Strategy Development

1. **To define the target market** – identify the specific group of consumers for whom the product is intended.
2. **To establish product positioning** – determine how the product will be presented in the market to differentiate it from competitors.
3. **To set marketing goals** – such as expected sales volume, market share, and profit margins.
4. **To plan the marketing mix (4Ps)** – product, price, place, and promotion strategies.
5. **To provide direction for product launch** and future marketing decisions.
6. **To estimate the financial implications** and expected performance during different stages of the product life cycle.

Stages / Components of Marketing Strategy Development

A marketing strategy for a new product is usually developed in **three parts**, each focusing on a specific phase of product introduction and growth.

Part 1: Description of the Target Market and Positioning

- Identifies the target customers, their needs, and buying behaviour.
- Defines the product positioning — how the company wants customers to perceive the product compared to competitors.
- States the value proposition, i.e., what unique benefit the product offers to customers.
- Outlines sales goals, market share objectives, and profit expectations for the first few years.

Example: For a new herbal energy drink, the target market might be health-conscious young adults, and the positioning could be "a natural and refreshing alternative to traditional energy drinks."

Part 2: Marketing Mix Strategy

This part focuses on developing the **marketing mix (4Ps)** for the new product:

- **Product Strategy:** Defines the product features, design, quality level, packaging, branding, and warranty policies.
- **Price Strategy:** Sets the initial price, pricing method (penetration, skimming, or competitive), discounts, and payment terms.
- **Place (Distribution) Strategy:** Determines how and where the product will be made available — distribution channels, intermediaries, logistics, and retail outlets.
- **Promotion Strategy:** Plans how to communicate and promote the product — advertising, sales promotions, digital marketing, personal selling, and public relations.

These decisions aim to create maximum awareness and generate strong initial sales for the new product.

Part 3: Long-Term Sales and Profit Goals

This section includes the **financial projections** and long-term marketing plans:

- Expected sales revenue, profit margins, and return on investment.
- Planned product improvements or line extensions.
- Strategy for entering new markets or customer segments in the future.
- Budget allocation for marketing and distribution activities.

This long-term plan guides the company in managing the product throughout its **life cycle**, from introduction through growth and maturity.

Example

For instance, after testing the concept of a **natural, sugar-free energy drink**, the company develops its marketing strategy as follows:

1. **Target Market:** Fitness enthusiasts, students, and professionals aged 18–35.
2. **Positioning:** "A healthy, refreshing energy boost without sugar or artificial ingredients."
3. **Product Strategy:** Launch in 250 ml cans with two flavours – Citrus and Berry.
4. **Price Strategy:** Priced slightly higher than traditional energy drinks to reflect premium quality.
5. **Place Strategy:** Available in gyms, supermarkets, and online platforms.
6. **Promotion Strategy:** Digital campaigns, influencer endorsements, and free samples at fitness centers.
7. **Financial Goals:** Achieve ₹10 crore in sales and 5% market share within the first year.

Stage 5: Business Analysis

After a successful Marketing Strategy Development, the next step in the New Product Development process is Business Analysis. Business Analysis involves evaluating the proposed product's potential to achieve profitable results. It assesses the financial feasibility, cost structure, sales forecast, and profitability of the new product before investing heavily in production and commercialisation. This stage helps management decide whether the latest product idea is financially sound, economically viable, and worth pursuing further.

Objectives of Business Analysis

1. To estimate potential sales and demand for the new product.
2. To assess the cost of production, marketing, and distribution.
3. To forecast profits and return on investment (ROI).
4. To determine the break-even point—the level of sales at which total revenue equals total cost.
5. To evaluate financial risks and identify factors that may affect profitability.
6. To decide whether the product should move to the product development stage.

Key Components of Business Analysis

The business analysis process usually includes the following major components:

1. Estimation of Demand and Sales

- Predicts the future demand for the new product based on market size, target audience, competition, and customer preferences.
- Sales forecasts are often prepared for short-term and long-term periods using past market data, market surveys, and test marketing results.
- The company may prepare optimistic, realistic, and pessimistic sales projections to understand different possible outcomes.

2. Estimation of Costs

- Includes both fixed costs (e.g., rent, salaries, equipment) and variable costs (e.g., materials, packaging, distribution).
- Other cost estimates include research and development costs, advertising expenses, promotional budgets, and after-sales service costs.
- Cost analysis helps the company determine how much investment will be required to bring the product to market.

3. Estimation of Profits and Break-Even Analysis

- Once sales and cost estimates are prepared, the company calculates expected profits and return on investment (ROI).

- Break-even analysis helps in finding the level of sales at which total cost equals total revenue — indicating the point at which the product begins to generate profit.
- A product with high potential profit and acceptable risk levels is considered for further development.

4. Risk and Sensitivity Analysis

- Evaluates possible risks such as changes in market demand, production cost fluctuations, new competitors, or regulatory issues.
- Sensitivity analysis shows how profits would change if assumptions about cost or sales vary — helping managers plan for uncertainty.

5. Evaluation of Overall Feasibility

- The financial analysis is combined with marketing, technical, and operational assessments to ensure the product can be produced, marketed, and supported efficiently.
- Based on these findings, management decides whether to proceed to the next stage — Product Development — or to drop or modify the idea.

Example

Suppose a company plans to launch a natural, sugar-free energy drink. In the Business Analysis stage, the firm conducts the following assessments:

- Expected market size: 10 lakh potential consumers in the first year.
- Expected sales volume: 2 lakh cans per month.
- Selling price per can: ₹80.
- Production and marketing cost per can: ₹60.
- Expected profit per can: ₹20.
- Break-even point: 1.5 lakh cans per month.

If the analysis shows that sales above this level are achievable and that profit margins are satisfactory, the company may decide to proceed with product development. If not, it may revise the marketing plan or reject the idea.

Stage 6: Product Development

Once a product idea has passed the Business Analysis stage and been found financially viable, the next step in the New Product Development process is Product Development. Product Development is the process of transforming the approved product concept into a physical, functional form. In this stage, the product is designed, engineered, and produced on a small scale for the first time.

It involves creating prototypes, testing their performance, and refining the product's features, design, and quality before launching it in the market. This stage converts an idea into a tangible product that can be manufactured and marketed successfully.

Objectives of Product Development

1. To convert a product concept into a physical product that can perform as intended.
2. To ensure the product is technically feasible and can be produced economically.
3. To finalise the product's design, packaging, style, and quality specifications.
4. To test the product's performance, safety, durability, and consumer satisfaction.
5. To prepare for large-scale production and commercialisation.

Process of Product Development

The product development process involves several necessary steps:

1. Prototype Development

- A prototype is an initial working model or sample of the product created to test its design, function, and performance.
- The R&D team and product engineers collaborate to produce one or more prototypes.
- These prototypes help identify technical issues, design flaws, and improvements before mass production.

2. Prototype Testing

- Once prototypes are developed, they are tested internally to check performance, safety, and compliance with quality standards.
- The company may conduct laboratory tests, field trials, or product simulations to evaluate reliability and usability.
- Modifications are made based on test results and feedback.

3. Design and Engineering

- The product's design is finalised to ensure it is attractive, user-friendly, and functional.
- Engineering teams plan the manufacturing process, materials, machinery, and technology needed for large-scale production.
- This stage ensures that the product can be produced efficiently at the desired quality and cost.

4. Branding and Packaging Development

- The brand name, logo, and packaging design are created to build product identity and appeal.
- Packaging decisions focus on protection, convenience, and promotion, ensuring the product stands out on the shelf.

5. Quality and Safety Testing

- Before commercial launch, the product undergoes extensive testing for quality assurance, durability, and safety standards.
- For certain industries (like food, pharmaceuticals, or electronics), government approval or certification may be required before sale.

6. Pilot Production (Test Production)

- A small-scale production run is carried out to test manufacturing efficiency, cost, and consistency.
- This "trial run" helps the company identify potential production challenges and make adjustments before full-scale manufacturing.

Example

Suppose a company has developed a natural, sugar-free energy drink, and the business analysis results are positive. During the product development stage:

- Prototype Development: Different flavours (Citrus, Berry, and Mint) are created in the lab.
- Testing: The flavours are tested for taste, shelf life, and consumer preference.
- Design: Attractive slim cans and eco-friendly packaging are designed.
- Branding: The drink is branded as "EnerVita – Natural Energy, Naturally Yours."
- Pilot Production: A limited batch is produced and distributed in select outlets to check production efficiency and market response.

After successful prototype and pilot tests, the company proceeds to the next stage — Test Marketing.

Importance of Product Development

1. Converts ideas into real, market-ready products.
2. Ensures that the product meets both technical standards and customer expectations.
3. Helps identify and correct design or production problems early.
4. Supports branding, packaging, and quality decisions for the final product.
5. Lays the foundation for commercial production and successful market launch.
6. Minimizes risk by thoroughly testing before large-scale investment.

Stage 7: Test Marketing

After the Product Development stage, the company possesses a market-ready product. However, before launching it on a large scale, it is essential to test its performance in a real market environment.

Test Marketing refers to the stage in the New Product Development process where the product and its complete marketing program — including product features, price, promotion, and distribution — are introduced in a limited geographic area or selected market segment.

The main purpose is to observe how consumers and dealers react to the product, identify potential problems, and make necessary adjustments before the full-scale launch.

Objectives of Test Marketing

1. To assess consumer response to the product and its marketing mix.
2. To identify potential problems in the product design, packaging, pricing, or promotion.
3. To evaluate the effectiveness of advertising, distribution, and sales strategies.
4. To estimate market potential, sales volume, and profitability before full-scale production.
5. To reduce risk and uncertainty associated with national or global product launch.
6. To gather practical insights for fine-tuning the marketing plan.

Process of Test Marketing

The process of test marketing generally involves the following steps:

1. Selection of Test Market

- The company selects a limited and representative market area (such as a few cities or regions) that closely reflects the characteristics of the larger target market.
- The selected test market should have similar customer profiles, competition, and buying habits as the national market.

2. Launch of the Product

- The product is introduced in the test market along with the complete marketing mix—product, price, place, and promotion.
- The company implements the same strategies (distribution channels, advertisements, promotions) that would be used in the national launch.

3. Monitoring Performance

- Sales data, consumer feedback, dealer responses, and market share are closely monitored over a specific period.
- Market research teams collect information about purchase frequency, brand preference, repeat buying behavior, and advertising effectiveness.

4. Analysis of Results

- The collected data is analyzed to assess product acceptance, pricing suitability, promotion effectiveness, and profitability.
- Weaknesses in the product or marketing strategy are identified and corrected.

5. Decision Making

- Based on the results, management decides whether to:
  a) Proceed with full-scale commercialization;
  b) Modify the product or marketing plan; or
  c) Abandon the product if the results are unsatisfactory.

Types of Test Marketing

1. **Standard Test Marketing:** The product is launched in selected cities using normal distribution channels and promotional tools. It gives accurate results but is time-consuming and costly.
2. **Controlled Test Marketing:** The company works with selected retailers who agree to distribute the new product in return for a fee. This method provides faster results and more control over testing.
3. **Simulated Test Marketing:** A laboratory or virtual environment is created where consumers are exposed to advertisements and product samples. Their responses and purchase intentions are measured using simulations. It is quick and less expensive.

Example

A company developing a natural, sugar-free energy drink plans to test-market it before a national launch.

- Test Market Selection: The product is launched in Bengaluru and Hyderabad — two cities with large fitness-conscious populations.
- Marketing Mix:
  - Price: ₹80 per can
  - Promotion: Social media ads, influencer tie-ups, and free sampling at gyms
  - Distribution: Supermarkets, fitness stores, and online platforms
- Observation Period: Three months
- Results: Strong sales growth and positive consumer feedback about taste and packaging, but a suggestion to add a smaller 150 ml pack for light users.

Based on these insights, the company modifies the product line and proceeds with a nationwide launch.

Importance of Test Marketing

1. Reduces the risk of failure by identifying and correcting weaknesses before full-scale launch.
2. Provides accurate market feedback on consumer preferences and buying behavior.
3. Helps refine the marketing mix—product features, pricing, promotion, and distribution.
4. Enables better sales forecasting and production planning.
5. Builds confidence in the commercialization decision by validating marketing assumptions.

Limitations of Test Marketing

1. High Cost and Time: Conducting test marketing can be expensive and time-consuming.
2. Competitor Interference: Rivals may observe and copy the product or launch counter-promotions.
3. Limited Accuracy: Consumer response in a test market may not always reflect national behavior.
4. Risk of Negative Publicity: Failure in test marketing can affect the brand's reputation.

Stage 8: Commercialization

Commercialisation is the final stage of the New Product Development (NPD) process. It refers to the full-scale introduction of the new product into the market, after successful test marketing.

At this stage, the company decides to launch the product nationally or internationally and make it available to consumers through regular distribution channels. Commercialisation involves large-scale production, extensive marketing campaigns, and continuous monitoring of market performance.

It is the stage where the product is transformed from a prototype into a commercial success, requiring significant financial investment and strategic planning.

Key Decisions in Commercialisation

Before launching the product, the company must make several important decisions related to timing, location, market segment, and marketing strategy.

1. When to Launch (Timing of Launch)

The company decides the most suitable time for introducing the product:

- Early Launch: To gain first-mover advantage and build brand recognition before competitors.
- Late Launch: To learn from competitors' experiences and enter the market with a refined version.
- Seasonal Launch: For products tied to particular seasons (e.g., cool drinks in summer, woollens in winter).

2. Where to Launch (Geographic Market Selection)

The firm decides whether to launch:

- In a single region or city first;
- In several regions simultaneously; or
- On a national or international scale.

This depends on the company's production capacity, marketing budget, and distribution strength.

3. To Whom to Launch (Target Market)

The company identifies its target customers, based on demographic, psychographic, and behavioral characteristics. Marketing strategies are then tailored to meet their preferences.

4. How to Launch (Marketing Strategy)

A comprehensive marketing program is developed, including:

- Product Positioning: Creating a distinct image in consumers' minds.
- Pricing Strategy: Setting a price that reflects product value and market conditions.
- Distribution Plan: Selecting appropriate channels to ensure product availability.
- Promotion Mix: Using advertising, public relations, sales promotions, and digital marketing to create awareness and demand.

Example

After successful test marketing of its natural, sugar-free energy drink, the company decides to commercialize the product.

- Timing: National launch in April (summer season).
- Markets: All major cities in India.
- Target Customers: Fitness enthusiasts, working professionals, and students.
- Marketing Strategy:
    - Advertisements on television, social media, and fitness apps.
    - Partnerships with gyms and sports events.
    - Attractive introductory offers and free samples at supermarkets.

As a result, the brand achieves strong market awareness and steady sales growth within six months of launch.

10.2.1 Importance of New Product Development

1. Adaptation to Market Changes: Helps companies respond to evolving consumer needs and preferences.
2. Business Growth: Leads to diversification and expansion into new markets.
3. Competitive Advantage: Keeps the company ahead of rivals through innovation.
4. Profitability: New and improved products often bring higher margins.
5. Customer Satisfaction: Meeting changing expectations enhances loyalty and trust.

10.2.2 Challenges in New Product Development

- High research and development costs.
- Risk of product failure.

- Rapid technological changes.
- Short product life cycles.
- Intense competition and imitation.

10.3 SUMMARY

New Product Development (NPD) is the process by which companies transform innovative ideas into market-ready products. In a rapidly changing business environment, NPD is vital for survival, competitiveness, and growth. The process begins with Idea Generation, followed by Idea Screening to filter viable ideas. These ideas are then refined into detailed Product Concepts and tested for customer acceptance. Once approved, a Marketing Strategy is developed, and the Business Analysis stage evaluates financial feasibility. The Product Development stage converts concepts into tangible prototypes, which are tested through Test Marketing. Finally, Commercialisation introduces the product to the market on a large scale.

10.4 TECHNICAL TERMS

1. **Prototype** – A preliminary model of a product developed to test its design, features, and functionality before mass production.
2. **Test Marketing** – The process of introducing a new product in a limited market area to evaluate its performance before a full-scale launch.
3. **Commercialisation – The final stage of the NPD process involves** large-scale production and market introduction of the product.
4. **Break-even Point** – The sales level at which total revenue equals total cost, indicating the product starts generating profit.

10.5 SELF-ASSESSMENT QUESTIONS

1. Define New Product Development and explain its importance in the modern business environment.
2. List and briefly explain the eight stages of the New Product Development process.
3. What is the difference between Idea Generation and Idea Screening?
4. Explain the significance of Test Marketing in the NPD process.
5. What challenges do companies face during New Product Development?

10.6 SUGGESTED READINGS

1. Kotler, Philip & Keller, Kevin Lane – *Marketing Management*, Pearson Education.
2. Stanton, William J. – *Fundamentals of Marketing*, McGraw Hill.
3. Lamb, Charles W., Hair, Joseph F. & McDaniel, Carl – *Marketing*, Cengage Learning.
4. Ramaswamy, V.S. & Namakumari, S. – *Marketing Management*, McGraw Hill Education.

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LESSON-11

PRODUCT LIFE CYCLE, PRODUCT DIFFERENTIATION & PACKAGING

11.0 OBJECTIVES OF THE LESSON

After studying this lesson, students will be able to:

1. To understand what the Product Life Cycle is and how products move through the stages of Introduction, Growth, Maturity, and Decline.
2. To learn how companies change their marketing strategies at each stage of the Product Life Cycle.
3. To understand what Product Differentiation means and how businesses make their products stand out from competitors.
4. To learn the importance of Packaging and how it helps in protecting, identifying, and promoting a product.

STRUCTURE OF THE LESSON

11.1 Introduction

11.2 Marketing Strategies across the Product Life Cycle

11.3 Product Differentiation

11.3.1 Types of Differentiation

11.4 Packaging

11.4.1 Types of Packaging

11.4.2 Advantages of Packaging

11.5 Summary

11.6 Technical Terms

11.7 Self-Assessment Questions

11.8 Suggested Readings

11.1 INTRODUCTION

The concept of the Product Life Cycle (PLC) is one of the most important analytical frameworks in marketing and strategic management. It describes the evolutionary pattern through which a product passes from the moment it is introduced into the market until the time it is eventually withdrawn. The PLC model provides a broad understanding of how sales, profits, competition, consumer behaviour, and managerial attention change over time. As highlighted in the provided presentation, marketing strategy is strongly influenced by the distinct stages of the Product Life Cycle, and each stage poses different competitive challenges while simultaneously offering varied threats and opportunities. The PPT identifies four fundamental stages of the PLC—Introduction, Growth, Maturity, and Decline—which together outline the natural trajectory that most products experience during their market existence.

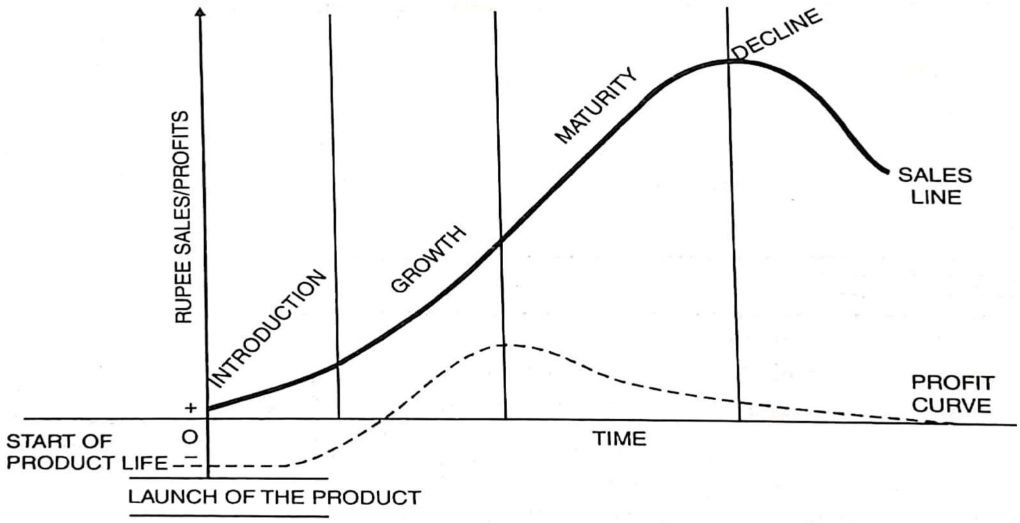

Figure 8.1: Product Life Cycle

At its core, the PLC functions as a guiding framework for managers to develop, adjust, and assess marketing strategies as their product evolves in the marketplace. This model is not only used to analyse sales patterns but also to anticipate the strategic actions needed to maintain relevance and profitability in a competitive environment. During the early years of a product's launch, a company must allocate resources to informing consumers about the product's purpose and benefits, building awareness, and persuading early adopters. As the product progresses beyond this stage, the focus shifts to scaling, differentiation, defending market share, and ultimately making decisions about re-positioning, re-launching, harvesting, or discontinuing the product. In this sense, the PLC acts as a strategic compass guiding managerial choices across the entire marketing mix and throughout the product's lifespan.

The first stage of the PLC, called the Introduction stage, starts when the product is first launched. This phase is often the most resource-heavy because the product is new to consumers, who usually have little awareness and acceptance. Costs related to research, development, promotion, distribution, and customer education stay high during this phase, while sales are low because only innovators and early adopters are interested. Companies need to invest effort in increasing product knowledge, explaining the main value proposition, and encouraging trial purchases. Pricing strategies vary based on market conditions and company goals. Some firms set a high initial price to recover development costs, while others choose a low introductory price to quickly gain market share. Regardless of the pricing strategy, firms must carefully control expenses while building distribution channels and collecting customer feedback for future improvements. The Introduction stage primarily aims to prepare the product for long-term success, and the progress made here largely influences how quickly or smoothly the product moves to the next stage.

As awareness increases and consumer acceptance grows, the product enters the Growth stage, characterised by rising sales and improving profitability. This is also the period when competitors often enter the market, attracted by increasing demand and new opportunities. Due to heightened competition, firms must bolster their strategic efforts by enhancing product quality, adding new features, expanding distribution channels, and establishing a strong, distinctive brand identity. Production efficiencies begin to improve through economies of scale, leading to lower unit costs and further boosting profit margins. Marketing communication shifts to be more persuasive rather than just informative, as firms aim to emphasise advantages in benefits, performance, or price–value ratio. The Growth stage is vital for establishing long-term market leadership. Companies that effectively capitalise on this stage by consolidating their market share, strengthening their brand, and innovating faster than competitors are better placed when the market eventually matures.

Following the period of rapid expansion, the product generally enters the Maturity stage, which is typically the longest and most strategically demanding phase of the entire life cycle. During maturity, the market reaches saturation: most potential consumers have already adopted the product, the rate of new customer acquisition slows significantly, and competition becomes very intense. The focus shifts from expanding the market to retaining existing customers and maximising profitability. Firms adjust their strategies towards differentiation and cost efficiency. Product variations, stylistic modifications, packaging innovations, and service improvements are often introduced to keep consumer interest. Companies also concentrate on improving operational efficiency, reducing production costs, and defending market share through targeted promotions and loyalty programmes. As price competition becomes fiercer at this stage, profit margins often decline, making careful cost management essential. Some firms attempt to prolong the maturity stage by entering new geographic markets, repositioning their product for different segments, or launching upgraded versions. If implemented effectively, maturity extension strategies can deliver sustainable revenue even amid stagnating demand.

Eventually, however, most products enter the Decline stage, where sales decrease due to shifts in consumer preferences, technological progress, the appearance of better substitutes, or structural changes in the industry. The decline can happen gradually or quickly depending on market conditions. Firms then face the challenge of deciding whether to keep the product, harvest it, or discontinue it altogether. A harvesting strategy involves cutting back on marketing and operational costs to maximise remaining profit as sales fall. Alternatively, companies might choose to focus on a small but loyal market segment that still demands the product, effectively turning it into a niche offering. If neither harvesting nor maintaining a niche is feasible, the product may be discontinued and removed from the portfolio. This stage also demands careful inventory management, cost control, and strategic redirection of resources toward new or more promising products. Although the Decline stage marks the end of the product's main life cycle, it offers valuable insights for future product development and strategic planning.

The PLC model, while widely utilised, has its limitations. It is mainly descriptive rather than predictive; it highlights typical patterns instead of ensuring specific outcomes. Not all products follow the traditional path of rising, stabilising, and declining sales. Some products fall quickly because they are linked to short-lived trends, while others stay in the maturity stage for decades due to consistent demand. Certain products go through multiple cycles of life because of relaunches, redesigns, or changes in consumer culture. Therefore, managers should treat the PLC as a conceptual guide rather than an exact forecasting device. Nonetheless, when used alongside market research, competitive analysis, and innovation strategies, the PLC remains a valuable framework for guiding product-related decisions.

From a pedagogical perspective, the Product Life Cycle provides students and practitioners with a structured approach to understanding how products develop and how marketing strategies must evolve over time. It promotes long-term thinking by demonstrating that success is not solely achieved at launch but requires ongoing innovation and suitable adjustments to product features, pricing, promotion, and distribution. The four stages—Introduction, Growth, Maturity, and Decline—represent more than just sales patterns; they mirror changing customer expectations, shifting competitive landscapes, and evolving organisational priorities. The PLC thus functions as both an analytical tool and a strategic framework that aids decision-making throughout a product's lifespan, offering clarity in planning, implementation, and review at each phase of its market journey.

11.2 MARKETING STRATEGIES ACROSS THE PRODUCT LIFE CYCLE

	Introduction	***Growth***	***Maturity***	***Decline***
Sales	Slowly increasing	Increasing at an increasing rate	Increasing at a decreasing rate	Began to decline
Profits	Low	High	Began to decline	Low
Product nature	Speciality good	Shopping Product	Product modification	Search for new Product
Pricing	High price	Reduce its price	Price set at level of consumer expectation	Cut throat Pricing

Distribution	Limited number of Middlemen	A large number of wholesalers and retailers	Strong emphasis is Made to keep Middlemen's support	Only the profitable Channel is maintained
Promotional Strategies	Heavy (Try this product)	Heavy, Psychological (Buy-my-brand)	Heavy mass media	Keep to a minimum
Competition	Nil	Slowly increasing	Severe Competition	Cut-throat competition

11.3 PRODUCT DIFFERENTIATION

Product differentiation involves a strategic process of making a product stand out from competing offerings in ways that matter to consumers. It focuses on creating unique value so that customers perceive the product as superior or more desirable compared to others in the market. Differentiation helps a firm stand out in competitive markets. It attracts consumer attention, enhances brand loyalty, and reduces the level of direct price competition. When customers believe a product offers something special, they are more willing to pay a premium and remain loyal to the brand. Effective differentiation begins with understanding different customer needs and preferences. Markets are diverse, and consumers seek different features, styles, quality levels, or emotional benefits. Differentiation allows firms to target specific customer segments with offerings designed to meet their unique expectations.

11.3.1 Types of Product Differentiation:

1. **Functional or Physical:** Functional differentiation involves modifying tangible product attributes such as design, size, colour, materials, features, performance, or technology. For instance, in smartphones, advancements in camera quality, battery efficiency, display technology, and processing speed act as primary differentiating features.
2. **Differentiation Through Quality:** Products can be differentiated based on superior quality, durability, reliability, or consistency. High-quality offerings create trust and satisfaction, making consumers more likely to repeat purchases and recommend the product to others.
3. **Design and Aesthetic Differentiation:** A product's visual appeal, style, ergonomics, and overall aesthetic experience contribute significantly to differentiation. Thoughtful and attractive design can create emotional connections and influence consumer identity, making the product not just helpful but personally meaningful.
4. **Brand-Based Differentiation:** Branding is a powerful form of differentiation. A strong brand identity conveys symbolic meaning, emotional value, and reputation. Even when functional differences between products are minor, branding can make one product stand out distinctly in consumers' minds.

5. **Service and Experience Differentiation:** Differentiation can also arise from superior customer service, warranties, after-sales support, personalised interactions, and smooth purchasing experiences. In markets where products are similar, the overall customer experience often becomes the most critical differentiator.
6. **Packaging Differentiation:** Packaging differentiation refers to using unique packaging design, colour, shape, and materials to make a product stand out from competitors. It helps attract customer attention, builds brand identity, and communicates important information clearly. Convenient features like resealable packs or easy-open designs add extra value to the user. Packaging can also show a brand's personality, such as premium, eco-friendly, or youthful. In today's market, attractive and thoughtful packaging strongly influences buying decisions and enhances the overall customer experience.

Strategic Impact on Pricing and Positioning

A key strategic benefit of product differentiation is its strong effect on pricing and market positioning. When consumers see a product as unique—whether due to its superior features, design, quality, brand reputation, or user experience—they become less sensitive to price, this means customers are willing to pay higher prices because they believe the product offers greater value than competitors. Consequently, differentiated products often command premium prices, allowing firms to gain higher profit margins and better financial results. Premium pricing is especially crucial in markets where production costs are high, innovation cycles are short, or brand reputation is vital. Beyond pricing, differentiation also supports the creation of clear and attractive positioning strategies. A well-differentiated product can be branded as "luxurious," "high-performance," "eco-friendly," "technologically advanced," "value for money," or "youth-centric," depending on the qualities highlighted by the firm. Effective positioning helps the product carve out a distinct space in the consumer's mind, shaping expectations and purchasing decisions. Therefore, differentiation influences not only how much a consumer is willing to pay but also how the product is seen, remembered, and compared within the competitive landscape.

Sustaining Differentiation Over Time

While differentiation is a powerful strategic tool, sustaining it over time is a significant challenge. In dynamic markets, competitors continuously observe, imitate, and even surpass differentiated features, making initial advantages temporary if not actively maintained. For this reason, firms must treat differentiation as an ongoing process rather than a single achievement. Sustained differentiation requires regular investments in innovation, research and development, product upgrades, and technology adoption. Companies must refine existing features, introduce new functionalities, and periodically refresh designs to stay ahead of the competition. Additionally, maintaining differentiation involves strengthening the intangible aspects of the product, such as brand image, emotional appeal, customer service quality, and the overall customer experience. In service-driven markets, particularly, experience-based differentiation—such as personalised service, faster delivery, or superior after-sales support—must be continuously improved to match rising customer expectations. As market trends evolve, firms must remain agile and responsive, ensuring their product continues to meet contemporary consumer needs. By consistently enhancing both the tangible and intangible elements of the offering, firms can protect their differentiated position and prevent commoditization over time.

Risks and Challenges in Differentiation

Despite its benefits, product differentiation involves several risks and challenges that companies must manage carefully. Poorly planned or poorly executed differentiation can lead to customer dissatisfaction and damage brand credibility. A common risk is over-promising—when companies claim unique features or superior performance that the product cannot truly deliver. This gap between expectations and reality can harm consumer trust, which is often hard to rebuild. Another challenge occurs when differentiation efforts focus too much on features that customers do not value or are unwilling to pay extra for. In such cases, companies may face unnecessary costs without gaining meaningful market benefits. Differentiation can also create excessive product complexity, making the offering hard to use or understand. Additionally, markets with rapidly advancing technologies risk making differentiation quickly outdated, forcing companies into ongoing upgrades that strain resources. Competition imitation is another significant challenge; even strong differentiators risk losing their advantage if rivals successfully copy key features. Therefore, companies must ensure their differentiation strategies are genuine, meaningful, aligned with customer expectations, cost-effective, and backed by consistent product performance.

Significance of Product Differentiation

The importance of product differentiation lies in its ability to establish a lasting competitive advantage and ensure long-term business success. In markets marked by fierce competition and minimal differences between products, differentiation allows a product to go beyond basic functionality and develop a unique identity that resonates with consumers. By creating perceived value—whether through innovative features, superior quality, emotional appeal, memorable branding, or exceptional customer service—differentiation enhances the product's market position. It also fosters customer loyalty, reduces vulnerability to price competition, and improves the firm's capacity to introduce related products or brand extensions. Differentiation supports strategic agility by enabling companies to access premium segments, defend against new competitors, and respond creatively to changing market demands. Ultimately, it influences both the economic and psychological aspects of consumer choice, affecting how customers assess alternatives and which brands they prefer. For these reasons, product differentiation remains a key element of modern marketing strategy, guiding firms in designing, developing, and promoting offerings that maintain lasting relevance and competitive advantage.

11.4 PACKAGING

"Packaging may be defined as the general group of activities in product planning which involves designing and producing the container or wrapper of the product"

- William J Stanton

Reasons for the growth of the Packaging:

- Self Service: Sales tasks, attract attention, describe the product features, create consumer confidence, and convey the appearance and prestige of a better package.

- ❖ Consumer Affluence: willing to pay a little more for the convenience, appearance, dependability and prestige of a better package.
- ❖ Company and Brand Image: Instant recognition of the company and brand.

Purpose of Packaging

1. **Product Protection:** Packaging safeguards the product from physical damage, contamination, and environmental factors like moisture, heat, or dust. It ensures that the product reaches the consumer in perfect condition, maintaining its quality and shelf life. Proper protection reduces returns and increases customer satisfaction.
2. **Product Attraction:** Attractive packaging captures the attention of potential buyers and encourages them to choose the product over competitors. Visual elements such as colours, design, and shapes play a significant role in shaping consumer perception. Packaging serves as a silent salesperson on the store shelf.
3. **Product Identification:** Packaging helps consumers quickly identify the brand and distinguish it from similar products in the market. Logos, brand colours, and labels make it easy for customers to locate the product. Clear identification strengthens brand recall and loyalty.
4. **Product Convenience:** Good packaging enhances usability, handling, storage, and transportation of the product. Features such as easy-open lids, resealable packs, and portion-controlled sizes improve consumer convenience. Convenient packaging encourages repeated purchases.
5. **Effective Sales Tools:** Packaging acts as a marketing tool by conveying information, features, and benefits of the product. It communicates the value proposition and creates a favourable impression before the consumer interacts with the product. Innovative packaging can boost sales directly at the point of purchase.
6. **Channel Cooperation:** Packaging facilitates storage, handling, and display across the supply chain, from manufacturer to retailer. Efficient packaging reduces breakage and simplifies logistics. It also helps retailers present the product effectively to end consumers.

Functions of Packaging

1. **Product Identification and Differentiation:** Packaging distinguishes a product from competitors and creates a unique identity. It uses visual cues like color, logo, and design to ensure the product stands out. Differentiation helps build brand recognition and consumer preference.
2. **Communicates Product Message:** Packaging conveys essential product information, such as ingredients, usage instructions, and benefits. It educates and informs the consumer while reinforcing brand values. Clear messaging builds trust and credibility.
3. **Brand Repositioning Strategy:** Packaging can be used to reposition a brand in the market by reflecting changes in quality, pricing, or target audience. A refreshed look can

attract new customers and update the brand's image. Strategic packaging helps maintain market relevance.

4. **Repeats the Selling Message:** Packaging reinforces advertising and promotional messages, reminding consumers of the product's value. Repetition through consistent visual and verbal cues strengthens brand recall. This continuous engagement boosts purchase decisions.

5. **Promotes the Product at the Point of Purchase:** Packaging directly influences buying behaviour at the retail location. Eye-catching design, product visibility, and informative labelling encourage consumers to pick the product. It acts as a silent promoter without additional advertising costs.

11.4.1 TYPES OF PACKAGING:

Consumer Packaging: Consumer packaging is designed for the end-user of a product. It protects the product, provides convenience, and enhances appeal. It often includes information such as brand, usage instructions, and safety details. Examples include snack packs, soft drink bottles, and cosmetic containers.

2. Family Package: Family packaging contains larger quantities intended for household use. It is cost-effective and reduces the frequency of repurchase. Such packaging is designed for easy storage and sharing among family members. Common examples are large detergent packs or bulk food items.

3. Re-use Package: Re-use packaging is designed to be used multiple times, reducing waste and promoting sustainability. Consumers can refill or repurpose these packages. Examples include refillable water bottles, jars, and shopping bags. This approach supports eco-friendly practices.

4. Multiple Package: Multiple packaging bundles several individual units together into a single package. It is convenient for bulk sales and promotions. Examples include a pack of 6 soft drinks or a box of multiple toothbrushes. This type helps in transportation and inventory management.

5. Transit Package: Transit packaging is primarily designed for the safe transportation of goods. It ensures products reach their destination without damage. These packages are durable and often include pallets, cartons, and crates. Examples include shipping boxes and protective packaging for electronics.

6. Squeeze Bottles: Squeeze bottles allow controlled dispensing of liquids or semi-liquids. They are commonly used for sauces, condiments, and personal care products. The soft material makes handling easier and reduces waste. These bottles are user-friendly and hygienic.

7. Tubes: Tubes are cylindrical containers used for creams, gels, pastes, and ointments. They are lightweight, portable, and protect the product from contamination. Tubes often have a screw or flip cap for easy dispensing. Examples include toothpaste and cosmetic creams.

8. Sheet-formed Container: Sheet-formed containers are made by shaping sheets of plastic, metal, or paper into the desired form. They are durable, lightweight, and versatile. Examples include clamshells, trays, and cartons. These containers are ideal for protecting products during storage and display.

9. Skin Packaging: Skin packaging involves sealing a product between a transparent plastic film and a backing card. It enhances visibility while protecting the product. It is commonly used for tools, electronics, and small consumer goods. Skin packaging is tamper-resistant and visually appealing.

10. Blister Packaging: Blister packs consist of a pre-formed plastic cavity with a backing card. They protect individual items and prevent damage or contamination. Commonly used for pharmaceuticals, candies, and small electronics. They allow easy identification and display of products.

11. Semi-Rigid Packaging: Semi-rigid packaging provides moderate strength and flexibility. It is stronger than flexible packaging but not as hard as rigid packaging. Examples include containers for dairy products, trays, and tubs. It combines product protection with ease of handling.

11. Sachets: Sachets are small sealed pouches that hold single-use or small quantities of products. They are cost-effective and convenient for sampling or travel. Commonly used for powders, condiments, and personal care items. Sachets are lightweight and easy to distribute.

11.4.2 Advantages of Packaging

Packaging provides distinct advantages for manufacturers, middlemen, and consumers.

Advantages to Manufacturers

1. **Keeps the product safe:** Packaging protects products from damage, contamination, and spoilage during storage and transportation.
2. **Minimizes adulteration:** Well-sealed and tamper-proof packaging reduces the risk of product adulteration.
3. **Facilitates storage:** Proper packaging allows easy stacking, storage, and inventory management in warehouses.
4. **Aids advertising and sales promotion:** Attractive packaging can promote the product, highlight brand features, and influence purchase decisions.
5. **Facilitates distribution:** Packaging simplifies handling, transportation, and delivery across the supply chain.

6. **Increases demand:** Eye-catching and functional packaging can attract consumers and boost sales.
7. **Enhances profitability:** Efficient packaging reduces losses, improves sales, and contributes to higher profits.

Advantages to Middlemen (Wholesalers/Retailers)

1. **Helpful in storage:** Packaged goods are easier to store in warehouses and shops.
2. **Ease in handling:** Well-designed packaging makes transportation and handling simpler.
3. **Product presentation:** Attractive packaging helps display products effectively to customers.
4. **Increases sales and profits:** Good packaging draws consumer attention, facilitating higher turnover and profits.

Advantages to Consumers

1. **Reduces adulteration:** Proper packaging ensures the product remains pure and safe for consumption.
2. **Provides product information:** Labels offer details about ingredients, manufacturing date, and expiry date.
3. **Information about the producer:** Packaging often includes manufacturer details for credibility and trust.
4. **Instructions for use:** Helps consumers use the product correctly and safely**.**
5. **Ease of handling:** Convenient packaging allows easy storage, transport, and use.

11.5 SUMMARY

The Product Life Cycle shows the journey of a product from Introduction to Decline, helping companies plan marketing, production, and pricing strategies. Product Differentiation allows a product to stand out from competitors by emphasising unique features, design, quality, branding, or packaging, enabling firms to charge premium prices and foster customer loyalty. Packaging is more than just a protective cover; it ensures product safety, offers convenience, communicates brand identity, attracts customers, and supports promotional activities. Together, these concepts guide firms in maintaining market relevance and profitability.

11.6 TECHNICAL TERMS

1. Introduction Stage – Product launch, slow sales, high marketing costs.
2. Growth Stage – Rapid sales increase, growing competition, rising profits.
3. Maturity Stage – Peak sales, market saturation, focus on differentiation.
4. Decline Stage – Sales decrease, product may be withdrawn or updated.
5. Unique Selling Proposition (USP) – Feature that makes a product unique.

6. Brand Positioning – Consumer perception of the product relative to competitors.
7. Premium Pricing – Charging more due to perceived uniqueness or added value.
8. Tangible Differentiation – Physical features like design, quality
9. Primary Packaging – Directly contains the product (bottle, box, sachet).
10. Secondary Packaging – Outer layer for storage, transport, or display.
11. Tamper-proof Packaging – Prevents contamination or adulteration.
12. Sustainable Packaging – Environment-friendly packaging materials.
13. Branding through Packaging – Packaging used as a marketing and promotional tool.

11.7 SELF-ASSESSMENT QUESTIONS:

1. Name and explain the four stages of the PLC.
2. How do marketing strategies differ in Growth vs Maturity stages?
3. Why should companies anticipate the Decline stage?
4. Give examples of products at different PLC stages.
5. What is product differentiation, and why is it important?
6. Explain tangible and intangible differentiation with examples.
7. How does packaging contribute to product differentiation?
8. Provide an example of a successfully differentiated product in the market.
9. What are the main functions of packaging?
10. List the advantages of packaging for manufacturers, middlemen, and consumers.
11. How can packaging serve as a marketing tool?
12. Give examples of sustainable packaging in the market.

11.8 SUGGESTED READINGS

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Dr G. Malathi

LESSON – 12

PRICING POLICIES AND PRACTICES

12.0 OBJECTIVES

After going through this Unit, you should be able to:

- appreciate the factors affecting the pricing decision
- understand the importance and role of cost in pricing
- identify the different methods used in pricing
- understand how pricing can be used to achieve the objectives at each stage of the product life-cycle
- understand the difference in pricing of consumer and industrial products
- understand how pricing can help position. a product in relation to other competing products.

STRUCTURE

12.1 INTRODUCTION

Price is an important element of the marketing mix. It can be used as a strategic marketing variable to meet competition. It is also a direct source of revenue for the firm. It must not only cover the costs but leave some margin to generate profit for the firm. However, price should not be so high as to frighten the customers. Price is also an element which is highly perceptible to customers and significantly affects their decisions to buy a product. In general, price directly determines the quantity to be sold. That is why electric fans are sold at lower prices and hotels reduce their tariffs during off season periods to attract customers.

12.2 DETERMINANTS OF PRICING

Pricing decisions are usually determined by cost, demand and. competition. We shall discuss each of these, factors separately. We take demand first.

Demand

The popular `Law of Demand' states that "higher the price; lower the demand, and vice versa, other things remaining the same" . In season, due to plentiful supplies of certain, agricultural products, the prices are low and because of low prices, the demand for them increases substantially. You can test the validity of this law yourself in your daily life. There is an inverse relationship between price and quantity demanded. If price rises, demand falls and if the price falls, the demand goes up. Of course, the law of demand assumes that there should be no change in the other factors influencing demand except price. If any one or more of the other factors, for instance, income, the price of the substitutes, tastes and perferences of the consumers, advertising, expenditures, etc. vary, the demand may rise in spite of a rise in price, or alternatively, the demand may fall in spite of a fall in price. However, there are important exceptions to the law of demand.

There are some goods which are purchased mainly for their `snob appeal'. When prices of such goods rise, their snob appeal increases and they are purchased in larger quantities. On the other hand, as the price of such goods falls, their snob appeal and, therefore, their demand falls. Diamonds provide a good example.

In the speculative market, a rise in prices is frequently followed by larger purchases and a fall in prices by smaller purchases. This is specially applicable to purchases of industrial raw materials.

More important than the law of demand is the elasticity of demand. While the law of demand tells us the direction of change in demand, elasticity of demand tells us the extent of change in demand. Elasticity of demand refers to the response of demand to a change in price.

It is necessary for the marketer to know what would be the reaction of the consumers to the change he wishes to make in the price. Let us take some examples. Smokers are usually so addicted to smoking that they will not give up smoking even if prices of cigarettes increase. So also the demand for salt or for that matter of wheat is not likely to go down even if the prices increase. Another example of inelastic demand is the demand for technical journals, which are sold mainly to libraries. On the other hand, a reduction in the price of television will bring in more than proportionate increase in demand. Some of the factors determining the price-elasticity of demand are the ,nature of the commodity, whether it is a necessity or luxury, extent of use, range of substitutes, urgency of demand and frequency of purchase of the product.

The concept of elasticity of demand becomes crucial when a marketer is thinking of lowering his price to increase the demand for his product and to get a larger market share. If the increase in sales is more than proportionate to the decline in price, his total sale proceeds and his profits might be higher. If the increase in sales is less than proportionate, his total sales proceeds will decline and his profits will definitely be less. Thus a knowledge of the elasticity of demand for his products will help a marketer to determine whether and to what extent he can cut the prices or pass on the, increase in costs to the consumer.

It may also be noted that the price elasticity of demand for a certain commodity and the price elasticity of demand for a certain brand of that commodity may be radically different. For example, while the demand for cigarettes as such, may be highly inelastic, the price elasticity of demand for Four Square or Charrhs' may be highly elastic. The reasons for this are weak brand loyalty and the availability, of substitutes.

Exercise 1

'The total annual demand for fans in a country in 1997 was estimated to be 100,0000 units. A company manufacturing table fans had 20% market share. The average price of its fans was Rs.1000per unit. The gross margin per unit was Rs.100. The capacity of the company is .200,000 fans. The impact on sales as prices were changed was estimated as follows :

	Price .	Estimated Sales
A)	Rs.1100	92,000
B)	Rs.1040	88,000
C)	Rs 960	1,12,000
D)	Rs.900	2,00.000

Would you recommend a price change? If yes,-what price will you recommend?

HINT: Calculate the sales revenue and gross margin for each of the price levels.

Competition

The degree of control over prices which the sellers may exercise varies widely with the competitive situation in which they operate. Sellers operating under conditions of pure competition do not have any control over the prices they receive. A monopolist, on the other hand, may fix prices according to his discretion. Sellers operating under imperfect competition may have some pricing discretion. The marketer, therefore, needs to know the degree of pricing discretion enjoyed by him. Let us take. up each of these cases individually.

Perfect competition is said to exist when (i) there are a large number of buyers and sellers, (ii) each purchasing and selling such a small quantity that their withdrawal from the market will not affect the total demand and supply, (iii) the products sold by sellers are homogeneous in nature.

Prices under perfect competition are determined by the forces of supply and demand. Prices will be fixed at a point where supply and demand are at an equilibrium. This is illustrated in the following figure:

In pure competition, all that the individual seller can do is to accept the price prevailing in the market, i.e. he is in the position of a Price Taker. If he wants to charge a higher price, buyers will purchase from other sellers. And he need not charge less since he can sell his small supply at the going market price,

Under monopoly, a single producer has complete control of the entire supply of a certain product. Railways and telephones are examples of monopoly. The main features of monopoly are (i) there is only one seller of a particular good or service and (ii) rivalry from the producers of substitutes is so remote that it is almost insignificant. As a result, the monopolist is in a position to set the price himself. Thus, he is in the position of a Price Setter.

However, even in the case of monopoly, there are limits to the extent to which he can increase his prices. Much depends on the elasticity of demand for the product. This, in turn, depends on the extent of availability of substitutes for the product. And in most cases, there is rather an infinite series of closely competing substitutes. Even railways and telephones organisations must take into account potential competition by alternative services-railways may be substituted by motor transport and telephone calls by telegrams. The closer the substitute and greater the elasticity of the demand for a monopolist's product, the less he can raise his price without frightening away his customers. High price of oil has led to development of alternative sources of energy.

Monopolies are constantly tending the break down due to the following reasons:

(i) shifts in consumer demand, (ii) continuous process of innovations and technological developments leading to development of substitutes, (iii) lack of stimulus to efficiency provided by competition, (iv) entry of new competitors, and (v) intervention by governments.

Oligopoly is a market situation characterised by a few sellers, each having an appreciable share in the total output of the commodity. Examples of oligopoly are provided by the automobiles, cement, tyre, infant food, dry batteries, tractor, cigarettes, aluminium and razor blades industries. In each-of these industries, each seller knows his competitors individually in each market.

Each oligopolist realises that any change in his price and advertising policy may lead rivals to change their policies. Hence, an individual firm must consider the possible reactions of the other firms to its own policies. The smaller the number of firms, the more interdependent are their policies. In such cases, there is a strong tendency towards close collaboration in policy determination both in regard to production and prices. Thus, oligopolists follow the philosophy of `live and let live'. Two examples of this may be mentioned here. In response to tenders invited by the Director General of Civil Supplies and Disposals, the three principal manufacturers of storage batteries, viz. Chloride India, Standard Batteries and AMCO Batteries, quoted almost identical prices.

Oligopolistic industries are usually characterised by what is known as price leadership-a situation where firms fix their prices in a manner dependent upon the price charged by one of the firms in the industry, called the price leader. The price. leader has lower costs and adequate financial resources, a substantial share of the market and a reputation for sound pricing decisions. Price leaders with the strongest position in the market may often increase their prices with the hope that competitors will follow suit. Price followers may delay raising their prices in the hope of snatching a part of the market share away from the leader.

Monopolistic competition is a market situation, in which there are many sellers of a particular product, but the product of each sellers is in some way differentiated in the minds of consumers from the product of every other seller. None of the sellers is in a position to control a major part of the total supply of the commodity but every seller so differentiates his portion of the supply from the portions sold by others, that buyers hesitate to shift their purchases from his product to that of another in response to price differences. At times, one manufacturer may differentiate his own products.

For example, a blade manufacturer in lndia manufactures more than 25 brands of blades. This differentiation of product by each manufacturer by giving it a brand name gives him some amount. of monopoly if he is able to create a goodwill for his product and he may be able to charge higher prices thereof to some extent. Still, his product will have to compete with similar products of other manufacturers which puts a limit on his pricing discretion. If he charges too high a price, consumers may shift their loyalty to other competing suppliers. You can find it out yourself by going to the market, as a large number of consumer goods like toothpastes, soaps, cigarettes, radios, etc. are subject to a large degree of product differentiation as a means of attracting customer.

As long as a consumer has an impression that a particular product brand is different and superior to others, he will be willing to pay more for that brand than for any other brand of the same commodity. The differences real or illusory, may be built up in his mind by (a) recommendations by friends, (b) advertising, and (c) his own experience and observation. The producer gains and retains his customers by (a) competitive advertising and sales promotion, (b) the use of brand names quite as much as by (c) price competition.

Product differentiation is more typical of the present day economic system, than either pure competition or monopoly. And, in most cases, an individual firm has to face monopolistic competition. It tries to maintain its position and promote its sales by either (i) changing its price and indulging in price competition, or (ii) intensifying the differentiation of its product, and/or (iii) increasing its advertisement and sales promotion efforts.

12.3 ROLE OF COSTS IN PRICING

There is a popular belief that costs determine price. It is because the cost data constitute the fundamental element in the price setting process. However, their relevance to the pricing decision must neither be underestimated nor exaggerated. For setting prices, apart from costs, a number of other factors have to he taken into consideration. Demand is of equal, and, in some cases, of greater importance than costs. An increase in cost may appear to justify an increase in prices yet the demand situation may not permit such an increase. On the other hand, an increase in demand may make increase in prices possible, even without any increase in costs.

Very often, price determines the cost that may be incurred. The product is tailored to the requirements of the potential consumers and their capacity to pay for it. The radio manufacturers in India realised that if they have to capture the mass market prevailing in India, they have to price it at low level which could be done only by reducing costs-reducing the number of wave-bands in the radio. And now a single wave radio is available at around Rs. 100. Given the price, we arrive at the cost working backwards from the price consumers can afford to pay. Over a period, cost and quality are adjusted to the given price.

If costs were to determine prices, why do so many companies report losses? There are marked differences in costs as between one producer and another. Yet the facts remains that the prices are quite close for a somewhat similar product. This is, if anything, is best evidence of that costs are not the determining factor in pricing.

Price decisions cannot be based merely on cost. It is very difficult to measure costs accurately. Costs are affected by volume, and volume is affected by price. The management has to assume some desire price and volume relationship for determining costs. That is why costs play even a less important role in case of new products as compared to existing products. It is not possible to determine costs without having an idea of what volumes or numbers can be sold. But, since there is no experience of volumes, costs and prices, one starts with the going market price for similar products.

All this discussion does not purport to show that costs should be ignored altogether while setting prices. Costs have to be taken into consideration. In fact, in the long-run, if costs are not covered, manufacturers will withdraw from the market and supply will be reduced which, in turn, may lead to higher prices. The point that needs emphasis is that cost is not the only factor in setting prices. Cost must be regarded only as an indicator of the price which ought to be set after taking into consideration the demand, the competitive situation, and other factors.

Costs determine the profit consequences of the various pricing alternatives. Cost calculations may also help in determining whether the product whose price is determined by its demand is to be included in the product line or not.

Exercise 2

In the example stated in Exercise 1, the cost behaviour changes for various levels of production as follows:

No.of unitsmanufactured	Cost Price per unit (Rs.)
50,000	450
45,000	470
55,000	440
60,000	430
70,000	420
100,000	400

Considering the price levels and expected sales mentioned earlier in Exercise 1, what would be the optimal price under above cost behaviour situation?

12.4 PRICING METHODS

After discussing the various considerations affecting pricing policies, it would be useful to discuss the alternative pricing methods most commonly used. These methods are:

Cost-plus or Full-cost pricing

Pricing for a rate of return, also called target pricing Marginal cost pricing

Going rate pricing, and

Customary prices.

The first three methods are cost-oriented as the prices are determined on the basis of costs. The last two methods are competition-oriented as the prices here are set on the basis of what competitors are charging.

Cost-plus or Full-cost Pricing

This is most common method used in pricing. Under this method, the price is set to cover costs (materials, labour and overhead) and a predetermined percentage for profit. The percentage differs strikingly among industries, among members-firms and even among products of the same firm. This may reflect differences in competitive intensity, differences in cost base and differences in the rate of turnover and risk. In fact, it denotes some vague notion of a just profit.

What determines the normal profit? Ordinarily margins charged are highly sensitive to the market situation. They may, however, tend to be inflexible in the following cases : (i) they may become merely a matter of common practice, (ii) mark-ups may be determined by trade associations either by means of advisory price lists or by actual lists of mark-ups distributed to members, (iii) profits sanctioned under price control as the maximum profit margins remain the same even after the price control is discontinued. These margins are considered ethical as well as reasonable. Its inadequacies are:

1. It ignores demand-there is no necessary relationship between cost and what people will pay for a product.
2. It fails to reflect the forces of competition adequately. Regardless of the margin of profit added, no profit is made unless what is produced is actually sold.
3. Any method of allocating overheads is arbitrary and may be unrealistic. Insofar as different prices would give rise to different sales volumes, unit costs are a function of price, and therefore, cannot provide a suitable basis for fixing prices. The situation becomes more difficult in multi-product firms.
4. It may be based on a concept of cost which may not be relevant for the pricing decision.

Explanation for the Widespread use of Full-cost Pricing

A clear explanation cannot be given for the widespread use of full-cost pricing, as firms vary greatly in size, product characteristics and product range, and face varying degrees of competition in markets for their products. However, the following points may explain its popularity:

1. Prices based on full-cost look factual and precise and may be more defensible on moral grounds than prices established by other means.
2. Firms preferring stability, use full-cost as a guide to pricing in an uncertain market where knowledge is incomplete. In cases where costs of getting information are high and the process of trial and error is costly, they use it to reduce the cost of decision-making.
3. In practice, firms are uncertain about the shape of their demand curve and about the probable response to any price change. This makes it too risky to move away from full-cost pricing.
4. Fixed costs must be covered in the long-run and firms feel insecure that if they are not covered in the long-run either.
5. A major uncertainty in setting a price is the unknown reaction of rivals to that price When products and production processes are similar, cost-plus pricing may offer source of competitive stability by setting a price that is more likely to yield acceptable profit to most other members of the industry also.
6. Management tends to know more about products costs than other factors which are relevant to pricing.
7. Cost-plus pricing is specially useful in the following cases:

   a) Public utilities such as electricity supply, transport, where the

b) objective is to provide basic amenities to society at a price which even the poorest can afford.

c) Product tailoring, i.e. determining the product design when the

d) selling price is predetermined. The selling price may be determined by government, as in case of certain drugs, cement, fertilisers. By working back from this price, the product design and the permissible cost is decided upon. This approach takes into account the market realities by looking from the viewpoint of the buyer in terms of what he wants and what he. will pay.

e) Pricing products that are designed to the specification of a single

f) buyer as applicable in case of a turn key project. The basis of pricing is estimated cost plus gross margin that the firm could have got by using facilities otherwise.

g) Monopsony buying-where the buyers know a great deal about

h) suppliers' costs as in case of an automobile buying, components from its ancillary units. They may make the products themselves if they do not like the price. The more relevant cost is the cost that the buying company, say, the automobile manufacturer, would incur if it made the product itself.

In India, cost-plus method is widely used. There are two special reasons which could explain its wide use in India.

1. 1 The prevalence of sellers' market in India makes it possible for the manufacturers to pass on the increases in costs to the consumers.
2. 2 Costs plus a reasonable margin of profit are taken into consideration for the purposes of price fixation in the price-controlled industries in India. Thus, this method has the tacit approval of the Government.
3. 3 To conclude, cost-plus is a pricing convention relying on arbitrary costs and arbitrary mark-ups. It is adopted because it is simpler to apply.

Pricing for a Rate of Return

An important problem that a firm might have to face is one of adjusting the prices to changes in costs. For this purpose the popular policies that are often followed are as under:

1. Revise prices to maintain a constant percentage mark-up over costs.

2. Revise prices to maintain profits as a constant percentage of total sales

3. Revise prices to maintain a constant return on invested capital.

The use of above policies is illustrated below:

Illustration

A firm sells 1,00,000 units per year at a factory price of Rs. 12 per unit. The various costs are given below:

Variable Costs	Materials	Rs. 3,60,000
	Labour	Rs. 4,20,000
Fixed Costs	Overhead Selling & Administrative	Rs, 1,20,000
Total investment in cash,		Rs. 1,80,000
inventory and equipment		Rs. 8,00,000

Suppose the labour and materials cost increases by 10 per cent. The question is how to revise price according to the three policies discussed above.

The above data reveal that costs are Rs. 10,80,000. The profits as percentage of costs, sales and capital employed (according to the three policies are):

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According to the first formula, we have to earn a profit of 11.1 per cent on costs. Our revised profits should be Rs. 1,28,667 and sales volume on this basis would be Rs. 12,86,667. The selling price would, therefore, be Rs. 12.87 per unit.

Under the second formula, the profit should be 10 per cent on sales. If sales are S, the profit would be S/10 and cost would be 9S/10. The cost is known to us and we have to find out the sales.

If 9S/10= Rs. 11,58,000 than S= Rs. 12,86,667

Therefore, the price per unit is Rs. 12.87.

Under the third formula, we assume that the capital investment is the same. Therefore, the required profit is Rs. 1,20,000 (15 per cent on Rs, 8,00,000) . The sales value would then be Rs. 12,78,000 and the selling price per unit would be Rs. 12.78.

Rate of return pricing is a refined variant of full-cost pricing. Naturally, it has the same inadequacies, viz., it tends to ignore demand and fails to reflect competition adequately. It is based upon a concept of cost which may not be relevant to the pricing decision at hand and overplays the precision of allocated fixed costs and capital employed.

Marginal Cost Pricing

Both under full-cost pricing and the rate-of-return pricing, prices are based on total costs comprising fixed and variable costs. Under marginal cost pricing, fixed costs are ignored and prices are determined on the basis of marginal cost. The firm uses only those costs that are directly attributable to the output of a specific product.

With marginal cost pricing, the firm seeks to fix its prices so as to maximise its total contribution to fixed costs and profit. Unless the manufacturer's products are in direct competition with each other, this objective is achieved by considering each product in isolation and fixing its price at a level which is calculated to maximise its total contribution.

Advantages

1. With marginal cost pricing, prices are never rendered uncompetitive merely because of a higher fixed over-head structure. The firm's prices will only be rendered uncompetitive by higher variable costs, and these are controllable in the short-run while certain fixed costs are not.
2. Marginal cost pricing permits a manufacturer to develop a far more aggressive pricing policy than does full-cost pricing. An aggressive pricing policy should lead to higher sales and possibly reduced marginal costs through increased marginal physical productivity and lower input factor prices.
3. Marginal cost pricing is more useful for pricing over the life-cycle of a product, which requires short-run marginal cost and separable fixed cost data relevant to each particular state of the cycle, not long-run full-cost data.

Marginal cost pricing is more effective than full-cost pricing because of two characteristics of modern business:

a) The prevalence of multi-product, multi-process and multi-market concerns makes the absorption of fixed costs into product costs absurd. The total costs of separate products can never be estimated satisfactorily, and the optimal relationships

b) between costs and prices will vary substantially both among different products and between different markets.

In many businesses, the dominant force is innovation combined with constant scientific and technological development, and the long-run situation is often highly unpredictable. There is a series of short-runs of production and one must aim at maximising contribution in each short-run. When rapid developments are taking place, fixed costs and demand conditions may change from one short-run to another, and only by maximising contribution in each short-run will profit be maximised in the long-run.

Limitations

1. The encouragement to take on business which makes only a small contribution may be so strong that when an opportunity for higher contribution business arises, such business may have to be foregone because of inadequate free capacity, unless there is an expansion in organisation and facilities with the attendant increase in fixed costs.
2. In a period of business recession, firms using marginal cost pricing may lower prices in order to maintain business and this may lead other firms to reduce their prices leading to cut-throat competition. With the existence of idle capacity and the pressure of fixed costs, firms may successively cut down prices to a point at which no one is earning sufficient total contribution to cover its fixed costs and earn a fair return on capital employed.

In spite of its advantage, due to its inherent weakness of not ensuring the coverage of fixed costs, marginal cost pricing has usually been confined to pricing decision relating to special orders.

Going-rate Pricing

Instead of the cost, the emphasis here is on the market. The firm adjusts it own price policy to the general pricing structure in the industry. Where costs are particularly difficult to measure, this may seem to be the logical first step in a rational pricing policy. Many cases of this type are situations of price leadership. Where price leadership is well established, charging according to what competitors are charging may be the only safe policy.

It must be noted that `going-rate pricing' is not quite the same as accepting a price impersonally set by a near perfect market. Rather it would seem that the firm has some power to set its own price and could be a price maker if it chooses to face all the consequences. It prefers, however, to take the safe course and conform to the policy of others.

Customary Pricing

Prices of certain goods become more or less fixed, not by deliberate action on the sellers' part but as a result of their having prevailed for a considerable period of time. For such goods, changes in costs are usually reflected in changes in quality or quantity. Only when the costs change significantly the customary prices of these goods are changed.

Customary prices may be maintained even when products are changed. For example, the new model of an electric fan may be priced at the same level as the discontinued model. This is usually so even in the face of lower costs. A lower price may cause an adverse reaction on the competitors leading to a price war so also on the consumers who may think that the quality of the new model is inferior. Perhaps, going along with the old price is the easiest thing to do. Whatever be the reasons, the maintenance of existing prices as long as possible is a factor in the pricing of many products.

It a change in customary prices is intended, the pricing executive must study the pricing policies and practices of competing firms and the behavior and emotional make-up of his opposite number in those firms. Another possible way out, specially when an upward move is sought, is to test the new prices in a limited market to determine the consumer reaction.

Exercise 3

Consider the following data for a door handle:

Direct labour per unit	Rs. 7.50
Raw Materials per unit	Rs. 2.00
Advertising and Sales Force costs	Rs. 400,000
Other relevant fixed costs	Rs. 100,000
Current going-rate (Market) Price/Unit	Rs. 22.00

Question 1

a) Find out the contribution/unit.
b) No. of units to be sold for breaking even (Break-even point is the point where no loss or profit is made).

Question 2

a) If profit target is Rs. 60,000, how many units should be sold?
b) If currently 50,000 units are being sold, what is the profit?

Question 3

a) If owner's investment in the plant is Rs. 1,000,000 and they desire 20% rate of return before tax after covering all expenses, how many units should be sold?

Question 4

a) Let us assume that consumer behaviour in terms of units bought of this manufacturer is as follows:

Price	No. of units sold
22	50,000
21	60,000
20	70,000
23	40,000
24	30,000
25	20,000

What is the price at which manufacturer should sell the product?

Answers

1(a)-Rs. 12.50 1(b)-40,000 units 2(a)-44,800 units

2(b)-Rs. 125,000 3(b)-Rs. 56,000 4(a)-Rs. 20

12.5 OBJECTIVES OF PRICING POLICY

Before a marketer fixes a price, he should keep in mind certain basic considerations. The price policy he adopts is closely related to his other policies, like production programme, advertising policy and selling methods. For example, it may be necessary to reduce the price to offset the probable loss of sales from a lower advertising budget or to enable fuller utilisation of plant capacity more quickly. Aggressive sales campaign may be necessary to meet the advent of a new competitor. Your price should not be so high that it attracts others to compete with you. A low price policy may result in such a high volume of sales and low unit costs that profits are maximised even at low prices.

"My policy is to reduce the price, extend the operations and improve the article. You will note that the reduction of price comes first. I have never considered any costs as fixed. Therefore, I first reduce the price to a point where I believe more sales will result. The new price forces the costs down.. (by forcing) everybody in the plant to the highest point of efficiency," Henry Ford quoted in Phillip and Duncan, Marketing, 3rd Edition, 1956, p. 696.

If a marketing manager is to make effective pricing decisions, he should be clear about the firm's long-term marketing objectives for the entire range of products and services. If the firm is interested in increased market share, it would have to resort to penetration pricing. If it is interested in short-term profitability, it may have a higher price even at the expense of sales volume and market share. The following table gives a summary view of some marketing objectives and their pricing implications:

12.6 CONSUMER PSYCHOLOGY AND PRICING

Sensitivity to price change will vary from consumer to consumer. In a particular situation, the behaviour of one individual may not be the same as that of the other. Some important characteristics of consumer behaviour as revealed by research and experience are detailed below:

1. From the point of view of the consumer, prices are quantitative and precise whereas product quality, product image, customer service, promotion and similar factors are qualitative and ambiguous. It is easier to speculate about what consumers would do if prices rose by 5 per cent than if the quality improved by 5 per cent.
2. Price constitutes a barrier to demand when it is too low just as much as when it is too high. Above a particular price, the article is regarded as too expensive and, below another price, as constituting a risk of not giving adequate value. If the price is too low, consumers will tend to think that a product is of inferior quality
3. Balsara, manufacturers of `Odonil' and `Promise' realised that pricing a product too low could adversely affect its sales by creating a credibility problem. Consequently, they began to price their products with higher unit margins, to make higher advertising outlays to emphasise product attributes rather than the price and provide more attractive margins to dealers to push up their products. (Business India, April 28-May 11, 1980, P-35).
4. Price inevitably enters into the consumer's assessment of quality. There are two reasons for this:

   a) It needs expert knowledge and appropriate equipment to test the quality or durability of some particular products (to say nothing of the time and cost involved in carrying out a proper test), and

   b) Customers tend to look upon price itself as a reasonably reliable indicator of quality. What is costly is thought to be of a high quality. A higher price is ordinarily taken to be a symbol of extra quality, or extra value of extra prestige. It is very difficult to convince people that something cheap is of good quality and that something expensive is of poor quality. It may be easier to prove that an expensive product is of superior quality than to prove that a cheap product is of good quality.

   This is specially true of durable consumer goods which are very often differentiated, at least psychologically, through branding, packaging and advertising. In such cases, the sale of certain goods could be stimulated more effectively through higher rather than lower prices for two reasons: (i) the higher price increases the snob appeal of the goods and, (ii) the higher price creates confidence in the customer that he is getting good quality.

   To conclude, in many cases, price is used by the prospective customer as a clue for sizing up the quality of the product. This price quality association is well established.

4. With an improvement in incomes, the average consumer becomes, quality-conscious. An improvement may, therefore, lead to an increase in demand. If this is so, a time may come

when a rise in price results in an increase in demand. This extreme situation may arise if price in increasingly affluent societies comes to serve merely as an indicator of quality.

5. Consumers may be persuaded to pay more for heavily advertised goods. A firm's size, its financial success, and even its age are often perceived by consumers as measures of quality. Well known firms very often assert that by virtue of their reputation they are able to charge 5 to 10 per cent higher than other firms but definitely not much more.

6. In a comprehensive survey of consumer consciousness, it was revealed that the basic postulate of the demand theory, i.e., the consumer has an appropriate knowledge of market prices, was not fundamentally wrong.

The following types of consumers are most likely to perceive price as an indicator of quality :

a) persons trying to achieve status,
b) occasional consumer who is not knowledgeable in a product area, e.g. , purchase of a camera, and
c) the buyer who is impressed by the importance of quality, but has difficulty in identifying it.

An experimental study in India showed that more than 60 per cent of the respondents revised their ratings of readymade shirts after knowing their prices indicating thereby that price information does have a significant effect on quality perception.

To conclude, higher prices that increase consumer readiness to buy may sound uneconomic, but may not be unrealistic. The price-quality concept has equal relevance to new product pricing. The lesson from this discussion is that the producer has considerable flexibility in pricing his products, provided he can create a psychological image of quality.

12.7 PRICING OF INDUSTRIAL GOODS

For many consumer products, buyers are not usually aware of the prevailing prices. Products falling in the category of luxury goods and items not frequently purchased would constitute such goods, consumers, of course are usually aware of the regularly purchased items like groceries. On the other hand, buyers of industrial goods tend to be price conscious. They are more keen to check what they get for the price they pay. They also tend to act more rationally than an average buyer of consumer goods. Their knowledge of markets is more intensive and exact, if not perfect. Very often the buyer of an industrial product knows or at least can make a guess of the costs of manufacture.

Product differentiation is easier in industrial goods than in consumer goods by

(i) providing better service in connection with delivery, use or installation, and

(ii) building a reputation for reliability or quality of workmanship. Moreover, product differentiation results much more from product differences that generate provable claims.

Branding, therefore, plays a much less important role in the marketing of industrial goods than in the case of consumer goods.

Price leadership is a Very common phenomenon in the industrial goods market.

The price elasticity of the demand for an industrial product would depend to some extent on how important its price is in the general cost structure of the using firm. If it represents a significant element, a reduction in price may lead to a substantial increase in demand. If it is not, a change in price may not lead to a change in demand. The demand for equipment, however, is much less price elastic because the price of the equipment is a part of the over-head cost which cannot be readily identified.

12.8 PRICING OVER THE LIFE-CYCLE OF A PRODUCT

Many products generally have a characteristic known as `perishable distinctiveness'. This means that a product which is distinct when new, degenerates over the years into a common commodity. The process by which the distinctiveness gradually disappears as the product merges with other competitive products has been rightly termed by Joel Dean as "the cycle of competitive degeneration". The cycle begins with the invention of a new product, and is often followed by patent protection, and further development to make it saleable. This is usually followed by a rapid expansion in its sales as the product gains market acceptance. Then competitors enter the field with imitation and rival products and the distinctiveness of the new product starts diminishing. The speed of degeneration differs from product to product. The innovation of a new product and its degeneration into a common product is termed as the life-cycle of a product.

There are five distinct stages in the life-cycle of a product as described under:

1. **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. Volume of sales is low and there may be heavy losses.

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

3. **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. There is no improvement in the product but changes in selling effort are common. Profit margins slip despite rising sales.

4. **Saturation:** Sales reach and remain on a plateau marked by the level of replacement demand. There is little additional demand to be stimulated.

5. **Decline:** Sales begin to diminish absolutely as the customers begin to tire of the product and the product is gradually edged out by better products or substitutes.

It may be noted that products may begin in new-cycle or revert to an early stage as a result of

a) the discovery of new uses,
b) the appearance of new users, and
c) introduction of new features.

As the distinctiveness of the products fades, the pricing discretion enjoyed by their producers gradually declines. This is what happened in the case of many products like ball point pens, transistors, radios, etc. Throughout the cycle, changes take place in price and promotional elasticity of demand as also in the production and distribution costs of the product. Pricing policy, therefore, must be adjusted over the various phases of the cycle. Let us know the pricing policy in the pioneering stage and the maturity stage of a product.

Pricing a new product

The basic question is whether to charge a high skimming (initial) price or a low penetration price.

If a skimming price is adopted, the initial price is very high. The policy may be held for varying periods of time, indefinitely if the product enjoys valid and defensible patent protection. But usually, it is not longer than the time necessary for competitors to study the product's usefulness, to decide what to do about it, and to prepare for making it, a period ranging from a few weeks to as much as two years. After this period, the price is apt to drop precipitately and over a period of a few years to approach the usual or customary margin above cost that is common in the industry.

In case of penetration pricing, the initial price of the new product is apt to be somewhere near what may be expected to be the usual or customary level once competitors enter the field, generally only slightly above the level. If the initial price is properly fixed, only minor adjustment would have to be made if and when competition develops. Figures III shows the behaviour of these two types of prices graphically:

A) A high initial price (skimming price), together with heavy promotional expenditure, may be used to launch a new product if conditions are appropriate.

For example:

a) Demand is likely to be less price elastic in the early stages than later, since high prices are unlikely to deter pioneering consumers. A new product being a novelty commands a better price. Again, at least in the early stages, the product has so few close rivals that cross elasticity of demand is low.
b) If the life of product promises to be a short one, a high initial price helps in getting as much of it and as fast as possible.

c) Such a policy can provide the basis for dividing the market into segments of differing elasticities. Hard bound edition of a book is usually followed by a paperback.
d) A high initial price may be useful if a high degree of production skill is needed to make the product so that it is difficult and time-consuming for competitors to enter on an economical basis.
e) It is a safe policy where elasticity is not known and the product not yet accepted. High initial price may finance the heavy costs of introducing a new product when uncertainties block the usual sources of capital. The benefits of reduction in product costs due to larger volume and technological developments, can be passed onto consumers by a gradual reduction in prices. Penicillin and streptomycin were introduced at a high initial price but are now very reasonably priced. Internationally, the first ball point pen produced in 1945 at a cost of 80 cents, sold at $ 12.50. Now they are available at less than 50 cents. So is the case with most electronic components.

B) A low penetration price: In certain conditions, it can be successful in expanding the market rapidly thereby obtaining larger sales volume and lower unit costs. It is appropriate where:

a) Sales respond quickly and strongly to low prices;
b) There are substantial cost savings from volume production;
c) The product is acceptable to the mass of consumers;
d) There is no strong patent protection; and
e) There is a threat of potential competition so that a big share of the market must be captured quickly.

The objective of low penetration price is to raise barriers against the entry of prospective competitors.

Change in Price

A) Reduction in prices: A reduction price may be made to achieve the following objectives:

1. Prices may be reduced to offset a possible loss of sales resulting from a lower advertising budget.
2. When a firm is expanding its capacity, temporary price cut may help the new plant to reach capacity operation more quickly.
3. Lower prices may help the firm to broaden the market for its products.
4. Prices may have to be reduced to meet competitive pressures from domestic or foreign companies producing the same product or substitute products.
5. Prices may be reduced drastically to prevent the entry of potential competitors.
6. Technological developments may lead to reduce costs and manufacturers may wish to pass on the benefit to the consumers.

Shrirain Chemicals have often reduced their prices as a result of advanced promotion techniques and better utilisation of installed capacity. DCM Data Products dramatically reduced the prices of their calculators in September, 1976 because of economies of scale.

Price reduction in individual drugs have always been a normal feature of the operations of the drugs industry both in India and abroad. Competition among drug manufacturers is becoming an increasingly important factor leading to voluntary price reductions wherever cost reduction of greater', efficiency has made them possible.

Whether a reduction in price would help a firm to increase sales depends upon how the consumers react to the reduction. As has been pointed out earlier, consumers rely on prices as an indicator of quality. Reduction in price may give rise to an apprehension that quality has gone down. And a reduction in price may decrease sales unless special steps are taken to prove that the quality is maintained.

B) Increase in prices: Very often a company might face a situation where costs may have increased, and it might wonder whether to increase prices or not. The decision would depend on how demand would be affected by such an increase in prices. In fact, prices are usually increased where the market demand is strong and the business is having a boom. Prices are normally never increased during periods of depression and falling incomes. Thus while it may be true that costs may be rising at the time prices are increased, it is the rising demand that makes it possible to pass on the increase in costs to customers without any adverse effect on sales.

12.9 NATURE AND USE OF PRICE DISCOUNTS

There are two popular types of discounts (i) Quantity discounts and (ii) Cash Discounts.

Quantity Discounts: Quantity discounts are price reductions related to the quantities purchased. Quantity discounts may be related to the size of the order being measured in terms of physical units of a particular commodity. This is practicable where the commodities are homogeneous or identical in nature, or where they may be measured in terms of truck-loads. However, this method is not possible in case of heterogeneous commodities which are hard to add in terms of physical units or truck-loads. Drug industry and textile industry offer examples of this types. Here, quantity discounts are based upon the rupee value of the quantity ordered. Rupee becomes a common denominator of value.

Quantity discounts based on physical units become important where the cost of packing is a significant factor and orders of less than standard qualities, say, less than a case of 6 pressure cookers, may involve higher packing charges per cooker since the space remains unutilised. Thus quantity discounts may be employed to induce full carton purchasing.

In some cases, quantity discounts may be based on the cumulative purchases made during a particular period, usually a year or a season, e.g., Diwali discounts may be given on the basis of cumulative purchases made during the Diwali season spread over September to November.

One important ***objective of quantity discounts*** is to reduce the number of small orders and thereby avoid the high cost of servicing them. Quantity discounts can facilitate economic size order in three ways:

1. A given set of customers is encouraged to buy the same quantity but in bigger lots.
2. The customers may be induced to give the seller a larger share of their total requirements by giving preference over competitors.
3. Small size purchasers may be discouraged and bigger size customers may be attracted.

In many cases, discounts become a matter of trade customers.

Quantity discounts are most useful in the marketing of materials and supplies but are rarely used for marketing equipment and components.

Cash Discounts: Cash discounts are price reductions based on promptness of payment. An example of discount can be "2 per cent off if paid in ten days, full invoice price in 30 days". In practice, the size of cash discount may vary widely.

Cash discount is a convenient device to identify and overcome bad credit risks. In certain trades where credit risk is high, cash discount would be high. If a buyer decides to purchase goods on credit, this reflects his weak bargaining position, and he has to pay a higher price by foregoing the cash discount.

By prompt collections, manufacturers reduce their working capital requirements and thus save their interest costs. However, allowing discounts may involve paying 36.5 per cent in order to save 18 per cent. On the basis of "2 per cent off if paid in 10 days, full invoice price in 30 days", the seller's cost comes to 36.5 per cent (for getting the money 20 days before he has to lose 2 per cent which amounts to 36.5 per cent per year). He could get accommodation from any bank at about 18 per cent. Thus it is the reduction in collection expenses and in risks rather than savings on interest which should be the guiding consideration for cash discounts.

12.10 PRODUCT POSITIONING AND PRICE

By `positioning' we mean the way a product is viewed by the customers in comparison with similar products. All aspects of the marketing mix must be co-ordinated to place the product in the right position in the market segment aimed at.

Price is just one element of the marketing mix and it must reflect the product's position

in the market. A toilet soap meant to be a novelty to attract the elite must be sold at higher price. This is the basic idea behind product differentiation, i.e. to avoid a situation where the product has to compete only on the basis of price alone.

12.11 NON-PRICE COMPETITION

The basic aim of non-price competition is to alter those characteristics of the product other than price which influence the decision of the buyers. The various forms of non-price competition are : (a) Advertising and creating brand loyalties, (b) changes in the quality of goods and services, (c) prompt deliveries, (d) free gifts and contests and, (e) better after-sales service. The more complex the product the greater are the characteristics which could be modified in response to customer tastes or as a result of changes in technology. Among the major factors responsible for the growth of non-price competition are (a) the tendency towards price uniformity, (b) desire to hold customers on the basis of attributes other than price, as for example, convenience and early deliveries or longer period of guarantee, (c) adoption of measures necessary even to make price competition effective. From the point of view of consumers non-price competition is a boom as they may get better quality goods and services.

12.12 SUMMARY

Pricing is an important element of the marketing mix. Pricing is affected not only by the cost of manufacturing the product, but also by (i) the company's objectives in relation to market share and sales; (ii) the nature and intensity of competition; (iii) stage of the product life-cycle at which the product is currently positioned; (iv) nature of product whether as consumer or industrial product and if the former whether it is a luxury or necessity. Before making any pricing decision it is important to understand all these factors.

There are various methods of pricing. The four most commonly used methods are full cost pricing, pricing for a rate of return going rate pricing and customary pricing. While the first two methods are based on the costs incurred, the latter methods are based on the competition's pricing. While from the company's point of view, price represents a king of `maximum' that it can charge given its own costs and nature of competition, from the customer's viewpoint it is a representation of quality of the product. Thus, in many cases high price is associated with good quality and vice-versa.

Before designing the pricing strategy in which the choice is between penetrative and skimming pricing. The marketer must fully understand the connotation of price to a customer. In some a reduction in price may lead to an increase in sales, while in other cases it may not. This is especially true in case of industrial products, where the buyer may be more concerned with quality, reliability, delivery schedules, and after-sales services of the product rather than merely the price. Rather than a reduced price, what may be more relevant is price discounts in the form of quantity or cash discounts.

12.13 SELF-ASSESSMENT EXERCISES

1. What are the most important group of individual factors which influence the price of the product?
2. What type of competitive market structure does your company belong? How much discretion do you have in pricing your products?
3. Examine the competitive situation prevailing today in the Indian market for the following goods and indicate briefly the possible price strategies you would recommend for the maximisation of profits: (a) Fountain pens, (b) Cotton textiles, (c) Scooters and bicycles.
4. What would be your pricing strategy if you are (i) faced with an increased excise duty on your product? (ii) if you are able to reach economies of scale; and (iii) there is a fall in the prices of your major raw materials.

5. How do the stage of product life-cycle and product positioning affect the pricing decisions regarding the product of your company?
6. Can you list out some premium priced products? Why are these products able to command high prices? What are their producers able to charge higher prices?
7. Can you find out some cases where factors other than cost have to be considered for fixing prices?
8. What are the cases where marginal costing could usually be employed? What are its limitations?
9. Can you list some companies who have been able to capture a good market share on the basis of a low price?
10. Will a lower price always induce people to buy more of your product? Will the consumers not think that the quality and price are lower? How will your competitors bear?
11. You are manufacturing washing soap on a small scale. Your capacity is 10,000 cakes per month. Your fixed expenses amount to R. 2,000 per year. Variable expenses amount to 40 paise per cake. At what price you would sell your soap, keeping in view the following points:
    a) You face competition not only from other small units but also from large-scale units. Other similar soaps sell at 50 to 55 paise per cake.
    b) You consider your product to be superior to the existing products in the field.
    c) You cannot afford to have your own distribution organisation.
    d) What other points would you bear in mind while making your decision? Give reasons for your decision.

12.14 FURTHER READINGS

1. Philip Kotler-11th edition 2002, Marketing Management, PHI- New Delhi
2. Wessim Hanna and H.Robert Dodge: - Pricing Policies and Procedures, Macmillan India, New Delhi

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LESSON – 13

DISTRIBUTION CHANNELS

13.0 OBJECTIVES

After studying this unit, you should be able to:

- define distribution channel;
- describe functions of distribution channel;
- explain distribution channel flow;
- develop a channel design;
- discuss various steps involved in channel management;
- identify the types and causes of channel conflict; and
- manage the channel conflict.

STRUCTURE

13.1 INTRODUCTION

The typical geographic separation of the manufacture or producer from the ultimate consumer requires some means of bridging the gap. The movement of goods and services from the place of producer through middlemen to the ultimate consumer has been thought of as a channel flow. Companies are increasingly taking a value chain network view of their businesses. Instead of limiting their focus to their immediate suppliers, distributors and customers, they are examining the whole supply chain that links raw materials, components and manufactured goods and shows how are they moved toward the final consumers. In this unit, you will learn the meaning and functions of distribution channel, the distribution channel flow, channel design decisions and the management of distribution channel. You will further study the types and causes of channel conflicts and their remedies.

13.2 CONCEPT OF DISTRIBUTION CHANNEL

A distribution channel consists of a set of people and firms involved in the transfer of title to a product as the product moves from producer to consumer. Thus, a distribution channel is primarily concerned with the movement of goods from the point of production to the point of consumption, which involves a variety of functions. The main participants in the distribution system are: (1) the manufacturers, (2) the intermediaries, (3) the facilitating agencies, and (4) the consumers. Manufacturers produce the goods. This is the starting point in the distribution system. The second category of participants i.e., intermediaries, are involved in direct negotiation between buyers and sellers whether or not they take title to goods. These intermediaries locate the manufacturers who produce various products, identify the needs of the consumers and distribute the goods. In the process, they perform various functions like buying, selling, assembling, standardization and grading, packing and packaging, risk bearing, etc. Facilitating agencies are the independent business organisations other than intermediaries. These agencies facilitate the smooth distribution of goods from producers, through intermediaries, to consumers. The major facilitating agencies are banking institutions, insurance companies, transportation agencies and warehousing companies. The fourth category of participants in the distribution system i.e., consumers, are the final destination for goods in the distribution system.

A Channel of distribution is mainly concerned with second participant i.e., the intermediaries. The term 'Channel of Distribution' refers to the route taken by goods as they flow from the producer to the consumer. This flow of goods may mean its physical distribution and/or the transfer of title (ownership). Channels of distribution are mainly concerned with the transfer of title to a product which may be effected directly or through a chain of intermediaries. You know most producers do not sell goods directly to the consumers. They make use of a variety of intermediaries known as middlemen. These middlemen who take title to goods or assist in transferring the title to goods as they move from the producer to the consumer is called the channel of distribution. Thus, the channel of distribution is a network of institutions that perform a variety of interrelated and coordinated functions in the movement of goods from producers to consumers.

A distribution channel creates place, time, form and possession utilities to the products by prompt and efficient performance of the function of physical distribution. In modem societies the production of goods takes place on a large scale in factories concentrated in few localities while the consumers are scattered throughout the country. For instance, textile mills are concentrated at few places like Bombay, Ahmedabad, Coimbatore, etc., while the cloth is used by all the people in the country. Similarly, Maruti cars are manufactured at Delhi while the users are spread in all parts of the country. Same thing is true of agricultural commodities. Apples are produced mainly in Kashmir Valley and Himachal Pradesh whereas they are consumed by people throughout the country. Another such example is tea which is mainly produced in Assam while it is consumed everywhere in the country. Thus, in most of the cases goods are produced at one place while they are consumed at various other places and contact the producers directly. Similarly it is not possible for all the producers to contact the consumers directly and sell the goods. Hence, it is essential to move the goods from the place of production to the markets where consumers can buy them. Otherwise, production has no value and it becomes waste. A distribution channel helps in the movement of goods from producer to consumer and, thus, creates place utility to the product.

There is another barrier which arises due to time lag between production and consumption. The goods produced are not consumed at the same point of time. Some goods are produced throughout the year, but their consumption is seasonal For example umbrellas and raincoats are used only during rainy season, woollen garments are used only during winter season. In some other cases, goods are produced during a specific season while they are consumed continuously throughout the year. For example, food grains are produced by farmers during a particular season but are consumed throughout the year. Thus, in many cases, there is a time lag between production and consumption. Thus distribution channels makes it possible for the consumers to get the product whenever they want them, and thus, creates time utility to the products.

Similarly, a distribution channel makes it possible for the consumers to get the products in a convenient shape, unit size, style and package. Thus, it creates convenience value. Distribution channel also makes it possible for the consumer to obtain goods at a price he is willing to pay and under conditions which bring him satisfaction and pride of ownership. Thus, it creates possession utility. Thus, it is the distribution system which moves the goods from the place of production and makes them available to the consumers at the right place, time and form.

13.3 FUNCTIONS OF DISTRIBUTION CHANNELS

Broadly, distribution channels perform the transactional functions, logistical functions and facilitating functions. Transactional functions involve buying, selling and risk bearing activities. Logistical functions involve the physical exchange of goods like assembling, storage grading and transportation. Facilitating functions facilitate both the transaction as well as physical exchange of goods like post-purchase service and maintenance, financing, market information etc. In specific terms, perform the following functions:

- Facilitate selling by being physically close to customers.
- Provide distributional efficiency by bridging the manufacturer with the user efficiently and economically.
- Break the bulk and cater to the small requirements of buyers.
- Assemble products into assortments to meet buyer's needs;
- Look after a part of physical distribution1 marketing logistics.
- Share the financial burden of the principal; provide deposits; finance the stocks till they are sold to the ultimate consumers; extend credit to the retailers/ consumers.
- Provide salesmanship and after-sale service
- Assist in sales promotion.

- Assist in merchandising.
- Assist in introducing new products.
- Assist in implementing the price mechanism: assist in price negotiations.
- Assist in developing sales forecasts I sales plans for the territory.
- Provide market intelligence and feedback.
- Maintain records
- The searching out of buyers and sellers (contacting).
- Matching goods to the requirements of market. (merchandising).
- Offering products in the form of assortments or packages of items useable or acceptable by the consumers.
- Persuading and influencing the prospective buyers to favour a certain product and its maker (personal selling/sales promotion)
- Implementing pricing strategies in such a manner that will be acceptable to the buyers and ensure effective distribution.
- Looking after all physical distribution function.
- Participating actively in the creation and establishment of the market for a new product.
- Offering pre and after sales services to the customer
- Transferring new technology to the users along with the supply of products and playing the role of change agents
- Providing feedback information, marketing intelligence and sales forecasting services for their regions to their suppliers
- Offering credit to retailers and consumers
- Risk bearing with reference to stock holding / transport.

Check Your Progress A
1. What do you mean by a channel of distribution.
2. Enumerate five functions performed by channels of distribution.

13.4 DISTRIBUTION CHANNELS USED

Marketing channel performs the work of moving goods from producers to consumers. It overcomes the time, space and possession gap that separates goods and services who need or want them. Members of the marketing channels perform a number of key functions which are discussed above. Some functions (physical, title, promotion) constitute a forward flow of activity from the company to the customer; other functions (ordering and payment) constitute a back ward flow from customer to the company. Still others (information, negotiations, finance and risk taking) occur in both directions.

Channel Levels: The producer and the final customer are the part of every channel. The number of intermediary levels is used to designate the length of the channels. A zero level channel (also called direct marketing channel) consists of manufacturer selling directly to the final customer. The major examples are door-to door sales, home parties, mail order, tele marketing, T.V. selling; internet selling and manufacture own stores. Avon sales representatives sells cosmetics door- to - door. Tupperware representatives sells kitchenware goods through home parties. A one level channel contains one selling intermediary, such as a retailer. A two level channel contains two intermediaries. In consumer markets, these are typically a wholesaler and a retailer. A three-level channel contain three intermediaries. In the meat packing industry wholesaler sell to jobber who sell to small retailer. Longer marketing channels consisting of mom than three levels can also be found. In Japan, food distribution may involve as many as six levels. From the producer's point of view, obtaining information about end users and exercising control become more difficult as the number of channel level increases.

Channels for Consumer Products

These channels are used for consumer durable goods which are directly consumed by the household. For example, TV, car, food items etc. Following levels of channel are used for this purpose.

Producer → consumer. The shortest, simplest distribution channel for consumer goods involves no middlemen. The producer may sell door to door or by mail. For instance, Southwestern Company uses college students to market its books on a door to door basis.

Producer → retailer → consumer. Many large retailers buy directly from manufacturers and agricultural producers. To the chagrin of various wholesaling middlemen, Wal-Mart has increased its direct dealings with producers.

Producer wholesaler → retailer → consumer. If there is a traditional channel for consumer goods, this is it. Small retailers and manufacturers find these channels the only economically feasible choice.

Producer → agent → bretailer → consumer. Instead of using wholesalers, many producers prefer to use agent middlemen to reach the retail market, especially large scale retailers. For example, Clorox uses agent middlemen (such as Eisenhart &Associates, a food broker) to reach retailers (such as Dillon's and Schnucks, both large grocery chains), which in turn sell Clorox's cleansing products to consumers.

Producer → agent → wholesaler → retailer → consumer. To reach small retailers producers often use agent middlemen, who in turn call on wholesalers that sell to large retail chains and/or small retail stores. Working as an agent on behalf of various groceries -products manufacturer, Eisenhart & Associates sells to some wholesalers (such as Super Value) that distributes a wide range of product to retailers (such as Dierberg's, a supermarket chain at St. Louis area). In turn Die bergs offer its assortment of product to final consumers.

Channels for Industrial Products

A variety of channels are available to reach organizations that incorporate the products into their manufacturing process or use them in their operations. In the distribution of business goods, the terms industrial distributor and merchant Distribution Chanels wholesaler are synonymous. The four common channels for business goods are:

Producer → user. The direct channel accounts for a greater dollur volume of business products than any other distribution structure. Manufacturers of large installations, such as airplanes generator, and heating plants usually sell directly to users.

Producer → industrial distributor → user. Producers of operating supplies and small accessory equipment frequently use industrial distributors to reach their markets. Manufacturers of building materials and air-conditioning equipment are two examples of firms that make heavy use of industrial distributors.

Producer → agent → user. Firms without their own sales department find this a desirable channel. Also a company that wants to introduce a new product or enter a new market may prefer to use agents rather than its own sales force.

Producer → agents → industrial distributor → user. This channel is similar to the preceding one. It is used when, for some reason, it is not feasible to sell through agents directly to the business user. The unit sale may be too small for the direct selling. Or decentralized inventory may be required to supply users rapidly, in which case the storage services of an industrial distributor may be required.

Distribution Channels for Services.

The intangible nature of services creates special distribution requirements. There are only two common channels for services.

Producer → consumer Because a service is intangible, the production process and/or sales activity often require personal contact between producer and consumer. Thus a direct channel is used. Direct distribution is typical for many professional services, such as healthcare and legal and personal services, such as hair cutting and weight-loss counselling. However, other services including travel, insurance and entertainment, may also rely on direct distribution.

Producer → agent → consumer. While direct distribution often is necessary for a service to be performed, producer-consumer contact may not be required for distribution activities. Agents frequently assist a service producer with transfer of ownership (the sales task) or related tasks. Many services notably travel, lodging, advertising media, entertainment and insurance, are sold through agents.

13.5 FACTORS INFLUENCING THE CHOICE OF CHANNEL

We have learnt that there are a number of channels used for distributing the goods. There are direct channels and indirect channels, short channels as well as long channels. We also learnt that the different channels are used for different types of products. When there are alternative channels available, the selection of an appropriate channel becomes a very important decision for the producers. The choice of a channel for distribution of any product should be such that it should effectively meet the needs of customers in different markets at reasonable cost. The factors which generally influence the choice of the channel of distribution may be categorised

under four groups as follows:

I) Market considerations
2) Product considerations
3) Middlemen considerations
4) Company considerations
Let us discuss them in detail.

Product Considerations

1) **Perishability:** The nature of the product influences the choice of channel. Perishable products like eggs, milk, etc., are supplied either directly or through the short channels. If long channels are opted for perishable goods, they may get spoiled by the time they reach the consumer. So products which are perishable must be speeded through the short channels.

2) **Bulkiness:** In the case of heavy and bulky products (e.g., cement, steel, heavy machinery, etc.) where distribution and handling costs are more, short channels are preferred. On the other hand, long channels are found in the case of lightweight and small-size items like dress material, readymade garments, pocket calculators, stationery, toothpaste, toothbrush, etc.

3) **Technical nature of the product:** Sophisticated electrical and electronics equipment which require careful handling are also generally distributed directly or through short channels. In the case of sophisticated equipment like computers and Xerox machines, considerable amount of presale and postsale service is required, Wholesalers and retailers may not be able to provide such services. So manufacturers often distribute them directly. However, simple mechanical products like electronic toys, time-clocks, etc., are supplied through long channels for intensive distribution.

4) **Product value:** Unit value of the product is also an important consideration while deciding the channel of distribution. Normally larger channels are preferred for products whose unit value is low. However, short channels may be equally economical when such products are sold in bulk or are combined with other products. .

Market Considerations

1) **Size of the customers:** It is possible in the case of fewer customers purchasing large quantities at regular intervals and if they are concentrated in a small area.

2) **Potential volume of sales:** The choice of channel depends upon the target volume of business. The ability to reach target customers and the volume of sales varies between different channels. If one outlet is not adequate for achieving the target, more channels need to be used. Of course,

the competitive situation must be taken into account while examining the potential volume of sale through different channels.

3) **Concentration of buyers:** If the buyers are concentrated in a few areas, it is possible for the manufacturer to establish sales divisions in such areas and sell directly to the buyers. Thus, shod channels may be feasible when buyers are concentrated in fewer locations. On the other hand, if buyers are spread over a large geographic area, short channels may become uneconomical and the manufacturer may have to go for long and multiple channels.

4) **Size of the purchase order:** Manufacturer can distribute directly or through a short channel in the case of large scale buyers. Nominally long channels are effective and economical in the case of buyers whose purchase orders are usually too small to justify direct sale.

1) **Types of middlemen:** Availability of suitable middlemen in the channel of distribution is another factor in the selection of the channel. This is because different functions like standardisation, grading, packing, branding, storage, after sale servicing, etc., are expected to be performed by middlemen. Efficiency of distribution depends upon the size, location and financial position of middlemen. If the middlemen in a specific channel are dependable and efficient, that channel may be preferred by producers.

2) **Channel competition:** There are different situations in which manufacturers compete with each other for availing the services of particular wholesalers. Similarly, wholesalers often compete with each other to deal with particular retailers or carrying particular brands of products. Sometimes producers use the same channel which is used by their competing producers. If any producer arranges exclusive distribution through a particular wholesaler, the other producers also do the same. Thus selection of a channel may depend on the competition prevailing in the distribution system.

3) **Availability of middlemen:** The producer may wish to make use of the services of specific category of middlemen, but such middlemen may not be available in the market. They may be carrying the competitors' products and may not wish to add another product line. In such situations, the manufacturer has to make use of the services of the middlemen whoever available in the

Company Considerations

1) **Cost of distribution:** The various functions carried out in the channel of distribution add to the cost of distribution. While choosing a channel, the distribution costs of each channel should be calculated and its impact on the consumer price should be analysed. A channel which is less expensive is normally preferred. Sometimes, a channel which is convenient to the customers is preferred even if it is more expensive. In such cases the choice is based on the convenience of the customers rather than the cost of distribution.

2) **Long-run effect on profit:** Direct distribution, short channels, and long channels have different implications with regard to the profits in the short-run and long-run. If demand for a product is high, reaching the maximum number of customers through more than one' channel

may be profitable. But the demand may decline in course of time as competing products appear in the market. It may not be economical than to use long channels. So while choosing a channel one should keep in mind the future market implications as well.

3) **Experience and ability:** A manufacturer who has reasonable experience and expertise in marketing the products may prefer to distribute his products on his own. But the manufacturers who do not have marketing know-how prefer to make use of the services of middlemen.

4) **Financial strength:** Lots of financial resources are required to establish distribution system. So only a financially strong manufacturer can establish his own distribution system and a financially weak firm may have to depend on middlemen.

5) **Extent of channel control:** Producers who want good control over the distribution of their products prefer short channels. Controlling of the channels is necessary to undertake aggressive promotion, to maintain fresh stocks and retail prices.

Thus, in making a choice, the manufacturer has to consider his objectives, resources and the channels available to him, nature of the product and characteristics of the buyers. He would like to use the channel of distribution which will produce the combination of sales volume and cost that yields him the maximum amount of profit. There are no set guidelines for channel selection and the manufacturer will have to make his own decision in the light of his own judgment and experience. However, most companies do use multiple channels of distribution to ensure that their products reach the maximum number of people.

The task of manufacturer does not end after the channels have been selected. He has to review the services performed by the agencies involved at fairly frequent intervals, keep in close touch with the developments related to the distribution of his product and seek to improve his marketing methods constantly. He may also realise that the best channel when the product was introduced, may not be the most effective one when the product is established. The following criteria may be used for the evaluation of channel members: 1) their sales performance, (ii) their marketing capabilities, (iii) their motivation to increase the volume of sales, (iv) competition faced by them, and (v) their growth prospects.

13.6 CHANNEL DESIGN DECISIONS

A new firm typically starts as a local operation selling in a limited market, using existing intermediaries. The number of intermediaries in any local market is apt to be limited: a few manufacturers' sales agents, a few wholesalers, several established retailers, a few trucking companies and a few warehouses. Deciding on the best channels might not be a problem. The problem might be to convince the available intermediaries to handle the firm's line. If the firm is successful, it might branch into new markets. It might have to use different channels in different markets. In smaller markets, the firm might sell directly to retailers; in larger markets, it might sell through distributors. In rural areas, it might work with general goods merchants; in urban areas, with limited line merchants in one part of the country, it might run exclusive franchisees; in another, it might sell through all outlets willing to handle the merchandise. In one country it might use international sales agents; in another, it might partner with a local firm. In short, the channel system evolves in response to local opportunities and conditions.

In managing its intermediaries, the firm must decide how much effort to devote to push versus pull marketing. A push strategy involves the manufacturer using its sales force and trade promotion money to induce intermediaries to carry, promote, and sell the product to end users. Push strategy is appropriate where there is low brand loyalty in a category, brand choice is made in the store, the product is an impulse item and product benefits are well understood. A pull strategy involves a manufacturer using advertising and promotion to induce consumers to ask intermediaries for the product, thus inducing the intermediaries to order it. Pull strategy is appropriate when there is high brand loyalty and high involvement in category, when people perceive differences between brands, and when people choose the brand before they go to the store.

Designing a channel system involves five steps. Let us learn them in detail.

1. Analyze Customers' Desired Service Output Levels

In designing the marketing channel, the marketer must understand the service output levels desired by target customers. Channels produce five service outputs. They are as follow:

- **Lot Size:** The number of units the channel permits a typical customer to purchase on one occasion. In buying cars for its fleet, Hertz prefers a channel from which it can buy a large lot size; a household wants a channel that permits 14 buying a lot size of one.
- **Waiting Time:** The average time customers of that channel wait for the receipt Distribution Channels of the goods customers normally prefer fast delivery channels.
- **Spatial Convenience:** The degree to which the marketing channel makes it easy for customers to purchase the product. Chevrolet offers greater spatial convenience than Cadillac because there are more Chevrolet dealers. Chevrolet's greater market decentralization helps customers save on transportation and such cost in buying and repairing an automobile.
- **Product Variety:** The assortment breadth provided by the marketing channel. Normally customers prefer a greater assortment because more choices increase the chance of finding what they need.
- **Service Backup:** The add-on services (credit, delivery, installation, repairs) provided by the channel. The greater the service backup, the greater the work provided by the channel.

The marketing-channel designer knows that providing greater service outputs means increased channel costs and higher prices for customers. The success of discount stores indicates that many consumers are willing to accept smaller service outputs if they can save money.

2. Establish Objectives and Constraints

Effective planning requires determining which market segments to serve and the best channels to use in each case. Channel objectives vary with product characteristics. Perishable products require more direct marketing. Bulky products such as building materials require channel that minimize the shipping distance and amount of handling. Non standardized products, such as custom built machinery and specialized business forms are sold directly by company sales representatives. Products requiring installation or maintenance such as heating and cooling system are usually sold and maintained by the company or by franchise dealers. High unit value products such as generators and turbines are often sold through a company sales force rather than intermediaries. Channel design must take into account the strengths and the weaknesses of different types of intermediaries for e.g. manufacturers' reps. are able to contact customers at a low cost per customer because the total cost is sharedby several clients, but the selling effort per customer is less intense than if company sales representatives did the selling. Channel design is also influenced by competitor's channels. Channel designs must adapt to the larger environment when economic conditions are depressed, producer want to move their goods to market using shorter channels and without services that add to the final price of the goods. Legal regulations and restrictions also affect channel design.

3. Identify Major Channel Alternatives

Companies can choose from a wide variety of channels for reaching customers - from sales force to agents, distributors, dealers, direct mail, telemarketing and the internet. Each channel has unique strengths and weaknesses. Sales forces can handle complex products and transactions, but they are expensive. The Internet is much less expensive. But it cannot handle complex products. Distributor can create sales but . the company loses direct contact with customers. The problem is further complicated by the fact that most companies now use a mix of channels. Each channel hopefully reaches a different segment of buyers and delivers\s the right products to reach at the least cost when this does not happen; there is usually channel conflict and excessive cost. A channel alternative is described by three elements:

- The types of available business intermediaries
- The number of intermediaries needed
- Terms and responsibilities of each channel members

A firm needs to identify the types of intermediaries available to carry on its channel work. A company should search for innovative marketing channels. The Conn Organ company merchandises organs through department stores and discount stores, thus drawing more attention than it ever enjoyed in small music stores. The Book-of-the-Month club merchandises mail through the mail. Other sellers have followed with the Record-of-the-Month clubs, Candy-of-the-month clubs and dozen of others.

Sometimes a company chooses an unconventional channel because of the difficulty or cost of working with the dominant channel. The advantage is that the company will encounter less competition during the initial move into this channel. After trying to sell its inexpensive Timex watches through regular jewellery stores the U.S. Time Company placed its watches in fast growing mass mechanized outlets. Avon chose door-to-door selling because it was not able to break into regular department stores and has thus proved to be a great success. Companies have to decide on the number of intermediaries at each channel levels. Three strategies may be adopted for this purpose. They are discussed below.

Exclusive Distribution: It means severely limiting the number of intermediaries. It is used when the producer wants to maintain control over the service level and outputs offered by the resellers. By granting exclusive distribution the producer hopes to obtain more dedicated and knowledgeable selling. It is mainly seen in case of distribution of new automobiles, some major appliances and some women's apparel brands. Relationship with intermediaries and the corporation can be strained when a company decides to alter an exclusive distribution relationship.

Selective Distribution: It involves the use of more than a few but less than all of the intermediaries who are willing to carry a particular product. It is used by established companies and new companies seeking distributors. The company does not have to worry about too many outlets; it can gain adequate market coverage with more control and less cost than intensive distribution. Disney sells its videos through five different channels: Movie rental stores like Blockbuster; the company's proprietary retail stores, called Disney Stores; retail stores like Best Buy; online retailers like Amazon.com and Disney's own online Disney Stores; the Disney catalog and other catalog sellers. These varied channels afford Disney maximum market coverage, and enable the company to offer its videos at a number of price points.

Intensive Distribution: It consists of manufacturer placing the goods or services in as many outlets as possible. This strategy is generally used for item such as tobacco products, soap, snack foods, and gum, products for which the consumer requires a great deal of location convenience. Manufacturers are constantly tempted to move from exclusive or selective distribution to intensive distribution to increase coverage and sales.

4. Determine Terms and Responsibilities of Channel Members

The producer must determine the rights and responsibilities of participating channel members. Each channel member must be treated respectfully and given the responsibility to be profitable. The elements in the 'trade-relation mix' are:

- price policies,
- conditions of sale,
- territorial rights, and
- Specific services to be performed by each part.

Let us discuss them in detail.

Price policy calls for the producer to establish a price list and schedule of discounts and allowances that intermediaries see as equitable and sufficient.

Conditions of sale refer to payment terms and producer guarantees. Most producers grant cash discounts to distributors for early payment. Producers must also guarantee distributors against defective merchandise or price declines. A guarantee against price declines give distributors an incentive to buy larger quantities.

Distributors' territorial rights define the distributors territory and the terms under which the producer will enfranchise other distributors normally expect to receive full credit for all sales in their territory whether or not they did the selling.

Mutual services and responsibilities must be carefully spelled out especially in franchise and exclusive agency channels. Mc Donald's provides franchisee with a building, promotional support, record keeping system, training, and general administrative and technical assistance. In turn franchisees are expected to satisfy company standards regarding physical facilities cooperate with new promotional programmes, furnish requested information, and buy supplies from specified vendors.

5. Evaluate the Major Alternatives

Each channel alternative needs to be evaluated against economic control and adaptive criterion. Economic Criteria: Each channel alternative will produce a different level of sales and costs.

Clearly, sellers would try to replace high cost channel with low cost channel when the value added per sale was sufficient. When sellers discover convenient a lower cost channel, they try to get the customers to use it. The company may reward customers for switching SAS; the Scandinavian Airlines gave bonus points to customer who ordered electronic tickets via the internet. Other companies may raise the fees on customers using the high cost channel to get them to switch. Companies that are successful in switching their customers to lower cost channels, assuming no loss of sales or deterioration in service quality, will gain a channel advantage.

The lower-cost channel tends to be low-touch channel. This is not important in ordering commodity items, but buyers who are shopping for more complex products prefer high- touch channel such as sales people.

Control and Adaptive Criteria: Using a sales agency poses a control problem a sales agency is an independent firm seeking to maximize its profits. Agents may concentrate on the customers who buy the most not necessarily those who buy the manufacturer's goods. Further more agents might not master the technical detail of the company's product or handle its promotional materials effectively.

To develop a channel, members must make some degree of commitment to each other for a specific period of time. Yet these commitments invariably lead to a decrease in the producer's ability to respond to a changing market place. In rapidly changing volatile or uncertain products' market producers need channel structures and policies that provide high adaptability.

Check Your Progress B

1. Enumerate five factors which influence the choice of a consumer durable

2. Make a diagramme of consumer marketing channel and give examples of two products which follow such channel.

3. Make a diagramme of industrial marketing channel and give examples of two products which follow such channel.

4. Distinguish between selective and intensive distribution.

13.7 CHANNEL MANAGEMENT

After a company has chosen a channel alternative, individual intermediaries must be selected, trained, motivated, and evaluated. Channel arrangements must be modified over time. Following activities are undertaken in the management of channel.

1. **Selecting Channel Members:** Companies need to select their channel members carefully. To customers the channels are the company. Consider the negative impression the customer would get of Mc. Donald's Shell Oil, or Ford if one or more of their outlets or dealers consistently appeared dirty inefficient or Producers vary in their ability to attract qualified intermediaries. Toyota was able to attract many new dealers for its new Lexus. However, when Polaroid started up as a company it could not get camera stores to carry its new camera and was forced to use mass- merchandising outlets.

   Whether producers find it easy or difficult to recruit intermediaries they should at least determine what characteristics distinguish the better intermediaries. They should evaluate the number of years in business, other lines carry, growth and profit record, financial strength, cooperativeness, and service reputation. If the intermediaries are sales agents, producers should evaluate the number and character of other lines carried and the size and quality of the sales force. If the intermediaries are department stores that want exclusive distribution, the producers should evaluate locations, further growth potential and type of channels.

2. **Training Channel Members:** Companies need to plan and implement careful training programmes for the intermediaries because they will be viewed as the company by end users. Microsoft requires third party engineers to complete a set of courses and take certification exams. Those who pass are formally recognized as Microsoft Certified Professionals and they can use this designation to promote business.

3. **Motivating Channel Members:** A company needs to view intermediaries in the same way it views its end users. It needs to determine needs and construct a channel positioning such that its channel offering is tailored to provide superior value to these intermeaiaries the company should provide training programmes to improve intermediaries' performance. The company must constantly communicate its view that the intermediaries are partners in a joint effort to satisfy end users of the product.

   Stimulating channel members to top performance starts with understanding their needs and wants. Philip Mc. Vey listed the following propositions to help understand intermediaries (the intermediaries often acts) as a purchasing agents for his customers and only secondarily as a selling agent for his supplier. The is interested in selling any product which these customers desire to buy from him.

The (intermediary) attempts to weld all of his offerings into a family of items which he can sell in combination, as a packet assortment to individual customers. His selling efforts are directed primarily at obtaining orders for the assortment rather than for individual items.

Unless given initiative to do so (intermediaries) will not maintain separate sales record by brand sold. The information that could be used in product development, pricing, packaging or promotion planning is buried in non standard records of intermediaries, and some'times purposely secreted from suppliers.

Producers are very keen in managing distributors. They can draw on the following types of power to elicit cooperation:

Coercive power: A manufacturer threatens to withdraw a resource or terminate a relationship if intermediaries fail to cooperate. This power can be effective, but its exercise produces resentment and can lead the intermediaries to organize countervailing power.

Reward power: The manufacturer offers intermediaries an extra benefit for performing specific acts or functions. Reward power typically produces better results than coercive power but can be overrated. The intermediaries may come to expect a reward every time the manufacturer wants a certain behaviour to occur.

Legitimate power: The manufacturer requests a behaviour that is warranted under the contract. As long as the intermediaries view the manufacturer as a legitimate leader, legitimate power works.

Expert power The manufacturer has special knowledge that the intermediaries value. Once the expertise is passed to the intermediaries, however, this power weakens. The manufacturer must continue to develop new expertise so that the intermediaries will want to continue cooperating.

Referent power The manufacturer is so highly respected that the intermediaries are proud to be associated with it. Companies such as IBM, Caterpillar, Hewlett Packard have high referent power.

Intermediaries can aim for a relationship based on cooperation, partnership, or distribution programming. Most producers see the main challenge as gaining intermediaries cooperation. They often use positive motivators, such as high margins, special deals, premiums, cooperative advertising allowances, display allowances, and sales contests. At times they will apply negative sanctions such as threatening to reduce margins, slow down delivery, or terminate the relationship. The weakness of this approach is that the producer is using crude, stimulus-response thinking.

More sophisticated companies try to forge a long term partnership with distributors. The manufacturers clearly communicates what it wants from its distributors in the way of market coverage, inventory levels, marketing development, account solicitation, technical advice and services and marketing information. The manufacturer seeks distributor's agreement on these policies and may introduce a compensation plan for adhering to these policies.

4. **Evaluating Channel Members:** Producers must evaluate intermediaries performance periodically against such standards as sales quota attainment, average inventory levels, customary delivery time, treatment of damaged and lost goods, and cooperation in promotional and training programmes. A producer will occasionally discover that it is paying too much to intermediaries for what they are actually doing. Producers should set up functional discounts in which they pay specified amounts for the trade channel's performance of each agreed upon service. Underperformers need to be counselled, retrained, remotivate or terminated.

5. **Modifying Channel Arrangements:** Producer must review and modify its channel arrangements periodically. Modification becomes necessary when the distribution channel is not working as planned, consumer buying pattern change, the market expands, new competition arises, innovative distribution channels emerge, and the product moves into later stages in the product life cycle. No marketing channel will remain effective over the whole product life cycle. Early buyers may be willing to pay for high value added channels, but later buyers will switch to lower - cost channels. Small office copiers were first sold by manufacturer's direct sales forces, later through office equipment dealers, still later through mass merchandisers, and now by mail order firms and Internet 20 marketers.

Channel Value Added and Market Growth Rate

- **Introductory stage:** Radically new products or fashions tend to enter the market through specialist channels (such as boutiques) that spot trends and attract early adopters.

- **Rapid growth stage:** As interest grows, higher-volume channels appear (dedicated chains, department stores) that offers services but not as many as the previous channels.

- **Maturity stage:** As growth slows, some competitors move their product into lower-cost channels (mass merchandisers).

- **Decline stage:** As decline stage begins, ever lower cost channels emerge (mail order house, office price discounters)

In competitive markets with lower entry barriers, the optimal channel structute will inevitably change over time. The change would involve adding or dropping individual channel members, adding or dropping particular market channels, or developing a totally new way to sell goods.

Adding or dropping individual channel members require an incremental analysis. What would the firm's profits look like with and without this intermediary? An automobile manufacture's decision to drop a dealer requires subtracting a dealer's sales and estimating the possible sales loss or gain to the manufacturers' other dealers.

The most difficult decision involves revising the overall channel strategy. Distribution channel clearly becomes outmoded, and a gap arises between the existing distribution system and the ideal system that would satisfy target customers' needs and desires.

13.8 CHANNEL CONFLICTS

No matter how well channels are designed and managed, there will be some conflkt, if for no other reasons than the interest of independent business entities do not always coincide. Here we examine three questions:

- What type of conflict arises in channels?
- What causes channel conflict?
- What can be done to resolve conflict situation?

13.8.1 Types of Channel Conflicts

Suppose a manufacturer sets up a vertical channel consisting of wholesalers and retailers. The manufacturer hopes for channel cooperation that will produce great profits for each channel members. Yet vertical, horizontal and multi-channel can occur.

Vertical Channel Conflict means conflict between different levels within the same channels. General Motors came into conflict with its dealer in trying to enforce policies on service, pricing, and advertising. Coca-Cola came into conflict with bottlers who also agreed to bottler Dr. Pepper.

Horizontal Channel Conflict involves conflict between members at the same level within the channel. Some Ford car dealers in Chicago complain about other Chicago Ford dealers advertising and pricing too aggressively. Some Pizza Inn franchisees-complained about other pizza Inn franchisees cheating on ingredients, providing poor service, and hurting the overall Pizza Inn image.

Multichannel Confliicts exist when the manufacturer has established two or more channels that sell the same market. When Levi Strauss agreed to distribute its jeans through Sears and JC Penny in addition to its normal specialty store channel, the specialty stores complained. When clothing manufacturers like Ralph Lauren and Anne Clein opened their own stores the department stores that carried their brands were upset. When Goodyear began selling its popular tyre brands through Sears, Wall-Mart , and Discount Tire, it angered its independent dealers.(it eventually placated them by offering exclusive tyre models that would not be sold in other retail outlets.) Multichannel conflict is likely to be especially intense when members of one channel get a lower price (based on large volume purchasers) or worked with a lower margin. One of the major current examples of multichannel conflict is brick and mortar companies sweating over whether to add and online e-commerce channel. Vans & Nobel, Memll Lynch, Compaq, and All State Insurance all resisted but eventually succumbed after seeing how much online business was rushing to its competitors, Amazon, e-trade, Dell and Direct Line, respectively. Yet adding an ecommerce channel creates a threat of a backlash from the retailers, brokers, agents, and other intermediaries. For example retailers were angered when Mattel decided to sell Barbie via the Internet. The question is how to sell both through intermediaries and online. There are at least three strategies for trying to gain acceptance from

intermediaries. One offer different brands or products on the Internet. Two, offer the offline partners higher commissions to cushion the negative impact on sales. Three, take orders on the website but have retailers deliver and collect payments.

Here are some companies that have reconciled their offline and online marketing channels.

- **Talbot**, a special women's clothing chain runs out of an item the sales clerk will order it at Talbot's' catalog call centre. Customers pay a flat $4shippin charge, which is less than the normal charge or regular catalog orders. The store earns credit of the catalog sale.
- **Liberty Mutual,** asked its online customer if they might prefer to work through a financial adviser; if yes, their information will be routed to and advisor.
- **Avon** showed its reps. that its online sales will not overlap with the sales from existing customers and offered to help reps. Set up their own Website. Japans offers online coupons that can be printed and redeemed in its stores, and May even sell some items online that are not profitable to sell through its stores.

- **Gibson Guitars** started by selling accessories such as guitar strings and parts online and is eager to overcome dealers 'objection to selling guitars over the Internet. It may have to give some credit to the guitar store nearest the customer who bought online.

Ultimately the companies may need to decide whether to drop some or all of the retailers and go direct.

Given the superiority of Internet based ordering, what is to stop an auto company customers the ability to design a car on the Website and have it assembled and delivered to the customers premises within a week? The cost of operating virtual dealership would be considerably less than the present dealership systems, where cars sit in inventory for seventy days and companies have to spend about 10% of the cars' price on ads and promotions to get customers to buy. Our predictions are that more companies in the economy will shift from build-for -stock to build- to-order.

13.8.2 Causes of Channel Conflict

It s important to identify the causes of channel conflict. Some are easy to resolve, others are not. One major cause is goal incompatibility. For example, the manufacturer may want to achieve rapid market penetration through a low- price policy. Dealer, in contrast, may prefer to work with high margins and persuade short run profitability Sometimes conflict arises from unclear roles and rights . IBM sells personal computers to large accounts through its own sales force, and its licence dealer is also trying to sell to large accounts. Territory boundaries and credit for sales often produce conflict.

By adding new channels, a company faces the possibility of a channel conflict. The following three channel conflict arose at IBM:

- ***Conflict between the national accounts managers and the field sales*** **force**: National account managers only rely on field sales people to make calls at certain national account customers located in the sales person territory, sometimes on a moments notice. Request from several national account managers to make such calls can seriously disrupt the sales person's normal schedule and hurt commissions. Sales people may not cooperate with national account managers when doing so conflict with their own interest.

- ***Conflict between the field sales force and the telemarketers:*** Sales people often resent the company's setting up a telemarketing operation to sell to smaller customers. The .company tells the salespeople that telemarketers free up their time to sell to larger accounts on which they can earn more commissions, but the sales people still object.

- ***Conflict between the field sales force and the dealers:*** Dealers include value added resellers, who buy computers from IBM and add specialized software needed the target buyer, and computer retail stores, which are an excellent channel for selling small equipment to walk -in traffic and small business. These dealers frequently offer specialized software installation and training, better service and even lower prices than IBM's direct sales force. The direct sales force becomes angry when these dealers go after large accounts: they want IBM to refuse to sell through dealers who try to sell to large accounts, but IBM would lose a lot of business if it dropped these successful resellers. As an alternative IBM decided to give partial credit to salespeople for business sold to their accounts by aggressive resellers.

Conflicts can also stem from differences in perception. The manufacturer may be optimistic about the short-term economic outlook and want to carry higher inventory. Dealers may be pessimistic. Conflict may also arise because of' the intermediaries' dependence on the manufacturer. The fortunes of exclusive dealers, such as auto dealers, are profoundly affected by the manufacturers' product and pricing decisions.

The situation creates a high potential for conflict.

13.8.3 Managing Channel Conflict

Some channel conflict can be constructive and lead to more dynamic adoption to a changing environment, but too much is dysfunctional. The challenge is not to eliminate conflict but to manage it better. There are several mechanisms for effective conflict management.

One is the adoption of super ordinate goals. Channel members come to an agreement on the fundamental goal they are jointly seeking, whether it is survival, market share, high quality or customer satisfaction. They usually do this when the channel faces an outside threat, such as a more efficient competing channel, an adverse piece of legislation, or a shift in consumer desires.

A useful step is to exchange persons between two or more channel levels. General Motors executive might agree to work for a short time in some dealerships, and some dealership owners might work in GMs dealer policy department. Hopefully the participants will grow to appreciate the others point of view.

Co-optation is an effort by one organization to win the support of the leaders of another organization by including them in advisory councils, boards of directors, and the like. As long as the initiating organization treats the leaders seriously and listens to their opinions, co-optation can reduce conflict, but the initiating organization may have to compromise its policies and plans to win support.

Much can be accomplished by encouraging joint membership in and between trade associations. For example there is good cooperation between the Grocery Manufacturers in America and the Food Marketing Institute, which represents most of the food chains ; this cooperation led to the development of Universal Product Code (UPC). Presumably the associations can consider issues between food manufacturers and retailers and resolve them in an orderly way.

When conflict is chronic or acute, the parties may have to resort to diplomacy, mediation, or arbitration. Diplomacy takes place when each side sends a person or group to meet with its counterpart to resolve the conflict. Mediation means resorting to a neutral third party who is skilled in conciliating the two parties' interests. Arbitration occurs when the two parties agree to present their arguments to one or more arbitrators and accept the arbitration decision. Sometimes, when none of these methods prove effective, a company or a channel partner may chose to file a lawsuit.

Check Your Progress C

1. Distinguish between coercive power and reward power.

2. What is channel conflict?

13.9 SUMMARY

A distribution channel is a set of people and firms involved in the flow of title to a product as it moves from producer to ultimate consumer or business user. A channel includes producer, final customer and any middlemen that participate in the process. Distribution channels perform the transactional functions, logistical functions and facilitating functions.

- Designing a channel of distribution for a product occurs through a sequence of four decisions:
- Delineating the role of distribution within the marketing mix
- Selecting the proper type of distribution channel
- Determining the appropriate intensity of distribution
- Choosing specific channel members

A variety of channels are used to distribute consumer goods, business goods and services. Firms often employ multiple channels to achieve broad market coverage although this strategy can alienate some middleman.

Numerous factors need to be considered in selecting a distribution channel. The primary consideration is the nature of the target market. Others relate to the product, the middlemen and the company itself Distribution intensity refers to a number of middlemen that a producer used at the wholesale and retail levels in a particular territory. It ranges from intensive to selective to exclusive.

The channel management involves: selecting channel members, training channel members, motivating channel members, evaluating channel members and modifying channel arrangements.

Firms that distribute goods and services sometimes clash. There are two types of conflict; Horizontal (between firms at the same level of distribution) and Vertical (between firms at different levels of the same channel). Scrambled merchandising is a prime cause of horizontal conflict. Vertical conflict typically pits producer against wholesaler or retailer. Manufacturers' attempts to bypass middlemen are a prime cause of vertical conflict.

Channel members frequently strive for some control over one another. Depending on the circumstances either producers or middlemen can achieve the dominant position in a channel. The firms' comprising a particular channel are served best if they all view them as a partnership requiring coordination of distribution activities.

13.10 KEY WORDS

Ons Direct Distribution: The method of distribution under which manufacturers directly sell the products to consumers without engaging any intermediary.
Exclusive Distribution: Distribution of products through some limited outlets which are granted exclusive rights to distribute the firm's products in their respective territories.
Indirect Distribution: The method of distribution under which the products are moved from producers to users with the help of one or more intermediaries.
Intensity of Distribution: Distribution of products through a very large number of intermediaries at each level of marketing channel.
Multiple Channels of Distribution: Simultaneous use of different channels for the same product.
Selective Distribution: Distribution of products through a limited number of intermediaries at each level of the distribution channel.

13.11 SELF- ASSESSMENT QUESTIONS:

1. What is a distribution channel? Why is the distribution channel important for flow of goods from the producer to the consumer?
2. Discuss various functions performed by distribution channels.
3. Draw a diagram of the consumer marketing channel and discuss the flow of goods by this channel, giving suitable examples.
4. Draw a diagram of industrial marketing channels and discuss the flow of goods by this channel, giving suitable examples.
5. A new soft drink manufacturing company which has successfully launched its cola and lemon drinks in Mumbai is planning to introduce these products to the other three metropolitan cities in the country. What kind of distribution channel would you recommend to the company? What factors would you take into consideration while selecting the appropriate channel for the company?
6. Explain various steps involved in the channel design decisions. Give suitable examples.
7. Describe the process involved in the management of channel. How do they improve the efficiency of the channel members.

13.12 FURTHER READINGS

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3. Understanding Distributed Systems: What every developer should know about large distributed applications – Roberto Vitillo- Springer.

LESSON – 14

MARKETING INTERMEDIARIES

14.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the meaning and role of middlemen in the distribution of goods
- classify the middlemen
- describe the functions of mercantile middlemen
- narrate the meaning, importance, functions and classification of wholesalers and
- retailers
- explain the recent trends in wholesaling and retailing.

STRUCTURE

14.1 INTRODUCTION

In the previous unit you have learnt that a number of intermediaries or middlemen such as agents, distributors, wholesalers, retailers, etc., operate in moving the goods from producers to consumers. To be able to appreciate the channel system fully, it is important to understand the specific roles performed by each of these intermediaries. In this unit you will study the role of intermediaries, classification of intermediaries, and specific functions and services rendered by wholesalers and retailers. It also explains the recent trends in wholesaling and retailing.

14.2 MEANING AND ROLE OF MIDDLEMEN

The term middlemen or intermediaries refer to the business organisations which are the link between producers and consumers of goods, and render services in connection with the purchase andlor sale of products as they move from producer to the consumers.

Some people often question the wide use of middlemen and feel that it may not only delay the availability of goods but also add to the cost of distribution and hence, the price charged from customers may be higher. But it is not the case in practice. In fact, the middlemen playa very useful role in the distribution of goods by providing a variety of functions at reasonable cost. They undertake all the channel functions such as assembling, grading, packaging, storing, financing, risk-bearing, etc. We may

however put them more specifically as follows:

1) **Creation of Utilities:** By performing various functions in the process of distribution, middlemen create place utility, time utility, convenience utility and ownership utility in the goods and services. Thus, the channels greatly help in serving the target market by adding value to the products. In fact, in the case of several consumer products, the value added in distribution is higher than that added during manufacture/production.

2) **Economy in Effort:** Middlemen greatly increase the efficiency of the exchange process by reducing the amount of effort on the part of the manufacturers in contacting the consumers. This, in turn, reduces the total cost of distribution of the products. For example, assume that there are five manufacturers and ten customers.

3) **Market Coverage:** With the increasing liberalisation in trade, the products manufactured at one place have to be distributed throughout the length and Intermediaries breadth' of not only one country but many nations of the world. This vast coverage is possible only through effective management of the distribution

4) **Provide Local Convenience to Consumers:** Merchant middlemen like retailers are located at convenient shopping centres. They provide ready delivery of goods to the consumers at the convenient points.

5) **Provide Field Stocks:** The agents and wholesalers are spread all over the country. They buy in bulk and keep the goods in stock. The retailers can approach them any time "and buy their requirement. The producers, therefore, need not stock their goods in different cities which would be quite a cumbersome activity in volving huge investment and management problems.

6) **Financing:** The agents finance the distribution activity in many ways. They often pay cash for their bulk purchases from the producers and even advance money to them against their orders. The funding of field stocks is thus fully handled by the middlemen.

7) **Servicing:** They arrange for the after sales services and handle all kinds of complaints by the consumers locally. The manufacturer does not have to open his own service centres at all places.

8) **Acting as Channels of Communication:** The middlemen are in constant touch with different producers and the market. They can provide feed back about the market to the producers on the one hand, and pass on information about the products to the consumers on the other.

9) **Help in Promotion:** They also help the sales promotional activity through displays and salesmanship. It is literally impossible for the producers to organise such activity through any other means. Even otherwise, the middlemen being local people are more effective.

Apart from the variety of services provided by the middlemen, what makes their role more important is the fact that they handle them more efficiently and usually at a reasonable cost. They are better equipped to perform these functions because they possess special knowledge and skills, experience and contacts. The manufacturers would find it very difficult to organise the distribution network and provide the necessary funds. You should remember that the distribution of goods and provision of essential services is a gigantic task which involves huge funds and management problems. By making use of middlemen the manufacturers are freed from the botheration of distribution. They can concentrate on production activity which may be more profitable. Not only that, in case of mass consumption items it is almost impossible to the producers to organise direct sale in every nook and comer of the

14.3 TYPES OF MIDDLEMEN

Different types of middlemen participate in the process of movement of goods and its title from producers to ultimate users. These may broadly be grouped into two categories as: 1) primary participants and 2) ancillary participants. The primary participants are the individuals or organisations which undertake to perform the negotiatory functions of selling and transferring title of the goods to others. These participants are called the channel members. The ancillary or facilitating participants, on the other hand, are the group of institutions and parties that assist channel members (primary participants) in performing the distribution tasks.

They do not take part in the channel decisions but only provide services to channel, members once the basic channel decisions have been made. The most common facilitating participants are financing institutions, public warehouses, transportation companies and advertising agencies. Of course some of these services can be undertaken by} the channel members themselves. For example, a merchant wholesaler can operate private warehouse and trucks. But the essential feature of the facilitating participants is that they assume limited risk or no risk in the functioning of We will study in detail about the facilitating participants in Unit 13. We shall concentrate the discussion on primary participants in this unit. Broadly speaking, primary participants may be further classified as: 1) functional middlemen or mercantile agents, and 2) merchant middlemen. Now let us study these two categories in detail.

14.3.1 Functional Middlemen

Those who undertake various marketing functions in the process of distribution of goods without having ownership rights are called functional middlemen. These functional middlemen operate on behalf of owners. They perform a specific function or undertake general functions relating to purchase and sale. These middlemen are also called 'mercantile agents'. Depending on the functions performed, the functional

1) **Factors:** A middleman who keeps the goods of others and sells them with the approval of the owner is known as a 'factor'. The goods are normally in his possession or under his control. With the approval of the owner the factor can sell the goods as agent, or sell in his own name, or pledge goods in his possession, or can do all such acts as can be done by the owner of the goods. After the sale of goods, he receives the payment from the buyer. He receives commission at a fixed percentage on sales from his principal.

2) **Brokers:** They take neither possession nor acquire ownership of the goods, but only serve to bring the buyers and sellers together. They negotiate purchase and sale of goods on behalf of other parties. Their task is over as soon as the buyer and the seller come to terms in respect of the purchase of sale of the goods. When a broker acts on behalf of the buyer, he is known as buying agent. If the owner of goods employs a broker for sale of the goods, the broker is known as a selling agent. The broker works for a certain percentage of commission on the business transacted by him on behalf of his principal.

3) **Commission Agents:** They also sell goods on behalf of the sellers. But they differ from brokers in that they not only negotiate the sale of goods but also take possession of the goods and make arrangements for the transfer of title to the goods. The commission agent has to perform the functions of warehousing, grading, packing or sampling in addition to assembling and dispersion. For their services, the commission agents get a certain percentage of commission on sales. If the commission agent is authorised to sell on credit and agrees to bear the risk of bad debts for some additional commission, he is known as a del credere agent.

4) **Del Credere Agents:** Generally if any mercantile agent sells goods on credit with the approval of the owner, he is not responsible for any loss which may arise due to non-payment by the buyer. The owner or principal has to bear the risk of loss on account of such bad debts. When a mercantile agent sells the goods on credit and assumes the risk of bad debts, he is known as a del credere agent. For bearing such risk of bad debts, additional commission as a fixed percentage of the amount of credit sales is given to him. This additional commission is called del credere commission. In other words, the del credere Intermediaries agent bears the loss which may arise on account of bad debt and the owner is protected against the loss.

5) **Auctioneers:** Middlemen appointed as agents to sell goods by auction are known as auctioneers. They assemble goods from different parties and act on their behalf to sell them to intending buyers. The date and time of auction are announced in advance. Goods are displayed for inspection by interested buyers. Bids are then invited by the auctioneer from those present at the time of auction. Sometimes a minimum price is fixed for specific items known as reserve price and bids are not accepted below that reserve price. The goods are sold to the highest

bidder. The auctioneer gets commission from the principal (seller) as a percentage on the sale price.

6) **C&F Agents:** In many cases the manufacturers employ carrying and forwarding agents often referred to as C&F Agents or CFAs. The CFAs can be described as special categories Whole sellers. They supply stocks on behalf of the manufacturer to the wholesale section or-their retail sector. Their function is distribution. Their distinguishing characteristics are that thy do not resale products, but act as the agents / representatives of the manufacturers. They act on behalf of the manufacturers and as their extended arm. In a sense, they are manufacturers' branches.

14.3.2 Merchant Middlemen

Middlemen who act on their own right buying and selling goods at a profit are called merchant middlemen or merchants. They acquire title to the goods and bear the risks of trade besides performing various functions like storing, grading, packing and packaging, etc. Merchant middlemen may be divided into two categories.

1) Wholesale traders

2) Retail traders

Merchants who buy goods from producers or manufacturers or their agents and sell be same to industrial consumers or retail traders are known as wholesale traders. The middlemen who buy goods from producers or wholesalers and sell the same to ultimate consumers are known as retail traders. Thus, retailers act as the final link in the channel of distribution. You will study in more detail about wholesalers and retailers late1 in this unit.

Distribution Decisions Check Your Progress A

1) Differentiate between functional middlemen and merchant middlemen.

2) Differentiate between broker and commission agent.

3) Who is a middleman?

4) State whether the following statements are True or False.

i) Middlemen who undertake marketing functions without having title to goods are called merchant middlemen.

ii) Middlemen do not bear risk in the distribution of goods.

iii) With the approval of the owner, a factor can do all such acts as can be done by the owner of the goods.

iv) A del credere agent is not responsible for any loss which may arise due to non payment by the buyer.

v) Brokers operate only on behalf of buyers.

vi) In the process of distribution, functional middlemen do not take title to goods

14.4 WHOLESALERS

Simply stated, wholesalers are those who happen to be engaged in wholesaling or wholesale trade. In a broad sense, any individual or business firm selling goods in relatively large quantities to buyers other than the ultimate consumers may be called a wholesaler. Thus manufacturers who sell their products directly to retailers may be regarded as wholesalers. However, in a more specific sense the term wholesaler may be defined as a merchant middleman engaged in buying and reselling of goods to retailers and other merchants, or to industrial or commercial users. Wholesalers do not sell the products to ultimate consumers. The wholesalers belong to the category of merchant middlemen who acquire title to the goods they handle. Agents or brokers may also act as wholesale middlemen but they do not acquire the title to goods. Wholesalers act as middlemen between producers or importers of goods on the one hand, and retailers or industrial users on the other. The goods traded by wholesalers may include agricultural commodities, forest products, minerals as well as manufactured goods.

Manufacturing companies often do not have adequate capital to employ salesmen to contact the large number of retailers. Many small retailers run their business in remote areas and to contact them may be too expensive. Moreover, small retailers generally prefer to buy products in small quantities due to their limited capital, lack of market information and sources of supply. The wholesalers solve the problems of manufacturers as well as small retailers. A wholesaler can place sufficiently large order with the manufacturer keeping in view the requirements of a number of small retailers in his area. In that process, the wholesaler is in a position to meet the small orders of retailers.

From the society's point of view, distribution of goods may be efficient because of the specialised knowledge and skill of wholesalers. On the other hand, manufacturers can concentrate on efficient production of goods. Naturally, they do not undertake the distribution of their products because their efficiency in manufacturing would suffer on account of divided attention.

Sole Selling Agency: When a manufacturer prefers to stay out of the marketing and distribution task, he appoints a suitable agency as his sole selling agent and entrust the marketing job with him. A sole selling agent is usually a large marketing intermediary with huge resources and extensive territory of operation. He wil1 be having his own network of distributor / stockist / whole sellers emi whole seller and retailers, he takes care of most of the marketing and distribution functions on behalf of the manufacturer. Obviously, a sole selling agent marketer will earn a large margin/commission compared to other types of intermediaries. A manufacturer can appoint just one agency in a given territory. Usually sales agencies involve exclusive selling rights for a territory for a specified period. This will prevent competition among agents. Of course the sole agents must know the area well and must be able to handle the given area effectively. The sole agents are given a special commission.

Stockist/Distributor: Stockist/Distributor is a large operator but not on a level comparable with a sole selling agent, in size, resources and territory of operation. The stockist distributor operates under the marketer sole-selling agent where such an arrangement is used by the manufacturer. A stockist/distributor buys the product in large quantities from producer and resale the goods in sizeable lots to other intermediaries down the line, such as semi-wholesalers and retailers. They add value by performing a number of vital marketing functions. Stock holding and sub-distribution are the main functions of the whole sellers. They also perform functions like promotion, financing, and collection of accounts, receivables, and provision of market feedback.

14.4.1 Classification

Wholesalers may deal in a large or limited variety of products, restrict their activities mainly to wholesaling or perform various functions incidental to their trade, and may operate in small or large geographical territories. Accordingly, wholesalers may be classified on three different bases: (1) merchandise dealt with, (2) method of operation, and (3) coverage of geographical area.

Merchandise Basis

On the basis of goods dealt with by the wholesalers, we may distinguish three types of wholesalers:

i) General merchandise wholesalers- those who deal in two or more unrelated types of products. For instance, a wholesaler may deal in a number of consumer durables like electrical goods, sports goods, cosmetics, hosiery, etc.

ii) General-line wholesalers- those who carry a number of goods in the same product line. For instance, a wholesaler may carry convenience goods of daily household necessity like soaps, detergents, toothpaste, razor blade, etc., or may stock cereals and provisions like wheat, rice, dal, etc.

iii) Single-line or speciality wholesalers- those who restrict their operation to a narrow range of products or specific products. Wholesalers dealing in a few varieties of textiles (cloth), or carrying varieties of printing paper only may be called speciality wholesalers, or single-line wholesalers.

Method of Operation

On the 6asis of the method of operations, wholesalers may be divided into two categories:

i) Service Wholesalers- those who perform a variety of functions like advertising, grading, branding, packaging, etc., on behalf of manufacturers and retailers.

ii) Limited Function Wholesalers- those who undertake to carry out a few limited functions, like packaging or grading.

Territory covered

On the basis of the geographical coverage of dealings, wholesalers may be grouped into three types:

i) Local Wholesalers- those who restrict their operation to a particular city or town and supply products to retailers in that area.

ii) District Wholesalers- those who have dealings with retailers located in a district.

iii) Regional or National Wholesalers- those who specialise in products having a national market and are nationally advertised. They have dealings with retailers locate in a region or a country.

14.4.2 Functions

In the preceding section we have learnt that wholesalers perform limited functions or undertake a variety of functions. Actually, the functions of a wholesaler depend upon the nature of the products dealt with and the business policy of that particular wholesaler. Of course every wholesaler must carry out the minimum functions of buying, storing and supplying one or more products. Besides these primary activities, several other functions may also be performed by wholesalers.

The wholesalers perform the following important functions of marketing:

1) Assembling: The wholesaler collects varieties of products from different manufacturers and keeps them in stock for sale to the retailers at the time when they need them.

2) Dispersion: The products assembled and stocked by the wholesalers are supplied to the retailers who may be widely scattered.

3) Warehousing: The goods purchased by the wholesalers from the manufacturers and producers have to be stocked in warehouse pending their sale to the retailers. The arrangement for such storage is the responsibility of the wholesaler.

4) Transportation: The wholesaler has to move the goods from the various factories to his own warehouse and from there to the retail stores. He may do so either by employing his own vans or by hiring public carriers.

5) Financing: The wholesaler in most cases provides goods on credit to the retailers.

6) Risk-assuming: The wholesaler assumes the risk arising out of the changes in prices and demand as also loss due to spoilage fir destruction of goods in his warehouse.

7) Grading and Packaging: The wholesaler has to sort out different grades of products according to quality and other considerations and pack the goods into smaller lots for retailers.

8) Price fixation: The prices of goods which consumers have to pay depend upon the prices fixed by wholesalers and charged from retailers. This is an important function performed by wholesalers because a number of factors including prices of competing goods, effect of prices on demand, etc., have to be taken into account.

14.4.3 Services

We have already learnt how wholesalers serve manufacturers and retailers by buying goods in large quantities, holding stocks and supplying smaller quantities to the retailers. In that way the wholesalers act as a bridge between producers and retailers. Let us now examine closely the services rendered by wholesalers to the manufacturers and retailers.

Services to Manufacturers: Wholesalers provide the following services to the manufacturers:

1) The wholesalers place large orders with the manufacturers or procure large of goods from manufacturers. Thereby manufacturers are relieved of the task of marketing their goods, and they can concentrate on production only. Manufacturers need not necessarily hold large stocks in their godown. Hence there is saving of expenses on storage and warehousing.

2) Wholesalers remain in close touch with the retailers. They get regular information from the retailers about changes in the consumer's demand for particular products as also about competing products. On the basis of such information, wholesalers place orders with manufacturers. Thus, wholesaler's purchase orders reflect the changing market conditions. Hence the volume of production can be regulated by the manufacturers in accordance with the changing market conditions as reflected by the wholesaler's purchase orders.

3) Often the wholesalers place orders in advance on the basis of their expectations regarding future demand of products even though the current demand is low. This helps manufacturers to continue their production on an even pace.

4) Wholesalers may also participate in the advertising of products jointly with the producers, which is of great advantage to both the parties.

Services to Retailers: Wholesalers render the following services to retailers:

1) A variety of goods can be procured by retailers in small quantities from the wholesalers. Most retailers serve a large number of customers. Thus different types of products have to be stored by a retailer to meet the needs of individual consumers. It is difficult for him to.buy the products from different manufacturers in small quantities. He can easily do so by contacting a few wholesalers.

2) Small retailers can get repeated supplies of products from wholesalers. Thus they can able to run their business with a relatively small amount of capital. Large stocks are not to be held by them, so there is saving of storage space as well.

3) Wholesalers have expert knowledge of the lines of product? they deal with. They procure the items from the best sources, that is from producers who supply the best quality at competitive price. Retailers also get advantage of the wholesalers' specialised knowledge of the products.

4) Retailers are protected from the risk of loss which would arise if-they were to hold large stocks of any product. It is the wholesalers who bear the maximum business risks arising out of falling demand for products.

5) Most wholesalers supply goods on credit to the retailers. This enables small retailers to pay for the goods after sale or customer payment on account. The working capital required for retail trading is thus relatively small.

6) Generally retailers come to know about new products only through the wholesalers who deal with manufacturers. Whenever any new product is introduced, wholesalers bring it to the notice of retaiiers either through salesmen or display in showrooms.

Check Your Progress B

1) Who is a wholesaler?

2) Visit a wholesaler in your area and find out the following:

i) Whether he deals in general merchandise or general line or single line.

ii) The services rendered by him to the retailers.

3) State whether the following statements are True or False.

i) Wholesalers do not sell products to ultimate consumers.

ii) Wholesalers sell goods to industrial users.

iii) Wholesaler is a mercantile agent.

iv) General line wholesalers deal in a very narrow range of products.

v) A local wholesaler normally have dealings with retailers located in a rigid state.

14.5 RETAILERS

In simple words retailing refers to all transactions which involve sale of goods to the ultimate consumers for personal consumption. If the buyer uses the goods for reselling purposes it will not be treated as a retailing transaction. Any individual or business unit or shop primarily engaged in retail selling is known as a retailer or retail store. In a general sense, even a manufacturer or wholesaler may sometimes engage in sale of goods to the ultimate consumers. But they are not called retailers as Market retailing is not the major activity of such a manufacturer or wholesaler. Thus a retailer Intermedial or retail store is one whose business consists primarily of sale of goods to consumers for their own use, but not for resale in business. Retail business may include other types of transactions also. It will be treated as a retailing business if more than half of its total sales revenue is from retail trading.

Dealers: Dealers are also a type of retailers. They work for a specific type of products or sell the products of one or few manufacturers. Dealers are at the bottom of the distribution hierarchy, working under stockists/distributors or semi-wholesalers, as the case may be. In cases where a company operates a single tier distribution system, dealers operate directly under the company. Retailers are also referred to as dealers. They operate in a relatively small territory or at a specific location, but they do not normally perform stock-holding and sub-distribution functions. The stocks they maintain are operational stocks necessary for immediate sale at the retail outlet. They buy assorted products in suitable lots and resale them to household consumers located in a limited geographical area, competing with other retailers.

Since the retailers deal with a large number of consumers of many different categories, the role of retailers in the physical distribution of goods is clearly of vital importance. The retailers act as a link between the producers or wholesalers on the one hand and the consumers on the other. Without retailers, neither the products would sell in distant places nor would it be possible for consumers to buy goods of their choice in shops located nearby. Due to large-scale manufacture of a wide variety of consumer goods and the necessity of making them available to individuals living in distant villages, cities and towns retailers are now regarded as the most important middlemen in the chain of distribution of goods.

14.5.1 Functions

Like the wholesalers, retailers also perform a variety of functions connected with the buying and selling of goods. They, in brief, perform the following functions.

1) **Estimating the demand:** All retailers - big or small- have to make an estimate of the demand for different products and have to determine the nature of products that consumers need to be supplied.

2) **Procurement of goods:** Most retailers deal in a variety of products. So they may have to procure goods from different wholesalers. Besides, they must decide to buy from those wholesalers who supply goods suited to the requirements of consumers as to quality and price.

3) **Transportation:** Usually the retailers are to arrange the transportation of goods procured from the wholesalers' place. Sometimes delivery is also arranged by the wholesalers on the basis of orders placed with their salesmen.

4) **Storing goods:** Small-scale retailers have limited space for the goods to be kept in stock. Large retail stores often have godowns to store different varieties of goods in adequate quantities. But in all cases, goods have to be held in stock so as to meet the customers, needs. For this purpose storage of goods must be so arranged that customers may be served without delay. They must be given an opportunity to select goods of their choice. This is often done by display of goods on shelves and high show cases.

5) Grading and packaging: Large-scale retailers often have to sort out goods according to the quality and price to be charged. They also make convenient packages of goods for the benefit of consumers. For instance, fruit vendors purchase apples in containers (boxes), sort out on the basis of size and charge different rates for different sizes.

6) **Risk-bearing:** Since goods are held in stock, the retailers arc to risk of loss on account of deterioration of quality, fire, theft, etc. Large retail stores are insured to cover the risks of theft or fire. But losses due to damage or deterioration d quality caused by improper storage cannot be insured.

7) **Selling:** The main function of retailers is selling the goods to ultimate consumers. They have to satisfy the needs and preferences of different types of customers and deal with them tactfully and politely so as to make them regular

14.5.2 Services

As middlemen engaged in the distribution of goods, retailers deal with wholesalers and consumers. Manufacturers as well as \ wholesalers depend a great deal on retailers for reaching the ultimate consumers to supply various products. Retailers provide the necessary outlet for goods and thus render a very useful service to the wholesalers and also to the producers indirectly. The services of retailers to the consumers are significant in several ways:

1) By holding ready stocks of various commodities required by the consumers, retailers relieve the customers of the need for stocking a wide variety of goods which could be extremely inconvenient and cumbersome.
2) By keeping a good assortment of the various varieties of a particular product, say soap, toothpaste, etc., retailers provide a wide variety of choice to their customers.
3) By proper display of new products, the retailers keep the consumer informed about the changing trends in production of different varieties of goods, besides helping manufacturers to promote their products.
4) Retailers very often guide their customers about the relative merits of the various brands of a particular product and thus help them in the selection of goods.
5) Retailers may provide special facilities to their customers, for example, free home delivery, extension of credit, after-sales service, etc.

14.5.3 Classification

Broadly speaking, we may divide the retailers into two categories as: 1) itinerant retailers, and 2) fixed shop retailers. Fixed shop retailers can be further classified as: 1) small scale retailers, and 2) large scale retailers. Retailers also may be further classified on the basis of (a) form of ownership, and (b) non-store retailing. All these categories are explained below.

Itinerant Retailers

Retail traders who carry on business moving about from place to place to sell their goods are known as itinerant retailer. They do not have any fixed place of business. They either move from house to house with their goods, or change their place of business frequently according to convenience .and sales prospects. Thus these itinerant retailers move about and try to reach as nearer to the buyer as possible.

There are three types of itinerant retailers who are explained below: .

1) **Hawkers or Peddlers:** These retailers move from door to door in (residential localities and sell their wares which may consist of vegetables, fruits, utensils, toys, ice cream, snacks, etc. They carry their articles in bags or trays hanging from shoulders, on bicycles or push carts, small motor vans or horse-drawn.

2) **Pavement Traders:** Pavement traders are found in busy market areas, street crossings, in front of railway stations and bus terminals. The goods traded by them include items like hand bags, cut-pieces of cloth, readymade garments, footwear, household utensils, toys, books and journals, pens and pencils, fruits, vegetables, etc. These traders sometimes put up temporary sheds or make-shift platforms for display of goods. More often, they spread their wares on pavements at different places depending on the prospects of sale.

3) **Market Traders:** This type of itinerant retailers generally sell their goods in weekly markets held in small towns or villages. They move from one market to another in the neighbouring places on specific days fixed for the market.

Services of Itinerant Retailers: These retailers serve consumers at the nearest and most convenient places: They serve either at the consumers' doorstep or at busy places which consumers normally visit. Thus, housewives and working people find it very convenient to buy goods from itinerant traders like hawkers and pavement traders Market traders in small towns and villages are also very useful to the consumers as they do not have fixed shops within easy reach. All itinerant retailers save customers time and effort of customers in buying articles of ordinary use. Housewives have the satisfaction of shopping leisurely at their doorstep.

Small-scale Retail Shops

Small-scale retail shops include those small shops dealing with miscellaneous products of regular use, and shops selling particular products of different varieties. They hold small stocks and do their business in fixed shops located in residential areas or market places. According to the nature of goods sold, the small retail shops may be divided into three categories as follows:

1) **Stalls on Streets:** Small shops on the roadside are very common in cities and towns. These are set up as stalls in front of large stores or in residential areas, selling a limited variety of products of regular use like stationery, groceries, toilet products, biscuits, etc. The shops are located within easy reach of consumers' residence or nearby roads or street-crossings, or bus stops. These retailers meet the needs of customers at convenient locations. They supply goods of regular use for which customers are not prepared to go to central markets.

2) **General Merchandise Shops:** These are small retail stores which deal in all types of general consumer goods of regular use, including provisions, bread, butter, stationery and toiletries. paper and pencils, cigarettes, matches, etc. These shops are located in thickly inhabited residential areas and busy markets. Consumers find it convenient to buy all their requirements in one shop. Regular buyers are also offered home delivery services and a credit facility.

3) **Speciality Shops:** Small retail shops that deal in only one or two special types of goods are known as speciality shops. The goods dealt with may be only electrical fittings of different kinds, or medicines, or motor parts, or books and Distribution Decisions stationery, or bread and confectionery items, or ready-made garments, or toys, etc. People often find it convenient to buy their requirements from these shops due to the availability of different grades and sizes in the small product line.

Large-scale Retail Shops

Large-scale retail shops are so called because they deal in a large variety of goods, and have large volume of business. The types of fixed shops in this category include the following:

1) Departmental stores

2) Super-market

3) Multiple shops or chain stores

4) Mail order house

5) Consumer co-operative stores

6) Hire purchase traders

7) Discount houses

8) Super bazars

9) Automatic vending machines

We shall now discuss briefly the characteristics of each of these types of retail shops.

1. **Departmental Stores:** A department store is a large-scale institution comprising a number of departments; each department specialising in a separate line of products. All these departments are under one roof and one unified control. Department stores offer the widest possible choice of products. The consumer can find all what he needs in one store rather than move around from shop to shop. These stores are located in central places in big cities so that they are easily accessible to customers. Bigger department stores offer a great number of amenities like restaurants, post and telegraph offices, recreation rooms and car parking. A department store indulges in decentralised buying and centralised selling. In fact, department store is a medium of mass merchandising.

   Departmental stores grew up in developed countries mainly to cater to the requirements of well-to-do people who required articles of high quality and looked forward for comfortable shopping. But they have also become popular in urban centres in many developing countries. In India too, we find a number of department stores coming up in urban centres, specially in metropolitan cities. Spencers and Nilgiri of Madras, Kamalalya of Calcutta and Akbarally of Bombay may be cited as example

Departmental stores have the following advantages:

- Departmental stores make shopping convenient to consumers by providing them a whole range of goods in one building.
- Their central location attracts a large number of customers leading to a large turnover. Thus they can afford to make large profits even with smaller margins.
- Bulk-buying by department stores enables them to obtain heavy discounts from manufacturers and thus buy at a cheaper rate. There are savings in freight charges as well.
- Departmental stores can afford to have effective advertising through press, radio and television and thus they are able to attract more and more customers.
- Being large business units, department stores can afford to employ skilled and expert staff for all their operations and thus they are able to achieve a high degree of efficiency in their working.

Departmental stores suffer from the following limitations:

- Experience has shown that operating costs of department stores tend to become very high because of the necessity to run some departments at a loss to attract customers and heavy emphasis in service. As a result, more often than not, their goods are marked at higher prices.
- Central location also involves higher rents and thus higher overheads. Central location may not be convenient to persons living in far off places which means that they will make their purchases of articles of everyday use from nearby shops. However, in recent years, department stores have branched themselves out to suburban areas as well to reach the customers nearer their location.
- It may not be possible for customers in general to receive personal attention which is possible when they deal with small retailers.

2. **Super-market:** A Super-market is a large-scale retail store which offers for sale a wide variety of consumer goods of regular use. The articles may include stationery, toiletry, dress materials, ready-made garments, toys, grocery items, crockery, kitchen utensils, medicines, as well as bread, butter, meat, eggs, fruits, vegetables, etc. The items are placed in separate stalls in the same building, or kept on shelves or tables in a hall. The customers are to pick-up the items they need and then pay for the articles at the cash counter. It works on a self-service basis though one or two salesmen are there to help the customers.

   The super-market, like the departmental store, deals in a large variety of goods. But there are certain differences between the two types of stores:

   i) In a super-market the products sold are generally low priced, fast-moving items of daily need. Durable goods like refrigerators, electric fans, radio, television, etc. are not available in super-markets. A departmental store mostly concentrates on consumer durables and fashion goods.
   ii) In a departmental store there are separate counters served by salesmen, whereas super-market operates on a self-service basis.
   iii) Customers are not provided with services and facilities like hair-dressing recreation, etc., in a super-market. These may be available in large departmental stores, although not in every such store.

However, now-a-days the departmental stores and super-markets have started dealing in similar products. Therefore, the difference between the two is fast fading.

3. **Co-operative Stores:** Consumers sometimes join together to form co-operative societies to sell goods on retail basis. The basic purpose is to eliminate middlemen and obtain their requirements at a lower price. The capital is subscribed by the members through the purchase of shares of small denominations. Co-operative stores purchase their requirements in bulk, from manufacturers or wholesalers. This enables the cooperative stores to sell their products at somewhat lower prices than the ordinary retailers. These stores usually sell on cash basis and thus avoid the loss due to bad Kamdhenu, TUCS and Amudhan in Madras.

Co-operative stores have the following advantages:

- Consumers can be sure of the quality of goods in the sense that there is no possibility of an adulteration practiced by some retailers in the private sector.
- These stores aie able to offer valous products at more reasonable prices than most other retailers.
- Consumers are assured of availability of certain products even when there is an overall shortage in the market and that too at reasonable prices. Retailers usually take advantage of such situations by either increasing prices or earmarking supplies to their favoured customers.

Co-operative stores suffer from the following limitations:

- Consumers do not patronise these stores regularly, coming to these stores only in times of shortages.

- In practice, they have not been able to reap the benefit of bulk purchases from manufacturers.
- Large co-operative stores may tend to suffer from all the drawbacks of bureaucratic management.

4. **Multiple Shops or Chain Stores:** The multiple shop system denotes an organisation which controls a number of stores under one common ownership and management. The various stores are located in various cities and in various localities of bigger cities. Multiple shops refer to a group of, retail stores dealing in similar types of goods. The basic idea behind the establishment of the multiple shops is to approach the customer in his vicinity unlike department stores which seek to attract customers to a central location. These shops could be operated by manufacturers or by wholesalers with the basic objective of eliminating retailers. Bata Shoes and Usha Sewing Machines are the-two examples of products for which multiple shops have been opened by manufacturers in India. Some textile mills also have some shops of their own in bigger cities. If wholesalers decide to operate multiple shops, they indulge in centralised buying with decentralised selling. Some of the Important features of these shops are:
   - Each shop deals in the same type of goods and products.
   - The goods dealt are generally those meant for everyday use.
   - There is a high degree of standardisation and uniformity in the interior layout of stores, window displays and outward appearance.
   - A uniform policy of sales is adopted.

   Multiple shops have the following ments:

   - Multiple shops are able to offer lower prices due to the economics of bulk buying.
   - As sales are on cash basis, losses on bad debts are eliminated and accounting is also made simpler.
   - Rapid turnover and common advertising for all shops make the operation of multiple shops economical.
   - Any shortage of goods faced by one branch can be easily made up by transfer from
   - some other branch in the same city. Since advertising material and interior layout of each shop are similar, the shop serves to advertise the other shops. This leads to further economy in advertising and a quicker turnover.

   Multiple shops suffer from the following limitations:

   - Multiple shops cannot offer the variety of choice which department stores or even ordinary retail stores offer.
   - These shops do not normally offer home delivery service or credit sales and thus lose a good number of customers.
   - Each unit is controlled by the head office and thus branch managers cannot adjust their sales policy to local conditions and emerging opportunities.
   - Limitations of bureaucratic organisation usually creep in so that the shop personnel tend to lose initiative.

5. **Mail-order House:** Retail trading which consists of receiving orders by mail and delivery of goods by parcel post is known as mail-order business. The mail-order house is thus a retail trading organisation which uses the post office as its channel of distribution. Standard consumer goods with trade marks or brand names are generally dealt with by mail-order houses. This is because customers are to place orders without physically checking the items. Bulky goods which cannot be delivered by post, and those for which delivery costs are relatively higher, are not included in the items traded. Orders from customers may be secured by advertising in newspapers or journals. Sometimes circular letters are issued by mail to certain categories of customers. For this purpose, a mailing list may be prepared from the telephone directory or from the list of members of a club, or traders' association. The mailing list contains the names and addresses of persons likely to be interested in the particular goods. Customers are invited to send their orders by post to the address of the mail-order house. Delivery is made by V.PR (Value Payable Post). Goods are thus available to the customers on payment of the price which is remitted by the post office to the sender of goods.

   Mail-order business helps customers to get their requirements at their own place and save the time and expense of shopping. The mail-order house, on the other hand, is also benefited in a number of ways. Goods can be procured according to the order received. The business can thus be started with a small amount of capital. Payment for goods is assured through the post office. A wide market can be covered by means of postal communication. However, mail order business has not developed in India mainly due to the existence of retail trading shops in every locality. Besides, illiterate people cannot be approached through the mailing list.

6. **Hire-purchase Trading:** Hire-purchase trading consists of supplying durable goods for use by customers who agree to pay the price by instalment at regular intervals. The buyer acquires ownership of the goods only after the total price has been paid. In other words, in hire-purchase trading, the buyer takes possession of the goods, but does not get the ownership until the last instalment has been paid. The instalments are regarded as hire charges. If there is default in paying an instalment, the seller has the right to recover the goods or sue the buyer for the balance amount due. Durable goods like refrigerators, television Sets, radio, sewing machines, electric fans, automobiles, industrial machinery, air-conditioners, etc., can be sold by hire-purchase trading houses. The instalments payable by the buyer includes interest on unpaid balance. Hence, the total price paid is relatively higher than in the case of outright cash purchase. But the customers get the advantage of deferred payment, as in the case of purchase on credit, and is also able to use the goods meanwhile. Hence, hire-purchase becomes attractive as a means of saving large initial payment required for outright purchase of goods.

7. **Discount Houses:** Large scale retail establishments which offer discounts on the prices are known as 'Discount Houses'. Durable goods like household appliances (cooking ovens, electrical gadgets, etc.) camera, binoculars, etc., are generally available through discount houses at a relatively lower price as compared with the Distribution Decisions price charged by other retail stores. This is possible as the discount houses directly purchase from manufacturers and operate the business on a low margin of profits. They expect to cover expenses and make substantial profits through large volume of sales.

8. **Super-Bazars:** These are large retail stores organised by co-operative societies which sell a variety of products under a single roof. The goods traded by super bazars include consumer goods which are procured at wholesale rates from manufacturers or wholesalers. The stores are operated either on the principle of self service or with separate counters served by salesmen. The difference between a super-bazar and super-market is that the former is organised by co-operative society whereas the latter is generally established as a private sector organisation. Similarly, the difference between a consumer co-operative store and super-bazar is that a consumer co-operative store is usually run on small scale, while the super-bazar may be a large-scale establishment.

9. **Automatic Vending Machines:** Retail sale of articles with the help of coin operated automatic machines is known as automatic vending. Retailing on a large scale is possible in this way by placing machines at convenient locations like bus terminals, railway stations, airports, shopping centres, etc. This method of retail selling is very popular in western countries. Cigarettes, razor blades, postage stamps, milk, ice-cream, soft drinks, soup, paper-back books, newspapers, etc., are sold in cities through vending machines. Customers are required to insert necessary coins in a slot and press a button whereby the article is released automatically. The coins are collected from the machine periodically, and articles are put in as needed. Automatic vending facilitates buying of small items round the clock. There is no necessity of salesmen's services. However, the stocking capacity of machine is limited and there are risks of mechanical failures imitating the customers. Moreover, paper currency may not be used and coins of exact value are required to operate the machine. In India, automatic vending has been used for limited purpose like selling postage stamps, flight insurance, milk, etc. It is not a popular retailing device in India due to the existence of a large number of small retail shops.

Form of Ownership

A retail business like any other type of business, can be owned by a sole proprietor, partners or a corporation. A majority of retail business in India are sole proprietorships and partnerships.

1. **Independent Retailer:** Generally operates one outlet and offers personalized services, a convenient location and close customer contact. Roughly 98% of all the retail businesses in India are managed and run by independents, including barber shops, drycleaners, furniture stores, bookshops, LPG Gas Agencies and neighbourhood stores. This is due to the fact that entry into retailing is easy and it requires low investment and little technical knowledge. This obviously results in a high degree of competition. Most independent retailers fail because of the ease of entry, poor management skills and inadequate resources.

2. **Retail Chain:** It involves common ownership of multiple units. In such units, the purchasing and decision making are centralized. Chains often rely on specialization, standardization and elaborate control systems. Consequently chains are able to serve a large dispersed target market and maintain a well-known company name. Chain stores have been successful, mainly because they have the opportunity to take advantage of "economies of scale" in buying and selling goods. They can maintain their prices, thus increasing their margins, or they can cut prices and attract greater sales volume. Unlike smaller, independent retailers with lessor financial means,

they Marketing can also take advantage of such tools as computers and information technology. Intermediaries Examples of retail chains in India as Shoppers stop, West side and IOC, convenience stores at select petrol filling stations.

3. **Retail Franchising:** Is a contractual arrangement between a "franchiser" (which may be a manufacturer, wholesaler, or a service sponsor) and a "franchisee" or franchisees, which allows the latter to conduct a certain form of business under an established name and according to a specific set or rules. The franchise agreement gives the franchiser much discretion in controlling the operations of small retailers. In exchange for fees, royalties and a share of the profits, the franchiser offers assistance and very often supplies as well. Classic examples of franchising are: McDonalds, PizzaHut and Nirulas.

4. **Cooperatives:** A retail cooperative is a group of independent retailers, that have combined their financial resources and their expertise in order to effectively control their wholesaling needs. They share purchases, storage, shopping facilities, advertising planning and other functions. The individual retailers retain their independence, but agree on broad common policies. Amul is a typical example of a cooperative in India.

Non Store Retailing

In non store retailing, customers do not go to a store to buy. This type of retailing is growing very fast. Among the reasons are: the ability to. buy merchandise not available in local stores, the increasing number of women workers, and the presence of unskilled retail salespersons who cannot provide information to help shoppers make buying decisions.

The major types of non store retailing are:

1. **In Home Retailing:** Where, a sales transaction takes place in a home setting - including door-door selling. It gives the salesperson an opportunity to demonstrate products in a very personal manner. He/She has the prospect's attention and there are fewer distractions as compared to a store setting. Examples of in home retailing include, Eureka Forbes vacuum cleaners and water filters.

2. **Telesales/Telephone Retailing**: This involves contact between the prospect and the retailer over the phone, for the purpose of making a sale or purchase. A large number of mobile phone service service providers use this method. Other examples are private insurance companies, and credit companies etc.

3. **Catalog Retailing:** This is a type of non store retailing in which the retailers offer the merchanise in a catalogue, which includes ordering instructions and customer orders by mail. The basic attraction for shoppers is convenience. The advantages to the retailers include loer operating costs, lower rents, smaller sales staff and absence of shop lifting. This trend is catching up fast in India. Burlington's catalogue shopping was quite popular in recent times. Some multi level marketing companies like Oriflame also resort to catalogue retailing.

4. **Direct Response Retailing:** Here the marketers advertise these products/services in magazines, newspapers, radio and or television offering an address or telephone number so that consumers can write or call to place an order. It is also sometimes referred to as "Direct response advertising". The availability of credit cards and toll free numbers stimulate direct response by telephone. The goal is to induce the customer to make an immediate and direct response to the advertisement to "order now". Telebrands is a classic example of direct response retailing. Times shopping India is another example.

5. **Automatic Vending:** Although in a very nascent stage in India, is the ultimate in Distribution Decisions non personal, non store retailing. Products are sold directly to customers/buyers from machines. These machines dispense products which enable customers to buy after closing hours. ATMs dispensing cash at odd hours represent this form of non store retailing. Apart from all the multinational banks, a large number of Indian banks also provide ATM services, countrywide.

6. **Electronic Retailing/E-Tailing**: Is a retail format in which retailers communicate with customers and offer products and services for sale, over the internet. The rapid diffusion of internet access and usage, and the perceived low cost of entry has stimulated the creation of thousands of entrepreneurial electronic retailing ventures during the last 10 years or so. Amazon.com, E-bay and Bazee.com HDFCSec.com are some of the many e-tailers operating today.

14.6 TRENDS IN WHOLESALING AND RETAILING

Marketing intermediaries or middlemen in the distribution network are indispensable because they perform specialized marketing functions such as buying, selling, transporting, warehousing, grading, sorting, financing, risk-taking, and dissemination of marketing intelligence. They create time, place, possession, and information utility. Marketing intermediaries survive and prosper only as long as they perform one or more of these essential marketing functions at cost which are competitive with other intermediaries ad at levels matched to market demands. It should be clearly understood that the marketing functions and services can be shifted and shared, but they can never be eliminated. Even if a producer takes the products directly to the user, the channel functions cannot be eliminated. The producer under direct sale must perform all marketing functions such as buying, selling, stocking, pricing, promoting, delivering, financing and so on. The direct sale may reduce the number of times or the frequency or the functions performed. But it cannot eliminate those typical marketing functions. Besides, the direct sale may or may not reduce that cost. Under such circumstances, where is the utility of eliminating middlemen in distribution? On the other hand, it is preferable to utilize middlemen who specialize in those marketing services and who offer the benefits specialization at reasonable cost. Wholesalers and retailers, by practicing specialization and division of labour, reduce the operation expense ratio. They can operate on relatively small profit margin. In case of consumer goods bulk of merchanise even in advanced countries move through wholesaling and retailing organization, hence wholesaler and retailer are two most important marketing intermediaries. They have carved out a definite niche in our distribution system by the efficient performance of marketing functions.

Marketing is a dynamic area of Management. As such, with a constantly changing environment of business, various important developments have taken place in almost all the areas of marketing. Some of the important developments have taken place in the field of distribution channels also. These developments not only reflect the trends in respect of major channel participants i.e., wholesalers and retailers, but also indicate the future of these intermediaries in the country.

A major development is the emergence of Integrated Marketing Systems. Instead at the conventional distribution system, in which an individual channel member operates 'independently on the basis of self-interest and without taking interest in what occurs later in the chain, now the channel participants at different levels-have started working in an integrated and coordinated manner. This integration may be either vertical or horizontal. Vertical integration refers to coordination between channel participants at different levels. For example, coordination between manufacturers and wholesalers, between wholesalers and retailers. Such coordination may be organised on a corporate, contractual or administered basis. The objective of such integration is to achieve operating economies and increased market impact. Horizontal integration, on the other hand, refers to alignment of two or more firms at the same level of Marketing channel participation to jointly exploit a marketing opportunity. This integration may be Intermediaries at the level of manufacturers or wholesalers or even retailers. For example, in India, cement manufacturing companies have formed an 'Associated Cement Company' so as to channelise their produce to the market. Similarly, tyre manufacturers had built up a guild through which the prices, etc., of the tyres were being fixed jointly. This tendency of integrated marketing is likely to grow in the coming years.

More number of firms are adopting direct marketing techniques for selling their products. This is particularly so in the case of distribution of consumer durable products. This is being done to ensure great control over the market and to bring economy in the cost of distribution.

Trends in Wholesaling

Progressive wholesalers constantly watch for better ways to meet the changing needs of their suppliers and target customers. They recognize that, in the long run, their only reason for existence comes from adding value by increasing the efficiency and effectiveness of the entire marketing channel. To achieve this goal, they constantly improve their services and reduce their costs. For instance, McKesson HBOC, the USA's leading wholesaler of pharmaceuticals and health care products, automated its 36 warehouses, established direct computer links with 225 drug manufacturers, designed a computerized accounts-receivable programme for pharmacists, and provided drugstores with computer terminals for ordering inventories. Retailers can even use its computer system to maintain medical profiles on their customers. Thus, McKesson HBOC has delivered better value to both manufacturers and retail customers, and remained cost effective than the manufacturer's sales branches.

Consolidation will significantly reduce the number of wholesaling firms. Surviving wholesalers will grow larger, primarily through acquisition, merger and geographic expansion.

The trend toward vertical integration, in which manufacturers try to control their market share by owning the intermediaries that bring their goods to market, remains strong. In health care, for instance, drug makers have purchased drug-distribution and pharmacy-management companies. Facing slow growth in their domestic markets, many large wholesalers are now going global.

The distinction between large retailers and large wholesalers continues to blur. Many retailers now operate formats such as wholesale clubs and hypermakets that perform many wholesale functions. In return, many large wholesalers are setting up their own retailing operations. Wholesalers will continue to increase the services they provide to retailers-retail pricing, cooperative advertising, marketing and management information reports, accounting services, online transactions, and others. Rising costs on the one hand, and the demand for increased services on the other, will put the squeeze on wholesaler profits. Wholesalers who do not find efficient ways to deliver value to their customers will soon drop by the wayside. However, the increased use of computerized, automated, and Internet systems will help wholesalers to contain the costs.

Trends in Retailing

Structurally, retailing in India is still made up of traditional retail store formats like, the 'Kirana' (mom and pop) shops, hardware shops, weekly 'haats' and flea markets. This is not to say that large retailing formats, like department stores, hyper-markets, malls and speciality stores are non existent. Although, large retail formats are still in a very early stage of development, with 2% share of the organized retail sector, it has definitely established a firm base in India.

Till about a few years ago, organized retailing with the exception of BATA, was confined largely to South India. But organized retailing is now experiencing a boom throughout the country.

For Indian retailing, things started to change slowly around the 1980s, when the Government began opening its economy. In the textile sector, companies like, Bombay Dyeing, Raymonds, S. Kumar and Grasim, were the first to set up retail chains. Later, Titan (Tatas) with its premium watches, successfully created an organized retailing concept in India by establishing a series of elegant show rooms.

The latter half of 1990s however, saw a fresh wave of new entrants in the retailing business. This time it was not a manufacturer looking for an alternative sales channel. These were pure retailers with no serious plans of getting into manufacturing. The fields they entered into, were diverse : Food world, Subhiksha and Nilgiri's in food and FMCG, PlanetM and, Music world in music, Crossword and Fountainhead in books.

Retail growth is already gathering momentum and the organizeh. retail industry is expected to grow by 30% in the next five years and is estimated to reach Rs.45,000 crore in 2005-06.

The forces propelling this evolution spring from increased levels of education, technological change and people's life styles. Discretionary income is there to spend but the time to spend it is not. Shopping once considered a pastime in the era of traditional families is now a time consuming chore.

In recent years the nature of retailing has changed dramatically, as firms try to protect their positions in the market place. Many customers are no longer wiling to spend as much time on shopping as they once did. Some sectors of retailing have become saturated, several retailers are operating under high levels of debt and number of retailers after running frequent "sales", have found it difficult to maintain regular prices.

Retailers are adapting to the shopping needs and time constraints of working women, dual earner households and the increased customer interest in quality and customer service.

Shopping Malls: A growing number of shopping malls are coming up all over the country. In north India, there seems to be a proliferation of such malls surrounding Delhi, in places like Gurgaon and Noida. In general they target higher income customers, with their prestigious speciality shops, restaurants and department stores.

Factory Outlets: Manufacturers are opening factory outlets to sell off surplus inventories and outdated merchandise. This forward vertical integration gives manufacturers greater control over distribution, than selling the merchandise to off price retailers. Mohini knitwear of Ludhiana (Punjab) and number and woollen and hosiery manufacturers set up their outlets in Delhi during winters.

Non Store Retailing: Non store retailing is accelerating at a faster rate than in store retailing. This includes direct marketing. In Home shopping, TV shopping and e-tailing etc.

Diversification of Offerings: Scrambled (unrelated products or services) merchandising is taking on a broader meaning and inter type competition among retailers is growing. For instance Citibank is organizing tourist trips and sending mail order catalogues to its credit card customers.

Impact of Technology on Shopping Behaviour: The way retailers present their merchandise and conduct their transactions are changing. Cable TV Channels are used to present merchandise, Videos have replaced catalogues and wputer linkages to acquire information and make purchases are on the increase. Virtual shopping through PDAs is another possibility.

Multi Channel Retailing: Traditional store based and catalogue retailers are placing more emphasis on their electronic channels and evolving into multichannel retailers, Intermediaries : because they can reach new markets and overcome limitations posed by traditional Expansion Globally: Due to globalisation and liberalisation under the WTO regime, retailers are also finding opportunities to expand globally. Retailers with unique formats and strong brand positioning are increasingly moving into other countries. Many are expanding internationally to escape mature and saturated home markets. Over the years, several giant US retailers like McDonald's, Gap, Toys " R Us-have become globally prominent as a result of their great marketing prowess. Similarly, retailers from other countries that have gone global are Britain's Marks and Spencer, Italy's Benetton, France's Carrefour hypermarkets, Sweden's 'IKEA home furnishings stores,, and Japan's Yaohan supermarkets. Marks and Spencer, which started out as a penny bazaar in 1884, grew into a chain of variety stores over the decades and now has a thriving string of 150 franchised stores around the world, which sell mainly its private-label clothes. In the context of global expansion, 18% of US retailers, 40% .of European retailers and 3 1 % of Asian retailers have their presence in foreign countries. In the recent times, Government of India permitted foreign direct investment in retailing. Therefore, there is scope for foreign retailers to enter India in a big way.

Retail Shopping Malls as 'Communities' or 'Hangouts': In urban India it is a common experience that retail shopping malls offer a range of services to engage the family for the whole day.

With the rise in the number of people living alone, working at home, or living in isolated and sprawling suburbs, there ha's been a resurgence of establishments that regardless of the product or service they offer, also ,provide a place for people to get together. These places include cafes, tea shops, juice bars, multiplex theatres, bookshops, superstores, children's play spaces, brew pubs, and urban greenmarkets.

Check Your Progress C

1) How is a retailer different from a wholesaler?

2) Differentiate between departmental store and multiple shop.

3) Differentiate between a consumer co-operative store and super-bazar.

4) State whether the following statements are True or False.

i) Retailers always buy goods from manufacturers.

ii) Retailers also sell goods to other retailers.

iii) Super-markets normally deal with consumer durables.

iv) Retail traders who move from place to place are called itinerant retailers.

v) Super-bazar is a retail shop organised by a co-operative society.

vi) Consumer co-operatives are run on no-profit no-loss basis.

14.7 SUMMARY

Intermediaries play a significant role in the distribution of goods and services. They create a number of utilities, bring in economy of effort, make shopping convenient for the buyers and help in regulating demand for the products. There are two broad categories of intermediaries -

primary and ancillary. The primary participants are those who undertake the negotiatory functions of selling and transferring of title of goods. The ancillary participants such as financial institutions, public warehouses, etc., on the other hand, assist the channel members (primary participants) in performing the distribution task. The primary participants may again be divided into two categories: 1) merchant middlemen (retailers and wholesalers) and 2) merchant agents (brokers, ,commission agents, del credere agents- auctioneers, etc.). Wholesalers are defined as merchant middlemen who are engaged in buying and reselling goods to retailers, other merchants, industrial and commercial users, but not to ultimate consumers. Wholesalers may be classified on the basis of merchandise dealt with methods of operation, and geographical coverage of their dealings. The functions performed by wholesalers include assembling, storage:, grading and packaging, transportation, financing retail traders, price-fixation, risk-bearing and making advances to manufacturers. Wholesalers render valuable services to manufacturers as well as retail traders.

A retailer is one whose business consists primarily of selling goods to customers for their own use, not for use in their business. If manufacturers sell goods to consumers, they are not treated as retailers as retailing is not the major activity of a manufacturer. The retailers perform several functions such as estimating demand, procuring goods, arranging transport, holding stocks, grading and packaging, and selling. They render valuable service to consumers, wholesalers and indirectly also to the producers of goods.

Retailers may be divided into two broad categories: itinerant retailers and fixed-shop retailers. Itinerant retailers (hawkers, pedlars, pavement traders, and market traders) either move from house to house or change their place of business according to convenience. Fixed-shop retailers locate their stores at fixed places where customers can easily come and make their purchases. Fixed shop retail trading may consist of two types: 1) Small-scale retailing (stall-holders, general merchandise shops, speciality shops, and second-hand goods sellers) who deal in a limited range of products or 2) Large-scale retailers establish stores (departmental stores, super markets, multiple shops, mail-order houses, consumer co-operative stores, super-bazars, hire-purchase trading, discount-houses, and automatic vending) which deal in and stock a wide range of products.

On the basis of the form of ownership, retailers may be divided as independent retailers, retail chain, retail franchising and cooperatives. Further, there are non-store retailing such as in home retailing, telesales/telephone retailing, catalogue retailing, direct response retailing, automatic vending and electronic retailing.

14.8 KEY WORDS

Ancilliary Participants: Group of individuals and organisations which do not perform the negotiatory functions of selling and transferring title of products but assist the primary participants in performing the distribution tasks. Auctioneer: A middlemen appointed as an agent to sell goods by action. Marketing Intermediaries

Automatic Vending: Sale of small articles of regular use by installing coin-operated automatic machines at different places.

Broker: A middlemen who brings together the buyer and seller, and negotiates the, terms and conditions of sale on behalf of either buyer or seller.

Commission Agent: A middlemen w11o sells goods on commission basis on behalf of the owner.

Consumer Co-operative Stores: Retail stores run by co-operative societies organised in the interest of consumer groups.

Departmental Stores: Large retail stores consisting of separate departments selling different types of products.

Discount Houses: Retail stores engaged in selling durable consumer goods at a discount.

Factor: A mercantile agent who keeps the goods of other for sale. He can sell the goods in his own name, pledge and do all acts necessary for sale.

Hire Purchase Trading: Supply of durable goods on hire against the payment of periodical instalments with ownership transferred to the buyer, after all instalments have been paid.

Itinerant Retailers: Retail traders who sell goods moving from house to house or change their place of business frequently.

Mail-Order House: Receiving orders by mail and delivering goods through the post office.

Mercantile Agent: A functional Middleman who undertakes specific functions of sale or purchase of goods as agent of the owner without having ownership right. '

Merchant Middleman: A middleman such as wholesaler or retailer who buys and sells goods in his own name and performs necessary functions in that connection.

Middleman: An intermediary between the producer and the consumer to help distribution of goods.

Multiple Shops/Chain Stores: Retail stores under the ownership and management of a single firm dealing in similar products at uniform prices and located at different places.

Primary Participants: Group of individuals and organisations undertaking to perform the negotiatory functions of selling and transferring title of the products.

Retailer: One who is engaged in wholesale trading. Retailing: Purchasing goods from wholesalers or manufacturers and selling them to consumers for their personal non-business use.

Speciality Shops: Small retail shops dealing in one or two special types of goods.

Super-Markets: Retail stores selling consumer goods of regular use and operating on self-service basis.

Wholesaler: One who is engaged in wholesale trading. Wholesaling: Purchasing and reselling of goods to retailers and merchants.

14.9 ANSWERS TO CHECK YOUR PROGRESS

A.4 i) False ii) False iii) True iv) True v) False vi) True

B.3 i) True ii) True iil) False iv) True v) False

C.4 i) False ii) False iii) False iv) True v) True vi) True

14.10 SELF ASSESSMENT QUESTIONS

1. What role does intermediaries play in the distribution of products? Can intermediaries be eliminated?
2. What do you understand by retailing? What important functions do the retailers perform in the distribution of products.
3. What do you understand by wholesaling. How does it differ from retailing?
4. Compare the advantages and disadvantages of departmental stores and chain stores.
5. Write notes on the following
   a) Itinerant retailers
   b) Ancilliary Participants
   c) Consumer co-operative store
   d) Merchant agents
6. Describe the services rendered by wholesalers and retailers to different sections of society.
7. Explain briefly about various types of middlemen.

14.11 FURTHER READINGS

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LESSON 15

MARKETING LOGISTICS

15.0 OBJECTIVES

After studying this unit, you should be able to:

- Explain the concept and role of Marketing Logistics.
- Differentiate between Marketing Logistics and Supply Chain management
- Describe the major objectives of Logistics Management
- Narrate the major element of Logistics and describe the total systems approach and total cost approach.

STRUCTURE

15.1 INTRODUCTON

In the preceding two units various aspects relating to development of channels of distribution (or a network of merchants and agents business institutions) for the flow of goods and services from the point of production to the point of use have been discussed. The entire process of setting up and operating contractual organization responsible for meeting the firm's distribution objectives have been explained. However, nothing actually happens in marketing unless the goods are physically moved from the point of their origin to the point of their consumption. Here comes the role of marketing logistics. The present unit focuses on various aspects relating to the marketing logistics of a product. It describes the meaning, importance, role; objectives, tasks involved and approaches of marketing logistics.

15.2 MARKETING LOGISTICS - MEANING AND IMPORTANCE

No matter how good the product of a firm may be, if it does not reach the consumers at the right time and place and in the best physical state, a great deal of effort would go waste. For that, it is important to ensure mobility of goods.

15.2.1 Meaning of Marketing Logistics

From the point of view of management, marketing logistics has been described by Philip Kotler as "planning, implementing and controlling the physical flows of materials, final goods and related information from point of origin to point of consumption to meet customer 5 requirements at a profit ". In short, it involves getting the right product in right quantity to the right customer in the right place at the Traditional physical distribution typically started with products at the plant and then tried to find low-cost solutions to get them to customers. However,. today's marketers prefer marketing logistics, which starts with the marketplace and works backward to the factory. To understand this, you have to first understand the concepts of logistics management and supply chain management.

Logistics describes the entire process of moving raw materials and component parts into a firm, moving in-process inveoty through the firm, and moving finished goods out of the firm. Effective marketers create and maintain long-term relationships with a chain of organizations to perform this logistics function. The term supply chain is used to describe all the organizations that regularly supply a marketing company and all members of the marketer's channel of distribution. The ideal supply chain is a collaborative arrangement in which all organizations see themselves as partners working together to increase logistical efficiency. Supply chain management or logistics management, thus involves planning, implementation and controlling a chain of organizational relationships to assure the efficient flow of both inbound materials and outbound finished products.

Clearly, the term supply chain management is broad in scope because it encompasses planning and coordinating the physical distribution of finished goods and managing the movement and storage of raw materials and supply parts needed during the procurement and production process. Slupply chain management, thus, includes two aspects (1) Inbound logistics, which includes all the activities associated with bringing raw materials and supplies to the point of production and moving the in process inventory through the firm. Inbound logistics is also referred to as Production Logistics. (2) Outbound logistics which includes the broad range of activities concerned with efficient movement of finished products from the end of production line to the consumers. Outbound logistics is referred to as marketing logistics. Thus, production logistics and marketing logistics put together called supply chain management or logistics management. Study Figure 15.1 carefully to understand the relationship between supply chain management and marketing. Normally, marketing logistics and physical distribution are used synonymously by many marketers. Moreover, there is slight difference in these terms.

Physical distribution is a term employed in manufacturing and commerce to describe the broad range of activities concerned with efficient movement of finished products from the end of the production line to the consumer. In short, physical distribution refers to the flow or products from producers to consumers. Its major focus is the physical aspects of that flow rather than the institutional activities within channels of distribution dealing with changing title, facilitating exchanges, and negotiating with intermediaries.

Historically, we have moved from physical distribution to logistics management and then to supply chain management. This major difference seems to be that supply chain management is the preferred name for the actualization of "integrated logistics", with it acting as an enabler, it is now possible to have an integrated process view about the logistics and all allied processes related to business.

You are now clear that the process of marketing logistics involves handling and movement of products from the point of production to the point of consumption or use. The important activity involved in this process includes order handling, information processing, inventory", control, storage and transportation. Thus, the major elements of marketing logistics may be listed as follows:

- Transportation
- Inventory Maintenance
- Order Processing
- Acquisition
- Protective Packaging
- Warehousing
- Materials Handling
- Information Maintenance

Logistic activity is literally thousand of years old, dating back to the earliest form of organized trade. As the area of study, however, it first began to gain attention in the early 1990s. More emphasis has been given to logistics after the Gulf war in 1990-91 when the efficient and effective distribution of store supplies and persons were the key factors for success.

The effective logistics management can provide a major source of competitive advantage. The source of competitive advantage is found firstly in the ability of the organization to differentiate itself in the eyes of the customer from its competitor and secondly by operating at a lower cost and hence at greater profit. There are two bases of success in any competitive context. One is the cost advantage and second is the value advantage. Cost advantage is achieved through greater productivity and value advantage is pursued through a different plus over competitive offerings.

It is now recognised that marketing logistics is a critical area of overall supply chain management. Logistics expenditure accounts for 15-20% of GDP. Thus, by improving the efficiency, logistics makes an important contribution in reducing costs as a whole. Business logistical techniques can be applied to marketing logistics so that costs and customer satisfaction are optimised. There is little point in making large savings in the cost of distribution if in the long run, sales are lost because of customer dissatisfaction. Similarly, it does not make economic sense to provide a level of service that is not required by the customer but leads to an erosion of profits. This cost service balance is a basic dilemma that physical distribution managers face.

The reason for the growing importance of marketing logistics is the increasingly demanding nature of the business environment. In the past it was not uncommon for companies to hold large inventories of raw materials and components. Although industries and individual fms differ widely in their stockholding policies, nowadays, stock levels are kept to a minimum wherever possible. Holding stock is wasting working capital for it is not earning money for the company. To think of the logistical process merely in terms of transportation is much too narrow a view. Physical distribution management (marketing logistics) is concerned with the flow of goods from the receipt of an order until the goods are delivered to the customer. In addition to transportation, marketing logistics involves close liaison with production planning, purchasing, order processing, material control and warehousing. All these areas must be managed so that they interact efficiently with each other to provide the level of service that the customer demands and at a cost that the company can afford.

With rising interest rates and increasing energy cost, logistics received more attention as a major cost driver. Logistics cost became a more critical issue for many organizations because of globalization of industry. This has affected logistics in two primary ways. First, the growth of world-class competitors from other nations has caused organizations to look for new ways to differentiate their organizations and product offerings. Second, as organizations increasingly buy and sell offshore, the supply chain between the organizations becomes longer, more costly and more complex. Excellent logistics management is needed to fully leverage global opportunities. Information technology input has given a next boom to logistics management. This gave organization the ability to better monitor transaction intensive activities such as ordering movement and storage of goods and materials. Combine with the availability of computerized quantitative models; this information increased the ability to manage flows and to optimize inventory levels and movement.

Other factor contributing to the growing interest in logistics include advances in information technology, increased emphasis on customer service, growing reorganization of the system approach and total cost concept. The profit leverage Marketing Logistics from logistics and realization that logistics can be used as a strategic weapon in competing the market place.

15.3 OBJECTIVES OF MARKETING LOGISTICS

Determining the objectives is the first step in managing an activity in a planned and systematic way. It is so because the objectives serve as a guiding force for chalking out the strategy for the successful completion of the task. In the area of marketing logistics too, the strategy will depend upon the objectives sought to be achieved in this regard. Thus, it is important for the firm to specify the major objectives of the marketing logistics system.

The objective of any marketing logistics system is to move the goods to the right place at the right time, and at the lowest possible cost. Thus, customer service and cost reduction are the two basic objectives of an effective marketing logistics system in an organisation. However, there may be some more specific objectives in a given ' marketing situation. Some such objectives are described in detail below:

Improving Customer Service

As you know, the marketing concept assumes that the sure way to maximise profits in the long run is through maximising the customer satisfaction. Thus, an important objective of all marketing efforts, including the marketing logistics, is to improve the customer service. This in turn, produces better sales and profits.

An efficient management of marketing logistics helps to improve the level of customer service by developing an effective system of warehousing quick and economic transportation and optimum level of inventory. But as discussed earlier, the level of service directly affects the cost of distribution. Therefore, while deciding the level of service, a careful analysis of the customers' wants and the policies of the competitors is necessary. The customers may be interested in several things like timely delivery, careful handling of merchandise, reliability of inventory, economy in operations and so on. But the relative importance of these factors in the minds of customers may vary. Thus, an effort should be made to know whether they value timely delivery or economy in transportation, and so on. Once the relative weights are known, an analysis of what the competitors are offering in this regard should be made. This together with an estimate about the cost of providing a particular level of customer service would help in deciding the level of customer service.

Reduce Distribution Costs

Another most commonly stated objective is to reduce the cost of distribution of the products. It has already been explained that the cost of marketing logistics consists of various elements such as transportation, warehousing and inventory maintenance, and a reduction in the cost of one of the elements may result in an increase in the cost of the other elements. Thus, the objective of the firm should be to reduce the total cost of distribution and not just the cost incurred on anyone element. For this purpose, the total cost of alternative distribution systems should be analysed and the one which has the minimum total distribution cost should be selected.

The cost of distribution is also related to the level of customer service offered by a firm. The higher the level of service offered, the greater would be the cost of distribution. Thus, the objective of the finn may be to minimise the total marketing logistics cost to achieve a target level of customer service. In other words, cost minimisation is related to the level of customer service set by the company.

Generating Additional Sale

Another important objective of the marketing logistics system in a firm is to generate additional sales. A firm can attract additional customers by offering better services at lower prices through improvements in the physical distribution of the products. For example, by decentralising its warehousing operations or by using economic and efficient modes of transportation, a firm can achieve larger market share also by arresting the out-of-stock situation, the loss of loyal customers can be arrested.

Creating Time and Place Utilities

The marketing logistics system also aims at creating time and place utilities in the products. Unless the products are physically moved from the place of their origin to the place where they are required for consumption, they do not serve any purpose to the users. Similarly, the products have to be made available at the time they are needed for consumption. Both these purposes can be achieved through the marketing logistics system. For example, in order to create maximum time and place values, the products should be kept in warehouse during the period they are available in excess till they are in short supply. For this the warehouse should be located at places from where they can be delivered can be provided and sufficient stocks levels should be maintained so as to meet the emergency demands of the customers quickly. A quicker mode of transport should be selected to move the products from one place to the other in a short time. Thus, time and place utilities can be created in the products through an efficient system of marketing logistics.

Price Stabilisation

Marketing logistics may also aim at achieving stabilisation in the prices of the products. It can be achieved by regulating the flow of the products to the market through a judicious use of available transport facilities and compatible warehouse operations. For example, in the case of industries such as cotton textile industry using agricultural products as raw material, there will be fluctuations in the supply of raw materials. In such cases if the market forces are allowed to operate freely, the raw material would be very cheap during harvesting season and very dear during off season. This fluctuation may be stabilised by keeping such raw material in warehouses during the period of excess supply (harvest season) available during the periods of short supply. Thus, prices can be stabilised with the help of physical distribution activities.

Check Your Progress A

1) What is the meaning of marketing logistics?

2) Differentiate between marketing logistics and logistics management.

3) What are the main objectives of marketing logistics in a firm? Marketing Logistics

4) State whether the following statements are True or False.

i) Marketing logistics includes supply chain management.

ii) Marketing logistics is a outbound marketing logistics I1 hnction.

iii) Efficient customer service is the only objective of marketing logistics

iv) Effective marketing logistics system can bring in stability in prices.

v) Marketing logistics system creates time and place utilities in products.

15.4 MARKETING LOGISTICS TASKS

The important decisions in respect of marketing logistics are: i) how orders should be handled? ii) where should the stock be located? iii) how much stock should be kept on hand? and iv) how should goods be transported? In fact, as shown in Figure 15.2, these aspects constitute the major components of the marketing logistics system. Let us discuss about the components in detail.

15.4.1 Order Processing

The starting point of the marketing logistics is the processing of customers' orders. In order to provide quicker customer service, the orders received from customers should be processed within the least possible time. Order processing includes receiving the order, recording the order, filling the order, and assembling all such orders for transportation. The company and the customers benefit when these steps are carried out quickly and accurately. The error committed at this stage at times can prove to be very costly. For example, if a wrong product or the same product with different specifications is supplied to the customer, it may lead to cancellation of the original order (apart from loss in the credibility of the firm). Similarly, if the order is not executed within a reasonable time, it may lead to serious consequences. High speed data processing techniques are now available which allow for rapid processing of the orders.

15.4.2 Warehousing

Warehousing refers to the act of storing and assorting products in order to create time utility in them. The basic purpose of the warehousing activity is to arrange placement of goods, provide storage facility to store them, consolidate them with other similar products, divide them into smaller quantities and build up assortment of products. Some of the important decision areas in respect of warehousing are:

- how many warehouses should the firm have?
- where should these warehouses be located?
- what should be the pattern of ownership of the warehouse (owned or rented)?

Generally larger the number of warehouses a firm has, the lesser would be the time taken in serving customers at different locations, but greater would be the cost of warehousing. Thus, the firm has to strike a, balance between the cost of warehousing and the level of customer service.

For products requiring long-term storage (such as agricultural products or products in limited demand), the warehouses are located near production sites. This helps in minimising the charges on transportation of the goods. On the other hand, the products which gain weight during production and bulky, hard for shipment. (machinery, automobiles), and perishable in nature (bakery, meat, vegetables, etc.) are kept at different locations near the markets. However, the factors which influence the . location of warehouses may be listed as below:

- Product type
- Transportation cost

- Proximity to markets . Rent
- Labour Supply
- Taxes
- Geography
- Competition

Look at Figure 15.3 carefully for a schematic representation of the problem of the location of warehouses.

As regards ownership of the warehouses, the important factors determining the choice are the amount of money the firm wants to spend on storage and the extent of control it wishes to retain over its goods. Public warehouse is generally cheaper, but the user has little say about warehouse operations. Own warehousing is better for those firms which have financial resources and use full capacity throughout the year. To avoid capital investment on construction, the firm can lease in some warehouse depending on its requirement. Some of the other criteria used for deciding between public and private warehouses is given in Table 15.2.

Table 15.2: Decision Variables In Choosing among'I).pes or Warehouses

Decision Variables	**Types of Warehousing Arrangements**		
	Private Warehouse		**Public Warehouse**
	Owned	**Leased**	
1) Fixed Investment	Very High	Moderate, depends on the lease’s terms	No Fixed investment is involved
2) Unit Cost	High, if volume is low	High, if volume is low	Low, since rates are on the basis of space used and fixed costs are widely distributed among users.
3) Control	High	High	Low managerial control
4) Adequate t product line	Highly adequate	Moderately adequate	May not be convenient
5) Flexibility	Low	Low	High; termination of Marketing Logistics usage can be easily arranged

Depending upon the nature of the products stored and the services rendered, warehouses may be classified as follows:

- General merchandise warehouse: It handles a wide variety of goods.

- Speciality warehouse: It handles a limited line of goods (e.g., hardware) or it specialises in commodities difficult to store (e.g., grain, cotton).
- Refrigerated warehouse: It handles perishable products like milk, fruits, vegetables, etc., which require cold storage.
- Bonded warehouse: It is insured against loss as well as regulated by certain laws in the case of liquor.
- Bulk storage warehouse: It handles liquids such as gasoline, petroleum, oil extracts, etc., 'among other products.

15.4.3 Inventory Control

Linked to warehousing decisions are the inventory decisions which hold key to success of marketing logistics especially where the inventory costs may go as high as 30-40 per cent (e.g. Steel and Automobiles). No wonder, therefore,-that the new concept of Just-in-Time-Inventory decision is increasingly becoming popular with a number of companies.

The decision regarding level of inventory involves estimation of demand for the product. A correct estimate of the demand helps to hold proper inventory level and control the inventory costs. This not only helps the firm in terms of the cost of inventory and supply to customers in time but also to maintain production at a consistent level. The major factors determining the inventory levels are:

- The firm's policy regarding the customer service level.
- Degree of accuracy of the sales forecasts.
- Responsiveness of the distribution system i.e., ability of the system to transmit inventory needs back in the factory and get the products in the market.
- The cost of inventory which consists of holding cost (such as cost of warehousing, tied up capital and obsolescence) and replenishment cost (including the manufacturing cost).

15.4.4 Transportation

Transportation seeks to move goods from points of production and sale to points of consumption in the quantities required at times needed and at a reasonable cost. The transportation system adds time and place utilities to the goods handled and, thus, increases their*economic value. To achieve these goals, transportation facilities must be adequate, regular, dependable and equitable in the costs and benefits of the facilities and service provided.

Often called carriers, transportation agents are classified by method of movement, viz. roads, railroads, airways, shipways and pipelines.

Road Transportation

Road transport is characterised by the ability to move small shipments economically, to move shipments of varying sizes, short distances, and to deliver shipments to any point in the country that is served by roads and highways. Road carriers of goods for the market are commonly classified into three types:

- common carriers
- contract carriers
- private carriers

Common carriers: They serve the public at large, moving goods of all types to any part of the country. In practice, however, certain carriers restrict their operations to the handling of one line of goods or closely related lines.

Contract carriers: These operators enter into rather formal arrangement to transport goods for selected customers which is usually for definite period of time.

Private carriers: These are operated by business firms and individuals for transportation of their own goods. Often, they are also let out to have a better return. Truck is the main vehicle used for road transportation of nearly all kinds of goods, particularly manufactured' products such as textiles, machinery and rubber and plastic products. Trucks dominate in the movement of household goods and small packages. However, now a variety of LCVs, auto carriers and articulated trucks too are used.

Rail Transportation

The main advantage of railways is their ability to handle heavy bulk products and to share the load of road transportation without generating additional paperwork for shippers. So@e of the special services provided by railways are:

- Unitised train
- Piggy-back service
- Containerisation

Unitised train: It consists of 100 or more cars carrying commodities like coal on a Marketing Logistics shuttle basis between mines and a utility company. The use of modem loading and unloading facilities, full time operation of the train and avoidance of switching at yards allow excellent service at substantial cost savings. In recent years, unitised trains have been used for transporting grains, iron ore, and other commodities too and their use continues to grow. Computerised loading and unloading too exists between major power plants and collieries (Korba for instance).

Piggy-back service: It is also known.as 'Trailer-on-float car' service. Piggy-back refers to the hauling of loaded truck trailers over railroad lines on specially designed flat cars. Shippers fighting higher transportation costs have shown an increasing interest in this mode of transport because it affords substantial savings in freight handling. Since it costs less per mile to transport a trailer on a flat rail car than over the road, lower rates can be charged. Further advantages include less damages while enroute and reduction in delivery time. Piggy-back service is also available on waterways where loaded vansl/retailers are moved by steamerslships between designated points.

Containerisation: It refers to the design and use of filled van or trailer-size container, which may be moved interchangeably between various types of carriers without breaking bulk. For example, a container may be moved from truck to rail or from truck to ship, thus reducing the handling charges, damages, losses, and pilferage as well as speeding up the movement of shipments.

Air Transportation

In recent years, significant growth has taken place in the transportation of freight by air, although total air-freight volume is still small as compared to movement by railroads and roadways. The primary advantage of air shipment is the speed with which the traffic moves between air terminals. But, the main disadvantage of airfreight has been its higher costs.

Pipe-line Transportation

Most pipe-lines are used to transport" liquid petroleum products. Natural gas, chemicals, coal, minerals, pulp, wood chips and for other non-liquid products also pipelines are extremely economical mode of transport. The relative importance of transportation types can be measured in 'tons originated' or 'ton miles'. Tons originated means 'total amount loaded' and includes both inter and intra-city movements. Based on tons originated, trucks are the most important carrier – about 60% of the total commercial traffic; railways about 30%; and the rest about 10%. But, in 1950s, trucks would be just about 20%. Ton miles means 'one ton moved one km'. Based on ton miles, railways move about 51% of all the ton miles freight in India - nearly twice of trucks. But the ton miles of freight carried on inland waterways remains insignificant.

There are several factors that influence the choice of transportation. The following of them merit our attention:

- Services: transit privilege, reconsignment, containerisation.
- Availability.
- Flexibility: Cost, routing, speed, handling.

15.4.5 Information Monitoring

The marketing logistics managers continuously need up-to-date information about inventory, transportation and warehousing. For example, in respect of inventory, Decisions information about present stock position at each location, future commitment and replenishment capabilities are constantly required. Similarly, before choosing a carrier, information about the availability of various modes of transport, their costs, services and suitability for a particular product, etc., is required. About warehousing, information with respect to space utilisation, work schedules, unit load performance, etc., is required.

In order to receive all the information stated above, an efficient management information system would be of immense use in controlling costs, improving services and determining the overall effectiveness of distribution. Of course, it is difficult to correctly assess the cost of distribution operations. But if correct information is available it can be analysed systematically and a great deal of saving can be ensured.

15.5 MARKETING LOGISTICS APPROACHES

In marketing, there are basically two approaches to marketing logistics. They are: (I) Total system approach to marketing logistics; and (2) Total cost approach to marketing logistics. Now, let us study these two approaches in detail.

15.5.1 Total System Approach

As stated earlier, marketing logistics involves the physical flow of goods. From this we can imply that the marketing logistics management is the development and operation of efficient flow of systems for products. The most commonly stated objectives of the marketing logistics management in a firm are to minimise the cost of distribution and maximise the services provided to the customers. But actually it is not possible to simultaneously maximise customer service and minimise the distribution cost. Maximum customer service implies large inventories, faster transportation and best possible warehousing services. All of this would add to the cost of distribution. On the other hand, minimising the cost of distribution would mean using cheaper and slower transport, fewer warehouses and keeping lower level of inventories. This would of course bring down the cost of distribution but at the same time bring down the level of customer service also. Thus the firms have to strike a balance between these two aspects. To do that, they first set the level upto which they would extend service to the customers. This in turn determines the cost of physical distribution.

Let us also have a look at the components of distribution task. The task of distribution in any marketing organisation consists of the following major elements:

1) Transportation
2) Warehousing
3) Inventory carrying and handling
4) Interest on capital employed

The traditional approach of management treats all these components as independent of each other. In other words, the decision regarding say, transportation can be taken independently of the decision regarding inventory or storage. Thus, according to this approach, the cost of distribution can be minimised by keeping the cost of each of these elements at a minimum level. However, a closer examination of the situation reveals that the costs of each of these elements described above cannot be minimised without affecting the other elements as these activities often have conflicting and even diametrically opposite goals. For example, use of rail transport over air transport would reduce the total cost of Marketing Logistics transportation of the goods. But, as rail transport is relatively slow, the cost incurred on other elements such as inventory carrying cost, interest on capital employed, etc., would increase. This, in turn, affects the level of customer service. Thus, it may be stated that different marketing logistics activities are interrelated. A decision in respect of one activity cannot be taken in isolation of the other activities. So decisions with regard to distribution activities should be based on a total systems approach.

The systems approach is a scientific way of management. It looks at the marketing logistics in its total form as a system consisting of several interconnected tasks or parts operating together to achieve the given objectives. Thus, the systems approach envisages integration of all the components of marketing logistics as parts of a whole whose market impact is maximum when they operate in synergy. In other words, it is looking at the managing distribution activities as an integrated exercise in which decisions in respect of different components are taken not in isolation of one another but as a whole.

15.5.2 Total Cost Approach

The growing costs of marketing logistics have forced marketers to study the structure of distribution costs within the company and control them to increase the cost effectiveness. Added to the growing costs is the service function to be performed by distribution logistics. As you know, marketing logistics seeks to minimise total costs of distribution at a given level of customer service. In a competitive market where substitutes are available to customers, a major advantage can be gained if distribution costs are reduced while maintaining the required service levels. The total cost of distribution consists of the costs of various elements such as costs of storage, inventory maintenance, transportation, etc. The total cost approach is a corollary of the systems approach. Total cost approach envisages the use of total cost (and not the cost of each individual component) while choosing the alternative course of action in respect of distribution of the products. In case total cost is not analysed, there is every likelihood of taking a wrong decision. This is explained with the' help of an illustration presented in Table 15.1.

Table 15.1: Physical Distribution Costs under Alternative Approaches.

Physical Distribution Costs	**Alternative A**	**Alternative B**
Interest on working capital employed in inventory	100	150 (15 days)
Transportation cost	230	200
Warehousing cost	10	130
Total Cost	430	480

As shown in Table 15.1, if the decision regarding choice of the mode of transportation is taken independent of the other components of cost, rail transport (Alternative B) would be selected as the cost in this case is Rs. 200, as compared to the road transport (Alternative A) where it is Rs. 230. .But if we prefer rail transport, the cost of other components (interest cost and warehousing cost) increases. We can see from the table that the total cost in case of Alternative A is lower than that of Alternative B. Thus, if the total cost is taken into consideration, Alternative A will be selected as it is less expensive.

From this illustration it is clear that a reduction in the cost of one component may be possible at the expense of the other element. If the transportation cost is reduced, the cost of warehousing and inventory goes up. Therefore, in any attempt to improve the 'physical distribution efficiency and reduce cost, the total cost of performing the physical distribution function should be taken into account. Management should think in terms of trade off in reducing alternative costs so as to maximise profits. By doing this, the fm can maximise potential profit.

Check Your Progress B

1) List the major tasks of marketing logistics.

2) Distinguish between warehousing and inventory control in marketing logistics.

3) What is information monitoring in marketing logistics?

4) Differentiate between total system approach and total cost approach of marketing logistics.

5) List out the major subsystems of the total system of marketing logistics.

15.6 SUMMARY

Marketing logistics refers to the activities involved in handling and moving goods from the point of production to the point of use. An effective system of marketing logistics greatly helps a firm in achieving its marketing objectives. Apart from creating time and place utilities in the product, it relieves the customers of holding excess inventories and helps in bringing down the cost of carrying inventory, transportation and other related costs. The cost of marketing logistics consists of four important elements, viz., transportation, warehousing, inventory carrying and interest on capital employed. The systems approach envisages integration of all the marketing logistics components as parts of a whole system whose market impact is maximum when operated in synergy.

The cost approach to marketing logistics is a corollary of the systems approach. The cost approach envisages the use of total cost and not the individual cost of each of the components while choosing the alternative course of action in respect of marketing logistics of the products. The five important components of an effective marketing logistics system are: Marketing Logistics 1) order processing, 2) inventdries, 3) warehousing, 4) transportation, and 5) information system. Other processing includes receiving, recording, filling and assembling order for transportation to the customer. The customer and the firm benefits when steps are taken quickly and accurately. Warehousing is the act of storing and sorting products in order to create time utility in them. The important decision areas in respect of warehousing are determining the i) number of warehouses a firm should have, ii) the location of the warehouses, and iii) whether the firm should own warehouses or use the public warehouses. A decision regarding inventory is based primarily on the prediction about the demand for the product. A correct prediction in this regard helps in minimising the cost of inventory.

As regards transportation, the firm has to constantly evaluate the different alternatives available. Basically the decision has to be between the different modes of transportation like rail, road, water and air. A systematic management information system is necessary to ensure a continuous flow of data on all the components of physical distribution system.

The broader objective of marketing logistics system is to move the right goods to right place at right time at the lowest cost possible. Some of the specific objectives in a given marketing situation, however, include improving customer service, reducing the distribution costs, generating additional sales, creating time and place utility and sta5ilising the prices of the products.

15.7 KEY WORDS

Logistics: The activities involved in moving raw materials and parts into a firm, moving in-process inventory through the firm, and moving finished goods out of the firm.

Materials Management: The activities involved in bringing raw materials and supplies to the point of production and moving in-process inventory through the firm.

Physical Distribution: Activities involved in efficient handling and moving goods from the point of production to the point of consumption.

Supply Chain: All the collaborating organizations that help supply a marketing company and help distribute the marketer's products. The supply chain always includes the channel of distribution.

Supply Chain Management: The planning, implementing, and controlling of a chain of organizational relationships to assure the efficient flow of both inbound materials and outbound finished products.

Total Cost Approach: Optimization of the overall cost-customer service relationship of the entire physical distribution system.

Total Systems Approach: Looking at and managing physical distribution activity as an integrated exercise where decisions in respect of different components are taken not in isolation one another but as a whole.

15.8 SELF -ASSESSMENT QUESTIONS

1. Explain the concept and role of Marketing Logistics.
2. Differentiate between Marketing Logistics and Supply Chain management
3. Describe the major objectives of Logistics Management
4. Narrate the major element of Logistics and describe the total systems approach and total cost approach.

15.9 SUGGESTED READINGS

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LESSON 16

DESIGNING AND MANAGING MARKETING COMMUNICATIONS

16.0 OBJECTIVES OF THE LESSON

After studying this lesson, students will be able to:

1. To understand the concept of Marketing communications meaning and objectives.
2. To learn the process of Marketing communications.
3. To understand the role and methods of Marketing communications.

STRUCTURE OF THE LESSON

16.1 INTRODUCTION

Marketing communication plays a crucial role in connecting businesses with their customers and other key stakeholders. It involves the process of designing, delivering, and managing messages that inform, persuade, and remind consumers about a company's products, services, or brand.

In the modern marketing environment, marketing communication is not just about sending messages it's about building relationships, promoting engagement, and maintaining consistent brand identity across all platforms.

16.1.1 MEANING OF MARKETING COMMUNICATIONS

Marketing communication refers to the process of designing and sharing messages that connect a business with its customers, potential customers, and other important groups. It includes several promotional activities such as advertising, digital marketing, public relations, branding, sales promotion, packaging, sponsorships, and government communication. The main aim of marketing communication is to influence the audience to take a specific action for example, purchasing a product, subscribing to a service, or supporting a cause.

In any marketing strategy, marketing communication plays a vital role because it helps organizations achieve key goals like building brand recognition, attracting and retaining customers, generating sales leads, and increasing overall revenue. Apart from customers, marketing communication also helps in maintaining positive relationships with stakeholders such as employees, investors, media representatives, and policymakers.

Over time, the nature of marketing communication has changed significantly. In the past, it mainly involved one-way communication, where companies sent messages to the public using traditional mass media like newspapers, television, or radio. However, with the growth of the digital age, marketing communication has shifted to two-way interaction. Businesses now use online platforms such as social media, company websites, blogs, and emails to engage directly with their audiences, receive feedback, and build long-term relationships.

16. 1.2 DEFINITION

According to Philip Kotler, "Marketing communications are the means by which firms attempt to inform, persuade, and remind consumers directly or indirectly about the products and brands they sell."

16.1.3 MARKETING COMMUNICATION OBJECTIVES

To Inform

The first objective is to create awareness among customers about a product, service, or brand. Companies inform the audience about product features, benefits, uses, and prices through advertisements, brochures, websites, and other media.

To Persuade

The second objective is to influence or convince customers to choose a product over competitors. Persuasive communication helps to change customer attitudes, create interest, and encourage them to make a purchase.

To Remind

The third objective is to keep the brand in the customer's mind even after they have purchased it. Reminder advertising helps to maintain brand loyalty and prevent customers from switching to competitors.

To Build Brand Image

Marketing communication aims to create a positive image of the brand in the minds of consumers. It highlights the company's values, quality, and reputation so that customers can trust the brand.

To Create Customer Loyalty

Communication also helps in retaining existing customers by keeping them informed and connected. Regular interaction builds stronger relationships and encourages repeat purchases.

To Support Sales Promotion and Public Relations

Marketing communication also supports other marketing activities like sales promotions, events, and public relations. It ensures that all promotional efforts deliver a consistent message across different channels.

16.1.4 MARKETING COMMUNICATION PROCESS

Sender (Marketer or Company)

The sender is the marketer, organization, or brand that initiates the communication process. It is the source of the message and decides what needs to be communicated to the audience. The sender identifies the objectives of communication such as informing, persuading, or reminding customers. The company also selects the target audience who should receive the message. For example, a company like Coca-Cola designs campaigns aimed at youth to promote its beverages. Thus, the sender plays a vital role in shaping the overall tone and content of the message.

Message

The message is the information, idea, or emotion that the sender wants to share with the audience. It represents what the company wants consumers to know, feel, or do. The message may include product features, benefits, pricing, or brand values. It must be designed carefully to attract attention and create interest among potential customers. A well-crafted message can influence customer perception and buying behavior. Therefore, clarity, creativity, and relevance are essential elements of an effective marketing message.

Encoding

Encoding is the process of turning the company's ideas into a form that can be easily communicated to the audience. It involves selecting words, symbols, pictures, colours, and sounds to represent the message. For example, a marketer may encode the idea of "refreshment" through a visual of a cold drink on a sunny day. The effectiveness of encoding depends on how well the message fits the target audience's culture and understanding. Poorly encoded messages can lead to confusion or misinterpretation. Hence, marketers must ensure that their message is simple, attractive, and easy to understand.

Media / Channel

The channel or medium is the pathway through which the message reaches the target audience. It can be personal, such as sales representatives and direct mail, or non-personal, like television, newspapers, radio, social media, and websites. The choice of media depends on the nature of the message and the audience's preferences. For instance, young audiences may respond better to digital channels like Instagram or YouTube. The effectiveness of marketing communication largely depends on selecting the right channel. A well-chosen medium ensures that the message reaches the audience quickly and effectively.

Receiver (Customer or Audience)

The receiver is the person or group for whom the message is intended. In marketing, the receiver is usually the customer, potential buyer, or target audience. How the receiver understands the message depends on their knowledge, interests, experiences, and attitudes. Marketers must study their audience carefully to ensure that the message suits their expectations and needs. For example, messages aimed at teenagers differ greatly from those meant for senior citizens. Understanding the receiver helps companies design more personalized and meaningful communication.

Decoding

Decoding is the process through which the receiver interprets or makes sense of the message sent by the company. It involves understanding the symbols, words, and visuals used in the communication. The receiver's interpretation may differ depending on their culture, background, or mood at the time. If the message is clear and relevant, decoding will be accurate, and the communication will be effective. However, if the message is complex or confusing, it may lead to misunderstanding. Hence, marketers must ensure that the message is easy to interpret and emotionally appealing.

Feedback

Feedback is the reaction or response given by the receiver after receiving the message. It helps the sender understand whether the message was understood and whether it created the desired impact. Feedback can be direct, such as customer reviews, inquiries, or purchases, or indirect, such as social media engagement or word-of-mouth. Companies use feedback to measure the effectiveness of their communication strategy. It also helps marketers improve future campaigns based on customer opinions. Therefore, feedback completes the communication loop and strengthens customer relationships.

Noise

Noise refers to any disturbance or factor that prevents the message from being understood correctly by the receiver. It can occur at any stage of the communication process. Examples include poor advertising design, unclear language, misleading visuals, or competing brand messages. External distractions such as background sounds or too many advertisements can also cause noise. When noise increases, the effectiveness of communication decreases. Hence, marketers should minimize noise by using clear, simple, and consistent messages across all media platforms.

16.1.5 ROLE OF MARKETING COMMUNICATION

Creating Awareness

Marketing communication helps in making customers aware of the company’s products, services, and brand. It spreads information about what the product is, its price, where it is available, and how it can be useful. Through advertisements, public relations, and digital promotions, companies reach large audiences quickly. Awareness is the first step in the buying process, as customers cannot purchase something they do not know about. Hence, creating awareness is essential for market entry and growth.

Building Brand Image

A strong and consistent communication strategy helps shape a company’s brand image in the minds of customers. Every advertisement, logo, slogan, and social media post contributes to how people perceive the brand. When messages are positive and consistent, they create trust and recognition over time. A well-built brand image makes it easier for a company to stand out from competitors. Thus, marketing communication plays a key role in building and maintaining brand identity and goodwill.

Persuading Customers

One of the most important roles of marketing communication is to persuade customers to choose one brand over another. Through creative messages, emotional appeal, and logical arguments, companies influence customer attitudes and preferences. Persuasive communication highlights unique features or benefits that make a product superior. It motivates potential buyers to take action — such as making a purchase or trying a new product. Effective persuasion turns interest into sales and strengthens customer loyalty.

Stimulating Sales

Marketing communication directly supports sales by encouraging customers to buy products or services. Tools such as advertisements, discounts, coupons, and special offers create excitement and urgency among customers. Sales promotions are often used to increase short-term demand and attract new buyers. A well-designed communication campaign can lead to a significant rise in sales volume. Therefore, marketing communication acts as a powerful sales stimulator for both new and existing products.

Educating Customers

Communication not only promotes products but also educates customers about their features, uses, and benefits. Informative messages help customers understand how the product can solve their problems or improve their lives. Educational marketing builds confidence in the brand and reduces hesitation in purchasing. It is especially important for new or complex products that require explanation. By educating customers, companies help them make informed and satisfying buying decisions.

Building Customer Relationships

Regular and meaningful communication helps build trust and long-term relationships with customers. When companies engage with their audience through emails, social media, or after-sales service, they show care and commitment. This connection leads to customer satisfaction, loyalty, and repeat purchases. Relationship marketing focuses on maintaining two-way communication rather than one-time transactions. Strong relationships ensure that customers stay loyal even in competitive markets.

Supporting Other Marketing Activities

Marketing communication strengthens and supports other elements of the marketing mix product, price, and place. It ensures that customers are aware of product changes, pricing offers, and availability. For example, communication campaigns can support a new product launch or promote seasonal discounts. By keeping customers informed and engaged, it enhances the effectiveness of all marketing strategies. Thus, communication acts as the connecting link between the company and the market.

16.1.6 MARKETING COMMUNICATION METHODS

One-to-One:

This is the most personal and interactive type of communication. It allows direct contact between a seller and a buyer. Instant messaging apps like WhatsApp or Facebook Messenger are good examples, where messages are shared privately between two people.

One-to-Many:

In this type, one sender shares a message with many people at the same time. It is usually used for mass promotion, such as when companies send bulk text messages or advertisements to a large group of customers.

Many-to-One Communication

Here, many people or sources send information to one receiver. For example, a CEO receiving updates from several branch offices through video calls or emails represents many-to-one communication.

Many-to-Many Communication

This is a two-way and group-based communication style. Everyone involved can share ideas and respond to others. Online discussion forums or group chats are examples where many people can interact freely with each other.

16.1.7 ELEMENTS OR TYPES OF MARKETING COMMUNICATION

Advertising

Advertising is a way of sharing information with people about a product or service. It includes paid messages created by a company to inform, attract, or influence customers to buy or use what they offer.

It is one of the most common and effective communication tools used in marketing because it helps a business reach a large group of people quickly. When advertisements are creative and interesting, they connect better with the audience and make a stronger impact.

Sales Promotion

Sales promotion means using short-term offers or rewards to encourage people to buy products or services. It helps businesses not only keep their regular customers but also attract new ones by giving extra benefits or deals.

Common examples of sales promotions include discounts, cashback offers, coupons, special deals like "buy one get one free," and festive offers such as Diwali discounts.

As part of the marketing communication mix, sales promotion is a very useful tool to increase sales quickly. However, it is usually effective only in the short term and does not help much in building long-lasting customer relationships.

Direct Marketing

Direct marketing means contacting customers without using any middlemen or third-party channels. It targets specific individuals or companies to promote products, create awareness, or make sales.

Some common forms of direct marketing are emails, telemarketing calls, and postal mail. With the growth of the internet, many businesses now use digital platforms to reach and influence customers directly.

Personal Selling

Personal selling is one of the most effective and traditional marketing methods. In this approach, salespeople personally meet customers to explain the features, benefits, and uses of their products or services.

It is a one-to-one communication method and often results in higher chances of converting potential buyers into real customers. For example, direct calls or face-to-face demonstrations are forms of personal selling.

Publicity and Public Relations (PR)

Publicity means creating awareness or attention for a brand through media or public talk. When people discuss or share their opinions about a product, it helps spread its image among others.

Public Relations (PR) involves a company's efforts to build and maintain a positive reputation through social, cultural, and community activities. By engaging regularly with the public, businesses can create trust and goodwill.

Together, publicity and PR help make a brand more recognizable and respected, so that customers think of it positively when making purchase decisions.

Word-of-Mouth Marketing

Word-of-mouth marketing happens when customers share their experiences about a brand, product, or service with friends and family. It plays a big role in shaping a brand's image because people trust the opinions of other customers.

This method is cost-free but hard to control, since the company cannot decide what customers will say. Still, good customer service and quality products can lead to positive word-of-mouth, which helps the brand grow naturally.

Interactive Marketing

Interactive marketing is a two-way communication method where businesses respond to the actions and preferences of customers. It focuses on how customers behave and interact with the brand.

For example, chatbots on websites communicate with users when they show interest in a product. This helps companies understand customer needs better and provide instant responses. Online platforms make it easier to track and analyse customer behaviour through such interactions.

Events and Experiences

Many companies take part in or organize events, exhibitions, and community programs to connect with customers and strengthen their brand image. These events can be related to sports, culture, charity, or entertainment.

For instance, a food brand might set up a free tasting stall at a popular location. Such experiences help customers personally connect with the brand, creating long-term loyalty and positive impressions.

16.2 MARKETING COMMUNICATION STRATEGY

A company's marketing communications strategy is the plan it uses to connect with its target customers through different types of communication. It includes three key parts

- **The message:** what the company wants to tell people,
- **The medium:** how the message will be shared, and
- **The audience:** who the message is meant for.

16.3. PRINCIPLES TO DESIGN MARKETING COMMUNICATION STRATEGY

Brand Alignment:

The way a company promotes its brand should match the image it wants to create. Every marketing channel used must reflect the same brand personality. For example, a luxury brand like Ferrari would not advertise in a local weekly newspaper because it would not suit its high-end image.

Customer Alignment:

Marketing should be done where the target customers are. It is important to reach people in places or platforms they actually use. For instance, putting a Ferrari advertisement in a small rural area would not be effective, as the target audience for that brand is found elsewhere.

Budget Alignment

Choose a marketing communication channel that best fits budget-wise. New-age start-ups need a plan to reach a maximum number of customers in the cheapest way possible.

16.3.1 STEPS TO DEVELOP AN EFFECTIVE MARKETING COMMUNICATION STRATEGY

Step 1: Identify the Target Audience

The first and most important step is to clearly understand who the company wants to reach. This includes studying customer profiles, past sales data, and marketing information such as conversion rates and customer retention.

The marketing communication strategy should clearly define the needs, interests, and characteristics of the target audience. Knowing this helps the company reach customers more accurately and effectively.

Customer analysis usually takes a lot of time and resources, but it is essential because the entire communication plan depends on who the customers are and what they want.

Step 2: Set Communication Objectives

Once the target audience is identified, the next step is to decide what the company wants to achieve with its marketing communication.

The main objectives of marketing communication are:

- To inform or communicate important information about the product or brand.
- To compete with other brands in the market.
- To persuade customers to take action, such as purchasing or engaging with the brand.

All communication should be clear, honest, and useful to both customers and other stakeholders.

The overall goal is to influence the target audience to take the desired action like buying, subscribing, or staying loyal. Since customer loyalty is not permanent, marketing communication should keep reminding and convincing customers about the brand's value.

Step 3: Establish the Marketing Communication Budget

The next step is to decide how much money should be spent on marketing communication. There are four common methods to set this budget:

Affordable Method: The company spends what it believes it can afford. It's simple but treats marketing as a cost instead of an investment.

Percentage-of-Sales Method: The budget is fixed as a percentage of current or expected sales. Here, sales determine the communication spending.

Competitive-Parity Method: The company looks at how much competitors spend on marketing and sets a similar amount.

Objective-and-Task Method: The company first sets goals, lists the tasks needed to reach them, estimates the cost of each task, and then sets the final budget. This method is the most complete and practical.

After deciding the budget, the next step is to choose the best marketing communication tools to use.

Step 4: Determine the Marketing Communication Mix

The marketing communication mix is the combination of tools and channels a company uses to promote its products.

Choosing the right mix can be challenging, especially for small businesses. Therefore, decisions should be made carefully based on:

- The type of product,
- The readiness of the customer to make a purchase, and
- The stage of the product life cycle (introduction, growth, maturity, or decline).

The goal is to select the mix that gives the best return on investment (ROI) and reaches customers effectively.

Step 5: Measure Communication Results

It is important to check whether the marketing communication strategy is working. The management will want to know if the money spent has produced good results.

To measure performance, companies use different metrics or indicators. These include:

- Reach and frequency (how many people saw the message and how often),
- Recall and recognition (how well people remember the message),
- Persuasion rate (how many people were influenced), and

- Cost per thousand (CPM) (how much it costs to reach 1,000 people).

By studying these results, a company can understand what is working and what needs improvement, and then adjust its strategy accordingly.

Step 6: Execution

The final step is to put the plan into action. This includes implementing the chosen communication methods, tracking progress, and making changes whenever necessary.

16.4 DESIGNING MARKETING COMMUNICATIONS

Marketing communication plays a vital role in connecting companies with their target customers. However, to communicate effectively, marketers must first design a proper communication plan that clearly defines what needs to be said, to whom, and how it should be delivered.

Designing marketing communication is the process of planning, structuring, and presenting marketing messages in a way that captures attention, creates interest, and motivates action. It ensures that the right message reaches the right audience at the right time through the right channel.

A well-designed marketing communication strategy helps in building a consistent brand image and achieving long-term customer loyalty.

16.4.1**STEPS IN DESIGNING MARKETING COMMUNICATION**

Step 1: Identify the Target Audience

The first and most important step is to clearly identify who the communication is meant for. The target audience could be:

- Existing customers
- Potential new customers
- Business buyers or retailers
- Opinion leaders or influencers

Understanding the audience helps the marketer design messages that match their needs, preferences, and lifestyle.

Example: A luxury watch brand will design different messages for youth compared to corporate professionals.

Key Points:

- Study the audience’s demographics (age, gender, income).

- Understand psychographics (attitudes, interests, values).
- Analyze buying behavior and media habits.

A well-defined audience ensures that the message is focused and relevant.

Step 2: Determine the Communication Objectives

Once the audience is identified, the next step is to set communication objectives what the company wants to achieve through communication.

There are generally three main objectives:

1. **Awareness:**
   To make the target audience aware of the product or brand.
   Example*:* Launch advertisements introducing a new smartphone model.
2. **Persuasion:**
   To convince customers to prefer the brand over competitors.
   Example*:* Highlighting superior quality or special features through testimonials or emotional appeals.
3. **Reminder:**
   To remind existing customers about the product and encourage repeat purchases.
   Example*:* Seasonal ads reminding customers to renew insurance policies or buy soft drinks during summer.

Setting clear objectives helps marketers measure performance later and determine whether communication goals are met.

Step 3: Design a Clear Message

After defining the objectives, marketers must create a clear, meaningful, and appealing message that captures attention and motivates the audience to respond positively.

a) Message Content – What to Say

The message content should communicate the main idea or benefit of the product. Marketers usually highlight:

- Product features and benefits
- Unique Selling Proposition (USP)
- Emotional or rational appeals

b) Message Structure – How to Say

The structure determines the logical flow of the message. It involves deciding:

- Whether to present arguments one-sided or two-sided

- How to organize facts and supporting evidence
- The sequence of message delivery (beginning, middle, and end)

c) Message Appeal – How to Attract Attention

Appeals can be:

- **Rational Appeal:** Focused on logic, facts, and performance. (e.g., mileage of a car)
- **Emotional Appeal:** Uses feelings like love, fear, or joy. (e.g., insurance ads showing family security)
- **Moral Appeal:** Focused on ethics and social values. (e.g., promoting eco-friendly products)

A strong message combines creativity with clarity so that it influences both the mind and heart of the customer.

Step 4: Choose Suitable Media Channels

Once the message is ready, the next task is to select appropriate communication channels or media to deliver it. The choice depends on the nature of the product, target audience, and budget.

Types of Media Channels

Category	**Examples**	**Purpose / Benefit**
Mass Media	Television, Radio, Newspapers, Magazines	To reach large audiences and create awareness
Digital Media	Websites, Social Media, Email, Mobile Apps	To engage customers interactively and personally
Outdoor Media	Billboards, Posters, Transit Ads	To ensure repeated visual exposure
Personal Media	Salespersons, Customer Service Calls	To provide personalized communication and feedback

Example:
A brand launching a new smartphone might use television for mass awareness, YouTube ads for digital reach, and influencers for personal connection.

Step 5: Decide on the Budget and Timing

Budgeting involves determining how much to spend on communication activities. Companies may use methods such as:

- Percentage of Sales Method
- Objective and Task Method

- Competitive Parity Method

Proper budgeting ensures that funds are distributed effectively across different media and activities.

Timing refers to when and how long the communication should run.

- Seasonal products (like air conditioners or cold drinks) require timed promotions.
- Continuous communication builds long-term brand recall.

Careful planning of budget and timing helps in maximizing reach and effectiveness without wasteful spending.

Step 6: Evaluate Results and Make Improvements

The final step is to measure the effectiveness of marketing communication. Evaluation helps determine whether communication objectives have been achieved and identifies areas for improvement.

Methods of Evaluation:

- Measuring awareness levels (before and after campaign)
- Tracking sales growth and customer response
- Collecting feedback through surveys or social media engagement

Based on the results, companies can refine their future communication strategies for better performance.

16.4.2 IMPORTANCE OF DESIGNING MARKETING COMMUNICATION

Designing communication is not just about creativity it's a strategic process that ensures:

- Messages are audience-centered and goal-oriented.
- All promotional tools (advertising, PR, sales promotion, etc.) work in harmony.
- The company's marketing investment produces measurable results.
- Long-term brand relationships are built through consistent communication.

16.5 MANAGING MARKETING COMMUNICATIONS

16.5.1 INTRODUCTION

In the modern marketing environment, customers are exposed to a large number of promotional messages every day through television, radio, newspapers, digital media, and outdoor advertisements. To make communication effective and meaningful, companies must manage all their communication tools in a planned and coordinated way. This coordination and consistency of all communication efforts are achieved through Integrated Marketing Communication (IMC).

Managing marketing communications is not only about selecting tools such as advertising, sales promotion, or public relations; it is about combining them to deliver one clear and unified message about the brand to the target audience.

16.5.2 MEANING OF MANAGING MARKETING COMMUNICATIONS

Managing marketing communications refers to the process of planning, coordinating, implementing, and controlling all promotional activities of an organization to ensure that every message sent to the market is consistent with the overall marketing objectives and brand identity.

It ensures that customers receive a coherent and consistent brand message, whether they see an advertisement, a social media post, a sales campaign, or a press release.

16.5.3 THE NEED FOR MANAGING MARKETING COMMUNICATIONS

In earlier times, companies used each promotional tool independently. Advertising, personal selling, and public relations were handled by separate departments or agencies, leading to mixed messages and confusion among customers. Today, customers expect clarity, trust, and consistency, which can only be achieved through a well-managed communication system.

Key reasons why managing communication is important:

1. To avoid message duplication and confusion.
2. To maintain consistency across all media and platforms.
3. To create a strong and unified brand image.
4. To use promotional budgets efficiently.
5. To ensure that every marketing effort supports overall business goals.

16.6 INTEGRATED MARKETING COMMUNICATION (IMC)

16.6.1 DEFINITION

Integrated Marketing Communication (IMC) is a strategic process of bringing together all marketing communication tools advertising, sales promotion, personal selling, public relations, direct marketing, and digital media to deliver a clear, consistent, and compelling message about the organization and its products.

In simple terms, IMC ensures that **“**everything speaks the same language**”** when communicating with customers.

16.6.2 KEY FEATURES OF IMC

1. **Consistency:**
   All promotional messages and campaigns deliver the same brand idea and tone. Example*:* The same slogan and design theme appear in TV ads, social media posts, and packaging.
2. **Coordination:**
   Different communication tools (advertising, PR, sales promotion, etc.) are coordinated to reinforce each other rather than work separately.
3. **Customer-Centered:**
   IMC focuses on understanding customer needs and designing communication accordingly.
4. **Clarity of Message:**
   The information shared through all media is simple, relevant, and easy to understand.
5. **Synergy:**
   When all promotional tools work together, the total impact on the audience is greater than the sum of individual efforts.

16.6.3 PROCESS OF MANAGING MARKETING COMMUNICATIONS

The process of managing marketing communications involves several systematic steps:

Step 1: Identifying the Target Audience

Understanding who the communication is aimed at — potential buyers, existing customers, influencers, or the general public.

Step 17: Setting Communication Objectives

Defining what the company wants to achieve — whether to create awareness, change attitudes, generate sales, or strengthen relationships.

Step 3: Designing the Message

Developing the message content (what to say), structure (how to say it), and format (visuals, words, tone) that best communicate the intended idea.

Step 4: Selecting the Communication Channels

Choosing suitable media — personal (salespersons, events) and non-personal (TV, newspapers, internet, social media) — based on audience habits.

Step 5: Coordinating Communication Tools

Integrating all communication elements like advertising, public relations, and digital campaigns to maintain consistency.

Step 6: Budgeting and Scheduling

Allocating resources and planning when and where messages will be delivered.

Step 7: Evaluating and Controlling Results

Measuring the effectiveness of communication through feedback, customer response, sales data, or brand awareness studies, and making necessary improvements.

16.6.4 BENEFITS OF INTEGRATED MARKETING COMMUNICATION

Benefit	**Explanation**
Consistent Brand Image	Ensures all messages reflect the same brand values and identity.
Improved Effectiveness	Unified messages create stronger customer recall and impact.
Efficient Use of Resources	Avoids duplication of efforts and saves promotional costs.
Better Customer Relationships	Builds trust through clear and reliable communication.
Higher Return on Investment (ROI)	Coordinated campaigns generate better overall results.

16.7 SUMMARY

This lesson explains how marketing communication connects businesses with customers by sharing messages that inform, persuade, and remind audiences about products or services. It covers the communication process (sender, message, channel, receiver, feedback, noise) and the objectives such as informing, persuading, reminding, and building loyalty. The lesson also explains the elements of marketing communication (advertising, sales promotion, personal selling, direct marketing, PR, events, etc.) and the principles of designing and managing communication strategies. The concept of Integrated Marketing Communication (IMC**)** is emphasized, which ensures consistent messaging across all platforms.

16.8 TECHNICAL TERMS

- **Marketing Communication:** The process of creating and sharing messages between a company and its audience.
- **Encoding:** Converting ideas into messages using words, symbols, and visuals.
- **Decoding:** Interpretation of the message by the receiver.
- **Noise:** Any factor that distorts or confuses communication.
- **IMC (Integrated Marketing Communication):** Coordination of all marketing tools to deliver a unified brand message.
- **Feedback:** The response or reaction of the receiver to the message.
- **Brand Image:** The overall impression of a brand in the minds of consumers.

16.9 SELF-ASSESSMENT QUESTIONS

1. Define marketing communication and explain its importance in business.
2. What are the main objectives of marketing communication?
3. Describe the stages in the marketing communication process.
4. Explain the concept and benefits of Integrated Marketing Communication (IMC).
5. How can feedback improve the effectiveness of marketing communication?

16.10 SUGGESTED READINGS

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LESSON 17

TOOLS OF MARKETING COMMUNICATION

17.0 OBJECTIVES OF THE LESSON

After studying this lesson, students will be able to:

1. To understand the concept of tools of Marketing communications
2. To learn the concept of Advertising.
3. To understand the Direct marketing, Personal selling along with their advantages and drawbacks.

STRUCTURE OF THE LESSON

17.1. INTRODUCTION

Marketing communication tools are the various methods used by organizations to communicate with their target audiences, convey messages about products or services, and influence customer behaviour. The choice of tools depends on the nature of the product, target market, and marketing objectives. The key tools include advertising, direct marketing, and personal selling. Each plays a vital role in creating awareness, generating interest, and building relationships with customers.

17.2 ADVERTISING

Meaning

Advertising is a paid form of non-personal communication through various media such as television, radio, newspapers, magazines, outdoor hoardings, and digital platforms. It is sponsored by an identified organization or brand and is designed to promote goods, services, or ideas. Advertising aims to reach a large audience and influence their perceptions, Attitudes, And Buying Behaviour.

Definition According to the American Marketing Association (AMA), "Advertising is any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor."

17.2.1 TYPES OF ADVERTISING

Institutional Advertising

Institutional advertising promotes the image, reputation, or goodwill of an organization rather than specific products. It emphasizes corporate values, ethics, and social responsibility to build a strong brand image. Such advertising is common among large companies seeking public trust.

Product Advertising

This type of advertising focuses on specific products or services, explaining their benefits, features, and uses. It helps generate immediate sales by directly appealing to consumer needs. Companies often use creative visuals and emotional messages to highlight their product's value.

Comparative Advertising

Comparative advertising directly or indirectly compares a brand with its competitors to highlight superiority in performance, price, or quality. This strategy can influence consumers to switch brands by showing clear advantages.

Reminder Advertising

Reminder advertising keeps existing customers engaged and reinforces brand loyalty. It is used during the maturity stage of a product's life cycle to encourage repeat purchases and retain top-of-mind awareness.

17.2.2 ADVANTAGES OF ADVERTISING

Mass Reach
Advertising allows firms to reach a large audience within a short period, making it one of the most efficient methods of communication. Mass media platforms such as television, digital media, and print ensure that brand messages are delivered across cities and countries.

Brand Building

It plays a crucial role in creating and strengthening brand identity. Repeated exposure through advertisements helps establish a consistent image and trust among customers, leading to stronger brand equity over time.

Product Awareness

Advertising informs customers about new product launches, features, and benefits. It educates them on how the product can meet their needs, thus driving initial interest and trial purchases.

Influences Consumer behaviour

By using persuasive appeals, advertising can shape consumer perceptions and influence their buying behaviour. It often affects how customers view a brand's quality, style, and emotional value.

Supports Sales Promotion

Advertising enhances the effectiveness of sales promotions like discounts, coupons, or contests. When consumers are aware of a brand through advertising, promotional offers tend to attract stronger responses.

17.2.3 LIMITATIONS OF ADVERTISING

High Cost

Advertising through popular mass media such as television, newspapers, and digital platforms requires a large financial investment. Small and medium-sized firms often find it difficult to afford such campaigns. The cost includes not only media space but also production expenses for creative content. As a result, high advertising costs can limit the frequency and reach of promotional messages.

Impersonal Communication

Advertising is a one-way form of communication that reaches a wide audience but lacks personal interaction. Unlike personal selling, it does not allow direct feedback or clarification from customers. This can make it difficult for companies to understand consumers' real opinions or needs. Consequently, advertisements may fail to build strong emotional connections with the target audience.

Clutter and Overload

In today's competitive market, consumers are bombarded with numerous advertisements every day across various media platforms. This overload of messages often leads to ad fatigue, where people start ignoring or skipping ads. As a result, even well-crafted advertisements struggle to capture attention or make a lasting impression. This clutter reduces the overall effectiveness of advertising efforts.

Short-term Impact

The influence of advertisements on consumer behavior is often temporary unless reinforced over time. A single ad may create awareness, but it rarely leads to long-term brand loyalty or consistent sales. Continuous exposure and follow-up marketing activities are necessary to maintain interest. Without such efforts, the initial impact of advertising tends to fade quickly.

17.3. DIRECT MARKETING

Meaning

Direct Marketing involves communicating directly with target customers without using intermediaries such as retailers or wholesalers. It aims to obtain an immediate response or build long-term customer relationships. Unlike mass advertising, direct marketing targets specific individuals or groups using personalized messages.

Definition

According to Kotler and Keller, "Direct marketing consists of direct connections with carefully targeted individual consumers to obtain an immediate response and cultivate lasting customer relationships."

17.3.1 FORMS OF DIRECT MARKETING

Email Marketing

Email marketing involves sending personalized messages directly to customers' inboxes to share offers, newsletters, or product updates. It helps businesses build long-term relationships by keeping customers informed and engaged. Emails can be tailored based on customer interests, purchase history, or demographics. This makes it an effective and low-cost way to reach a large audience with measurable results.

SMS Marketing

SMS marketing delivers short and instant text messages to customers' mobile phones to promote products or services. It is a quick and effective tool to share time-sensitive offers, discounts, or reminders. Since most people read text messages immediately, the open rate is very high. However, the content must be concise and engaging to capture the customer's attention.

Telemarketing

Telemarketing involves contacting potential or existing customers directly over the phone to sell products or gather feedback. It allows real-time interaction, where customer queries can be answered instantly. This personal communication can help build trust and convince customers to make a purchase. However, if not done politely, it can sometimes be perceived as intrusive.

Catalog Marketing

Catalog marketing includes distributing printed or digital catalogs that showcase a company's products with images, descriptions, and prices. Customers can browse through the catalog and place orders conveniently from home. It is especially useful for companies with a wide product range, such as apparel or home goods. Digital catalogs also help reduce printing costs and reach a global audience.

Online and Social Media Advertising

This form of marketing uses websites, social media platforms, and mobile apps to connect with target audiences. Companies can display ads to specific groups based on interests, age, or location. Social media platforms like Facebook, Instagram, and YouTube enable interactive engagement through comments, likes, and shares. This helps brands create awareness and drive online sales effectively.

Direct Mail

Direct mail marketing involves sending promotional materials such as letters, postcards, or brochures directly to customers' homes or offices. It creates a personal touch and can be customized with the recipient's name or preferences. This traditional method is still effective in reaching local markets and older audiences. When designed creatively, direct mail can leave a lasting impression on potential buyers.

17.3.2 BENEFITS OF DIRECT MARKETING

Personalization

Direct marketing allows businesses to tailor messages according to the specific preferences, interests, and needs of individual customers. Personalized communication makes customers feel valued and understood, increasing the chances of a positive response. It also helps in offering products or services that match customer requirements. This personal touch enhances brand loyalty and customer satisfaction over time.

Immediate Feedback

One of the biggest advantages of direct marketing is the ability to receive instant responses from customers. Whether through phone calls, emails, or online clicks, businesses can quickly gauge customer interest. This immediate feedback helps marketers adjust their strategies in real time. It also enables quick follow-up actions, such as confirming orders or addressing customer inquiries.

Cost-Effective

Compared to expensive mass media advertising like TV or print, direct marketing is more affordable and focused. It allows companies to target a specific niche audience, avoiding unnecessary spending on uninterested groups. Small businesses, in particular, benefit from the low-cost nature of direct marketing tools such as email or SMS campaigns. This makes it a practical choice for maximizing return on investment.

Measurable Results

Direct marketing provides clear and quantifiable data on campaign performance. Marketers can track response rates, clicks, conversions, and customer behavior to measure success. This data helps identify which strategies are most effective and where improvements are needed. As a result, businesses can make informed decisions and plan future campaigns more efficiently.

Relationship Building

Direct marketing fosters personal and long-term connections between businesses and customers. By maintaining regular communication, companies can strengthen trust and brand loyalty. Loyal customers are more likely to make repeat purchases and recommend the brand to others. Over time, this relationship-based approach helps build a stable customer base and sustainable business growth.

17.3.3 CHALLENGES OF DIRECT MARKETING

Privacy Concerns

One of the main challenges in direct marketing is maintaining customer privacy. Many people feel uncomfortable when they receive unsolicited emails, calls, or messages from unknown companies. Such intrusions can create a negative image of the brand and lead to distrust. Therefore, businesses must ensure they respect customer consent and follow data protection regulations.

Spam Risk

When companies send too many promotional emails or text messages, customers may perceive them as spam. This over-communication can cause annoyance and result in customers unsubscribing or blocking messages. It can also harm the brand's reputation and reduce the effectiveness of marketing efforts. To avoid this, marketers should maintain a balance and focus on sending relevant and valuable content.

Data Management Issues

Direct marketing depends heavily on accurate and up-to-date customer information. Managing large databases can be challenging, as errors or outdated data may lead to sending messages to the wrong audience. This not only wastes resources but also affects campaign success. Businesses must regularly update and verify their customer data to ensure proper targeting and personalization.

17.4. PERSONAL SELLING

Meaning

Personal Selling refers to direct, face-to-face interaction between a salesperson and a potential customer with the objective of making a sale. It is a personalized form of communication that allows two-way dialogue, helps build trust, and provides immediate feedback. It plays a crucial role in selling high-value, complex, or customized products such as automobiles, real estate, and industrial machinery.

Definition

According to the American Marketing Association, "Personal selling is an oral presentation in a conversation with one or more prospective purchasers for the purpose of making sales."

17.4.1 FEATURES OF PERSONAL SELLING

- Involves personal interaction between buyer and seller.
- Two-way communication allowing feedback and clarification.
- Builds long-term relationships with customers.
- Flexible and adaptable to customer needs.

17.4.2 STEPS IN THE PERSONAL SELLING PROCESS

Prospecting

Prospecting is the first step in the selling process where salespeople identify potential customers who are likely to buy the product or service. It involves researching and listing individuals or businesses with a genuine need and purchasing power. This step helps focus marketing efforts on the right audience rather than wasting time on uninterested people.

Pre-Approach

The pre-approach stage involves gathering detailed information about potential customers before meeting them. This includes studying their preferences, needs, financial status, and buying behavior. Proper preparation helps the salesperson design a personalized sales strategy for each prospect. By understanding the customer in advance, the salesperson can communicate more effectively and confidently.

Approach

The approach is the initial contact or greeting between the salesperson and the prospect. This stage is crucial for creating a strong first impression and building rapport. The salesperson must be polite, confident, and professional to gain the customer's attention and trust. A warm greeting and positive attitude set the tone for the rest of the sales interaction.

Presentation

In the presentation stage, the salesperson explains and demonstrates the product's features, advantages, and benefits. The aim is to match the product's value with the customer's needs and desires. This stage may include visual aids, samples, or live demonstrations to make the product more convincing.

Handling Objections

During the sales process, customers may raise doubts, hesitations, or objections regarding the product or price. The salesperson must listen patiently and address these concerns confidently and honestly. Effective handling of objections helps in clearing misunderstandings and building customer trust. It also shows the salesperson's product knowledge and problem-solving ability.

Closing the Sale

Closing the sale is the stage where the salesperson encourages the customer to make the final purchase decision. It may involve offering discounts, flexible payment options, or after-sales services to motivate the buyer. A successful close ensures that the customer feels satisfied and confident about their decision. This stage determines the overall success of the sales process.

Follow-up

The follow-up stage comes after the sale is completed to maintain long-term customer relationships. The salesperson contacts the customer to ensure they are satisfied with the product and service. This helps in addressing any post-purchase issues and building loyalty. A good follow-up often leads to repeat sales and positive word-of-mouth promotion.

17.4.3. IMPORTANCE OF PERSONAL SELLING

Builds Trust and Loyalty

Personal selling allows direct, face-to-face interaction between the salesperson and the customer, which helps build trust and confidence. Through personal communication, the salesperson can understand the customer's emotions and preferences better. This relationship-based approach creates a sense of reliability and personal connection. Over time, it leads to strong customer loyalty and repeat business.

Customizable Approach

One of the major strengths of personal selling is its flexibility in communication. The salesperson can modify the sales pitch according to the customer's needs, interests, and reactions during the conversation. This personalized approach ensures that customers feel valued and understood. It also increases the chances of successfully closing the sale by addressing individual concerns effectively.

Provides Feedback

In personal selling, salespeople receive immediate and direct feedback from customers about the product or service. This helps businesses understand what customers like or dislike and what improvements are needed. Such valuable insights can be used to refine product features or marketing strategies. Regular feedback also helps in maintaining customer satisfaction and staying competitive in the market.

Supports Marketing Efforts

Personal selling plays a crucial role in turning marketing leads into actual sales. While advertising and promotions create awareness, personal selling helps in convincing customers to make a purchase. Salespeople bridge the gap between interest and action by providing detailed explanations and personalized offers. Thus, it strengthens the overall effectiveness of the company's marketing strategy.

Educates Customers

Personal selling is especially useful for products that are technical, expensive, or complex. The salesperson educates customers by explaining the product's features, benefits, and usage clearly. This helps customers make informed and confident purchase decisions. By guiding customers through the buying process, personal selling ensures satisfaction and long-term trust in the brand.

17.4.4. LIMITATIONS OF PERSONAL SELLING

High Cost

Personal selling is an expensive method of promotion as it involves significant costs related to travel, training, and time. Each salesperson can meet only a limited number of customers, making the cost per contact relatively high. Additionally, salaries, commissions, and incentives add to the total expense. Therefore, personal selling is often more suitable for high-value or specialized products rather than low-cost consumer goods.

Limited Reach

Unlike mass advertising, personal selling can reach only a small number of potential customers at a time. Since it requires face-to-face interaction, the process is time-consuming and cannot cover large audiences quickly. This limitation makes it difficult for companies to expand their market reach rapidly. As a result, personal selling is less effective when a brand needs to promote products to a wide population.

Dependency on Salesperson Skills

The success of personal selling depends largely on the salesperson's communication skills, attitude, and product knowledge. A skilled and confident salesperson can convince customers easily, while an inexperienced one may lose potential buyers. Any mistake or negative impression can harm the company's reputation. Therefore, continuous training and motivation are essential to maintain effective sales performance.

17.5. SUMMARY

This lesson discusses the key tools used in marketing communication Advertising, Direct Marketing, and Personal Selling. Advertising is a paid, non-personal form of communication aimed at mass audiences. Direct marketing involves personalized communication through emails, messages, or calls. Personal selling relies on face-to-face interaction between salesperson and customer. Each tool has its advantages, limitations, and specific use in different market situations.

17.6. TECHNICAL TERMS

- **Advertising:** Paid non-personal promotion through media channels.
- **Direct Marketing:** Personalized communication directly targeting consumers.
- **Telemarketing:** Selling or promoting products over the phone.
- **Catalog Marketing:** Using printed or digital catalogs for product promotion.
- **Personal Selling:** Direct interaction between salesperson and customer.
- **Prospecting:** Identifying potential customers.
- **Closing the Sale:** Convincing the customer to make a final purchase.

17.7 SELF-ASSESSMENT QUESTIONS

1. Define advertising and explain its key characteristics.
2. Discuss different forms of direct marketing with examples.
3. Explain the steps involved in the personal selling process.
4. What are the limitations of personal selling as a promotional tool?
5. Compare and contrast advertising and direct marketing.

17.8. SUGGESTED READINGS

- Bovee, C.L. & Arens, W.F. Contemporary Advertising, McGraw Hill.
- Kotler, P., Keller, K.L. Marketing Management.

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LESSON 18

EMERGING TRENDS IN MARKETING

18.0 OBJECTIVES OF THE LESSON

After studying this lesson, students will be able to:

1. To understand the concept of tools of Marketing communications
2. To learn the concept of Advertising.
3. To understand the Direct marketing, Personal selling along with their advantages and drawbacks.

STRUCTURE OF THE LESSON

18.1 INTRODUCTION to NETWORK MARKETING

Meaning

Network Marketing, also known as Multi-Level Marketing (MLM), is a method of direct selling in which independent distributors sell products or services to consumers and recruit others to join the business. The distributors earn income through their sales and from the sales made by their recruited team members. This structure helps organizations reach a large

18.1.1 OBJECTIVES OF NETWORK MARKETING

Business Expansion: To reach customers across various regions through personal networks without heavy marketing costs.

Encourage Entrepreneurship: To provide individuals with self-employment opportunities and flexible income sources.

Cost Efficiency: To minimize distribution and advertising costs by using independent distributors.

Customer Trust: To build credibility through person-to-person communication and genuine product recommendations.

Sales Growth: To achieve rapid sales increase by leveraging a wide network of motivated sellers.

18.1.2 CHARACTERISTICS OF NETWORK MARKETING

Multi-Level Structure: Participants earn commissions from their own sales and the sales of the distributors they recruit.

Relationship-Based Selling: The marketing relies heavily on personal trust, referrals, and one-on-one interactions.

Low Capital Requirement: Involvement requires minimal initial investment compared to traditional business.

Performance-Based Earnings: Income depends on sales performance and team building, not on fixed salaries.

Training and Motivation: Companies regularly conduct seminars and workshops to train distributors and enhance product knowledge.

Self-Employment Opportunity: Individuals operate as independent entrepreneurs under the company's system.

18.1.3 ADVANTAGES OF NETWORK MARKETING

- **Low Risk and Investment:** Easy to start with minimal capital investment.
- **Income Flexibility:** Allows people to earn either part-time or full-time income.
- **Skill Development:** Improves interpersonal, marketing, and leadership skills.
- **Personal Network Expansion:** Builds a strong network of customers and business associates.
- **Motivational Environment:** Team support and recognition programs encourage better performance.

18.1.4 . LIMITATIONS OF NETWORK MARKETING

- **Market Saturation:** Too many distributors in the same area reduce earning potential.
- **Misleading Income Expectations:** Many people are misled about the profits they can earn.
- **High Dropout Rate:** Most distributors quit within a short period due to poor earnings.
- **Legal and Ethical Challenges:** Some MLMs operate like pyramid schemes, attracting legal issues.
- **Negative Image:** Public perception of network marketing is often skeptical due to past fraudulent cases.

18.1.5 . RECENT TRENDS IN NETWORK MARKETING

- **Digital Transformation:** Companies are adopting **online selling platforms** and **mobile apps** to reach wider audiences.
- **Social Media Marketing:** Distributors promote products through **Instagram, Facebook, and WhatsApp** to increase visibility.
- **E-Learning and Webinars:** Training programs are conducted online for global participation and convenience.

- **Influencer Collaboration:** Many MLM brands partner with micro-influencers to attract potential buyers.
- **Product Diversification:** Companies are introducing health, wellness, and eco-friendly products to match customer demand.
- **Data Analytics and CRM Tools:** Firms now use customer relationship management systems to track performance and sales growth.

18.2 . VIRAL MARKETING

Meaning

Viral Marketing is a promotional strategy where marketers create highly engaging, entertaining, or emotional content that spreads rapidly among people much like a virus. The idea is to motivate individuals to voluntarily share the message through social media, emails, or other online platforms, thus increasing brand awareness with minimal promotional effort. It relies heavily on human psychology, emotions, and the power of digital sharing.

18.2.1 OBJECTIVES OF VIRAL MARKETING

- **Enhance Brand Awareness:** To make the brand or product widely recognized in a short time.
- **Create Emotional Connection:** To develop content that connects with the audience emotionally or humorously.
- **Increase Customer Engagement:** To encourage users to like, comment, share, or participate in challenges.
- **Cost-Effective Promotion:** To achieve maximum visibility with minimal advertising budget.
- **Build Brand Image:** To position the brand as creative, modern, and socially relevant.

18.2.2 . CHARACTERISTICS OF VIRAL MARKETING

- **High Share ability:** The content is easy to share across multiple platforms, increasing its spread.
- **Emotional or Entertaining Appeal:** It usually triggers laughter, surprise, inspiration, or empathy.
- **Digital and Social Media Driven:** Platforms like Instagram, YouTube, and X (formerly Twitter) play a major role.
- **User Participation:** Users become voluntary promoters by sharing or recreating the content.
- **Unpredictable Success:** The virality of content depends on audience reaction and timing rather than planned control.
- **Short Lifespan:** Viral campaigns often generate quick but temporary attention.

18.2.3 ADVANTAGES OF VIRAL MARKETING

- **Low-Cost Promotion:** Requires minimal investment compared to traditional advertising.
- **Massive Reach:** A single post can reach millions globally in a short time.
- **Authentic Endorsement:** Since users share voluntarily, the message appears more genuine.
- **Boosts Brand Recall:** People remember creative and emotional viral campaigns longer.
- **Encourages Two-Way Interaction:** Users respond, comment, and engage, increasing brand involvement.

18.2.4 LIMITATIONS OF VIRAL MARKETING

- **Lack of Control:** Once content is shared, the company cannot control how it is interpreted or modified.
- **Short-Term Impact:** The attention gained is often temporary and may fade quickly.
- **Risk of Negative Publicity:** If misunderstood, content can harm the brand's reputation.
- **Uncertain Results:** Not every campaign goes viral even with high-quality content.
- **Difficult to Measure ROI:** Tracking exact conversions from viral content can be challenging.

18.2.5 . RECENT TRENDS IN VIRAL MARKETING

- **Use of Memes:** Brands use memes for humorous and relatable promotions that spread quickly.
- **Hashtag Challenges:** Platforms like TikTok and Instagram Reels feature viral challenges (e.g., #Ice Bucket Challenge).
- **User-Generated Content:** Encouraging consumers to create and share their own videos using brand hashtags.
- **Influencer Collaboration:** Partnering with influencers to create viral content with a wide reach.
- **Interactive Campaigns:** Use of polls, AR filters, and reels to increase participation and sharing.
- **Purpose-Driven Virility:** Campaigns focusing on social causes (environment, gender equality, inclusivity) tend to spread more organically.

18.3. AMBUSH/GUERRILLA MARKETING

18.3.1. MEANING AND INTRODUCTION

In today's competitive business world, brands constantly search for innovative ways to capture consumer attention without spending heavily on traditional advertising. Two unconventional but highly effective marketing approaches that achieve this are Ambush Marketing and Guerrilla Marketing.

Both strategies focus on creativity, surprise, and visibility, but they differ in approach and purpose. While Ambush Marketing leverages popular events or occasions to gain indirect publicity, Guerrilla Marketing emphasizes unexpected, creative, and low-cost promotional tactics that generate buzz and emotional response from the public.

18.3.2. AMBUSH MARKETING MEANING

Ambush Marketing is a strategy in which a company tries to capitalize on the popularity of an event or campaign without paying sponsorship fees or being an official partner. The brand "ambushes" the event by creating associations that make consumers believe it is connected to the occasion, thereby stealing attention from the official sponsor.

18.3.3. OBJECTIVES OF AMBUSH MARKETING

- **Gain Maximum Exposure:** To gain media attention without paying high sponsorship costs.
- **Disrupt Competitors:** To divert public focus away from official sponsors or rivals.
- **Create Public Buzz:** To generate conversations and social media discussions around the brand.
- **Enhance Brand Recall:** To make the brand memorable by associating it with trending events.
- **Increase Market Presence:** To position the brand as bold, smart, and innovative.

18.3.4. CHARACTERISTICS OF AMBUSH MARKETING

- **Event Association:** Targets popular sports, entertainment, or cultural events.
- **Non-Sponsorship Based:** Gains publicity without official event rights.
- **Creative Message Design:** Uses catchy slogans, humor, or visual elements to attract attention.
- **Media-Driven Exposure:** Relies on press coverage and social media discussions to amplify the effect.
- **Ethical Controversy:** Often criticized for being misleading or unfair to official sponsors.

18.3.5. ADVANTAGES OF AMBUSH MARKETING

- **Cost-Effective:** Avoids high sponsorship fees while achieving comparable exposure.
- **Competitive Edge:** Helps smaller brands compete with industry giants.
- **Quick Public Recognition:** Grabs immediate attention during large-scale events.
- **Media Amplification:** Viral potential through public discussions and press coverage.
- **Flexibility:** Allows brands to react creatively and spontaneously to events.

18.3.6. LIMITATIONS OF AMBUSH MARKETING

- **Legal Risks:** Can lead to lawsuits for violating sponsorship agreements.

- **Ethical Concerns:** Considered unfair to official sponsors who pay for rights.
- **Short-Term Impact:** Visibility may not last long after the event ends.
- **Negative Image:** May portray the brand as opportunistic or deceptive.
- **Event Restrictions:** Organizers often impose stricter rules to prevent ambushing.

18.3.7. RECENT TRENDS IN AMBUSH MARKETING

- **Digital Ambushing:** Brands use hashtags and online memes during live events to ride trending topics.
- **Social Media Hijacking:** Creating witty responses or posts that go viral during competitor events.
- **Cross-Platform Ambushing:** Leveraging multiple digital platforms simultaneously for event-based campaigns.
- **Subtle Brand Placement:** Smart, indirect visual references instead of direct logos or names.
- **Ethical Ambush Marketing:** Using humour or creativity without misleading consumers or violating rules.

18.4. GUERRILLA MARKETING MEANING:

Guerrilla marketing refers to unconventional, creative, and low-cost promotional activities designed to surprise and engage the public in memorable ways. The term “Guerrilla” is inspired by guerrilla warfare using surprise, speed, and strategy to achieve maximum impact with limited resources.

This approach depends on innovation, imagination, and emotional appeal rather than a large advertising budget.

18.4.1. OBJECTIVES OF GUERRILLA MARKETING

- **Maximize Impact with Minimum Cost:** To gain massive attention using low-cost creative efforts.
- **Engage Audiences Emotionally:** To surprise and delight people, leaving a strong impression.
- **Encourage Word-of-Mouth Promotion:** To make people talk and share the campaign voluntarily.
- **Strengthen Brand Personality:** To showcase the brand as bold, fun, and innovative.
- **Differentiate from Competitors:** To stand out in a crowded market using originality.

18.4.2 CHARACTERISTICS OF GUERRILLA MARKETING

- **Creativity and Innovation:** Relies on imagination rather than money.
- **Public Interaction:** Usually happens in public spaces like streets, malls, or transport areas.
- **Element of Surprise:** Unexpected or humorous actions catch people’s attention instantly.

- **Low-Cost Execution:** Focuses on impact, not budget.
- **Viral Potential:** Designed for social sharing, photos, and online buzz.
- **Short Duration, Long Recall:** Even brief campaigns create lasting impressions.

18.4.3. ADVANTAGES OF GUERRILLA MARKETING

- **Cost-Effective Advertising:** Requires minimal investment compared to traditional ads.
- **High Engagement:** Creates personal experiences and emotional connections.
- **Viral Reach:** Easily spreads through social media shares and news coverage.
- **Enhances Brand Identity:** Reinforces the brand as creative and consumer-friendly.
- **Immediate Public Attention:** Unique visuals or stunts capture instant interest.

18.4.4. LIMITATIONS OF GUERRILLA MARKETING

- **Unpredictable Results:** Not all creative ideas go viral as expected.
- **Legal Restrictions:** Some stunts may violate public space or safety laws.
- **Negative Public Reaction:** If misunderstood, the campaign could backfire.
- **Short-Term Visibility:** Buzz fades quickly unless followed by continued engagement.
- **Risk of Copycats:** Other brands may imitate the idea, reducing originality.

18.4.5. RECENT TRENDS IN GUERRILLA MARKETING

1. **Digital Guerrilla Tactics:** Using AR filters, interactive reels, and virtual flash mobs online.
2. **Experiential Installations:** Immersive pop-up events that allow users to experience the brand physically.
3. **Sustainability Themes:** Eco-friendly guerrilla campaigns focusing on social causes.
4. **Influencer Guerrilla Collaborations:** Using local influencers to surprise their audience with brand-related stunts.
5. **Hybrid Campaigns:** Blending guerrilla marketing with digital storytelling and viral challenges.

18.4.6. DIFFERENCE BETWEEN AMBUSH AND GUERRILLA MARKETING

Basis	Ambush Marketing	Guerrilla Marketing
Meaning	Gaining publicity by associating with an event unofficially	Using creative, low-cost, surprising methods to promote a brand
Objective	To divert attention from official sponsors	To create emotional impact and brand recall

Basis	Ambush Marketing	Guerrilla Marketing
Cost	Moderate (depends on media use)	Very low (depends on creativity)
Legal Issues	Often faces legal restrictions	Generally legal if executed responsibly
Duration	Event-based and short-term	Can be used anytime, not event-bound
Example	Pepsi during Coca-Cola sponsored cricket event	Flash mobs, street art, or interactive installations

18.5. GREEN MARKETING

Green Marketing refers to the process of developing, promoting, and distributing products or services that are environmentally safe and sustainable. It involves adopting business practices that protect the environment and reduce negative ecological impact. This approach focuses on creating value not only for the consumer but also for society by ensuring the conservation of resources, reducing waste, and supporting long-term ecological balance.

18.5.1. OBJECTIVES OF GREEN MARKETING

- **Environmental Protection:** To minimize pollution, waste, and resource depletion through sustainable production.
- **Consumer Awareness:** To educate customers about the environmental benefits of eco-friendly products.
- **Sustainable Development:** To achieve economic progress without harming the environment.
- **Competitive Advantage:** To build a unique market position by differentiating green products from conventional ones.
- **Corporate Social Responsibility (CSR):** To align marketing activities with social and environmental commitments.
- **Brand Reputation:** To enhance corporate image by projecting environmental consciousness.

18.5.2. CHARACTERISTICS OF GREEN MARKETING

- **Eco-Friendly Products:** Goods are produced using natural, biodegradable, or recyclable materials.

- **Energy Efficiency:** Promotes products or processes that consume less energy and reduce carbon emissions.
- **Sustainable Packaging:** Focuses on recyclable, reusable, or minimal packaging materials.
- **Ethical Production:** Ensures fair labor practices and responsible sourcing.
- **Long-Term Perspective:** Aims for sustainability and resource preservation rather than short-term profit.
- **Government Compliance:** Adheres to environmental laws and standards such as ISO 14000 certification.

18.5.3. ADVANTAGES OF GREEN MARKETING

- **Enhanced Brand Image:** Builds goodwill and strengthens trust among environmentally aware consumers.
- **Customer Loyalty:** Attracts and retains eco-conscious customers who prefer sustainable brands.
- **Cost Savings:** Reduces waste, energy, and resource costs in the long run.
- **Market Expansion:** Opens access to international markets that favor sustainable products.
- **Regulatory Benefits:** Companies adhering to environmental norms avoid penalties and gain certifications.
- **Positive Social Impact:** Contributes to environmental conservation and community welfare.

18.5.4. LIMITATIONS OF GREEN MARKETING

- **High Production Costs:** Eco-friendly materials and technologies are often more expensive.
- **Limited Awareness:** Many consumers still prefer low-cost options over sustainable ones.
- **Greenwashing Risk:** Some companies falsely claim to be eco-friendly, which damages credibility.
- **Low Immediate Profitability:** Returns may take time due to higher costs and niche market size.
- **Technological Constraints:** Limited availability of advanced green technologies in developing countries.

18.5.5. RECENT TRENDS IN GREEN MARKETING

- **Sustainable Packaging:** Companies are adopting biodegradable, compostable, and reusable materials.
- **Carbon-Neutral Campaigns:** Brands are investing in carbon offset programs and renewable energy.
- **Green Branding:** Firms are integrating sustainability messages into their brand identity and advertising.
- **Eco-Labeling:** Certifications like Energy Star, Fair Trade, and Green Seal help consumers identify eco-friendly products.

- **Digital Green Marketing:** Reducing paper use through online promotion, e-bills, and digital campaigns.
- **Circular Economy Approach:** Encouraging reuse, recycling, and regeneration instead of one-time consumption.
- **Consumer Activism:** Customers now prefer transparent brands that take measurable environmental actions.

18.5.6. EXAMPLES OF GREEN MARKETING IN INDIA

- **ITC Limited:** Launched paper products made from renewable pulp and eco-friendly printing solutions.
- **Tata Motors:** Introduced electric vehicles and green manufacturing initiatives.
- **Wipro:** Reduced carbon footprint by using renewable energy and e-waste management.
- **Hindustan Unilever:** Promotes water and energy conservation through campaigns like "Project Shakti."
- **Godrej:** Developed the "Good & Green" initiative focusing on zero waste and energy efficiency.

18.6. OTHER MODERN TRENDS IN MARKETING

In the rapidly evolving digital environment, traditional marketing methods are being replaced by new and technology-oriented approaches. Modern trends focus on personalization, engagement, real-time interaction, and emotional connection with consumers.

Among the most significant contemporary trends are Influencer Marketing, AI-Based Marketing, and Social Media and Digital Storytelling. These techniques redefine how brands communicate, connect, and build relationships with their audiences.

18.6.1. INFLUENCER MARKETING

Influencer Marketing is a strategy where companies collaborate with social media personalities, content creators, or celebrities who have a large online following to promote their products or services. These influencers use their credibility and trust with followers to shape buying decisions.

18.6.2. OBJECTIVES/FEATURES

1. To build brand trust through authentic recommendations.
2. To reach niche audiences more effectively than traditional ads.
3. To generate word-of-mouth publicity and viral content.
4. To increase engagement through personalized storytelling by influencers.

18.6.3. ADVANTAGES

1. Builds immediate trust as influencers have loyal followers.
2. Offers better targeting for specific demographic or lifestyle groups.
3. Generates higher engagement and social media visibility.

4. Provides cost-effective marketing for small and large brands alike.

18.6.4. LIMITATIONS

1. Risk of fake followers or low engagement influencers.
2. Overexposure of influencer ads may reduce authenticity.
3. Difficult to measure direct conversion rates.
4. May cause brand damage if the influencer faces controversy.

18.7. AI-BASED MARKETING

Artificial Intelligence (AI)-Based Marketing refers to the use of intelligent algorithms and data analytics to predict customer behavior, automate decision-making, and personalize marketing campaigns. AI helps brands deliver the right message to the right person at the right time through automated systems.

18.7.1 OBJECTIVES/FEATURES

- To enhance customer experiences through real-time personalization.
- To automate repetitive marketing processes like email campaigns and chat responses.
- To predict future trends using data-driven insights.
- To improve return on investment (ROI) by optimizing campaigns.

18.7.2 ADVANTAGES

- High efficiency and cost savings through automation.
- Accurate targeting and personalization increase customer satisfaction.
- Enables data-driven decision-making.
- Improves productivity by reducing manual marketing work.

18.7.3. LIMITATIONS

- High initial setup cost for AI systems and analytics tools.
- Data privacy and ethical concerns may arise.
- Overdependence on algorithms may reduce human creativity.
- Requires skilled professionals to manage AI technologies.

18.8 SOCIAL MEDIA AND DIGITAL STORYTELLING

Social Media and Digital Storytelling involve using platforms such as Instagram, Facebook, YouTube, and X (Twitter) to narrate brand stories in engaging formats like videos, posts, reels, and live sessions. Instead of direct selling, brands communicate their values, emotions, and purpose through storytelling techniques that connect with consumers emotionally.

18.8.1 OBJECTIVES/FEATURES

- To create emotional engagement and brand recall through stories.
- To humanize brands by showing real people and real experiences.
- To promote interactive communication through comments, shares, and reels.
- To enhance visibility and credibility through creative storytelling.

18.8.2 ADVANTAGES

- Builds strong emotional connection with consumers.
- Increases brand visibility through viral sharing.
- Encourages user participation and loyalty.
- Supports cost-effective and continuous promotion.

18.8.3 LIMITATIONS

- Requires constant content creation and active management.
- Risk of negative feedback spreading quickly online.
- Difficult to control brand perception once shared.
- Attention span of users is short; content must be impactful.

18.9 SUMMARY

It focuses on new-age developments in marketing communication digital media, social media marketing, influencer collaboration, gamified promotions, personalized campaigns, and sustainable marketing. The integration of data analytics, AI, and interactivity has made marketing more engaging and measurable. Modern strategies aim to build long-term relationships through customer experience, brand authenticity, and ethical communication.

18.10 TECHNICAL TERMS

- **Digital Marketing:** Online promotion using digital platforms.
- **Influencer Marketing:** Collaborating with popular online personalities to promote brands.
- **Gamification:** Using game elements to engage customers.
- **Hybrid Events:** Combining physical and online participation.
- **Sustainable Marketing:** Promoting eco-friendly and ethical practices.
- **AI-driven Personalization:** Customizing messages based on data analytics.

18.11 SELF-ASSESSMENT QUESTIONS

1. What are the major emerging trends in marketing communication?
2. Explain the role of digital media in shaping modern promotional strategies.
3. What is influencer marketing, and why is it effective?
4. Discuss how technology has transformed event marketing.

5. How can sustainability and ethics improve brand communication?

18.12 SUGGESTED READINGS

- Chaffey, D. & Ellis-Chadwick, F. Digital Marketing: Strategy, Implementation, and Practice.
- Ryan, D. Understanding Digital Marketing.
- Smith, P.R. & Zook, Z. Marketing Communications: Integrating Offline and Online with Social Media.
- Weinberg, T. The New Community Rules: Marketing on the Social Web.

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