# Uttarakhand Open University, Haldwani

MS 107

## School of Management Studies and Commerce

**Marketing Management**


Block I Introduction to Marketing

Block II STP Concept and Consumer Behaviour

MS 107

# Marketing Management

**Block – I**

**Block Title- Introduction to Marketing**

**Block – II**

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# Block I
# Introduction to Marketing

# UNIT 1 INTRODUCTION TO MARKETING

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## 1.1 INTRODUCTION

In order to fulfil our needs we consume several goods and services in our day today life. How our (consumers') requirement identified by the companies? How the availability of the goods and services are made easy for us? All such questions are addressed by practices used by the producers of goods and services. These actions of companies are comes under the periphery of marketing. Consumers get aware about different details of the goods and services available in the market, is through the practices of marketing. The information reached to the consumer is like product features, price, quality, availability and many more. The practices of product planning, promotion, pricing, intermediary's decision (wholesaler, retailer), selling, customer relation are the part of marketing.

## 1.2 OBJECTIVES

After studying this unit you will be able to understand:

- The meaning and concept of marketing.
- The differences between marketing and selling.
- Nature, scope and importance of marketing.
- Different functions performed under marketing practices.

## 1.3 ABOUT MARKETING

Human needs are endless, to fulfil these needs different required product and services are developed by the producers. The means of fulfilling the needs are the outcomes of industrial units as product or services. These unlimited needs and drawn satisfaction from available product and services involves multiple action taken by producers are categorised under the marketing activities performed by the marketer. The marketer meets the consumer (individual) in a place with their offers to fulfil the requirements. The place of marketer and consumer meeting is termed as market place (may be physical or the virtual i.e. internet now a days). The physical place of consumer and producer is called 'market' and the virtual place is termed as 'market space'.

Marketer develops tools to meet out the requirement and uses product and services to fulfil them. The actions taken are covered under marketing. The role of marketer under marketing activities starts from identifying the consumers' needs followed by developing the goods or services. To make available the developed goods and services is the next plan of action performed by the marketer. Marketing does not ends with the transaction of goods and services against each other but continues till the satisfaction for the outcome is received and analysed for further improvement in the current goods and services along with retaining of the customer base for their services. The marketing thus can be understood as a mean to satisfy the consumer against the needs identified and fulfilled through different offerings from the producers.

"Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large." — American Marketing Association

"Marketing is not only much broader than selling; it is not a specialized activity at all. It encompasses the entire business. It is the whole business seen from the point of view of the final result, that is, from the customer's point of view. Concern and responsibility for marketing must therefore permeate all areas of the enterprise." — Peter Drucker

"Marketing is the social process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others." — Philip Kotler

Marketing is "The management process responsible for identifying, anticipating and satisfying customer requirements profitably." — The Chartered Institute of Marketing

## 1.4 MARKETING CONCEPT

As the marketer serves the consumer by different offerings to satisfy and fulfil their needs. The concept of marketing has changed its dimensions from time to time. The focus of marketer has shifted from product, sale, and profit towards the satisfaction of consumers. The two thought of concept are covered under traditional and modern concepts of marketing are discussed below;

### 1.4.1 TRADITIONAL CONCEPT OF MARKETING

The traditional concept of marketing emphasises on the sale of goods and services while including the convincing the consumer to buy the offerings and attiring the higher sales for the organization. The selling of goods and services include transaction between consumer and producers while persuading the consumer to make a purchase. Higher the sale, higher will be the profit margin of the producers. The traditional concept of marketing emphasizes over three major aspects as;

1. It focuses over the goods and services render by the marketer. Motive of marketer is to make their product and services widely available and accepted by the consumers. Marketers' understanding about the goods and services is, the offerings are best available to be accepted by the buyers.
2. The measures through which selling is conducted includes all means to attain transaction of goods and services against values provided by the buyer. The producers concentrate on transferring the goods against some value.
3. The more sales of goods and services are inputs for earning revenue for the business. Revenue increment leads to profit maximization for the business.

Thus the traditional marketing concept tries to sell the goods and services for attaining more profits for the business while considering the offerings being well developed to be getting accepted.

### 1.4.2 MODERN CONCEPT OF MARKETING

Time has changed the dimensions of marketing from the traditional approach to the modern perspective. The market emerged as open platform for different businesses to enter and excel in their respective areas of production. This has provided many businesses working in the similar category of offerings served by them to different sets of consumers. Thus marketers' understanding for their product from traditional approach needs to be changed. It required coordination according to the needs of different sets of the customers. This has provided change in focus of marketers' from product to consumer needs. The modern concept of marketing looks forward to understand needs of consumer and implement required changes to satisfy the needs of consumer.

The needs are fulfil using different set of team efforts to make available of different offerings. The motive of the organization is to attain profits while considering the satisfaction as main objective to fulfil through their services. Thus the modern concept of marketing differs from traditional in its approach from product orientation to need satisfaction, selling to coordinated team efforts and profit maximization to profit through consumer satisfaction.

# 1.5 DIFFERENCE BETWEEN MARKETING AND SELLING

The modern concept against the traditional concept differentiates the perspective of marketer regarding the practices. The traditional concept majorly influenced with selling concept whereas the modern concept look forward toward the marketing. The selling emphasises how the persuasion can be carried so as to attain sale of the product in contrast to marketing focusing on attainment of customer satisfaction.

Selling refers to short term goals of the marketer to execute the sale using the current offering available with the marketer. The major focus in marketing is the producer and their product which they sale using multiple tools. The focus is to attain profit through higher level of sales for the organization.

Marketing considers customer as king. All the practices move around the customers for offerings provided by marketer. Unlimited needs with its fluctuating nature create a long term exercises executed by the marketers. Satisfaction of customers through value delivery becomes a long term process for marketer as the current needs may not be capable of future needs of the customer. Continuous study of consumer and modification in goods and services according to the changes occur in customers’ needs leads to time consuming and continuous process.

The difference between marketing and selling are listed below;

| **Marketing** | **Selling** |
|---|---|
| Marketing is concentrating toward the customers’ needs. | Selling concentrates in attaining short term gain through higher sales attainment. |
| Marketing comprises selling, promotion, delivery of goods and services, customer satisfaction and improving the current offerings through continuous improvements. | Selling focuses in convincing customers for the offering provided by the firm and attain sale for those offers. |
| The marketing practices starts with consumer research process followed by product development, promoting the product and attaining satisfaction of the | Selling begins with production of the products followed by availability of the product and ends with sale of goods and services through |

| | |
|---|---|
| customers. | convincing the customers. |
| It continues even after sales of goods and services. | It ends up at sales of goods and services are attained. |
| It is an integrated approach for getting new customers, fulfilling their needs and makes them loyal for the company's products. | Selling practices moves around the product and services render by the producer. |
| Marketing practices focuses on profit earning through customer satisfaction. | Selling focuses on profit earning through sales maximization. |
| Marketing consist strategy implication in its practices. Marketing practices are oriented towards the long term growth and stability perspectives. | Selling consist execution of routine practices with short term gains as aim. |

The current era of technology has given birth to the new dimension to the market popularly known as 'virtual market'. The practices using digital medium in the virtual has raised a new concept into picture as 'digital marketing'. The advanced form in current marketing practices can be understood as broad term in marketing using all the tools of marketing on internet as well as on electronic devices such as mobile phones, TVs and electronic billboards.

## 1.6 NATURE OF MARKETING

Marketing can be better understand through its nature, the nature of marketing is described as

**1. Marketing is Art as well as Science**

Identification of consumer needs and development of the product is based on the scientific approach into action. While making information sharing possible and buyer to get satisfied using the goods and services provided by the marketer, consists art of the marketer. Thus marketing practices involves scientific efforts using art in customer approach is science as well as art.

**2. Marketing as Economic Function**

Marketing involves investment decision of the organization considering the cost of manufacturing and delivery costs tries to attain the benefit for the organization along with the satisfaction attainment for the business. It consist transaction between buyer and seller for the value offered against the money.

**3. Marketing is creating utility**

Marketing now not only fulfils the needs of customer but also generate needs among the customer. The promotional tools well equipped to evolve new utility from the existing product as well as generates new product demand. It creates utility of the current offerings in different set of work.

**4. Marketing creates legal ownership transfer**

The transaction between buyer and seller for goods against the money value provides transfer of ownership of goods from seller to buyers. The transaction provides legal ownership of goods to the customer. In case of services the ownership of the services remains with the seller but the perishable nature provide the ownership transfer for the duration in which the buyer uses the services render by the seller or service provider.

**5. Marketing is social and dynamic process**

The practices carried by the marketers are coordinated with the social structure. The practices are synchronized with the social norms and try to contribute to the society. The changing dimensions create challenges in front of marketer to meet these changes using appropriate strategies. Thus marketing is social and dynamic process. For example different hair oil companies advertise their product as the contributor to the education of the youngster in the nation. Digital marketing perspective is an example of dynamic nature of marketing.

**6. Marketing is customer oriented**

The focus of marketer is to attain the customer satisfaction. Marketing starts with customer needs identification and ends up with attainment of customer satisfaction. All the practices are carried to attain loyal customer for the business.

**7. Marketing is human activity**

Marketing activities are carried by the human to accomplish human needs. Thus marketing is a human activity.

**8. Marketing is goal oriented**

Marketing involves action to accomplish profit maximization through customer satisfaction. All the functions under marketing are looking forward to attain the goal of customer satisfaction like consumer research to get customer needs insights, pricing to attain product under customer affordability, promotion to attain information meeting customer attention, distribution to make availability of offering to target customers etc.

**9. Marketing is a managerial function**

Consumer research, advertising, market decisions, product distribution and different actions of marketing involves management of human resource. Development decision to procuring and innovating new actions for meeting the fluctuating changes in the industry are some of the managerial functions performed under marketing.

## 1.7 OBJECTIVES OF MARKETING

Marketing exercises it functions to accomplish following objectives;

1. **Demand generation**

Information of goods and services, attractive offers evolve new desires among the consumers. Need for product influenced by the promotional campaign organized by the marketers. To attain new set of consumer and retaining the current customers are few major objectives of marketing practices.

2. **Proper information and attractive way of communication**

To attract customers and removing misleading rumours is an important task under marketing. Thus the advertising practices include clear and comprehensive understanding about the goods and services offered by the marketer.

3. **Developing brand loyalty**

Individual consumer when satisfied and influenced by one good and service provider, they opt to buy their needed services from the similar producer. Thus every company tries to attain and retain such customers. The loyalty of customer for a specific brand is termed as brand loyalty. Retaining of existing customer is easier as comparison to develop new customer base consisting similar level of loyalty for the brand.

4. **Increase market share**

Current market scenario provides competition among different players of similar goods and services in the market. Through different means every marketer tries to generate advantage for their products against the available products in similar category of products. The tools use to make such differences provide marketer competitive advantage over others. This serves as chance to enhance the market share of the company in the market of homogeneous category products. Thus marketing practices objective to get the competitive advantage over other competing firms and attain higher market share.

5. **Developing new market**

Marketing practices open doors for the firm in local as well as in international markets. Practices of marketers' open new dimension as well as new market opportunity to launch their existing and new goods and services. To enhance business and draw new opportunities marketing target for new market to increase the business volume and provide growth to the company.

6. **Developing new customer base**

The growing population of the world is an opportunity for the business as new customers are available for their products. Marketing at one end try to retain the existing customers, on the other end it look forward to attract and attain new customer to increase market share of the business.

**7. Creating good customer relations**

Selling under marketing begins new action to get the feedback of the customer for the offerings provided by the business. After sales feedback and efforts to retain the customer for the business, leads to development of good relationship between buyer and seller. Marketers try to maintain good relation with the buyer so as to make repeat purchase from the customer and develop brand loyalty.

**8. Enhancing profit**

Customer satisfaction is the focus on which different practices of marketing are inclined. Higher customer satisfaction enhances the sale of goods and services, hence contributes in profit maximization as well. The actions under marketing are guided towards profit maximization through customer satisfaction. Customers are treated as stakeholders and marketing practices trend to attain wealth maximization which includes enhancing benefits of the stakeholders along with attainment of satisfaction for the goods and services.

**9. Rendering new goods and services**

The changing and challenging competitive world create new opportunity for development as well. Company's uses these opportunity to develop new product and services for the consumers. It launches new product in existing market or existing product in new market to increase the customer base for the goods and services render by the business. Developing new customer base is difficult but the existing brand loyalty and brand image assist in launching new product as well as enhancing its acceptance among the customers.

## 1.8 FUNCTIONS PERFORMED IN MARKETING

Marketing performs different activities starting from customer need identification and continues even after customer feed to develop better relation with customer and developing new opportunities. Different functions performed under marketing are discussed as;

**1. Marketing Research**

Product and services under marketing are developed according to their demand by the customer. Identification of customers' needs, grouping of customers according to their taste and preferences, segmenting the homogeneous group of customer ready to purchase the goods and services, combination of different dimensions in promotion of offerings, acceptable pricing for customers are different areas where market is researched to integrate efforts for better combination of offering to the consumer. Marketing research contributes in all the dimensions of decision making of the business.

**2. Product planning and development**

After the need assessment of customers marketing contributes in developing idea for the needs. The virtual idea converted to the real goods and services under the influence of marketing research results. The new product creation and successful launch of it comprises multiple stage scrutinise for any product under marketing. The modification, alteration and innovation practices are carried under marketing for the development of the new product or services.

**3. Packaging**

Delivery of goods and services are carried through safe and secure mode to the consumers. Packaging of goods and services ascertain the quality of the goods as goods as at the time of its production. Now packaging is also performing as a source of attention creation for the marketer. Good packaging is now a new concern of the customer handled by the marketer to fulfil the desires of the customers. Packaging involves different regulatory norms followed by the marketer while delivering their product to the consumers.

**4. Standardization and grading**

Quality of the goods and services is one of the dimension under which similar category offerings are compared by the customers. To ensure quality to the customers measures are created under marketing. Standardized outcomes are the measures of quality for all the produces offerings. According to criteria met by the goods and services they are labelled with different grades identifying the quality of their products. Standardization and grading provides maintenance of quality from the producer's side and customer receives better outcomes.

Example:

1. Product like **McDonald** uses standard procedure of their food production so as to provide similar experience to their different consumers.
2. **French perfumes** and **Swiss chocolates** are providing similar quality even they are sold in any nation.

**5. Branding**

Identity to different product or a single identity to all the products of a company is generated by the marketers. The product from a known source is termed as brand. To achieve brand loyalty or loyalty for the goods and services offered by the company marketing practices tries to evolve brand awareness and likeliness among the customers. To attain preference of one company product over the competitive product branding is done by the company to fetch more market share and customer base for the product offered.

Example:

1. **Amul** focuses on the point of view of mass to address any social issue and situations.
2. **Vogue** created advertising campaign addressing

**6. Product Pricing**

Purchasing capacity is one of the limitations of the customer hindering their purchase of any goods or services. For obtaining the profit maximization through customer satisfaction marketers create different pricing strategies for the different set of customer. Pricing may include the premium pricing for one group of customers and reasonable price for other set of the customer for attaining larger group of customer base as well as satisfaction under the purchasing capacity of the customers.

**7. Product Promotion**

To stand different and most favourite among the competitive offerings marketers uses different combination of offerings. Promotional tools give them unique preposition for creating better brand image among the customers. Different tools like advertising, sale promotion, publicity etc. are used to generate customer preference and acceptance for the goods and services.

**8. Supply chain management**

Making goods and services near to the customer is an important function performed under marketing. It involves different intermediaries like wholesaler, retailer who make delivery of goods and services to customer easier. The management of intermediaries is carried under the supply chain management function of marketing. Selection of right set of supply chain helps marketer to make goods and services easily available to the customer at right time and right place.

**9. Selling**

All the efforts to make customer satisfied under the marketing practices is to fulfil the selling function of marketing. Selling performs value delivery against the value received.

**10. Procuring and warehousing**

Availability of goods and services at right and right place involve stock creation for the goods and services. The stock of goods and services provide helps in delivery whenever the demand is generated. Marketing involves procuring of the goods and services for longer duration along with keeping the stock for any urgent requirement. Prediction of demand may not lead to right set of quantity for producer to produce thus keeping the stock is required under marketing practices. The stock keeping is done near to the customers so as to make the easily available products to the customers.

**11. Transportation**

Production of goods and services are concentrates to some geographical boundaries. Whereas widely spread markets need to be cater by the marketers. To make availability of goods and services to the intermediary's, transportation of goods and services are performed under the marketing practices. The transportation facilities are further provides different offering to the intermediaries for their loyalty to the business.

## 1.9 IMPORTANCE OF MARKETING

Let us now discuss the importance of marketing. The following are identified as importance of marketing for an organisation;

- **Coordinating with the change**

The technological era has changed the approaches of business firms. The speed of change accelerated in the technological environment. The pace at which changes are occurring can be met through the understanding of changes occurring at ground level. Marketing assist in meeting the change pace and coordinates the action plan of the firm accordingly. The ground research work is very important in context to modify or alter offerings from business to the consumers. For the sustainable development and getting competitive advantages over the industry players marketing helps the business. Challenges of change are cope up by the marketing practices and provide opportunity to business for its growth and development.

- **Product availability**

Marketing channels and transportation function facilitates business to make product availability feasible for the business. Production planning, inventory management of goods and services, warehousing and demand predictions helps in making product availability at right time and right place. It is important to make available the required goods and services for attaining the customer satisfaction objective of marketing.

- **Economy development**

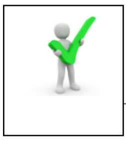
Nation economy is based on the circulation of money against the optimal utilization of resources. The business houses tries to attain maximization of profit while minimizing the cost of development. The gross domestic product, gross national product etc. are the indicators of an economy development. Marketing practices enhances the demand of the goods and services, leading towards increase in GDP and GNP for any nation. Thus marketing practices are responsible for the development of any economy.

- **Profit maximization**

Brand loyalty, curiosity for new product, multiple utility of the existing and new product provides enhancement in the sales of goods and services. Increase in sale enhances the revenue of the business. Economic planning of production reduces the cost of production leading to maximizing the profit of the business.

- **Competitive advantage**

Uniqueness in competency of business provides preference to their goods and services over the competitive products. Due to competency of business demand for their products is higher as comparison to similar category products and services. The uniqueness of business gives advantage to business against competitive firms. Marketing practices helps in getting competitive advantage to business firms.



***Check Your Progress-A***

**Q1. State True or False.**

i. In services ownership of the goods dose not transfer to the buyer.
ii. Marketing is a long term growth and stability oriented process.
iii. Consumers are considered king under selling concept.
iv. Marketing involves product as focal point for its actions.
v. Selling ends when transaction of goods and services takes place against the value for them.

**Q2. Multiple choice questions**

i. Marketing activities are leading to attain

a) Profit maximization

b) Maximization of sales

c) Consumer satisfaction

d) Profit maximization through consumer satisfaction

ii. Traditional concept of marketing is relevant to

a) Marketing concept

b) Consumer needs

c) Selling concept

d) None of the above

iii. Which among the following is not a function under marketing?

a) Share market analysis

b) Packaging

c) Branding

d) Pricing

iv. Marketing is a;

a) Long term process

b) Short term process

c) Sales oriented process

d) Profit oriented proces

v. Marketing helps in;

a) Attaining customer satisfaction

b) Retaining customers

c) Intermediaries decision making

d) All of the above

**Q3. Fill in the Blanks**

i. Profit maximization through ………………is the focus of marketing activities.
ii. When transaction between buyer and seller takes place over internet using………………. practices it is said to occur in …………………
iii. Selling concentrates on profit through …………………
iv. Marketing creates new ………………..of existing offerings.
v. New practices in marketing (digital marketing) are the example of ………………….nature of marketing.

# 1.10 SCOPE OF MARKETING

The scope of marketing is highly significant and responsible for the growth of the business. The scope of marketing is discussed below;

**1. Study of consumer needs**

Marketing research function under marketing first objective is to identify the needs of consumer. To develop product according to the consumers' desires is possible only when the needs of consumer is fully understood by the producers. For getting the nerve of the consumer study of consumer needs is major dimension studied under marketing.

**2. Consumer behaviour**

Humans are structure of different psychological, social, environmental interactions. As changes occur in these factors the psychological, physical outcome of human also get changed. The behavioural changes need to be understood so as to present the offerings in context to the individual consumers. The personality, perception, attitude, family structure and different other factors are the scope of study for producer to get better understanding of consumer. Consumer behaviour is a major branch of study under the marketing practices studies.

**3. Production planning and development**

Demand analysis for future is carried out to meet the requirement under marketing practices. Product design, volume of product, quality of product and different methodology to convert idea into tangible goods or intangible services are need to be understood by the marketer to cater required goods and services to the consumers. The better execution of marketing practices required understanding of production planning along with creativity of new product development is required.

**4. Promotion**

Communication of information regarding the offerings of business is essential to obtain new customers. How the communication need to be done?, When it is to be done?, To whom it is to be done?, What should be the medium (sources) of communication etc. are the questions available while informing customers about the offering. Tools of promotion open the scope for answering the above question appropriately and equip the marketer with best promotional tools in a best manner.

**5. Consumer Satisfaction**

Centre point of action under the marketing is to obtain consumer satisfaction. This provides opportunity to understand different perspective of satisfaction related to customers. Different set of offerings and level of satisfaction drawn can be a scope of study under marketing to meet the consumer satisfaction objective.

**6. Pricing decision**

Heterogeneous income level of buyers creates challenge in front of marketer for deciding about the price for the goods and services. To obtain maximum price from a capable customer and reasonable charges from less capable person so as to obtain maximum benefits are the challenge for the marketers. Price difference for two set of income capacity should not contradict with company image. Thus appropriate price decision according to the purchasing capacity of the consumer groups can be done with the understanding of pricing strategies.

**7. Environmental Analysis**

Humans are social living beings. The impact of environment factor on behaviour of human is obvious. The environment in case of a business comprises industry wise influencing factors understanding. The analysis of business environment along with its interaction with consumers needs to be understood by the marketer. Business environment factors are like political, social, economic, legal, technological etc. and consumer environment like social, cultural etc. need to be study for understanding the impact of their interaction in consumer behaviour.

**8. Social responsibility**

Business as discussed does not operates in isolation. It has impact of environment in its practices. Thus business has its responsibility to its environment as well. Marketing practices need to be synchronized with the social requirement. Thus there is need to understand the duties of business for its environment. Under the new practices to meet social responsibility the new term being popularly used as green marketing in marketing field.

## 1.11 SUMMARY

Marketing is integration of actions to obtain the objective of customer satisfaction and developing business for its growth. It serves the sustainable development while handling multiple obstacles using appropriate plan of action. Different objectives completion and functions in orientation to attain them prove its pervasive nature to the business.

Objectives of marketing serve the benefit attainment for the business using multiple tools. Functions of marketing safeguard the concerns of the consumers. Thus marketing create balance between the benefits of the business with the consumer satisfaction through different offerings.

The pervasive nature of the marketing opens different dimension for understanding for the marketer to serve basic purpose of marketing. It opens horizons of scope into multiple dimensions and creates importance of the study for every business.

## 1.12 GLOSSARY

**Customer Satisfaction:** When the goods and services provided by the marketer meets the customer expectation then it is called to have customer satisfaction.

**Market Place:** A physical place where buyer and seller meet to carry buying and selling of goods and services, is called market place.

**Virtual Market:** “A nonphysical and borderless spatial dimension that exists in the digital domain, in which exchange relations and transactions take place at different levels through digital interactions supported by communication technologies.”

**Digital Marketing:** “Digital marketing is a broad term that includes all marketing channels and methods you can use to promote products or services on the Internet but also on electronic devices such as TVs, mobile phones and electronic billboards.”

**Consumer loyalty:** Consumer willingness to buy from the same brand again and again, which is received after positive customer satisfaction for brand.

**Brand:** "The name, term, sign symbol (or a combination of these) that identifies the maker or seller of the product"

**Brand Image:** “It is set of beliefs, ideas, and impression an individual has regarding any object.”

**Competency domain:** Competency domain is a set of knowledge, skills and abilities possessed by an individual (human /institution).

**Green Marketing:** "Green marketing refers to the process of promoting products or services based on their environmental benefits."

## 1.13 ANSWERS TO CHECK YOUR PROGRESS

**Check Your Progress-A**

**Q1.**

i) True
ii) True
iii) False
iv) False
v) True.

**Q2.**

i. d) Profit maximization through consumer satisfaction
ii. c) Selling concept
iii. a) Share market analysis
iv. a) Long term process
v. d) All of the above.

**Q3.**

i. Customer Satisfaction
ii. Digital marketing, Virtual market
iii. Sales maximization/Sales
iv. Utilities
v. Dynamic.

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## 1.15 SUGGESTED READINGS

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## 1.16 TERMINAL QUESTIONS

1. Explain the evolution process of marketing in detail?
2. Distinguish between Product concept and Production
3. Describe the association and difference between traditional and modern concept of marketing.
4. Marketing focuses on consumer satisfaction, Comment.
5. Explain the objectives of marketing with suitable example.
6. What are the scopes of marketing?
7. Marketing is a human activity oriented towards customer, Explain.
8. What do you understand from marketing? Explain its nature to describe how marketing functions are customer centric?
9. “Customers are the King.” Elaborate the statement with reference to the concept of marketing.
10. How marketing differs from selling? Explain the difference using suitable examples.
11. What are the functions of marketing? Evaluate marketing objective against its functions.
12. “A business without marketing does not attain its objective”. Discuss the importance of marketing with reference to the statement.

# UNIT 2 EVOLUTION OF MARKETING

**2.1 Introduction**

**2.2 Objectives**

**2.3. Evolution of Marketing**

**2.4 Philosophies / Orientations of Marketing**

**2.5 Marketing v/s Selling**

**2.6 Marketing Framework**

**2.7 Types of Markets**

**2.8 Marketing Landscape in India**

**2.9 Summary**

**2.10 Glossary**

**2.11 Answer to Check Your Progress**

**2.12 Reference/ Bibliography**

**2.13 Suggested Readings**

**2.14 Terminal & Model Questions**

**2.15 Case**

## 2.1 INTRODUCTION

In the previous unit you learnt that you have studied about the concept, scope and significance of marketing. Based on it one can realize that how marketing is playing the key role in a firm to face the dynamic environmental challenges and surviving in such a tough scenario. The concept of marketing is not only confined to the firms and business houses but it is pervasive. We are exposed to market of product, service and ideas almost every day. This makes the study of marketing even more interesting.

The present state of marketing was not prevalent initially rather the concept have evolved gradually through different stages and the form of marketing that we witness today is an offshoot of this evolution. In this unit we will be examining the journey of marketing from the time of Industrial revolution in 1930's till date. The unit will also help you in differentiating the older concepts and the new ones in marketing.

In this unit, you will study about how marketing has evolved itself and how the orientations have shifted over the years, till it became holistic concept. This unit will also acquaint the reader with the different types of marketing and the framework under which marketing process takes place. The unit will end with emerging trends in field of marketing in the current environmental conditions.

## 2.2 OBJECTIVES

After reading this unit you will be able to:

- Understand how marketing originated and how it evolved to its existing state.
- Analyze and explain different concepts or philosophies of marketing management
- Differentiate between Selling and Marketing concepts;
- Explain the framework of Marketing and apply the concepts in real scenario.

## 2.3 EVOLUTION OF MARKETING

The concept of Marketing emerged due to the practice of exchange. When the need of exchange of one good against the other was arisen, the concept of marketing came into existence. Wroe Alderson, a leading marketing thinker considered the emergence of exchange mechanism as a great invention and contribution to mankind on its journey to civilization. As production couldn't have survived all by itself, the produce was to be sold to someone only then its value is created.

a) **The Barter System-** This system was practiced in **t**he pre-industrial era. In this system of exchange one type of good was exchanged against another type of goods. People used to produce crops like wheat, rice, wool cotton etc. The surplus produced was exchanged against the surplus produced by other person who was engaged in the production of some other good, in this way, they use to meet their requirement by exchanging the product of value with each other. There was no elaborate distribution system because the needs and wants were limited. But as the civilizations prospered and the demand for goods increased, the system became a fiasco.

b) **Stage of Local Market-** After the introduction of barter system, it became difficult to locate the consumer for exchange as in a particular area almost similar type of goods was produced. Thus a common place was developed where all types of exchange use to take place this place came to be known as Market.

c) **The Stage of Monetary Economy** The Barter system had many difficulties in measuring and transfer of goods and services. So currency was introduced in the market thus the next stage in the evolution of marketing was the ‘money economy’. The fundamental change that took place in this period was the replacement of barter system by monetary currency. Money becomes the mechanism of exchange of goods and services.

d) **The Stage of Industrial Revolution** - with the dawn of industrial revolution the concept of Mass Production became popular. Mass production increased the availability of product options in the market at a lower cost. This paved the way for new business system. It introduced new products, new manufacturing system, new transportation mode and methods of communication also. The industrial revolution also gave birth to income revolution, giving a great deal of disposable income to large mass of people.

e) **The Stage of Competition-** The industrial revolution paved the way for mass production and mass distribution of produced goods. Due to large and wide availability of products, the consumer demand gradually got saturated. No longer could the business sell everything they produced. This infused stiff competition among the producers. Earlier, during industrial revolution the main task of the industrial firms was to produce and distribute the products but now the main issue was to face the competition and sustain in the business. They started differentiating their products so that their products are preferred over the competitor's product.

## 2.4 PHILOSOPHIES/ORIENTATIONS OF MARKETING

The concept of marketing has evolved through different stages from production orientation to holistic orientation. The modern marketing focuses on consumer's need and satisfaction whereas the societal concept emphasizes on the social security of the consumers as well as that of the society. These philosophies/ orientations of marketing are discussed in the following points.

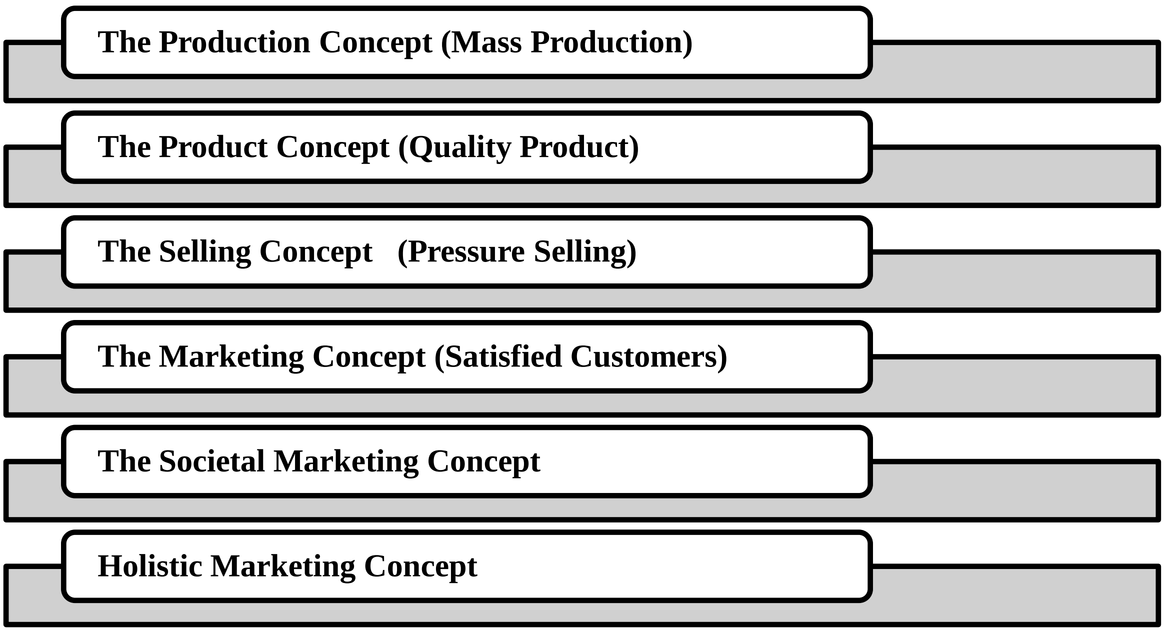



**Fig 2.1. Philosophies/ orientations of Marketing**

## 2.4.1 THE PRODUCTION CONCEPT (MASS PRODUCTION)

**'***The Production Concept believed that consumers would prefer products that are abundantly available and are inexpensive'*

Managers of production oriented business focused on achieving high product efficiency, low cost, economies of scales and mass distribution. This concept prevailed with the colonization of America and continued till the late 19$^{th}$ century. During those days the demand of products was more than the supply of products. In such a scenario the consumers were more interested in possessing the product rather than its quality and features. The producers used to enjoy the huge economies of scale so the entry of new player in the market was difficult, as such a monopoly situation for the existing player prevailed. **Henry Ford** the founder of Form Motor Company once famously remarked, '*Customer can have any color they want so long as it's black*'. Under this concept, production was the genesis point, as it leads to acceptability of the product.

**The Assumptions of this concept were:**

(i) If the production happen at large scale it can be sold,

(ii) The management must focus on keeping per unit cost of production low.

(iii) A firm should put efforts only in producing certain basic quality products, as consumers were not looking for variety.

(iv) Consumers were impressed only by the availability and affordability of the products.

**Limitations of the concept:**

The marketers, after a certain period of time, could not get the best of consumer patronage. The reason was that the consumer behavior is variety seeking and this concept focused on producing standardized goods, which could not allure the consumer for a long time. The consumer satisfaction and product quality was completely ignored. These shortcomings of production concept gave the way to product concept.

## 2.4.2 THE PRODUCT CONCEPT (QUALITY PRODUCT)

**'***This concept proposes that consumers will be inclined in buying only those products which are superior in quality, performance and are with innovative features'*

As the production concept emphasized on large availability and affordability of products, this concept on the other hand emphasizes on product excellence. The firms that believe in this concept focus on research and development for making available best quality products and improvising on them with period of time. The managers in this concept believe that consumer prefers the best quality products and they are willing to pay extra premium amount for such superior quality products. The organizations that are guided by product concept believes that the consumers automatically get attracted with well made product, and they need not be allured to make them buy the product.

The managers of these organizations spend considerable energy, time and money to introduce quality and variations in products. However some manager develop so much affinity with the product that they don't realize that the product is not required in the market. The great Management thinker- Prof. Theodore Levitt describes this particular situation as '*Marketing Myopia*'

**The assumptions of this concept were:**

i. Only those products which are of high quality can be sold in the market

ii. The quality of the product automatically attracts consumer so no promotion is required.

iii. This concept may result into the situation of *Marketing Myopia.*

**Limitations of the concept:**

This concept laid all the emphasis on improving the quality of the product but at times, in order to make a superior product the complexity of its usage increases, so if the product is not user friendly the consumers may not easily accept it. Moreover the spending on promotion of the product was also not taken care of but if the consumer is unaware of the availability of the product, how can he land up buying it. This shortcoming gave birth to another concept i.e. selling concept.

## 2.4.3 THE SELLING CONCEPT (PRESSURE SELLING)

*This concept holds that consumer and business,* won't buy much of the products if they are left on their own rather companies should adopt aggressive selling techniques and intense promotion efforts. This concept mushroomed during the times of Great Depression and World War-II. Such situations conditioned the customers to consume less and manufacture items themselves, so they planted victory gardens instead of buying produce. But due to high capacity of production plants, the production was more in order to optimally utilise the scale of operations. Such large scale production left the marketer with no choice but to push his produce to consumers, they started practising all the tricks that could attract the consumer to buy the product and create demand, this was done by using promotional tools and advertising. Thus this concept assumed that consumers typically is initially reluctant in buying and must be cajoled into buying the product.

This concept maintains the view that an organization cannot expect its product to get picked up automatically by the consumers. The organizations have to put in deliberate efforts to push its products. Under this approach the firms make the product first and the spells out how to sell it and make profit.

**The assumptions of this concept were:**

1. The primary assumption of this school of thought was that consumer initially avoids buying goods and services and spending money on goods that they do not consider of

much use or great value, at this point the role of selling and advertising comes into picture when such efforts persuade them to buy.

2. In order to sustain, each firm should put great promotional efforts for making the product visible and familiar to prospects, so marketing the product and selling both are essential.

**Limitations of the concept:**

The problem with selling concept was that it does not take consumer satisfaction into account and sales without satisfaction of consumers may be counterproductive in the long run. This approach was not able to built brand loyalty and goodwill of an organization as the customers were approached only for one time selling.

## 2.4.4 THE MARKETING CONCEPT (SATISFIED CUSTOMERS)

*'The Marketing concept considers that the best way to attain its organizational goal is by developing a competitive edge over the competitor by offering a differentiated product in terms of its quality, features, supply chain or promotion this is how value can be created for the prospects.*

After World War II, the soldiers returned home, got new jobs and started families. The demand for products increased due to which the buyer's market flourished and consumer became the king. Companies that started practicing customer –centered, sense and respond philosophy achieved higher profits.

Harward's Theodore Levitt illustrates a perceptive contrast between selling and marketing concepts:

He emphasises that selling is seller oriented and focuses on need set perceived by the seller whereas marketing looks at the buyers perspective and try to project the offering by addressing to the need of the buyer. Apart from this selling is more concerned with converting the offering into cash after exchange while marketing lays stress on satisfying the needs of the consumer to the extent that the loyalty of the customer is generated and leads to repeat purchase. It covers the entire journey of creating, delivering and finally consuming it.

The marketing concept has four major distinguishing features: -

a) **Target Marketing:** It is very much essential for a marketer to have a set of well defined consumers and he should direct all his efforts in creating the value for them; such a section of the market is called target market. So the firms stared paying an overwhelming emphasis on the target market its tastes preferences and needs. It enables the firm to look at a business activity perspective of target customer, and they started creating products based on the needs of the customers.

b) **Integrated Marketing:** Integrated Marketing simply means that all the different management functions are tightly integrated with one another, keeping marketing as the pivot. For example, marketing department may have identified that there is a need to develop a product, which will satisfy the need of making milk more delicious to drink, especially for kids. This information is sent to the manufacturing department that tries to make some chocolate or strawberry flavoured powder that can be added to milk to enhance the taste and has high nutritional value too. This information is further provided to the purchase department and they buy the inventory accordingly. Other related departments also integrate and coordinate so as to deliver the best benefits and satisfaction to the consumers.

The integrated marketing takes place at two levels- Firstly, the various marketing functions like Marketing research department, promotion department, customer relation department, sales force, advertising, customer service, product management must work together. Secondly, other departments must embrace Marketing.

c) **Satisfying the Customer Needs:** Marketing concept is a means for fulfilling consumer's needs. It emphasizes that just consumer orientation of firm is not enough; it is essential that such an orientation lead to consumer satisfaction and no firm can afford to ignore it. There are basically five types of needs-

- Stated needs – the ones that a customer expresses explicitly eg: The customer wants a Mobile.
- Real Needs- the set of needs that are defined into ground reality terms eg: The customer wants a Mobile which has a camera with 12 mega pixel but in the range of Rs. 10,000/-
- Unstated Needs - those needs that the consumer do not states but expects that with this amount of price he must get this amount of value. Eg: In a mobile with 12 mega pixel camera and price of Rs. 10,000/- he is also getting an internal memory of 16 GB.
- Delight Needs – this set of need creates a delight in the customer because he is getting an additional benefit / feature which he have not even thought of. Eg: With a mobile phone having 12 mega pixel camera, price of Rs. 10,000/-, an internal memory of 16 GB he is getting a 3GB RAM free. This free bee will surely bring delight to him.
- Secret Needs – this need is latent in nature and is hidden somewhere deep within the customer's subconscious mind. Eg: The customer wants to be seen by friends as a savvy customer, using a classy product.

A **Responsive Marketer** finds a stated need and fulfils it, but he might lose the customer in near future when his competitors will also do the same thing.

An **Anticipative Marketer** will look ahead into what needs customer may have in near future and will add those features to his product. This act will give him an edge over the other competitors.

A **Creative Marketer** discovers and produces such solutions that the customers haven't asked for, but they will enthusiastically accept and respond to such an offering of the marketer. This approach will make him *Pioneer* or the *First Mover* in the product category.

d) **Realizing profitability goals:** The ultimate objective of a firm, for its long run sustenance is to gain profits because only then the firm's operating costs can be recovered. So the marketing concept treats consumer satisfaction as pathway of attainment of other goals of profit making for the organization. The firm tries hard to control costs and simultaneously ensure quality, optimize productivity and maintain a good organization climate and profitability. They should come up to the expectation of the consumer and satisfy customers by identifying them and producing the products accordingly through a coordinated set of activities. To identify the unsatisfied needs of the consumers, organizations had to conduct extensive market research. This research pointed out that the consumers were highly complex individuals, possessing a wide variety of innate and acquired needs. Hence the study of consumer needs has become the basis of another discipline also i.e. consumer behaviour.

Today Domino's is world's second largest chain of pizza which recorded a total revenue of $ 624.4 m in 2017. This remarkable achievement was possible only by the virtue of its improved supply chain, strong digital presence and promptly responding to the changing needs of its customers. It introduced the "build your own pizza" feature on its website which kicked off its sales like anything. Domino's added the element of personalization in creating a pizza, through website which allowed them to watch a simulated photographic version of their pizza as they choose a topping, sauce, base and size of pizza. The website also shows exactly what the completed pizza would cost in the process. It facilitated the customers to track the orders from when the pizza enters the oven to when it leaves the store. Domino's also introduced a new point – of –sale system that streamlined the logistics of online and phone orders. The system improved accuracy, increased repeat visits and boosted revenues.

*Source: Marketing Management : A South Asian Perspective 14th Edition, Philip Kotler, Kevin Lane Keller, Abraham Koshy and Mithileswar Jha*

## 2.4.5 THE SOCIETAL MARKETING CONCEPT

*'This concept proposes that the organization's prime responsibility is to improve the standard of living of consumers by delivering them products of better quality at a valued price which will lead to satisfied consumers this becomes instrumental in leveraging the standard of society as a whole.'*

This philosophy cares for not only consumer satisfaction but for consumer welfare or social welfare. In other words, the firm is to discharge its social responsibilities. Thus, social welfare becomes the added dimension. The marketer has to adopt social and ethical consideration into their marketing practices. They must be able to make a balance between different criterions of organization's profits, consumer's satisfaction and public interest as a whole.

Such social welfare is concerned about the environment free from pollution, human life quality.

Thus, a firm manufacturing a pack of cigarettes should consider and focus upon producing cigarettes that are pollution-free; an automobile manufacturer should not only focus on producing vehicles that are not only fuel efficient but less pollutant one. Example

The Jaipur Foot which was developed by Bhagwan Mahaveer Viklang Sahayta Samiti (BMVSS), established in 1975. Jaipur foot is the world famous artificial limb. This prosthetic leg was created in such a manner that the cost was very low, quick to fit and water-resistant. The design was such that it could be easily manufactured and was affordable to common man. This artificial limb is capable of providing such types of movements as out normal foot can do. A dancer in the movie 'Nacche Mayuri' depicted the use of this foot. Besides being an exceptionally useful and unique, one of its kind product the procedure of manufacturing it is not patented and is available freely in public domain for the social benefit. The value system of human welfare attracted many donors and social workers; as a result the product became very popular and was able to reach the poorer section of the society through medical camps. BMVSS is the largest limb fitting organization in the world because it was able to address the felt need through an innovative product with immense social relevance.

*Source: Marketing Management: A South Asian Perspective 14th Edition, Philip Kotler, Kevin Lane Keller, Abraham Koshy and Mithileswar Jha*

**The assumptions of Societal Marketing concept are:**

(i) The firm is to be guided by long-term profit goals rather than quick sales.

(ii) The firm should discharge its social responsibilities,

(iii) The management needs to integrate the firm's operations and activities in such a way that it meets the organizational goals, needs of individual consumer and social well-being

**Limitations of the Concept:**

This concept is driven by the win -win situation for all the stakeholders involved in the business including the marketer, customer, competitor and the society, so the concept do not have any major limitations. But for a small business house or a new start up the compliance with this concept is difficult because hardly they are able to attain their break –even and in such a condition thinking about Corporate Social Responsibility (CSR) activities and abiding by the environment friendly norms of production may rise up the cost of production as they do not enjoy the economies of scale. This in turn raises the price of the product; the risen price is not very competitive in the market against the well-established players so the company may be forced to be rolled back.

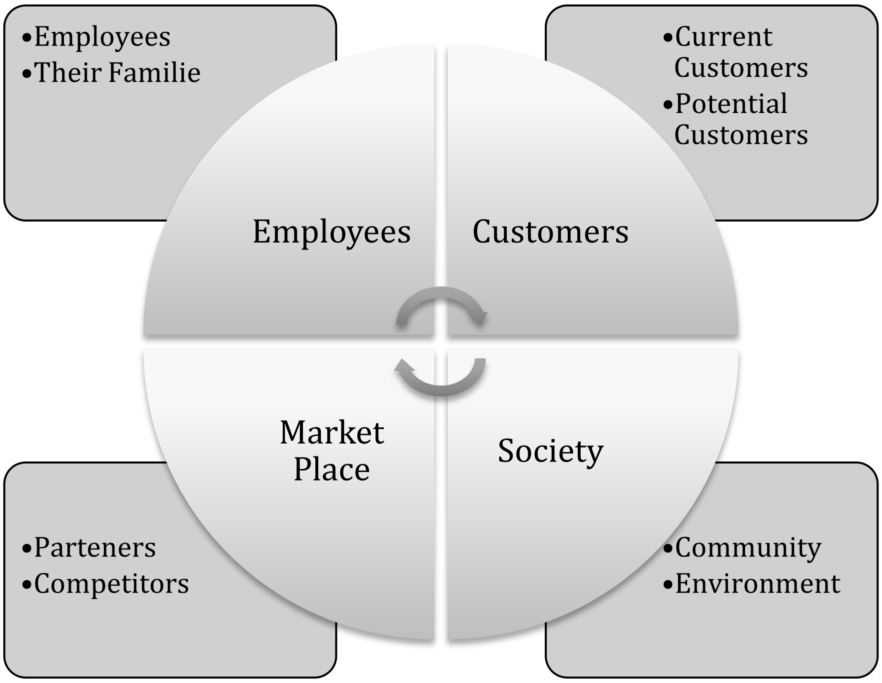



**Fig 2.2- The Key Stakeholders**

## 2.4.6 HOLISTIC MARKETING CONCEPT

The trends and forces defining the 21st century are leading business firms to a new set of beliefs and practices. Today's best marketers recognize the need to have a more complete, cohesive approach that goes beyond traditional applications of the marketing concept. This concept is based on the development, design, and implementation of marketing programs, processes and activities that recognizes their breadth and interdependencies. Holistic marketing recognizes that "everything matters" in marketing- and that a broad, integrated perspective is often necessary. Holistic marketing is thus an approach that attempts to recognize and reconcile the scope and complexities of marketing activities.

The concept of Holistic Marketing is based on four major components:

(i) *Relationship Marketing* –It aims to build mutually satisfying long term relationship with key constituents in order to earn and retain their business. The four key constituents for relationship marketing are customers, employees, channel partners and members of financial communities like shareholders, investors etc. the ultimate outcome of relationship marketing is developing the valuable asset called ‘marketing network’ consisting of the company and its supporting stakeholders. These networks help in building a strong brand image and higher customer loyalty.

(ii) *Internal Marketing* – Marketing is no longer confined to a single department of the organization rather it is a company-wide undertaking that drives the company’s mission, vision and strategic planning. So the ultimate goal of marketing should be embraced in the behavior of each and every employee at all levels. Thus internal marketing that includes hiring, training and motivating the employees becomes more important so that people who can gel well with the organizational culture can be recruited. Internal marketing requires vertical alignment with senior levels and horizontal alignment with other departments.

(iii) *Integrated Marketing* – the marketing efforts gives better results only if they are integrated well. As integration brings synergy in the entire system. Integration should be at three levels – the product and service level, across the marketing channel and marketing communication. If all these system work in harmony they may leverage the effect and build stronger brand image.

(iv) *Performance Marketing* – it requires understanding the financial and non-financial returns to a business and society from marketing activities and programs. The performance of marketing efforts are not only measured by the sales revenue (financial returns) rather it is measured on entire marketing scorecard that compromises of brand equity, social responsibility, environmental concerns, legal aspects, ethical code of conduct, community service etc. thus the business can be considered successful when it ranks high on all or majority of the above matrices.

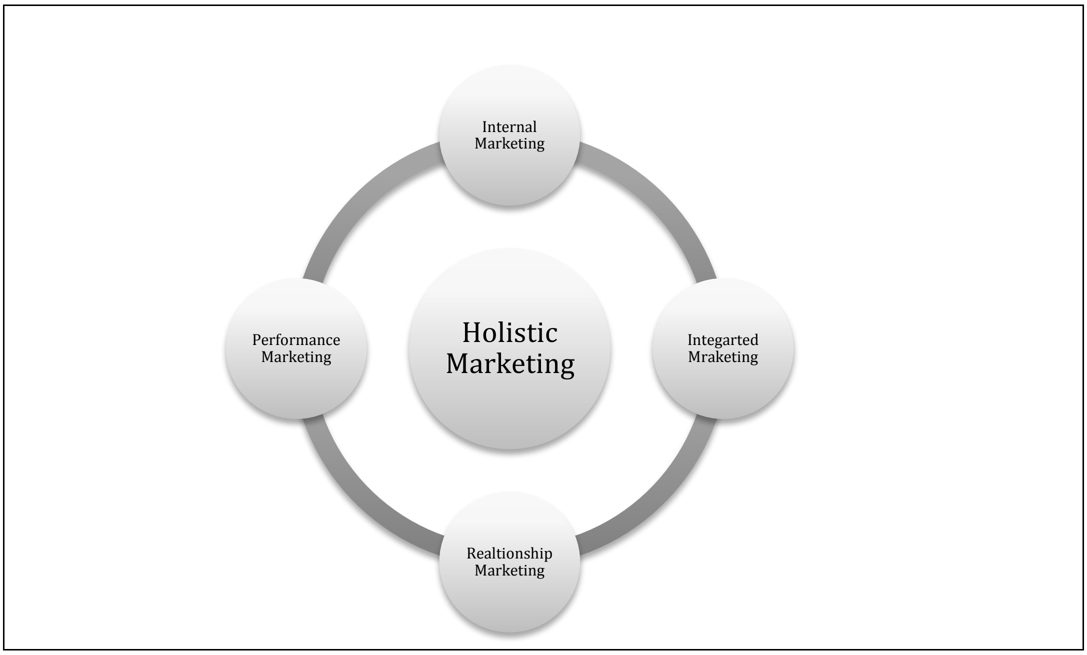
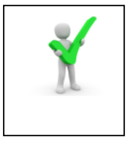



**Fig 2.3- Dimensions of Holistic Marketing**

| **Concepts of Marketing** | **Emphasis and Approach** |
|---|---|
| Production | ❖ Customers seeks for availability and affordability<br>❖ Marketer needs improve production and distribution<br>❖ Achieve economies of scale which lowers the per unit cost of production |
| Product | ❖ Consumers favor products that offer the most quality, performance and innovative features<br>❖ The excellence of the product pulls the customers automatically |
| Sales | ❖ Consumers will buy products only if the company aggressively promotes these products<br>❖ 'Creative advertising and selling will over- come consumers' resistance and convince them to buy' |
| Marketing | ❖ Focuses on needs/ wants of target markets and delivering satisfaction better than competitors |

| | |
|---|---|
| | ❖ 'The consumer is king! Find a need and fill it' |
| Societal Marketing | ❖ Companies need to take voluntary action to address the ethical, social and environmental impact of its operation on society<br>❖ Companies need to strike a balance between its profits, satisfying consumer needs and well being of the society |
| Holistic Marketing | ❖ It acknowledges that everything matters in Marketing and a broad integrated perspective is necessary.<br>❖ It rests on four pillars – Internal Marketing, Integrated Marketing, Relationship Marketing, and Performance Marketing. |

**Exhibit 2.4 – Classification of Marketing Orientations**



***Check Your Progress-A***

**Q1. Distinguish between the Product and Production Orientation of marketing?**

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**Q2. Explain the concept of Societal Marketing?**

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**Q3. Explain the concept of Holistic Marketing and its components?**

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**Q4. Choose the correct alternative.**

(i) Initially most of the Indian companies aimed at mass production, economies of scale, reducing per unit cost. This outlook reflects:

a) Selling Orientation

b) Marketing Orientation

c) Product Orientation

d) Production Orientation

(ii) Which of the following statement best explains the Societal Marketing Concept:

a) Consumers will buy products only if the company aggressively promotes them.

b) Marketer needs improve production and distribution

c) Companies need to strike a balance between its profits, satisfying consumer needs and well being of the society.

d) None of the above

(iii) Which of the following is NOT one of the philosophies of Marketing:

a) Selling Orientation

b) Marketing Orientation

c) Product Orientation

d) Promotion Orientation

## 2.5 MARKETING V/S SELLING

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

| **Selling** | **Marketing** |
|---|---|
| Selling is a classical approach | Marketing is contemporary approach |
| It focuses on push concept | It focuses on pull concept |
| It is preoccupied with sellers need of selling the produced product | It is preoccupied with the idea of satisfying customer’s need by providing him a product. |
| It focuses on short-term objective of making one time sale. | It focuses on long-term goals of the organization like brand building. |
| It is limited to transactional approach | It is a relationship oriented approach |
| Management is sales volume oriented | Management is profit oriented |

**Table2.5: Difference between Selling and Marketing**

The concept of marketing comes into action even before the product is produced; it begins with identifying needs or problems of the customers. The marketer addresses these needs by providing a product or a service as a solution to the problem. Thus the entire concept of marketing revolves around the customer. If the customer is satisfied after the usage of product he we go for a repeat purchase and gradually he will build brand loyalty towards the product. On the other hand selling pays no heed to customer needs and satisfaction of needs. The product under selling concept comes into existence due to availability and interest of the producer and is then pushed to the consumers. This approach does not help the organization in the long run as the vision is missing. The various dimensions of selling and marketing can be expressed as follow:

| **Criterion** | **Selling Concept** | **Marketing Concept** |
|---|---|---|
| Starting Point | Factory | Target Market |
| Focus | Products | Customer Needs |
| Means | Selling and Promotion | Integrated Marketing |
| Ends | Profits Through Sales Volume | Profits Through Customer Satisfaction |

**Table 2.6: Selling Concept v/s Marketing concept**

# 2.6 MARKETING FRAMEWORK

The American Marketing Association defines marketing as:

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

Philip Kotler and Kevin Keller consider marketing as:

*'Marketing Management is the art and science of choosing target markets and getting, keeping and growing customers through creating, delivering and communicating superior customer value'*

Different management thinkers have different opinions about the concept of Marketing but one thing that

The marketing process consists of four steps:

(1) analyzing marketing opportunities,

(2) selecting target markets,

(3) developing the Marketing mix, and

(4) implementing and controlling.

Now let us study each of them briefly.

(1) Analyzing Marketing Opportunities – This is the first and foremost step of the Marketing Process. In this step the Micro and Macro environment of the industry is scanned thoroughly in order to identify the opportunities and threats present in the operating environment. Different relevant components of environment are analysed. The outer circle in Exhibit 2.7 states the environmental characteristics that provide the framework within which marketing strategies are planned.

(2) Selecting Target Markets – The target markets are the group of people toward whom the firm decides to direct its marketing efforts. The firms need to have a detailed description of its target market in order to serve better. The inner most circle in

Exhibit 2.7 has target markets around whom the entire marketing activities revolve and all the strategies are formulated keeping them in mind.

(3) Developing the Marketing Mix – Marketing Mix is the set of strategies which a marketer prepares in order to meet the demands of its target market in most effective manner. Often it is also referred as 4 P's of Marketing namely: Product, Price , Place and Promotion. The extended set of 7 P's is also relevant for service industry in which People, Process and Physical Evidence also plays a major role. Thus, marketing mix may be defined as the set of controllable marketing variables/activities that the firm blends to produce the response it wants in the target markets. The details about implementation of Marketing Mix will be studied in the later chapters. The exhibit 6 depicts the 4 P's in its second concentric circle.

(4) Implementing and Controlling- The proper implementation and control of all marketing related activities is also very essential because all the planning and analysis becomes of no use if they are not executed properly.

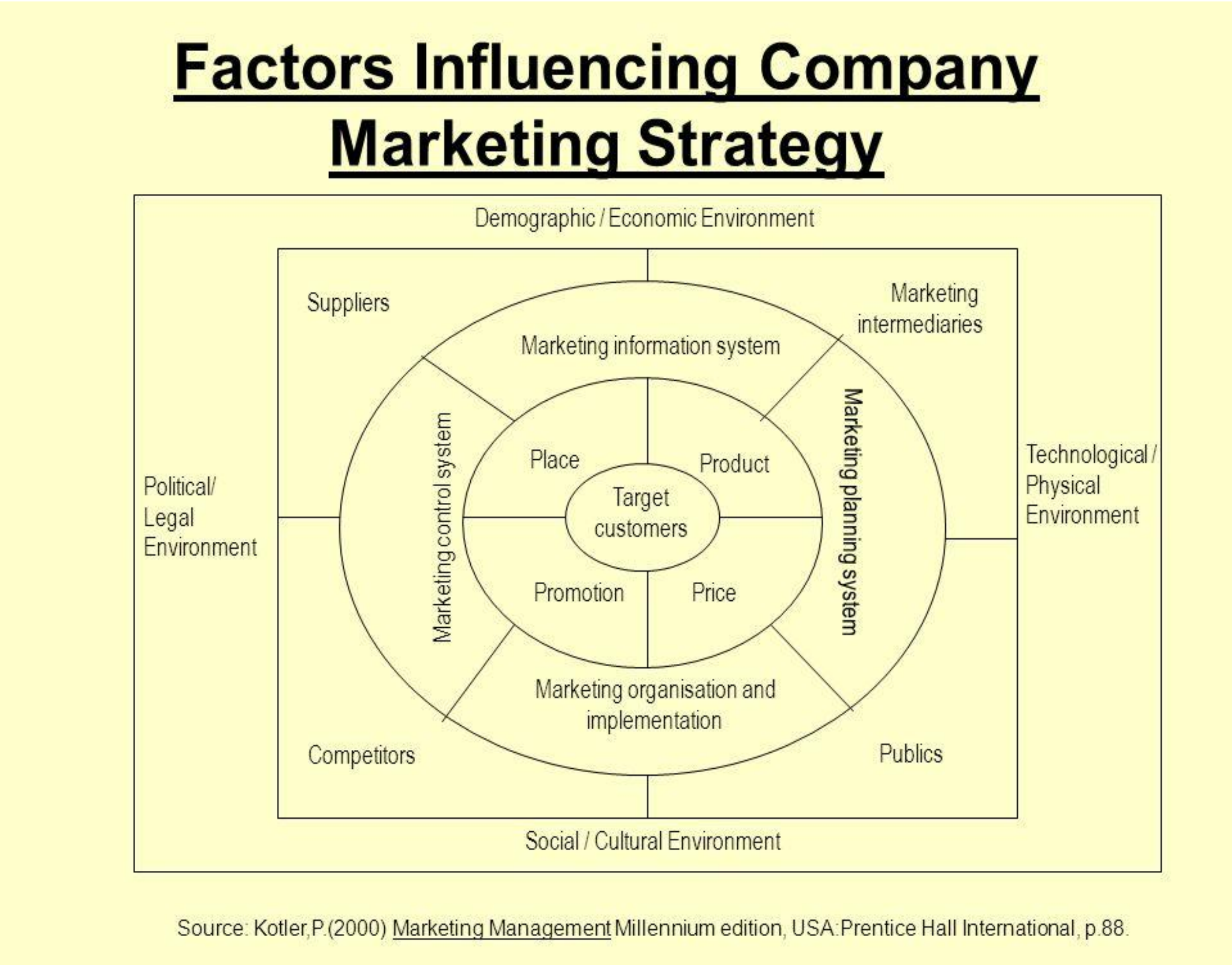


**Exhibit 2.7: Elements of a marketing strategy and its environmental framework**

## 2.7 TYPES OF MARKETS

Based on the type of market in which a company is operating, the strategies of the business are framed and implemented. The focus areas of consumer retail markets are entirely different form business market. So on the basis of type of customers a company is dealing with the markets have been segregated into four categories.

(1) Business to Consumer Markets (B2C)-

As the name suggests, the business to consumer market involves marketing of consumer goods such as cars, toothpaste, cooking oil, shampoo etc. The consumers are generally less sophisticated than intermediate buyers. They are not willing to spend more time on buying and are very price sensitive. But with the increasing flow of information and awareness, marketing of consumer goods is getting tougher. Today companies have to toil hard in order to make the final purchase by the consumer not only because the consumer is well informed but also due to a lot of choices that he is being offered to. The concepts like brand loyalty is at its lowest, there are shifting loyalties generally on the grounds of price wars, the company which is able to offer same quality product at a lower price wins the game.

*Reliance Jio is a perfect example in this case as to how it was able to grab the highest share of the market by offering free voice call and data during its initial days of launching.*

(2) **Business to Business Markets (B2B)-** Since B2B markets involves all the organizational buyers, trying to sell mass quantities of product to one another; there is a need of establishing more personal relationship between the business buyers. Business buyers are much more knowledgeable than the average customer. They have a whole lot of dedicated team of people in their purchase department who performs all kind of exercises in order to get the order freezed at the minimum possible rates with maximum set of benefits and facilities. In these kind of markets the major emphasis is on product / service quality, its attributes etc. and not on promotion.

*That is the reason why some services such as Accenture and* **INTEL** *hardly advertise their products, as they deal in b2b market. They just advertise their presence in the market. The rest is done by the quality of products they have. In b2b market, out of the 4 p's of the marketing mix, promotions is the most ignored.*

| Attributes | B2C Markets | B2B Markets |
|---|---|---|
| **Market Features** | Large number of consumers<br>Geographically scattered | Relatively fewer buyers<br>Geographically concentrated |
| **Product Strategy** | Product positioning is based on demographic and Psychological attributes of target market. | Products are Technical complex and positioning is done based on functions / features of the product. |
| **Pricing Strategy** | Value pricing is done based on customer needs and competitive situation. | Competitive bidding and negotiated prices based on company is fixed.<br>Pricing is also based on the order size. |
| **Distribution Channels** | Indirect channels<br>Multiple layers of intermediaries which include wholesaler and retailers. | Direct channels<br>Less number of intermediaries |
| **Promotion Strategy** | Emphasis on creating demand and having significant brand differentiation through various forms of advertising. | Emphasis on conveying product information and delivery terms through personal selling. |
| **Buying behavior** | Purchase decisions are mostly made on physiological/social/ psychological needs<br>Less technical expertise<br>Shorter buying cycle. | Purchase decisions are mainly made on rational/performance basis<br>Technical expertise of cross-functional teams is sought. System is automated, ERP based.<br>Long buying cycles, with tendency of repeat purchase |

**Table2.8: Difference between B2C and B2B markets**

(3) **International or Global Markets**

Most global marketing companies have to change their strategies and operations based on the country in which they want to trade. Generally global companies work on one fundamental. "Think local, act global". The company works with the concept of borderless world. Most problems encountered by the foreign marketer result from the strangeness of the environment within which they need to operate. Success hinges upon the ability to assess and adjust properly to the impact of unfamiliar environment. Companies may be global on the basis of both – business to business as well as business to consumers. The challenges faced by global companies are much more than those faced by local companies. Still Global expansion is an excellent option for any company provided it has deep pockets to sustain the initial expenditure required to establish itself in another country.

*KFC is the world's largest fast food chicken chain serving 109 countries across the world. KFC is world famous for its original recipe of fried chicken made with same secret blend of 11 herbs and spices. When KFC entered Japanese market in 1970, the Japanese considered fast food as artificial, made of mechanical means and unhealthy. To build trust in the brand, an advertisement was released which depicted Colonel Sanders's beginning in Kentucky to convey Southern Hospitality, old U.S tradition, and authentic home cooking. The campaign was hugely successful. KFC now offers sesame and soy sauce flavored chicken and a panko-fried salmon sandwich. This is how the global company keenly caters to the local demand and taste.*

**4) Government or Non-profit Market -**

The government market mainly involves Government offices, ordnance factories, army, navy and other government departments. The non profits on the other hand may involve groups based on different beliefs some of which really have an excellent brand name and are recognized by several companies. Both of these entities have a limited purchasing budget and hence the price of products is important. Accordingly the purchase process is organized. Most government and non-profit organizations involve the issuance of tenders and bids. The one to bid the lowest is known as L1 and the one to bid the highest is known as H1. Naturally, L1 wins the bid. There are several companies, which have modified their products specifically for the government markets to come L1 in these tenders and bids. The products may be a bit inferior, nonetheless they do meet the government's requirement and that is what matters in the end.

## 2.8 MARKETING LANDSCAPE IN INDIA

Indian Market is one of the most promising and biggest consumer markets in the world. Apart from this majority of our population is youth so the pace of accepting and adopting new products and technology is also high. These factors have attracted many MNC's and FDI's to invest in India. Pouring of the foreign multinationals has raised the level of product and consumption to a great extent. More over government policies and procedures are also quite facilitating for business growth in India. So, all these factors together have contributed in amplifying the market growth rates.

Due to these facilitating environmental factors the business growth have spurred up. But besides these triggers the technological advancement in ways of conducting business have also added fuel to the fire. The technological advancement have forced the marketing arena to evolve, it has no doubt presented business with more opportunities to impact fully reach their target audience. Customization has become the buzzword. In order to provide the customers with specially tailored products and services digital media is being used immensely. The digital marketing has many things to offer that can be used to keenly study the changing taste and preferences of the consumers.

The digital platforms of marketing are becoming very popular among the Indian consumers as they not only save time but also provide better discounts and variety at just a click away. It has affected almost all business sectors. We use several applications of E- Marketing I our mobile phones like – banking, shopping, educational utility, home utility etc. Digital marketing allows geophysical barriers to disappear making all consumers and businesses on earth potential customers and suppliers. It is known for its ability to allow business to communicate and form a transaction anywhere and anytime.

Important factors that have contributed to the growth of digital marketing are as follow:

- The changes in lifestyle and standard of living had increased the level of consumption, quality and also the pattern of consumption.
- Extensive use of smart phone and mobile applications
- Easy availability of high speed Internet.
- It provides convenience and saves time of the consumer.
- At times online offers are more attractive and provide sufficient discounts and reward points to the users.
- It is an emerging trend so people feel happy going online.

  Besides the consumer perspective, the digital marketing tools have been proved very useful to the marketer as well.

Due to the explosion of technological advancements the entire business arena has been affected, the cost and ease of operating in the market have reduced. Moreover easy access to the market related information have also facilitated in business processes. Not only this the technological advancement has also equally affected the consumers also, the present consumer is more informed about all possible offerings available to him from the marketer and he has a wide variety to choices from. All these situations have intensified the competition to a great extent, marketers are thriving hard to sustain and develop best quality products to allure customers.

## 2.9 SUMMARY

This unit tries to focus upon the journey and the process of how Marketing has gradually evolved into its present advance stage. The first half of the unit depicts and related the evolution of civilizations to various forms of exchange. The most primitive form of exchange was barter system in which only goods were exchanged for other goods, slowly the level of demand and consumption increased and need for common place to buy and sell emerged, this constituted local markets. After proper markets were developed the basis of exchange became ambiguous, which created a need for developing a standard currency for exchange purpose. Due to this need the money as a currency came into existence and monetary exchange started. After the exchange system during 18$^{th}$ century, the Industrial revolution stared due to which machines were used and mass production was done. The supply of goods increased by no leaps and bounds and due to more supply and less demand intense competition started. This competition forced all the marketers to shift their focus on not only producing the product but also in marketing it well.

The next part of the unit discusses about various orientations of marketing, starting form production orientation where emphasis was on large-scale production, followed by product orientation under which the focus of marketer was to produce best of the quality product. The next orientation, which came into picture, was sales orientation, where focus was only on selling the goods produced by alluring and persuading the customer. The short

## 2.10 GLOSSARY

**Barter System:** system of exchange where goods or services are directly exchanged for other goods or services without using any currency exchange.

**Intermediaries:** Firm or person (such as a broker or consultant) who acts as a mediator on a link between parties to a business deal, investment decision, negotiation, etc.

**Industrial Revolution:** The period of time during the 18th and 19th centuries in which work began to be done more by machines in factories than by hand at home.

**Marketing:** Marketing is an ongoing process of discovering and translating consumer needs and desires in to products and services, creating demands for these products and services, serving the consumer and his demand through a network of marketing channels and expanding the market base in the face of competition.

**Marketing Mix:** The set of four controllable marketing tools viz, product, price, promotion and place (Physical Distribution) that the marketer blends to achieve the outcome of desired level of customer need satisfaction. Marketing mix is also known as **'Four Ps'.**

**Marketing Myopia:** A short-sighted and inward looking approach to marketing that focuses on the needs of the company instead of defining the company and its products in terms of the customers' needs and wants.

**Marketing Orientation:** It requires the firm to identify the consumer needs and the to satisfy the consumers in a better way, by searching for new opportunity where the consumer need lies, developing appropriate set of marketing mix and properly implementing it.

**The Exchange Process** occurs when the buyer with a demand and a seller with a product offering confront each other. The customer gets the ownership of the product in lieu of something to offer in the form of price, physical transformation through barter or a premise for any of the two.

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

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

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

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

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

**Target Market** Target market is the end consumer to which the company wants to sell its end products

## 2.11ANSWERS TO CHECK YOUR PROGRESS

**Check Your Progress –A**

Q4. (i) d

(ii) c

(iii) d

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## 2.14 TERMINAL QUESTIONS

1. Explain the evolution process of marketing in detail?
2. Distinguish between Product concept and Production concept?
3. Critically analyze the selling orientation of marketing by giving suitable examples?
4. What are four important pillars of Holistic Marketing? Explain each one in detail.
5. Differentiate between selling and marketing?
6. Briefly discuss the marketing framework and its relevance in current market scenario.
7. Explain various types of markets in detail.
8. Discriminate between B2B market and B2C market?
9. What is marketing mix and how is it significant to the marketer?
10. Explain Marketing Myopia with an appropriate example?
11. You are about to launch a health drink in market for infants and toddlers. Discuss the marketing tactics by which the firm can cover the maximum possible market.
12. Discuss how B2B market is different form B2 C market on the grounds of buying behavior?
13. Discuss the stages of evolution of modern marketing concept, in detail?
14. An automobile company continuously focuses on improving its product. It believes that the customers will automatically buy the product, as they are superior. Explain the philosophy being practiced in this case, are there any short comings in this philosophy?

## 2.15 CASE SWIGGY

The digital platforms of marketing have made many new formats of business to flourish these days with minimum amount of capital investment the business model have turned into unicorn. Swiggy – A food delivery venture is also an offshoot of this trend. Basically Swiggy is a restaurant aggregator service, which helps in food ordering and delivering. It provides a single window for ordering from a wide range of restaurants to those foodies who somehow are not able to or want to go to the restaurant. Swiggy helps in delivering food at their doorstep. For this purpose they have their own exclusive fleet of delivery personnel, who pick up orders from restaurants and deliver it to customers. It is a complete food ordering and delivery solution that connects neighborhood restaurants with urban foodies.

**Company Background:**

Swiggy which is currently an online food ordering and delivery platform was founded by a team of three energetic and passionate intellectuals namely **Nandan Reddy, Sriharsha Majety, and Rahul Jaimini** in August 2014 in Koramangala

Nandan Reddy and Sriharsha Majety initially started their first venture in the year 2013, it was named Bundl. Bundl which basically a logistics aggregator that connected small and medium companies to courier service providers. The concept was new and attractive also but after almost a year, the founder members realized that the logistics business would yield better in food delivery market, as this area is still naïve and need of the hour for many customers. Realizing this they changed their focus to new marketplace. Thus finally in August 2014, they launched out the online food ordering and delivery startup called 'Swiggy'

Swiggy started its Journey from Bengaluru with a compact but dynamic team of six delivery executives and 25 restaurants on its board. In the short span of 3 years, Swiggy was able to scale up with over 25000 restaurant partners across India in more than 13 cities like Delhi-NCR, Mumbai, Bengaluru, Hyderabad, Chennai, Kolkata, and Pune. In the present year 2018 it has added its presence in Ahemdabad, Jaipur and Chandigarh also and recently pitched into the lucrative markets of Nagpur, Kochi and Coimbture. *(As per Economic Times March 14, 2018)*


**Revenue Model:**

Swiggy has the following major revenue streams.

1. *Capital raised from investors:*

Swiggy is backed by one of best investors available in the market. Swiggy has raised a total of 75.5 million dollars in funding from various investors, including Bessemer Venture

Partners, Norwest Venture, Accel Partners, SAIF Partners, Harmony Venture Partners, RB Investments and Apoletto. Recently there is a speculation about DST Global might invest into it. Swiggy no doubt leads the online ordering space in India at about 6 million monthly orders. An investment in Swiggy will surely mark DST Global's entry into the Internet space of Indian ecosystem, after a gap of 3 years, when it invested in Ola lastly in the year 2015.

2. *Commission Earned from Channel Partners:*

The primary source of Swiggy's revenue is from commission it collects from restaurants for lead generation and for serving as a delivery partner. It is currently connected with 25000 restaurants across the country. The commission percentage varies from restaurant to restaurant as several factors like: - value of order, popularity of the restaurant, distance etc. determine the amount to be charge.

1. *Delivery Charges:*

   Swiggy also charges a nominal amount as delivery fee from customers on placing orders below a threshold value or in case the delivery location is beyond the stipulated range.

2. *Featured List:*

   Swiggy App is one of the highest rated apps in terms of usage. So getting featured on the curated list of swiggy app also brings business to hotels and restaurants. Swiggy charges restaurants fees for featuring them in this list.

3. *Swiggy Access:*

   Swiggy Access is a paid service, which facilitates food providers to service only through Swiggy Platform across different geographical locations. This feature is beneficial to those service providers who do not have a proper restaurant and dine –in setup and they still have the opportunity to scale up their business without investing much.

**Competitive Advantage:**

Indian food delivery market is valued at 15 billion dollars and set for an exponential growth. Food delivery has become a very competitive market in India. The competition in food delivery format of business is getting tougher day by day with new players pouring in. In order to keep up the pace in such a battlefield, every brand needs to develop and evolve its competitive edge over the other players. Swiggy is also evolving and adding new features day by day for example Swiggy has launched a new service that will allow customers to pre-order food, up to 48 hours in advance, offering zero delivery charges in return. This service is called *Swiggy Schedule*.This strategic move will not only benifit the customers but also allow

Swiggy to better predict its demand which will help it to improve efficiency in delivery and also tap customers who might not end up ordering food on the platform due to long delivery log in time on the app and website.

"We are constantly looking for new and powerful ways to serve our consumer's every food need. We have introduced Swiggy Scheduled for those who not only love a great meal but also want the assurance that it will reach their tables on time," said Anuj Rathi, VP, products, Swiggy.Customers will be able to place their orders a minimum of two hours and maximum of 48 hours in advance. They will also be able to cancel the order anytime from within the app before Swiggy passes on the order details to the restaurant from which the delivery will be made.

Besides it Swiggy has also introduced Swiggy Access, which is a platform for only take away kitchen based restaurants. This feature will aid in increasing the sales of such category of restaurants.

**Major Players:**

Swiggy is in direct competition with major on-demand food aggregators like Zomato. Whereas there is other small startups like Foodpanda and Faasos also in the competition. Now that Uber has finally released its food delivery app Uber EATS in Mumbai and few other cities and Google has launched its hyper local services and meal delivery app Areo in Bangalore and Mumbai. The competition is getting tougher for Swiggy. Swiggy is aiming to maintain its market share by keeping their maximum focus on 8 major cities which are Mumbai, Pune, Bangalore, Hyderabad, Chennai, Delhi, Gurgaon, and Kolkata.

**Swiggy Marketing Strategies:**

Swiggy's marketing strategy consists of both online and offline marketing campaigns. They aim at capacity creation and customer acquisition and for that they bank upon the digital media. They promote their campaigns via Facebook, Youtube, Twitter, Pinterest, and Instagram. Some of its campaigns include Secondtomom,#DiwaliGhayAayi, #SingwithSwiggy and Know your food series of pictures and food walks in a local area. The company has successfully built its brand awareness and connects with its audience through these channels. Their app is also very user friendly and attractive too.Their facebook page is quite active with regular updates, averaging to one post a day. Swiggy uses its Social media not only for campaigning but to engage with its customers right from solving the grievances to taking the feedback.

**Road Ahead:**

Swiggy have recently expanded its operations in cities like- Nagpur, Coimbatore, Kochi (in March 2018). These cities too have promising markets and is one of the fastest growing

Indian cities that have a thriving local culinary culture. . The bunch of energetic and visionary founders is planning to enter into grocery delivery business, as grocery market is highly lucrative in India.

Moreover as per ET Swiggy is also keen in starting a milk delivery startup. There lies tremendous potential in this area of milk delivery as all Indian households buy milk on regular basis and each spends on an average a sum of more than 1000/- a month.

**Questions:**

1. How does Swiggy bring utility or create value for its customers?
2. Explain the marketing framework of Swiggy?

Source: https://www.whizsky.com › Social Media Case Studies India

# UNIT3 INTRODUCTION TO MARKETING PROCESS

**3.1 Introduction**

**3.2 Objectives**

**3.3 The Marketing Process-Five Step Model**

**3.4 Understanding the customer needs, wants and demands;**

**3.5 Designing a customer driven marketing strategy**

**3.6 Designing an integrated marketing program that delivers value to customer**

**3.7 Building customer relationships and creating customer delight**

**3.8 Capturing value from customers to create profits and customer loyalty**

**3.9 Summary**

**3.10 Glossary**

**3.11 Answers to Check Your Progress**

**3.12 References**

**3.13 Suggested Readings**

**3.14 Terminal Questions**

**3.15 Caselets/Cases**

## 3.1 INTRODUCTION

In the previous unit you learnt about how marketing evolved from product marketing to relationship marketing. In this unit, you will study about the Marketing Process.

## 3.2 OBJECTIVES

After reading this unit, you will be able to:

- Understand the five-step model of the marketing process;
- Learn about the different elements of the marketing process model;
- Understand the relationship between the different elements of the marketing process; and

- Understand how these processes are integrated to create value for the customer.

## 3.3 THE MARKETING PROCESS-FIVE STEP MODEL

The simplest model of marketing process has five steps. The five steps are as follows:

1. Understanding the customer needs, wants and demands

2. Designing a customer driven marketing strategy

3. Designing an integrated marketing program that delivers value to customer

4. Building customer relationships and creating customer delight

5. Capturing value from customers to create profits and customer loyalty

The above steps can be sequentially explained as follows:


**Fig 3.1 Marketing Process**

Pls note: In steps 1-4, the company CREATES value for the customer by understanding his needs and wants and finally building relationships. In step 5, the company CAPTURES the value from the customers in the form of sales, profits and customer loyalty.

# 3.4 UNDERSTANDING THE CUSTOMER NEEDS, WANTS AND DEMANDS

Customer is the cornerstone of all marketing activity and it is thus important to understand his needs, wants and demands. No marketing can happen without understanding what the customer needs, wants and demands. It's important to understand the difference between needs, wants and demands.

## 3.4.1 NEED

We all are born with a set of needs. Need for food, clothing, shelter (physical needs), love, affection (social needs) status and security (esteem needs) and the like. A need can be defined as a state of deprivation. It is the 'lack' or 'denial' of something very basic to human existence. It is a myth that marketers create needs. Marketers don't create needs, because needs are something we all are born with.

## 3.4.2 WANT

Specific satisfiers of needs are called as wants. I am hungry-I need food. Food is a need. I may eat *Daal Baati and Choorma* to satisfy my hunger. I may also have other options-Hamburger and Coke or *Chholay Bhature* and the like. Since I am a Punjabi, I would like to go for *Chholay Bhature* for satisfying my hunger. I **need** food and at the same time I want *Chholay Bhature*. **Being hungry is a state of deprivation of food and so it is a need and *Chholay Bhature* is a specific satisfier of the need for food and so it is a want.**

Our wants are shaped by the culture and society in which we live. Since, I am a Punjabi I wanted Chholay Bhature for satisfying my need for food. If I were a Rajasthani, I would have preferred *daal baati and choorma* to satisfy my hunger. Marketers create choices/options for satisfying needs and hence they create wants.

## 3.4.3 DEMAND

We all have unlimited wants but limited resources. A want backed by the ability to pay for the product is called as demand. For example, to satisfy my need for transportation, I want a car. This car may be a simple Maruti Alto or a luxurious BMW. I want a BMW, but do not have enough money to purchase it. Hence, it remains a want and cannot convert into demand because of the lack of resources to pay. But, yes I have enough money to buy an Alto from Maruti. A want supported by a purchasing power is called demand. Thus, I may want a BMW, but I demand an Alto from Maruti, because I can pay for an Alto, but not for a BMW.

# 3.5 DESIGNING A CUSTOMER DRIVEN MARKETING STRATEGY

The marketing process model focuses heavily on the customer. The entire idea is to understand the customer, create value for the customer and build a strong relationship with the customer. The entire process revolves around customers. It shall not be wrong to say that marketing = customers.

Designing a customer driven marketing strategy involves seeking answers to the following three basic questions:

1. Who are our customers?

2. What do our customers 'value'?

3. How do we create 'value' for our customers?

## 3.5.1 WHO ARE OUR CUSTOMERS?

No company can ever serve all the customers in the market. It thus has to choose only those customers that it can serve well and profitably. This involves a decision on *who* it will serve. This needs dividing the market into customer segments based on segmentation variables (you shall study later). This is called as segmentation. Once the market is dividing into segments, the company decides which segment of customers to serve. This is called as Targeting. Once the company decides its target audience, it starts working on identifying what do the customers in that segment 'value'.

For example, the toy market is segmented on the basis of age and we have toys catering to infants, toddlers, teenagers, adolescents and adults. Now, a toy marketer chooses to operate in the segment of teenagers. Thus, the teenage segment comprises its target audience. The next step now lies in understanding what do the teenagers value and delivering that value to the chosen segment of teenagers.

## 3.5.2 WHAT DO OUR CUSTOMERS 'VALUE'?

This involves identifying the value proposition-that is, developing an understanding on what do the targeted customers value. This value proposition is a set of features and benefits that the company promises to deliver to its targeted customers. This value proposition is a clear differentiator and gives the customers a reason to buy the company's products over that of its competitors. Value proposition provides a point of difference between two brands and helps the customers buy a product that delivers the preferred value.

The example cited above clearly tells that the toy marketer targets the teenage segment to sell its toys .Now, it needs to be further understood as to what do teenagers value. Do they value creativity, adventure, fun, and learning? Having learnt this, the same can be included in product design and marketing strategies to provide value to the targeted customers. A strong value proposition helps a company get a definite edge over its competitors.

## 3.5.3 HOW DO WE CREATE VALUE FOR OUR CUSTOMERS?

Marketing is an exchange of values between the marketer and the customer. After having understood what the target customer values, the next logical step lies in creating and delivering value to the customers. The value creation process begins right from product design and extends through the 4 Ps to the final delivery of the product to the targeted customers.

Let us learn this from the example of different soaps marketed by HUL.

a. Lifebuoy delivers a value of ‘hygiene’ to the customers. This is evident from the red colored soap smelling of carbolic acid. The price, the packaging and the communication are all directed towards delivering the chosen value of hygiene.

b. Dove claims to be not a soap but a ‘moisturizer’ . The same is reflected in the design of the product-milky white with an imprint of ‘dove’ representing softness. The other elements of the marketing mix too convey the same value.

c. Lux is a soap for a segment of customers who value ‘beauty’. The price, packaging, distribution and endorsement are all aligned to deliver the value of beauty.

***Check Your Progress- A***

**Q1. You must be aware of the different types of toothpastes available in the market. Name 5 brands of toothpastes. How are they different from each other in terms of the value that they deliver to the customer?**

**NAMES OF TOOTPASTE BRANDS VALUE DELIVERED**

***1.***

***2.***

***3.***

***4.***

***5.***

***Q2.*** **You must be aware of the different types of shampoos available in the market. Name 5 brands of shampoos. How are they different from each other in terms of the value that they deliver to the customer?**

**NAMES OF SHAMPOO BRANDS VALUE DELIVERED**

***1.***

***2.***

***3.***

***4.***

***5.***

# 3.6 DESIGNING AN INTEGRATED MARKETING PROGRAM THAT DELIVERS VALUE TO CUSTOMER

The customer driven marketing strategy aimed at identifying who are the target customers (targeting) and how should a company serve them (value proposition).The next step in the process involves developing a marketing mix (4Ps of product, price, place and promotion) and integrating the same to deliver a coherent and consistent value to the customers.

The marketing mix, also called as 4 Ps, is a set of tools-Product, Price, Place and Promotion that need to be aligned to deliver customer value. Each P has an alternative C, making it amenable to be called 4 Cs of marketing.

| 4 Ps | 4Cs |
|---|---|
| Product | **C**ustomer's solution to a problem |
| Price | **C**ost to Customer |
| Place | **C**onvenience to Customer |
| Promotion | **C**ommunication to Customer |

The four tools of the marketing mix should be aligned, integrated and synced to avoid any kind of a confusion to customer. This can be explained with the example of Nirma washing powder. The product is a poor man's detergent. An economy product for a customer. In terms of the marketing mix, Nirma can take the following positions:

1. Product-Yellow colored detergent, high in caustic soda. It offers a solution to the customer's problem of removing dirt from clothes.

2. Price-Economy/budget pricing.

3. Place-Available at local kirana/grocery stores. Strictly unavailable at high end retail stores in malls.

4. Promotion-Simple promotion with the Nirma girl saying *'sabki pasand nirma'.*

5. Packaging-A very simple polythene packing is used, which is neither very modern nor contemporary.

A careful observation reveals that all the elements of marketing mix are integrated and in line with the products value proposition, that is, economy. All the elements complement each other and strengthen the perception of the brand as being a 'budget/economy' brand. A close look at the marketing mix indicates that there is no confusion regarding the 'value' derived from the brand. This is how the marketing mix of a company helps to implement its marketing strategy.

*Check Your Progress- B*

**Q1. Visit a nearby Mc Donald's outlet and observe its marketing mix and write very short note on the following:**

**1. Product**

**2. Price**

**3. Place**

**4. Promotion**

**5. Packaging**

**Do you find any relationship between the company's marketing strategy and its marketing mix?**

**Write about it.**

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# 3.7 BUILDING CUSTOMER RELATIONSHIPS AND CREATING CUSTOMER DELIGHT

## 3.7.1 CUSTOMER VALUE

The ultimate aim of marketing is to build profitable relationships with the customers by delivering better value and satisfaction than that delivered by the competitors.

$$\text{Value} = \frac{\text{All the benefits derived from the product}}{\text{All the costs incurred in obtaining the product}}$$

The above equation makes the following very clear:

Benefits > Costs-The product delivers ‘customer value’

Benefits< Costs-The product fails to deliver ‘customer value’.

### 3.7.2 CUSTOMER SATISFACTION

We all buy products with certain expectations about its performance. For example, an athlete buys a pair of running shoes from Nike with very high expectations about its performance. He wears it to a sports event and compares its performance against his expectations from the brand. The following two situations may emerge:

1. Performance<Expectations-The athlete is dissatisfied.

2. Performance= Expectations-The athlete is satisfied.

3. Performance> Expectations-The athlete is highly satisfied (delighted)

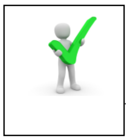
A satisfied customer has high possibility of repeat purchase, while a delighted customer has a higher possibility to buy the brand and spread a good word of mouth about the brand. This is a very advantageous position for the company, where the delighted customers share their good experiences with other prospects/customers.

## 3.8 CAPTURING VALUE FROM CUSTOMERS TO CREATE PROFITS AND CUSTOMER LOYALTY

Customer centric marketing strives to create win-win relations with the customers. The process begins with identifying customer needs and delivering those needs better than the competitors. Marketers thus create value for the customers and subsequently capture the value from the customers in the form of sales, profits, revenues, loyalty, repeat purchase and a good word of mouth from the customers.

Apple is an appropriate example to explain this. The users of Apple products are highly satisfied with the product. The products are well designed and extremely user friendly. The company tries to understand the customer’s needs and then suggests the product to purchase. It does not push or sell the product on the customer. Rather, the product is so good that the customer pulls the product. The users of apple are die-hard fans and have the logo of apple on their heads and bodies. This shows the love for the brand and the relationship with the brand. They stand in long queues outside the stores for many days, before the launch of a new product/model. They talk about apple products on every possible platform. Don’t you agree that they are unpaid salesmen of the company? Is it not the highest level of customer loyalty and relationship?

The example makes it very clear that Apple has been able to create ultimate value for its customers and in turn has captured their loyalty and ensured its profits.



### *Check Your Progress- C*

***Choose the correct alternative***

**1. Which of the following is not an element of the Marketing Mix?**

a. Product

b. Price

c. Pleasure

d. Place

e. Promotion

**2. The following equation represents a state of customer delight:**

a. Performance<Expectations

b. Performance= Expectations

c. Performance> Expectations

d. There exists no such relationship

**3. Differentiate between need, want and demand with the help of an example.**

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***4.* What do you understand by integrated marketing program?**

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***5.* Name the elements of the Marketing Mix**

***1.***

***2.***

***3.***

***4.***

## 3.9 SUMMARY

The unit discusses the marketing process, which is made up of five steps. Each step has the customer as the central point and leads to building profitable relations with the customer by providing value and satisfaction. The concept of value has been discussed with various examples. Successful marketing requires an exchange of value between the marketers and the customers. Value created for the customer is finally captured by the marketer as profits, sales, loyalty and a good word of mouth.

## 3.10 GLOSSARY

**Marketing Mix-** The combination of marketing inputs that affect customer motivation and behaviour. These inputs traditionally encompass four controllable variables 'the 4Ps': product, price, promotion and place.

**Target Audience-** A target audience is the demographic of people most likely to be interested in your product or service.

**Customer Loyalty-** Feelings or attitudes that incline a customer either to return to a company, shop or outlet to purchase there again, or else to re-purchase a particular product, service or brand.

**Value Proposition-** The set of qualities of a good or service that allows it to fulfil the customer's needs and desires, as opposed to simply benefiting the seller.

## 3.11ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress A

Q1.

| NAMES OF TOOTPASTE BRANDS | VALUE DELIVERED |
|---|---|
| 1.Closeup | Cosmetic/social value |
| 2. Pepsodent | 24X7 protection |

| | |
|---|---|
| 3. Sensodyne | Sensitivity treatment |
| 4. Colgate | Protection |
| 5.Dantkanti | Ayurvedic/Herbal |

Q2.

| NAMES OF SHAMPOO BRANDS | VALUE DELIVERED |
|---|---|
| 1. Clinic Plus | Family Shampoo |
| 2. Tressemme | Saloon shampoo |
| 3. Head and Shoulder | Dandruff Protection |
| 4. Sunsilk | Silky Hair |
| 5. Dove | Moisturizing/Repair shampoo |

Check Your Progress B

The company's marketing strategy is very closely linked with its marketing mix. In fact, the marketing mix design is based on the marketing strategy that the company has decided.

Check Your Progress C

Ans

1.c

2. c

3. Thirst-Need

Bisleri-Want

Having money to buy Bisleri-Demand

4. Integrated marketing program means that the marketing mix used by the company should be in line with the marketing strategy adopted by the company an also the marketing mix elements (4Ps of produt, price, place and promotion) should be closely integrated with each other.

5.

1. Product
2. Price
3. Place
4. Promotion

## 3.12 REFERENCES


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## 3.13 SUGGESTED READINGS


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2. Mc Dariel, Lamb & Hair, Introduction to Marketing, Thomson (8th edition),Stanton, Fundamentals of Marketing, TMH.
3. Subhash C Jain, Marketing: Planning & Strategy, Thomson (7th edition)
4. G.Armstrong and P. Kotler, Marketing: An Introduction, Pearson Education.

## 3.14 TERMINAL QUESTIONS

Q1. Discuss the 5 stage process of marketing. Explain with the help of an example.

Q2. Marketers do not create needs. They create wants. Discuss the above statement with the help of examples.

Q3. Discuss the concept of customer delight. Suggest ways by which a restaurant can create delight for its customers.

## 3.15 CASELETS/CASES

Marketing means Understanding the Ropes

Prakash Mehra is a long – time manufacturer of children toys. During a recent meeting of marketing executives at the company, he decided to appoint a committee to examine the firm's products and identify those that were not selling and should be dropped. The committee reported back to the executives and identified five products that were candidates for deletion. The report noted that company sales people could not convince enough retailers to stock these products.

One product manager heatedly opposed the committee on one point. Its recommendation to drop the firm's line of jumping ropes. When asked to put writing in his views, he submitted the following,

*To: The Members of Marketing Committee*

*The decision to delete the jump ropes from our product line, in my opinion is premature. Admittedly our jump rope sales have declined by 48% in the past three years. The decrease according to the committee was traceable primarily to the declining school population.*

*In my view, the decline of our jump rope business was due to our own failure to fully understand the customer needs as well as to look at the market for jump ropes creatively. If we have done this we would have identified several potential markets, namely, the market for people who want to stay trim and just use the rope for exercise, those who want to develop* *their muscles and need a weighted rope, and market for people who have neither the time nor the facilities for jogging and prefer an indoor exercise that will increase their lung capacity.*

*Very Truly Yours*

*Satish Kaul*

1. What does Satish mean in this situation by Customer Needs? Explain in detail.
2. What would have you done if you were Satish?

# UNIT4 MARKETING MIX AND MARKETING ORGANIZATION

**4.1 Introduction**

**4.2 Objectives**

**4.3. Meaning of Marketing Mix**

**4.4 Components of the Marketing Mix-Product and Price**

**4.5 Components of the Marketing Mix-Place and Promotion**

**4.6 Integrated Marketing**

**4.7 Factors Affecting Marketing Mix**

**4.8 From 4Ps to 4 Cs**

**4.9 Summary**

**4.10 Glossary**

**4.11 Answer to Check Your Progress**

**4.12 Reference/ Bibliography**

**4.13 Suggested Readings**

**4.14 Terminal & Model Questions**

**4.15 Caselets/cases**

## 4.1 INTRODUCTION

In the previous unit you learnt about the elements of the marketing process and the five step model of the marketing process.

In this unit, you will study about Marketing Mix and Marketing Organization.

## 4.2 OBJECTIVES

After reading this unit you will be able to:

- Understand the meaning of marketing mix;
- Learn about the four elements of the marketing mix;
- Understand the sub-elements of each element of the marketing mix;

- Understand how the marketing mix elements need to be integrated to design an effective marketing strategy;
- Understand the meaning of marketing organization;
- Understand the different kinds of marketing organizations; and
- Appreciate the advantages and disadvantages of different kinds of marketing organizations.

## 4.3 MEANING OF MARKETING MIX

Customer is the cornerstone of all marketing activities. Marketing begins with the customer. In fact, marketing means adding more value to the customer than the competitor possibly can. The previous unit thus discussed the marketing process that began with understanding the customer's needs and designing a customer driven marketing strategy that delivers value to the customer. Designing a customer driven marketing strategy requires a mix of marketing variables called Product, Price, Place and Promotion. These variables have P as the starting alphabet and they are four in number-so they are also called as the 4Ps of marketing. Please note that Marketing Mix and 4Ps mean the same and can thus be used interchangeably. They are called a 'mix' because these can be used in different combinations to create value for the target market. Let us take an example of a cake. There are ingredients that are common to every cake mix-egg, flour, butter, sugar, milk. However, the final cake can be different depending upon the amount of the mix elements added to it. One can have a less creamy and less sweet cake if one uses less butter and less sugar to the cake mix. Similarly, used in different combinations the different elements of the marketing mix generate different responses with the target audience. A marketing mix should ideally differentiate a company's products from those of the competition. A marketing plan is made up by the blending of various elements of the marketing mix. Thus, we can say that marketing mix is the operational part of a marketing plan.

E. Jerome McCarthy in 1960 coined the term Marketing Mix to suggest the four P's of marketing – price, promotion, product and place. It is in fact the most popular term in marketing management. Kotler and Armstrong (2010) define marketing mix as 'The set of controllable tactical marketing tools – product, price, place, and promotion – that the firm blends to produce the response it wants in the target market'. Jerome McCarthy viewed the marketing manager as a 'mixer' of ingredients, who mixes the different ingredients/elements of the marketing mix to make a market offer to the customers. Each firm strives to create an ideal combination of the marketing mix elements that adds value to the customer and at the same time enhances the company's profitability.


**Fig 4.1 The Marketing Mix**

**Marketing Mix Elements/4Ps**

Marketing of Services is a bigger challenge when compared with the marketing of goods. It is primarily because of the fact that services are intangible and thus difficult to evaluate for a customer. Thus, the 4Ps are not enough to handle the complexity of services and we need three more additional Ps to market services. These additional 3 Ps are-Process, People and Physical Evidence. Services marketing thus has 7Ps, with three additional Ps and the services marketing mix is so called as Extended Marketing Mix.


**Fig 4.2 Extended Marketing Mix**

# 4.4 COMPONENTS OF THE MARKETING MIX-PRODUCT AND PRICE

As discussed the marketing mix for goods has 4 components (4Ps)

- Product
- Price
- Place
- Promotion

In this section we shall now discuss each component in detail.

**Product**

Kotler and Armstrong (2010) define product as the goods-and-services combination the company offers to the target market. This can be better understood by an everyday example.

*Sohan is doing a job away from his family. He has to report to office at 9 am and gets back home at 9 pm after having dinner at a nearby restaurant. Suddenly, he realized that he has a heap of unwashed clothes and he does not really have time to wash them. This is thus a problem that Sohan is facing. He has to seek a solution to this problem. He has a number of options in his mind:*

*A. Buying a washing machine (Good)*

*B. Hiring a washer man (Service)*

*C. Giving clothes to a nearby laundry (Service)*

A is a Good and B and C are Services, but all A B and C are products that can solve Sohan's problem. Thus, the above definition given by Kotler and Armstrong appears logical.

Sohan finally decides to buy a washing machine to solve his problem and is finally happy with the solution sought.

Referring to the above example we can define a product as a 'solution to a customer's problem'. Also a product could be a 'bundle of benefits/utilities' that a marketer offers to the consumer for a price. By buying a washing machine, Sohan was actually buying the benefit of washing clothes. Every product that a customer buys should have the ability to solve the customer's problem by providing benefit/utility to the customer.

Thus, a product refers to the goods and services that a company offers or sale and that has the effect of solving a customer's problem.

## Scope of the term 'product'

A few decades ago, the products were very limited in their scope. A tangible product was called as Good and an intangible product was called as a Service. Based on tangibility/intangibility there were just two kinds of products. With changing times, today almost everything is marketable viz. people, places, ideas events, corporates, social messages, property, organizations and the list can still be more extensive. Hence, a better term in place of product could be 'offering'. Hence, some marketers prefer to use the term 'offerings' in place of product. However, product still remains a more popular term to denote what a company offers for sale.

## Price

Solomon et al (2009) define price as the amount the consumer must exchange to receive the offering.

Price is different from the other elements of the marketing mix as the other elements are cost elements and price is the only revenue element of the marketing mix. To explain further, it costs to produce a product, promote a product and finding a placement for it in the market. But, a company realizes revenue when a product is sold at a given price.

Pricing decision is a very difficult decision because the prices should be profitable and justifiable too at the same time. It is something which the customer is most judgmental about, wants to compare and review from various online platforms available now and then decide to pay or not to pay depending upon whether s/he derives value from that product at that price or not.

Price is an element which cannot be easily copied by a competitor whereas the other elements can be easily copied by the competitors. For example, Dominos cannot copy Pizza Hut's pricing as both the organizations differ in the value that they provide to their customers. Thus, any discussion on price is irrelevant without a consideration of the value the customer derives from the product at that price.

Pricing plays a very important psychological role in creating a perception for the products/services. It's not just a figure, but much more than that. *For example, the pricing for Nike suggests that it is a premium product while the pricing for Bata suggests that it is a popular product. Pricing decisions play an important role in creating perceptions about a product.*

## Basis and Objectives of Pricing

Following three factors also termed as 3 Cs are used to decide the pricing:

1. Cost-Acts as the floor. No company can afford to set a price which is less than the cost of production, for there shall be a loss at that price.

2. Customer Value-Acts as the ceiling. No company can afford to set a price which is more than the customer's perception of the value of the product, for there shall be no demand at that price.

3. Competition-In between the two factors mentioned above, lies the competition/ market and the price has to be in consideration with what the competitors are charging for a similar offering. A company X can't generally charge a higher price than a company Y for a product which is the similar in terms of functions, features and benefits. Yet, it's possible if the company X is able to build up and create around itself a perception of quality and of being premium provider.

| |
|---|
| Ceiling Price decided by Customer's Perception of Value<br>(No possible demand at a price higher than this) |
| Competitor's Price and Value Proposition |
| Floor Price decided by Costs<br>(Loss at a price lower than this) |

**The 3 Cs Model of Price Setting**

We discussed above the factors affecting price setting. Besides this, different companies have different objectives for price setting.

1. Market Penetration-Maximizing market share

2. Market Skimming-Maximizing current profits

## *Check Your Progress-A*

**Q1. For the given products, state what problem of the customer does the product solve?**

a. Washing Machine

b. Pen

c. Greeting Card

d. Petrol

e. Phone

f. Car

g. Camera

h. Calculator

i. Cosmetics

j. Television

**Q2. Mention the three important considerations in price setting?**

1.

2.

3.

**Q3. Choose the correct alternative.**

(i) The term marketing mix was given by:

a. Jerome Mc Carthy

b. Philip Kotler

c. Peter Drucker

d. Neil Borden

(ii) In the factory, we make drill; in the store, we sell_______________.

a. device

b. holes

c. hope

d. confidence

e. energy

(iii) Which of the following is not included in 4Ps:

a. Product

b. Price

c. Packaging

d. Place

e. Promotion

Q4. **Fill in the Blanks with appropriate word or words.**

i. The term marketing mix and _______________ can be used interchangeably.
ii. Pricing is the only _________________ element of the marketing mix, rest are all cost elements.
iii. 3. Maximizing market share is also called as __________________ ________________.
iv. The additional 3 Ps of service marketing are called as ________________ ________________________.

## 4.5 COMPONENTS OF THE MARKETING MIX-PLACE AND PROMOTION

**Place**

According to Kotler and Armstrong (2010) place includes company activities that make the product available to target consumers, in the right quantities at the right place and at the right time. Place is alternatively known as Channel, Distribution or Intermediary. It is the movement of product from provider to the consumer. Goods have to be made available to the customers at convenient locations and the distribution function ensures this.

Let's understand this by a simple example that Banaras is known for Banarasi sarees, but Banarasi Sarees are available across the country. This means that they are distributed across the country. Now how is this possible? This actually involves a chain of individuals and institutions like distributors, wholesalers and retailers who constitute firm's distribution network. This chain is also called as a channel of distribution. Another mode of distribution could be selling directly to customers as Eureka Forbes and Dell. It's a company's decision to decide on the length of the distribution channel. Remember the longer the channel, the more costly the product to the customer because each channel partner is an expense to the company. Thus, companies are in a constant search for more innovative, cheaper and effective distribution channels-online and direct marketing is a recent advancement in the distribution function. The choice depends upon a number of factors-type of product, the stage of PLC that the product lies in, the competition and the market, existing products of the company to name a few.

**Promotion**

Promotion is a function of communication. Solomon et al (2009) propose that promotion includes all of the activities marketers undertake to inform consumers about their products and to encourage potential customers to buy these products.

Promotion is a massive activity and it has become a challenging task with the emergence of digital media. A marketer is always on the lookout for promotional tools that give the bang for the buck-effective as well as economic without compromising on the reach and frequency.

**Objectives of Promotion**

- Creating product awareness, especially in the case of a new product;

*(Example: Unpolished dal is relatively a new concept in India and thus the communication of Tata iShakti was informative in nature and had the objective of creating awareness about the brand and educating the market on the use of unpolished pulses.)*

- Communicating the benefits and features of the products;

*(Example: The Tata iShakti unpolished pulses communication talked about the dal as not being processed with water, oil and marble powder and thus it did not have the luster and shine. Thus, it is better for health. Secondly, it cooked faster and thus gave the consumer the benefit of saving fuel)*

- Proposing usage occasions-when and how to use the product;

*(Example: Refer to the communication of Marie biscuits-it promotes itself as a tea time biscuit thus educating the customer on when and how to use the product)*

- Differentiating the product from the competition and thus giving the reason to buy the product;

*(Maruti, for years in its communication has been differentiating the brand on 'economy, mileage and serviceability' and giving its customers a reason to buy the brand)*

- Helping a company survive and evolve from a crisis situation.

*(Example: Maggi as a brand suffered a serious crisis a few years back on a more than acceptable percentage of salt and MSG. Thanks to the communication, Maggi could emerge from the crisis and re-established itself as a profitable brand)*

**Promotion Mix**

A marketer uses a number of promotional tools can use them in different combinations. The fact that they can be used in different combinations, marketers use the term 'Promotion Mix' to indicate the different tools for promotion. The various tools available with the marketer (Promotion Mix) include the following:

1. Advertising
2. Sales Promotion
3. Personal Selling
4. Public Relations
5. Direct Marketing

**Advertising**

It can be defined as a paid form of, non-personal presentation and promotion of ideas, goods and services by an identified sponsor. It is in fact the most popular tool of communication. We are bombarded with advertisements on multiple media like television, internet, radio, print media, mobile, social media and out-of home etc.

**Characteristics of Advertising:**

- It is a paid form of non-personal communication.
- It is mass communication and thus per unit cost of reaching the target audience is lowest, but it is mass in its appeal and thus loses its effectiveness for niche products that are to be used by a niche audience.
- It is a monologue- one-way communication. The sponsor can pass its information but cannot receive a feedback. Digital media has been able to overcome this challenge to a certain extent
- The sponsor is identifiable
- Various dramatic and theatrical effects can be added in audio-visual media, print and outdoor media. The message thus gets amplified.
- It can be reproduced frequently as per need.

**Sales Promotion:**

Sales promotion is a pull marketing technique. It involves giving a short term and non-routine incentives to customers and also channel partners to induce trial and increase sales. The idea is to gain the attention of the consumer and improve channel member effectiveness. The popular sales promotion tools are discounts, gift cards, coupons, financing, bundling, refunds and rebates, continuity programs, quantity discounts, contests, buy one get one free, free samples, demonstration, trade show, exhibition, exchange offer, seasonal discount, free service, gifts etc.

**Types of Sales Promotion:**

a. Consumer Promotion-Short term incentives directed towards the customers are known as consumer promotion. The idea is to educate the customer and induce trial.

*Examples:*

*1. Great Big Bazaar Sale known as Big Bazaar Mahabachat organized every year around Independence Day*

*2. The Great Amazon Summer Sale (May, 2018) and Diwali Great Indian Festival Sale organized by Amazon*

b. Trade Promotion: Short term incentives directed towards the dealers, distributors and agents are known as trade promotion. The idea is to motivate the channel partners to stock, display, persuade and sell the products to the consumers.

*Example: You are a dealer for Philips TV. Philips proposes that you shall be given 5% discount if you cross a sale of 150 TVs. Obviously, you shall feel motivated because 5% of 150 TV sales is a substantial amount and selling Philips TV is not a difficult job as it is already an established brand. You shall now stock, display, motivate and persuade your customers to buy Philips TV. This 5% discount on sales of 150 TVs given by Philips is an example of Trade Promotion.*

*Dealers' visit to Bangkok, World Cup Tickets are common examples of trade promotion.*

**Characteristics of Sales Promotion:**

- Consumer promotion is meant to induce customers for immediate buying and dealer promotion is meant to motivate the dealers. Both the types of promotions are short term and non-routine incentives.
- Sales promotion should be used occasionally. Excessive use of sale promotion may affect the company's image and reputation negatively. Being sure of a sale being organized, the customers may postpone their purchase and wait for only sales to buy the product.

**Personal Selling:**

Personal selling includes face-to-face personal communication and presentation with prospects (potential and actual customers) for the purpose of selling the products. It involves personal conversation and presentation of products with customers. It is considered as a highly effective but costly tool promotion.

**Characteristics of Personal Selling:**

- Personal selling is a personal presentation and face-to-face interaction with the customers/prospects.
- It is a dialogue between the salesman and the prospect/customers.
- It is advantageous as it gives an instant feedback and an opportunity to resolve the objections/queries raised by the customer/prospect.

- A salesman not only influences the customer to buy but also cultivates a relationship with the customer. For the customer, the salesman represents the company and the customer chooses to interact with the salesman for any further problems with the purchased product.
- It is a very flexible method of promotion as the salesman can exercise a lot of flexibility and modify his selling pitch according to the prospect's/customer's needs and requirements.
- It is costlier than advertising in terms of the per customer contact cost.
- The salesman should have very exact and precise knowledge about the product because his job lies in teaching, educating, and assisting people to buy.

**4. Public Relations**

According to William J. Stanton Public relations includes activities that are designed to build a favorable image and favorable relationship with the organization's various publics. These publics include customers, stockholders, employees, unions, environmentalists, the government, and people in local community, or some other groups in society. It also involves handling unfavorable rumors, events and stories that evolve in relation to the organization. Thus, public relations include organization's overall communication efforts intended to influence various stakeholders' attitudes toward the organization. Most good corporates have a dedicated PR department to create the right kind of organizational image. Please note that publicity is a sub-set of public relations-public relations includes publicity.

**Characteristics of Public Relations**

- Public relations is a paid form of promotion. It comes at a cost to the company.
- The objective is to build favorable relations with the stakeholders and publics that organization interacts with.
- PR is an ongoing activity and not a one-time affair.
- Major PR tools are as follows:
    - ✓ News-Creating favorable news about the company/products/services.
    - ✓ Special Events-Organizing conferences, press tours, hot balloon releases, candle march, multimedia presentations.
    - ✓ Written Materials-Brochures, annual reports, articles, company newsletters and magazines.
    - ✓ Audio Visual Materials-online videos, corporate films etc.
    - ✓ Corporate Identity Materials-Logos, stationery, business cards, company cars and trucks (like Fed ex) etc.

- ✓ Public Service Activities-Donations and charity, free health checkup, blood donation camp etc.

**Direct Marketing**

Direct Marketing involves building direct customer relationships. It implies connecting directly with the carefully pre-selected and pre-targeted individuals (from a database) in order to elicit an instant and immediate response and cultivating long term relationships with the pre-selected audience. The communications generally is one-to-one and interactive in nature. The offering and communication is very much customized to meet the needs of the customers in the database.

Direct marketing today is not only a promotional tool, rather it is a new business model and the fastest growing form of marketing. Amazon, eBay and many ecommerce companies have organized the entire marketing around Direct Marketing.

**Characteristics of Direct Marketing:**

- Using database marketing the buyers can understand the needs of the individual customers better, interact with them over telephone, company websites and direct mail and have personalized products and communications for the customers.
- Convenient and private for buyers.
- Unlimited assortment and choice to customers, spelled out in detailed catalogs and websites.
- It is a low cost and effective marketing and the cost benefits are translated into huge discounts available to customers.
- Enormous comparative information about companies, product and competition is available.
- It has huge flexibility as it allows the marketer to modify the product, price, communication in response to the competition.
- Interactive and immediate because buyers can contact the sellers, interact with them, get their queries resolved and place the order from the comfort of their homes.
- Major forms of Direct Marketing:
    - ✓ Direct-Mail Marketing
    - ✓ Catalog Marketing
    - ✓ Telephone Marketing
    - ✓ Direct Response Television Marketing
    - ✓ Kiosk Marketing
    - ✓ Podcasts
    - ✓ Mobile Marketing

## 4.6 INTEGRATED MARKETING

After having discussed the elements of Marketing Mix in detail, the following table can be better understood.


***Fig 4.3 The Marketing Mix Defined***

*Pls note: Marketing mix has 4 elements. Each element in turn has its own mix-Product Mix, Price Mix, Promotion Mix and Place Mix. For example, Advertising, Personal Selling, Sales Promotion, PR and Direct Marketing are the sub-elements of promotion and form the promotion mix. Similarly, the sub elements of product, price and place form the product mix, price mix and place mix respectively.*

Integrated Marketing is an approach that intends to integrate all marketing efforts so that the customers receive one single, consistent and coherent image of the brand/organization. The idea is to create an integrated, unified and seamless brand experience for consumers in every interaction that they have with the brand.

There are two levels at which this integration is needed:

1. The 4 Ps –product, price, place and promotion need to be integrated.

*For example-Let's discuss the 4Ps for Nirma.*

*Product-A low end detergent powder, rich in caustic soda, strong, harsh on the hands. It's not a premium product at all. We can say it's a budget, economy and popular product.*

*Price-Low per unit.*

*Place-Low end Kirana/grocery stores.*

*Promotion-Low and inexpensive.*

*Packaging-Simple, cheap and not very sophisticated and expensive.*

Looking at the above, we can see that the 4Ps are in sync. All the 4Ps are integrated to deliver a consistent image of a low end and popular detergents. It is not priced high and is not sold at premium departmental stores. It’s not a very attractive and expensive package. The entire marketing effort is highly integrated.

2. The promotion mix/communication mix needs to be integrated.

This means that the platforms for communication today are too many, too diverse and too fragmented. Communication can happen over TV, radio, Magazine, Newspapers, Mobile, email, out-of-home, multiplexes, websites, internet, ATMs, Kiosks and the list is exhaustive. This communication overload cannot be left on its own as it shall create customer confusion and chaos. It has to be integrated to communicate a consistent and coherent image of the brand and organization.

The idea of integration is comparable to an orchestra which as a large number of instruments, but the music emerging out of it is seamless and single. The sound of every individual instrument is not identifiable.

## 4.7 FACTORS AFFECTING MARKETING MIX

Marketing Mix is an important decision because it is an expression of the marketing plan. It depends on a number of factors, a few important ones are listed below:

1. Product Novelty-Is the product a breakthrough product which is new to the world or a modification and improvement of an existing product.

2. Type of product-Is the product an FMCG/Consumer Durable? Type of product determines the combination of marketing mix elements.

3. Stage of the Product in the PLC. Each stage of PLC has a typical combination of Marketing Mix elements. Hence, the stage in which the product lies shall determine the marketing mix decision.

4. Type of Market-B2B or B2C has an effect on the marketing mix used.

5. Product Complexity-Complex products need personal selling and demonstration as an important element in the marketing mix.

Other factors on which the marketing mix depends are as follows:

6. Pricing Objective

7. Communication Objective

8. Distribution Objective

9. Customer Characteristics

10. Company’s Budget and Resources

## *Check Your Progress- B*

Q1. **List and explain the elements of communication/promotion mix.**

**Q2. Distinguish between sales promotion and promotion?**

**Q3. Apple has launched a small and light weight laptop. Suggest what marketing mix that the company should use for it.**

**Q4. Chhota Bheem is to be launched in America. What promotion mix should the company use to promote Chhota Bheem in America?**

Q5. **Consider the example of middle class teenagers as the target market for blue jeans. In what places besides department stores could be product is sold? What other promotion could be used?**

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## 4.8 FROM 4PS TO 4CS

The marketing mix, also called as 4 Ps, is a set of tools-Product, Price, Place and Promotion that need to be aligned to deliver customer value. Each P has an alternative C, making it amenable to be called 4 Cs of marketing.

| 4 Ps | 4Cs |
|---|---|
| Product | **C**ustomer's solution to a problem |
| Price | **C**ost to Customer |
| Place | **C**onvenience to Customer |
| Promotion | **C**ommunication to Customer |


**Fig 4.4 The Marketing Mix: 4Ps and 4Cs**

The above 4Cs framework was suggested by Neil Borden. Every P has a corresponding C and the term beginning with 'C' is more customer centric than the term beginning with P. Terms on the left appear to be more commercial and organization centric while terms on the right appear to be more customer centric and thus Neil Borden initiated this shift from 4 Ps to 4 Cs.

## 4.9 SUMMARY

The unit discusses the concept of marketing mix. The elements of marketing mix/4 Ps have been explained in detail. Each mix has its own set of mix or sub-elements which have also been explained. The concept of integrated marketing emphasizes the need for coordinating and synchronizing the different elements of the marketing mix to present a consistent image of the bard/organization to its customers.

## 4.10 GLOSSARY

**Product** – Anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need. It includes physical objects, services, persons, places, organizations and ideas.
**Potential market** – The set of consumers who profess some level of interest in a particular product or service.
**Marketing mix** – blending the four elements of marketing decision making – product, price, distribution and promotion – to satisfy chosen consumer segments.
**Product strategy** – element of marketing decision making involved in developing the right good or service for the firm's customers, including package design, branding, trademarks, warranties, product life cycles and new product development.
**Product life cycle** – The four basic stages through which a successful product progresses – introduction, growth, maturity and decline..
**Pricing strategy** – Element of marketing decision making dealing with methods of setting profitable and justifiable prices.

## 4.11 ANSWERS TO CHECK YOUR PROGRESS

**Check Your Progress –A**

Q1. For the given products, state what problem of the customer does the product solve?

a. Washing Machine-Washing Dirty Clothes

b. Pen-Communication

c. Greeting Card-Sending Wishes

d. Petrol-Energy

e. Phone-Communication

f. Car-Transportation

g. Camera-Capturing Moments

h. Calculator-Computing

i. Cosmetics-Confidence

j. Television-Entertainment

Q2. Mention the three important considerations in price setting?

1. Cost
2. Competition
3. Customer

Q3. MCQs

(i) a
(ii) b
(iii) c

Q4. Fill in the Blanks with appropriate word or words.

1. The term marketing mix and 4Ps can be used interchangeably.
2. Pricing is the only revenue element of the marketing mix, rest are all cost elements.
3. Maximizing market share is also called as market penetration.
4. The additional 3 Ps of service marketing are called Extended Marketing Mix.

**Check Your Progress –B**

**Q3. Apple has launched a small and light weight laptop. Suggest what marketing mix that the company should use for it.**

Apple is a premium brand known for technology, design and sophistication. The marketing mix should be designed keeping in mind the above points. A suggestive mix could be as follows:

1. Product-High end, sleek design, latest features.
2. Price-Skimming Pricing.
3. Place-High end stores and dedicated apple stores (Imagine Stores).
4. Promotion-Elite business magazines, business channels, lifestyle channels and the like.

**Q 4. Chhota Bheem is to be launched in America. What promotion mix should the company use to promote Chhota Bheem in America?**

Refer to the values of Chhota Bheem, that is, what kind of a brand it is. It's a kids' brand known for values, moral stories of the super hero Chhota Bheem. Thus, the 4Ps should be such that they attract the kid audience**.**

## 4.12 REFERENCES


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## 4.13 SUGGESTED READINGS


1. Philip Kotler, Principles of Marketing, Pearson Education.
2. Mc Dariel, Lamb & Hair, Introduction to Marketing, Thomson (8th edition),Stanton, Fundamentals of Marketing, TMH.
3. Subhash C Jain, Marketing: Planning & Strategy, Thomson (7th edition)
4. G.Armstrong and P. Kotler, Marketing: An Introduction, Pearson Education.


## 4.14 TERMINAL QUESTIONS

1. Why are customers at the center of the marketing mix?

2.'Direct Marketing is not only a promotional tool, but is an emerging business model'. Discuss with examples.

3. How can an auto manufacturing company use PR to create a positive image amongst its stakeholders and publics? Discuss.

## 4.15 CASE LETS/CASES

A traditional family drinks firm has been developing slowly and built up a strong reputation, but control has now passed to the next generation and they want to look at possible expansion for the firm. The new marketing director made the following statement:

*'We have a strong family image and our products are trusted, but we are considering changing our production strategy. We have normally just produced the flavouring and let others bottle it and take the risks of selling to the public. After considerable market research we have decided to launch our own brand of soft drinks. Initially, these will be: a cola flavour, lemonade and ginger beer. If these are successful then others are planned.'*

1. Explain the marketing importance of 'a strong family image'.

2. Discuss potential changes in the marketing mix that this new strategy will involve and comment on their significance.

# UNIT 5 MARKETNG ENVIRONMENT

**5.1 Introduction**

**5.2 Objectives**

**5.3. Marketing Environment and its Components**

**5.4 Demographic and Economic Environment**

**5.5 Socio Cultural and Technological Environment**

**5.6 Politico-Legal and Natural Environment**

**5.7 Responding to changes in the environment**

**5.8 Summary**

**5.9 Glossary**

**5.10 Answer to Check Your Progress**

**5.11 Reference/ Bibliography**

**5.12 Suggested Readings**

**5.13 Terminal & Model Questions**

**5.14 Caselets/ cases**

## 5.1 INTRODUCTION

In the previous unit you learnt about the marketing mix (4Ps) and its elements.

In this unit, you will study about marketing environment, its components and how does marketing environment affect marketing decision making.

## 5.2 OBJECTIVES

After reading this unit you will be able to:

- Understand the meaning of marketing environment;
- Understand the components of environment of a company-Microenvironment and Macro environment;
- Understand the different environment types facing a company-Demographic, economic, natural, technological, political, legal and cultural;

- Appreciate how changes in the above mentioned environment types affect the company's marketing strategies and
- Discuss the companies' response to the changes in the marketing environment.

## 5.3 MARKETING ENVIRONMENT AND ITS COMPONENTS

All organizations have an environment in which they operate. No business organization can exist in vacuum or in isolation from its environment. An organization needs to be aware of the environment in it exists and operates. The environment affects the marketing strategies and decision making and any change in the environment further forces the organization to change its strategies. Thus, it's very important for all firms to identify, analyze and monitor their proximate environment in order to respond to the environmental changes and create effective marketing strategies.

Philip Kotler defines marketing environment as follows:

*"A company's marketing environment consists of the actors and forces* outside of marketing *that affect marketing management's ability to build and maintain successful relationships with target customers".*

**Components of Marketing Environment**

1. Internal Environment-The internal environment is very specific to a company and includes owners, employees, company policies, machines, raw materials etc. A company's various departments and policies are a part of the internal environment too. The internal environment can largely be controlled by the company and when the external environment changes the internal environment changes in response.

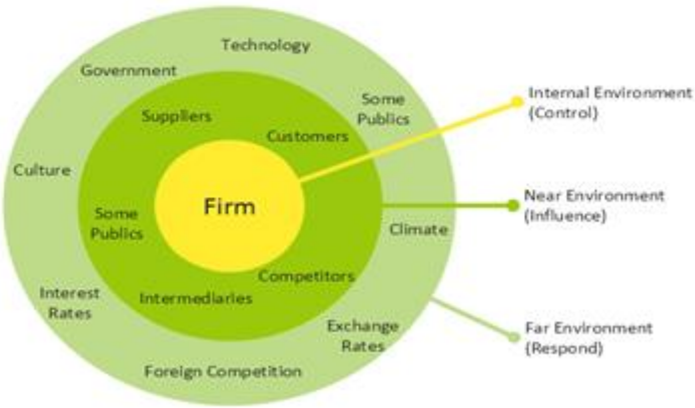
2. External Environment-The external environment lies external to the organization. It is that part of the environment which is largely uncontrollable by the organization. The organization cannot control the external environment, it can only respond to the changes in the external environment. External environment can be divided into parts:

a. Microenvironment

b. Macro environment

**Figure 5.1-A Firm's Environment**


**Figure 5.2-A Cross Section of a Firm's Environment**



a. Microenvironment- It is also known as the operational environment /task environment as it has a direct effect on the working of a company. It is specific to the organization but external in its existence. It consists of factors that are directly related to business. Its components are:

i. Suppliers-the suppliers are entities providing raw materials, components and other such resources to the organization. They are an important part of the microenvironment. This can be understood with the help of an example-*Suppose a supplier of denim fabric refuses to provide supplies to a manufacturer of jeans. The manufacturing of jeans shall stop and this shall have a serious negative effect on marketing. After negotiation with the supplier, the supplier agrees to continue the supplies but at a higher cost. An increase in the cost demanded by the supplier shall affect the cost of production and hence a higher price for the customer. This is an example of how a change in the microenvironment can affect the marketing mix (Price in this case).*

ii. Market Intermediaries-These are channel partners who help to make the product available to the final buyer. These include agents, dealers, distributors, wholesalers, service agencies, physical distribution firms, financial intermediaries etc. A good relation with the intermediaries ensures the availability of the product to the end users. *For example-The product can never be made available to the customers if the dealers and distributors refuse to stock the product.*

iii. Competitors-The main objective of customer centric marketing is to deliver more value to the customer than the competitor. It is here that an understanding of the competitive environment becomes very important. A marketer cannot produce, price, promote and distribute its product in vacuum-without a consideration and comparison with what the competitors are doing.

iv. Customers-These are the most important stakeholders in a company's microenvironment. The entire value delivery system is designed and geared to deliver value to the customers. A marketer should understand what the customer wants with the help of serious market research and deliver more value to its customers than what its competitors can

v. Public-A public is any group which is interested in the organization's ability to meet its objectives. There could be following types of publics in relation with an organization:

a. Financial publics

b. Media publics

c. Government publics

d. Citizen action publics

e. Local publics

f. General public

g. Internal publics

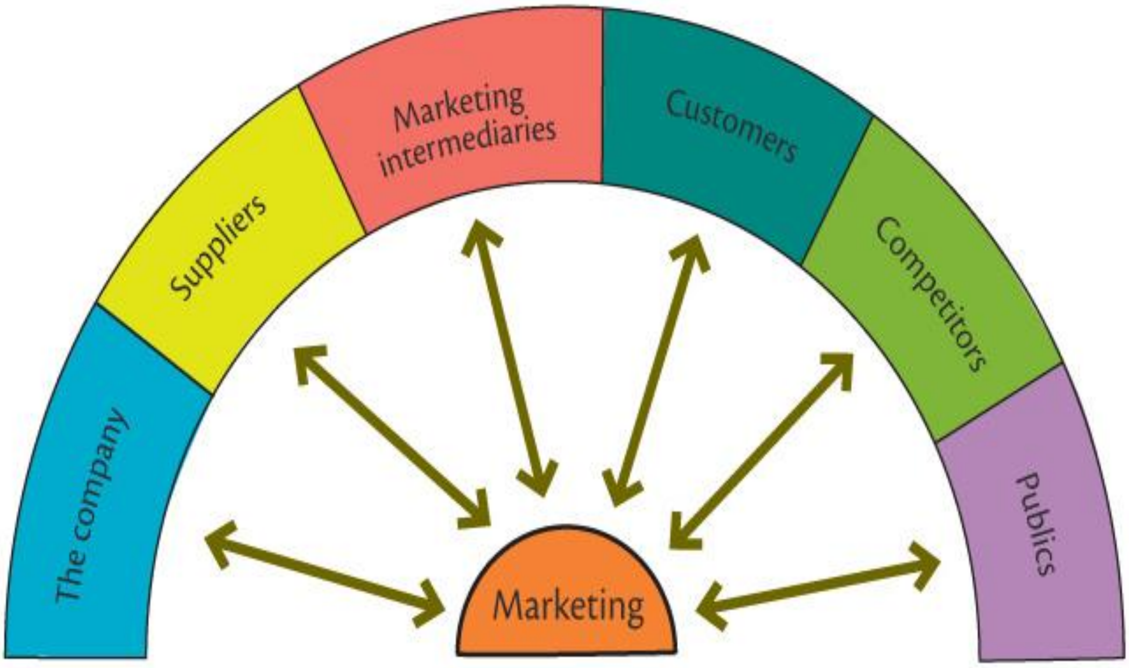



**Fig 5.3A firm's microenvironment**

b. Macro environment-The macro or the broad environment includes larger societal forces which affect society as a whole and in turn have a bearing on marketing decisions. Macro environments made up of seven components:

- **D**emographic
- **E**conomic
- **S**ocial-cultural
- **T**echnological
- **E**cological
- **P**olitico-legal

These components are also called as DE STEP model of macro environment.


**Fig 5.4 The Six factors of Macroeconomic Environment-DESTEP Model**

Each of these factors shall be discussed in detail in the following section.

## 5.4 DEMOGRAPHIC AND ECONOMIC ENVIRONMENT

The following section shall discuss the demographic and economic environment. We shall first discuss the meaning and the discussion shall be followed by examples of each component of the external environment.

**Demographic Environment**

- **Demography** is the study of human populations. It characterizes human population on the parameters of age, gender, size, composition, income, education, density, location, race, occupation and the like.
- **Demographic environment** is important for marketing because marketing involves people as target customers, prospects and final customers. People make up markets and finally any change in demographics shall definitely involve a change in marketing decisions.
- **Demographic trends** include any change or shift in the above defined parameters. For example, India is a young country with Millennials (18-35 years), accounting for 34% (440 million) of the country's population. They also represent a whopping 47% of the country's workforce. This is a shift in the composition of population and has changed the rules of marketing. Similarly, gender composition, income, education levels have all improved and thus have found a corresponding effect on marketing decision making. Demographic trends determine marketing strategies. A few examples can be as follows:

a. Generational marketing is becoming more important than marketing on the basis of age-The population has clearly distinguishable cohorts of Gen X, Gen Y and Gen Z. The needs of the three cohorts are different. They are different segments in term of the kind of products they needs, the price that they can afford, the communication which they can receive and the stores that they can access. Any marketing effort has an understanding of the generational cohorts as its basis, rather than the age alone.

b. Rising middle class has given a huge boost to the luxury market and India is slowly becoming luxury friendly. The middle class in India is likely to reach 87 million households by 2025.

c. Rural customers are becoming more affluent and aspirational and thus contributing to a market of over Rs. 26 trillion by a 300% rise in the rural consumption.

d. The family structure is changing with a trend towards more nuclear families. This shift has created a huge market for domestic help, baby sitters, day care centres and the like.

e. More women have joined the workforce than ever before. Financial security has brought empowerment in its wake and now women have a say in family decision making. They have products designed especially for them because they can now afford it. There is a market for automobiles for women, magazines for women, apparels for women and across many more product categories. *For example, Allen Solly introduced its women range of formal wears only to accommodate the working women. Similarly, Titan has Mia range of jewelry for the office going women, just like Lakme has the 9 to 5 range of cosmetics for the working women.*

All the above examples indicate the shift in demographics which has resulted in a market for products which did not exist earlier. Thus, demographic environment and marketing strategy have a strong linkage.

**Economic Environment**

Economic environment includes factors that affect the purchasing power and purchasing patterns of the consumers.

The following economic factors have an enormous impact on marketing.

a. Changes in Disposable Income

As the disposable income of a common man increases, the purchasing power increases and as a result the demand for mass products, both necessities and luxuries increases. A very strong impact is observed in the electronics industry with the rising middle class being a major force in the increasing demand for electronic goods like computers, laptops, advanced TVs, mobile phones etc. Electronic products as an industry in India is expected to grow at a compound annual growth rate (CAGR) of 41% during 2017-20 to reach $400 billion by 2020.

A reverse trend can also exist-as the income tax rate increases, the disposable income decreases and this has the effect of reducing the purchasing power and thus the market for non-essential discretionary products witnesses an adverse effect.

b. The Cost of Borrowing

Access to credit and cost of credit are important economic factors that affect marketing decisions. Suppose the rate of tax on housing loans increases, the real estate market shall surely witness a decline. If car loans become cheaper, car industry shall witness a surge. The decision whether to produce or not, what to produce, how much to produce, how to price, how to promote shall rest quite a lot on the cost of credit.

c. Promotions and Advertising Expenses

If an economic downturn affects the costs and types of advertising outlets available, this can affect marketing. For example, where multiple types of businesses are feeling the effects on the bottom line, some media outlets may be forced to lower advertising rates to attract business. In turn, these lower rates could benefit the businesses least affected by the economy.

d. Government Reforms

Demonetization and GST-government reforms affected the market and hence marketing when they were initiated. We all remember the slump in sales when the consumers did not have cash at home and neither were the ATMs able to serve the demand for cash. They were bad times for marketers and affected marketing decision making.

e. Petroleum/Diesel Prices

Energy prices have a strong association with the pricing element of the marketing mix. As the petrol/diesel price increase, there is a multiplier effect in the entire economy and prices of fruits, vegetables and other commodities increases. The reason being very obvious-the rise in the transportation costs affects the pricing for other industries.

### *Check Your Progress-A*

Q1. **What do you understand by the term microenvironment?**

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**Q2. List and explain the components of macro environment.**

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**Q3. Draw a diagram to explain microenvironment.**

**Q3. Choose the correct alternative.**

i. Liberalization means;
   a. Reducing number of reserved industries from 17 to 8
   b. Liberating the industry, trade and economy from unwanted restrictions
   c. Free determination of interest rates
   d. None of the above

ii. Globalization is the term used to describe process of removal of restriction on;

a. Foreign Trade

b. Investment

c. Both (A) and (B)

d. None of the above

iii. In India, Liberalization & Privatization began from

a. 1991
b. 2001
c. 1996
d. 1994

**Q4. Fill in the Blanks with appropriate word or words.**

a. Micro environment is largely ____________________ while macro environment is ____________________.

b. Dealers, distributors and agents are called as _________________ ______________.

c. The government has banned the use of polythene and hence the search for alternative packaging material is on. This is a change in the __________________ environment.

## 5.5 SOCIO-CULTURAL AND TECHNOLOGICAL ENVIRONMENT

**Socio-Cultural Environment**

A set of beliefs, values, customs, traditions, practices, social institutions, social attitudes and behavioral patterns exists within every population. These forces are in a constant and this makes marketing adaptation important and inevitable. All companies, especially the international companies, require a robust evaluation of the socio-cultural environment prior to entering their target markets.

Major factors that need are discussion are as follows:

a. Emergence of global consumer cultures-People across the globe are converging in tastes, preferences, values, lifestyles, consumption and cognition. Thanks to the rise of internet and globalization. This has led to the emergence of strong global brands like Coke, Mc Donalds, Dominos, Starbucks etc. Also seen is a surge in coffee culture, pub culture, plastic money culture, fast-food culture and the like.

b. Societal trends are the result of a technologically interconnected world-A lot of the above discussion can be attributed to the digital age where geographies have blurred and technology has connected consumers across the globe.

c. Religion-The world's major religions include Buddhism, Hinduism, Islam, Judaism, and Christianity and these religions are an important source of beliefs, attitudes, and values. Religion has a profound influence on marketing activities.

*Example: Mecca-Cola is an Islamic version of Coke launched in 2002 as a substitute to US coca cola. It is a cola-flavoured carbonated beverage. It is the flagship product of the Mecca Cola World Company it is marketed as an alternative to U.S. brands such as Coca-Cola and Pepsi-Cola to "pro-Muslim" consumers. The company claims it not only to taste great but also gives 20% of profits to charity. Though the brand originated in France, the company is located in Saudi Arabia. It caters to the Arab Muslims and Muslim minorities across the globe.*

*LG Electronics launched the G5300 Qiblah mobile phone in the Middle East. It came with a a compass to help Muslims locate North for prayers to Mecca. It also has an integrated latitude and longitude orientation or city references which indicate the direction of Mecca when combined with a comparison to magnetic north.*

These examples show that religion affects marketing decisions.

d. Colors and aesthetics-Colors have a meaning if their own and companies need to be careful about what a color represents in a cultural context. This can be especially useful in designing logos and campaigns.

*Blue- In USA blue stands for solid, responsible and thus most US logos are in blue.*

*Red–associated with blood, wine-making, activity, heat, and vibrancy in many countries but is poorly received in some African countries.*

*White–identified with purity and cleanliness in the West, with death in parts of Asia.*

*Grey-means inexpensive in Japan and China, but high quality and expensive in the U.S.*

e. Dietary Preferences-Vary from one culture to the other and hence companies need to comprehend this and educate the audience accordingly.

*For example-Kellogs had a tough time in India. It is a ready to eat cereal to be consumed in cold milk. People used the product in hot milk and hence could not experience the crunchiness that the brand promised in its campaign. The company had to spend a considerable amount of time and energy in educating the customers.*

*Subway had to educate Indians about the benefits of sandwiches because Indians do not normally eat bread.*

f. Language and communication-Every word has a meaning and the meaning may vary in different cultures. This has to be considered when naming brands.

*The Tiago was previously announced as the Tata Zica, with "Zica" short for "zippy car", but it was changed because it sounded like the name of the Zika virus. Immediately after Zica virus outbreak the name was changed to Tiago, which means 'masculine name in Portuguese language.*

*An auto company launched a brilliant two wheeler in Spain and named the brand NOVA. The automobile did not sell. Research indicated that Nova in Spanish language means a 'dead* *man' or something that is defunct. Thus, the name had a negative connotation in Spanish language and thus had to be changed.*

*A fabric softener that carries different brand names in different countries and uses different symbols to indicate softness.*

**Technological Environment**

Technology abounds us everywhere and has become a way of life. A world without technology is unimaginable. Technology initially started as a facilitator to marketing-helping marketing to reach and connect with the customers and but today more than 80 percent of marketing is technology. Technology has almost taken over the marketing function and has created disruption in the hitherto stable industry.

a. Technology and consumer behavior-Technology has changed consumer behavior. Earlier the consumers walked into the store, considered buying a brand, discuss with friends and relatives and buy the brand. If the company wanted, it maintained a connect with the customers and if did not wish, it left the customer on its own. The scenario has now changed. The customers wanting to buy a brand X from a company, first visit the website of the company. Look for an app. Search the internet for blog and for reviews and feedback. Look for best deals on the internet. Buy the brand and no sooner that they have reached home, they expect a message from the company thanking them for having purchased the brand.

Thus, we see technology has changed the way customers behave, the way companies behave and has almost overtaken the marketing function.

b. Companies are forced to go online-With technology in place, companies are now forced to go online in some form or the other. With online marketing become more secure, the flux is towards it as it offers great product assortment, convenience, 24/7 access and even ease of payment EMI in certain cases. Deep discounts are also a major reason for customers going online and thus companies are being forced to have an online presence.

c. Rise of App based marketing-Technology has been a great enabler in app based marketing. Uber, Ola, Zomato, Swiggy are examples best known. The aggregator model has evolved as an asset light model. A company does not need to own the assets, aggregation is enough-that is, connecting the seller and the buyers is what app marketers do.

App based marketing has made the life of the customers easy. Things are now available at the click of a mouse and the touch of an app. This has changed customer expectations and has made the customers very impatient. The customers have become very demanding and difficult to handle as they do not accept any delay and have a number of options available for switching brands.

d. Origin of new products and markets-Technology is fast making old products redundant and new products are being created and thus new markets. Microwaves, wi-fi, blue tooth are products for a new generation of time starved multi-taskers. Much talked about Internet of things is soon going to an everyday reality. Thus, companies have to keep a watch over the technological environment or else they shall miss creating new products and new market opportunities. Also, the search has to be on for newer and more affordable versions of products in order to add more customers in the market. For example- *Bajaj launched the new Bajaj Chhotu Kool, which is a battery operated fridge for the rural customers. LG launched*

*Sampoorna, a TV which came with a price tag of Rs. 5000/ especially for a farmer in rural India who wishes to give a TV in marriage to his daughter. Both the examples are product innovations for rural markets and for those at the Bottom of the Pyramid.*

## 5.6 POLITICO-LEGAL AND NATURAL ENVIRONMENT

**Politico-Legal Environment**

The politico-legal system in a country affects business in a big way. This is because it dictates the formulation and execution of policies. Any change in the system, sets in motion a change economic policies and reforms and any change in economic policies and reforms is sure affects business and marketing. Every party has an election manifesto in which it makes promises and a major reforms process happens in fulfilling those promises.

Political environment is an important environmental force that affects many environments viz-technological, legal and the like.

a. Demonetization and marketing-The demonetization move of the Modi government was a momentous moment in the history of marketing. On November 8, 2016, Indian Prime Minister Narendra Modi, in a stunning surprise announcement, declared that 500 and 1,000 rupee notes were to be demonetized (i.e., removed from circulation as legal tender). There was an immediate cash crunch. ATMs failed to meet the need for cash.

The business was hit mad. Even the online marketplaces cancelled the cash on delivery orders because the customers did not have cash to pay. Its here that digital payment giants like Paytm, Zapp, Freecharge, Mobikwik won the market share overnight. Immediately after the demonetization move, Paytm could have a 700% increase in overall traffic on the platform and 1000% growth in the value of money added to Paytm accounts. In addition, the average transaction value has increased by 200% and the number of mobile app downloads by 300%. The rules of the game changed once again. Technology overtook marketing and those companies that did not go digital missed the train.

b. GST and marketing-GST became an Indian reality on 1 July, 2017. The rates of taxation changes and thus impacted business and marketing.

Both the above mentioned reforms have brought in more transparency into the system and the changed the existing rules of business and marketing.

c. Liberal Policies-The government's resolve to liberalize trade and business has given impetus to Globalization, cross border investments and movement of goods and services. One direct example is opening of the various sectors and increase in the permissible FDI limit in almost all sector Viz. 51% in multi-brand retailing, 100% in single brand retailing, 49% in insurance etc.

d. Business related legislations-The government has stringent laws pertaining to Competition (MRTP Act), Consumer Protection Acts etc and the general public is now aware of these acts and hence marketing has to be more ethical and value based.

Natural Environment

Natural environment includes the natural resources that are needed as inputs by marketers or that are affected by marketing activities. The current

A few environmental trends are as follows and each of them has some implication over marketing.

a.Shortages of raw materials-raw materials are becoming scarcer and thus companies are on a ongoing search for alternative materials. For example Renewable and alternative sources of energy are being conceived. Similarly, products that use less water are being devised. There is an increase in the market for washing machines that consume less water in their processing. Capetown, once a tourist destination, has lost all its appeal because of the water crisis that is looming large. Such crises thus affect destination marketing too.

b.Increased pollution-Increased pollution has led to experiments like odd even, banning of crackers on Diwali. There has now been an emphasis on biodegradable packaging. Recently enough, there was a news on an increase in the market for such plants in households and gardens that purify the air and thus reduce pollution levels.

c. Increased government intervention-Legal environment has a direct impact of the natural environment. The legislation to ban polythene and plastics was to impact the natural environment. It led to an immediate scramble for the search for alternatives and a huge market for bags was created overnight.

d. Green Marketing and environmentally sustainable strategies- A sense of responsibility has now dawned upon consumers too. Sustainable practices and green marketing has now become a differentiator for the customers. Customers now prefer cars like Reva that consume electricity rather than petrol. Reva, a Banagalore based car, is now a part of the Mahindra group. Customers now prefer Ecotels like Fern rather than hotels.

***Check Your Progress- B***

**Q1. Explain socio cultural environment and its effect on business.**

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**Q2. Explain with examples how technological environment affects business decisions.**

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**Q3. The automobile industry in India has changed due to a change in the emission norms. Discuss the norm and the change that the law has resulted into.**

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## 5.7 RESPONDING TO CHANGES IN THE ENVIRONMENT

After having studies the above, we can conclude that responses to environmental changes can largely be reactive or proactive.

Reactive- It requires responding and adapting to forces in the environment. Polythene getting banned required a reactive search for alternative packing material. This is called as a reactive response.

Proactive-It requires observing the environmental trends, foreseeing and responding before the environment changes. It’s about being vigilant and thus being proactive. Observing the environmental trends towards more women joining the workforce, Van Heusen, Allen Solly introduced the wok wardrobe in India. This is called as a proactive response and it can happen only if a company keeps a tab over the environmental trends.

Whatever, be the mode-reactive or proactive, a change is inevitable and the companies that don’t change do it at the peril of perishing. For example, Xerox thought itself as a leader in the photocopying industry, but failed to realize that the environment and the customers were becoming digital. This move to digital had changed the competition for Xerox. Earlier, it was competing with Sharp, Canon and Ricoh and now the new challenge came from IT companies like HP and IBM. It lost market shares initially, but soon realized the new competition and originated new and better products like network printers, multifunction devices, digital presses, book factories and the like and thus became more customer centric. The customer was now ready to deal with digital platforms and so was Xerox ready to deal with the new breed of digital customers.

## 5.8 SUMMARY

The unit talks about a company’s environments-Internal/External/Microenvironment and Macro environment in detail. It further differentiates between the different kinds of environments in terms of its controllability vs. uncontrollability. Further, each environment is explained in detail-the meaning and multiple examples that indicate that environment affects marketing decisions, marketing mix and hence the marketing strategy. The examples are too many and too self-explanatory.

Finally, the unit ends with the response mechanism that an organization has to cope with the environmental changes. Examples of success stories and failure stories culminate the learning from the unit.

## 5.9 GLOSSARY

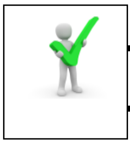
**Environmental scanning** – The process of collecting information about the external marketing environment in order to identify and interpret potential trends

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

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

Consumer behavior – Buyer behavior of ultimate consumers

**Marketing Mix** – blending the four elements of marketing decision making – product, price, distribution and promotion – to satisfy chosen consumer segments



## 5.10ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress –A

Q3. MCQs

i. b
ii. b
iii.a

Q4. Fill in the Blanks with appropriate word or words.

a. Micro environment is **controllable** to a large extent while macroenvironment is **uncontrollable.**

b. Dealers, distributors and agents are called as **Channel Intermediaries**.

c. The government has banned the use of polythene and hence the search for alternative packaging material is on. This is a change in the **legal** environment.

Check Your Progress –B

Q3. The automobile industry in India has changed due to a change in the emission norms. Discuss the norm and the change that the law has resulted into.

Vehicles are one of the contributors to air pollution and there is need to reduce vehicular emissions on a continuous basis. Indian Automotive Industry recognises this fact and is continuously working towards controlling emissions as per the roadmap suggested by the Auto Fuel Policy and proactively developing environment-friendly technologies.

The proposed road map envisaged implementation of BS IV norms across the country by April 2017 in a phased manner and BS V emission norms in 2020/2021 and BS VI from 2024. The automobile industry has to change the engines in its automobiles in order to be abide to these norms.

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## 5.13 TERMINAL QUESTIONS

Q1. List and explain the elements of a company's microenvironment and add a note on its importance.

Q2. List and explain the elements of a company's macro environment. Give 2 examples each (from each element of the environment) of an environmental change that has resulted in a change marketing.

Q3. List 4 trends in the economic environment that every firm should keep a watch on and also give examples of companies' responses to each trend.

Q4. How should marketers respond to the changing environment? Explain giving examples.

## 5.14 CASE LETS/CASES

Mc Donald's is one of the world's largest chains of fast food restaurants. They operate thirty two thousand restaurants serving more than sixty million customers daily. The key to rapid and successful international expansion of Mc Donald's is the franchise model pioneered by them.

Mc Donald's recognized early in their life that overseas market required an extremely high degree of local responsiveness and that they needed to manage business spread across different regions effectively and efficiently which would be achieved only through "Transnational Strategy". The value chain was constructed taking into consideration of local culture, legal-political and economic environments in mind.

The India story of Mc Donald's runs like this-It ventured into the Indian market with a beef burger. Soon, it realized that the Hindu population shall be unacceptable about a beef burger and the same instant replaced beef with mutton. Then followed the Indian delight of aloo tikki and thus the aloo tikki burger. Jews do not like a mixing of meat products with dairy products, hence in Israel Mc. Donald's did not go for hamburgers-rather it served cheeseburgers and milkshake.

1. Reading the above caselet, which environmental element do you think Mc Donald's is sensitive about. Discuss.
2. What has made Mc. Donald's a truly successful global brand? Discuss

# UNIT6 MARKETING RESEARCH

**6.1 Introduction**

**6.2 Objectives**

**6.3. Marketing Research-Meaning and Importance**

**6.4 Market Research Process**

**6.5 Developing the Research Plan**

**6.6 Implementing the Research Plan**

**6.7 Interpreting and Reporting the Findings**

**6.8 Summary**

**6.9 Glossary**

**6.10 Answer to Check Your Progress**

**6.11 Reference/ Bibliography**

**6.12 Suggested Readings**

**6.13 Terminal & Model Questions**

## 6.1 INTRODUCTION

In the previous unit you learnt about the marketing environment and its elements. In this unit, you will study about marketing research, its importance, the process of research and how can organizations make better decisions with the help of marketing research.

## 6.2 OBJECTIVES

After reading this unit you will be able to:

- Understand the meaning and importance of marketing research.
- Outline the steps in the process of marketing research.
- Explain how companies use research to make better marketing decisions and
- Appreciate the issues of ethics in marketing research.

# 6.3 MARKETING RESEARCH-MEANING AND IMPORTANCE

**Introduction and Definition**

Marketing is an exchange of value between the customer and marketers. Unit III made it very clear that customer is at the center of all marketing activities. Customer centric marketing essentially involves understanding the customer's needs and wants and delivering the products and service exactly according to customer's expectation. Now, the marketer is very far from the customers. The marketer delivers goods to the channel partners who make it available to the customers. In most cases, the marketer has not even seen and known the customer. In such a case, how can the marketer know who his customer is and what his customer expects? How can the marketer understand the customer in order to deliver the goods and services that the customer expects? How do you think is it possible for a marketer to understand the customer and deliver what the customer wants?

The solution to all the above questions lies in marketing research. Marketing research provides a fresh understanding of customers and the marketplace that helps in developing customer relationships and delivering customer value.

*For Example: When Sony launched the Walkman in 1979, it was the first of its kind of device. Research had provided an insight that customers wanted a personal portable music and a device that could provide personal portable music was not there in the market. Thus, there was a gap in the market and Sony closed the gap with its iconic 'Walkman'. As time progressed, the product became outdated. It was here that Apple again researched and gathered insights from the customers. The insights revealed that consumers wanted to take 'all their' music with them but they wanted their personal device to be 'unobtrusive'. This insight led to two conclusions:*

*1. The device should have a memory and that too a good memory so that customers can carry all their music with them. It was thus decided to design a device that can carry 1,000 songs at least.*

*2. The device should be as small as possible.*

The above two design goals led to what is known as an Apple iPod today. Had there not been something called as marketing research, the world would not have witnessed iconic products of the kind of Apple iPod.

The above examples provide a very clear understanding of the importance of marketing research. Marketing research is the only connecting bridge between the manufacturer, marketer and the customer.

Definition: Marketing research is the systematic design, collection, analysis and reporting of data relevant to a particular marketing situation facing an organization. It is a conscious and structured approach of gathering insights from the customer, the decision maker for buying products and services.

**Importance of Marketing Research**

The following points highlight the importance of marketing research;

1. Providing Competitive Insight- Market research helps to find out about the competitors' products, services, marketing mix, marketing strategies, and target audience. Using this information a company can design its own marketing mix and campaigns

2. Identifying marketing problems-It helps in identifying and solving the problems that company faces. A company faces a decline in sales. It could be a problem, but also could be a symptom of the problem (explained in later sections. Marketing research helps to identify the symptoms from the problems and seek a solution thereafter.

3. Identifying market opportunities- It also helps in identifying new market opportunities that exist in the market. In the above examples we saw how Sony and Apple could launch Walkman and iPod respectively, after gaining insights from the customer. Thus, marketing research helps to identify the gaps in the market, which are actually market opportunities.

4. Providing marketing relevant data-It provides information on market share, nature of competition, customer satisfaction levels, sales performances and channel of distribution. This helps the firms is solving problems.

5. Designing a better marketing mix-Today, markets have transformed to become global market places with enormous competition. Customers have become complex and demanding and companies need new and innovative channels to contact customers It is this becoming important to arrive at a precise market segmentation and targeting the right customer with the right product at the right time and place and at the right price. The marketing intelligence provided through marketing research helps solve the above problems with reasonable precision. A better marketing mix means a better marketing strategy.

6. Understanding customer needs and wants- Marketing research connects the customer to the manufacturer and marketer. Refer to the above example of Apple and Sony to understand this better.

*For example, another development in customer's entertainment patterns revealed the customers prefer personalized, private and their own entertainment on their own screens. This led to services like Amazon Prime, Netflix and Hotstar.*

7. Devising better communications mix-Mass marketing is a passé. All customers need personalized, focused and customized communication. The communication platforms have become much more than yesteryears and are too many and too complex to handle. Marketing research uses promotional research to study media mix, advertising effectiveness and integrated communication tools. Research on such aspects will help in promoting effectively a company's product in the market over a multitude of tools of communication.

8. Improving the selling efforts- Selling process involves a sequence of steps beginning from prospecting to closing the deal. Identifying sales territories is a critical step in the sales process. All these steps and aspects of sales can be improved by marketing research.

9. Sales Forecasting- Marketing research helps to forecast sales-using qualitative and quantitative methods viz. Delphi method, market share method, sales force estimate method etc. This helps in fixing sales quotas. A forecast of sales also helps the production department decide on the levels of inventory to carry. Thus, good market research addresses a number of issues pertaining to sales management.

10. Revitalizing existing brands-Brands become obsolete over time. They lose their appeal over time as the original customers have grown old and the new customers have not been added. In order to survive, new customers have to be added. But these new customers are a new genre of customers and they need to be understood before the company modifies the product according to them. It's here that marketing research is needed.

*For example-We all know that Dabur is a more than century brand heritage brand in India. The initial customers of Dabur have grown old and Dabur cannot expand its market if it were to serve only those set of customers. Now, it should add more customers and these customers are the new age customers-currently studying in schools and colleges. Now, what kind of product, packaging and flavors would they prefer is something that Dabur has to find out? In order to explore the tastes and preferences of the 'to be customers' Dabur has commissioned a research which involves Dabur executives going to schools and colleges and exploring the preferred flavors and packaging etc. This has borne fruits and Dabur has added new flavors and new products to its portfolio, without alienating the old and adult customer base.*

# 6.4 MARKET RESEARCH PROCESS

The following section shall discuss the process of marketing research. Find below the illustration on the process of research. It involves 4 major steps as shown in the figure

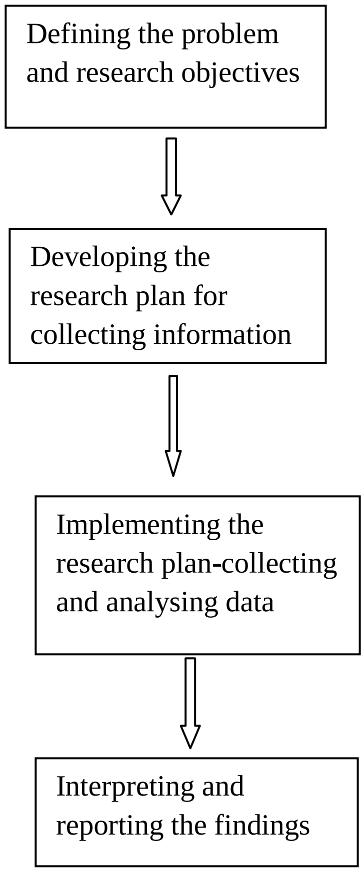


**Fig: 6.1 Market Research Process**

**Steps of Marketing Research**

The above illustration is a representation of the 4 step process of marketing research, which begins with problem definition. Marketing research is an important management function, but different companies handle it quite differently. Giants like HUL, P&G, 3M, Apple, GE and Gillette have dedicated marketing research department. On the other hand, smaller firms have a different approach-they hire market research firms or consultants to help them with the research function by commissioning research for them. Another approach could be, buying data collected by other firms to improve decision making.

Find below the names of a few famous marketing research firms.

- IMRB International

- RNB Research
- TNS India Private Limited
- Hansa Research
- Milward Brown
- AC Neilson
- ORG-Marg
- KSA Technopak
- Forrester Research
- Gallup International

**Defining the Problem and Research Objectives**

This is the first step of marketing research and in fact the most critical and difficult step in the entire process. It is so important that it has often been compared to the foundation of a building-the stronger the foundation, the stronger the building, the clearer the research problem, the better the research output. This is because the rest of the steps of research process depend upon the problem definition. If the problem definition is incorrect/wrong, the company would land up spending money, time and resources only to find out that the problem did not even exist and the whole research process was started on a wrong note.

*For example: A laundry equipment manufacturer compared his sales over a period of 5 years and identified that the sales is declining. He thought that something was wrong with his organization and he commissioned research for the same. He paid a huge fee for the marketing research agency for the research. A study of the trends in the industry revealed an important fact-the sale of the entire industry was on a decline. In fact, his company's sale did not decline as much as the industry's sales had declined. This revealed two facts:*

*1. His company was doing relatively better than the other companies in the laundry equipment industry;*

*2. What he was thinking of as a problem, was not a problem at all. The decline in sales was due to the fact that consumer's tastes and preferences had changed and they wanted sleeker and heavily featured laundry equipment. The equipment needed a redesign and product modification.*

The above example is a case of wrong problem definition and wasting of time, energy, money and resources in solving a problem which did not even exist.

Thus, it is said that problem definition is the most important part of marketing research. A problem well defined is a problem half solved.

### Separating Symptoms from the Problem

This can be better understood by our own example. When we have fever we take crocin and the fever subsides. After 5 hours, fever again develops and subsides on taking crocin again. This happens for 3 days. The fourth day we go to a doctor and doctor says that there is a throat infection and fever is happening because of the throat infection. He gives antibiotics and the fever does not recur. All this time, you were treating the symptoms by taking crocin, but the problem that was an infection remained as it is. When, antibiotic is taken, the problem is solved and symptom (fever) does not happen again.

In doing market research, the symptom should be separated from the problem. The treatment has to be given to the problem and not to the symptom. When, problem is treated symptom does not happen again.

Most marketers think that declining sales is a problem. But, more often than not a problem, it’s a symptom of a problem. The problem could be any of the following and even anything else.

1. Better product by the competitor
2. More value given by the competitor
3. Ineffective communication and hence customer being unaware of the product.
4. Faulty distribution and hence the product is not available to the customers
5. Unattractive and inconvenient packaging
6. Product complexity
7. Poor after sales service by the company

and many more such reasons. It is therefore very important to understand the background and environment of the problem, so that the right problem is identified and we treat the problems and not the symptoms. Problem definition thus requires a number of tasks as explained below.

### Tasks involved in Problem Definition

We shall continue with the laundry equipment manufacturing example. Problem definition process requires the following tasks:

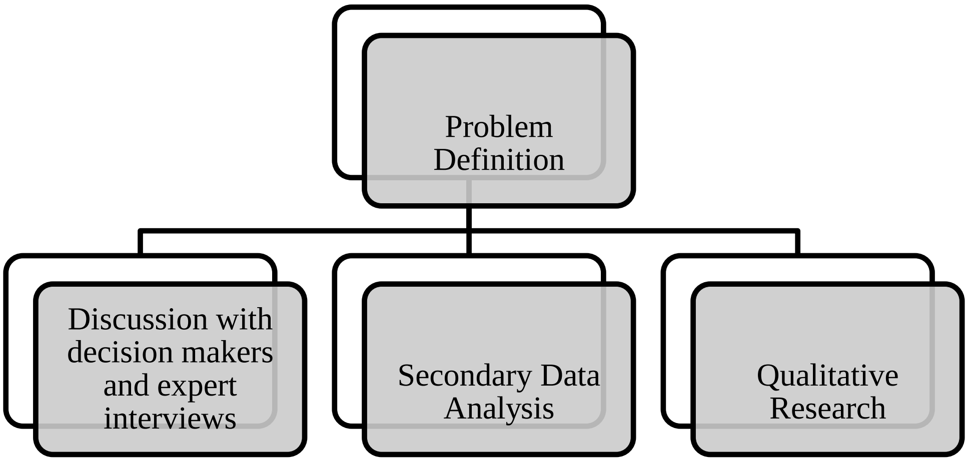


**Fig: 6.2 Problem Definition**

**Problem definition**

The above tasks are important for problem definition.

1. Discussion with decision makers- It involves an interaction of the marketing research agency with the laundry equipment manufacturer in order to understand the environment and background of the problem and why the client wants to get a research done, this is called as client brief.

2. Expert interviews-It involves collecting data from all those experts who have an experience of working with laundry equipment. This is also known as expert surveys. It may include customers who use the laundry equipment, sales people who sell laundry equipment, engineers who have an experience with the product and many more such related experts.

3. Secondary Data Analysis- It involved studying the data from secondary sources on industry trends, sales etc. The above example showed that studying secondary data revealed that the entire industry of laundry equipment was facing a decline. The meaning of secondary data shall be explained in the latter section.

4. Qualitative Research-This means doing focus group and depth interviews with chosen experts to understand the problem situation better. The meaning of focus group and depth interviews shall be explained in the latter section.

**Problem definition involves the translation of a management problem into a marketing research problem.**

| Management Problem | Marketing Research Problem |
|---|---|
| Should the company introduce a new product? | Determine the customer's taste and preferences and intention-to-purchase for the new product |
| Should the communication strategy of the company be changed? | Determine the effectiveness of the existing communication strategy |
| Should the price of the product be reduced? | Determine the additional unit that the customers will buy if the price is reduced. |

Once the problem is identified and defined, clarity is obtained on research objectives, what data should be collected, from whom the data should be collected, how the data should be analysed etc.

***Check Your Progress-A***

**Q1. What do you understand by marketing research?**

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**Q2. Explain the importance of marketing research for a decision maker?**

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**Q3. Choose the correct alternative.**

i. The first step in the process of marketing research is:
   a. Sampling
   b. Data collection

c. Problem definition
d. Data analysis

ii. Problem definition involves:
a. Translation of management problem into a marketing problem
b. Translation of research problem into objectives
c. Translation of input to output
d. All of the above

iii. Research should treat the
a. Symptoms
b. Problems
c. Both symptoms and problems
d. None of the above

**Q4. Fill in the Blanks with appropriate word or words.**

i) A company is experiencing a decline in sales due to poor distribution. Decline is sales is a________________ and poor distribution is the ___________________.

ii) A company wants to understand whether it should change the product design and features. This is a management problem /a marketing research problem (choose the correct option)

# 6.5 DEVELOPING THE RESEARCH PLAN

Once the problem is defined, the further steps are devoted towards collecting data and thus solving the problem. Its involves decisions like developing a research design, collecting data and the likes.

**Research Design**

Developing the research plan involves deciding on the Research Design. Research design is comparable to a blue print before making a building. Three kinds of research designs are possible:

a. Exploratory Research Design-The purpose of exploratory research is to explore the problem situation, probe, did deep like a detective and thus help in problem definition. It is qualitative in nature. Depth interviews and focus group are major exploratory research tools.

b. Descriptive Research Design-The purpose of descriptive research is to describe something-market, target audience, market share, customer attitudes, intention-to –purchase etc. Most marketing researches are descriptive in nature.

c. Causal/ Experimental Research Design-Causal design is employed where cause-and-effect relationships exist. For examples, if two variables can be related in a cause- and- effect relationship like price and sales, advertising and sales, training and sales then causal/experimental is the research design of choice.

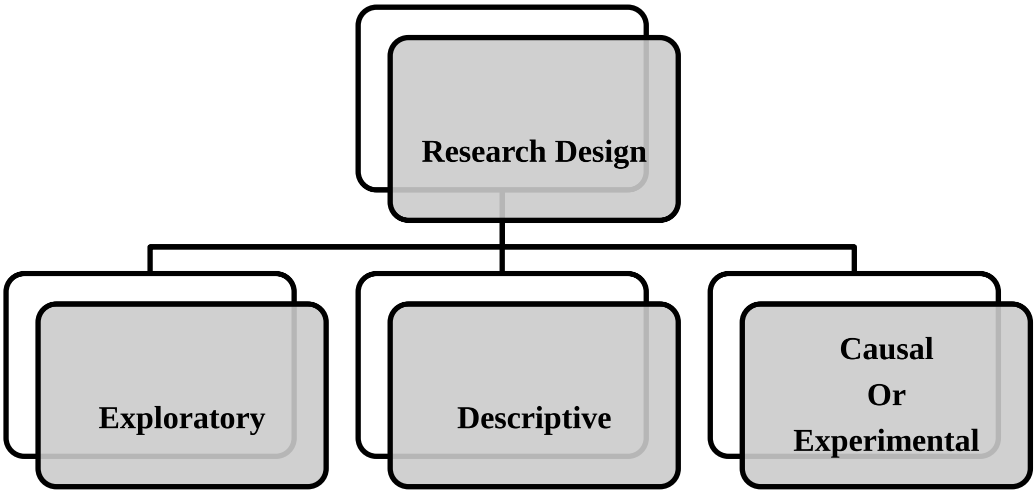


**Fig: 6.3 Research Design**

**Research Design**

Once the information needs and thus the research design is clear, the next step is data collection.

**Data Collection**

Data to be collected could be primary data, secondary data or both. It's important here to make a distinction between primary data and secondary data.

Primary Data- Firsthand Information collected for the specific purpose at hand.

Secondary Data-Information that already exists somewhere (internet search engines, journals, magazines, social media sites, government records, online databases etc) and is used by a researcher to meet his information needs for the problem at hand is called as secondary data. It had been collected by some individual/some organization its research, but is used by another researcher for his information needs.

**Primary data vs. Secondary Data**

| | Primary data | Secondary data |
|---|---|---|
| Collection Time | Lot of time required | Relatively less time required |
| Cost | High | Low |

| | | |
|---|---|---|
| Ease of collecting | Low | High |
| Availability | - | Not always available on the needed subject |
| Recency | High | May be outdated also. Needs to be checked for recency. |
| Relevance | High | Low |

Thus, we compare primary data with secondary data. Secondary data has many problems in terms of its relevance, accuracy, biasness and it's often not enough updated. Yet, most researched begin with secondary data. This is because of the following reasons:
a. Secondary data is a must for problem definition. Pls see carefully, it is one of the tasks of problem definition. Refer to the laundry equipment case-a study of secondary data on laundry equipment industry helped to define the problem better.
b. It may reduce the need for the more expensive primary data.
c. In very rare cases, the problem may also be solved using secondary data. Thus, the need for collecting primary data may not exist at all.

**Data Collection**
Data collection involves numerous decisions like

- Research Approach
- Contact Methods
- Sampling Plan and
- Research Instruments

**Research Approach**
Research approach could be observation, survey and experiment.
Observation Research-This means that data is gathered by observing people, their behavior, and actions in a given situation. *For example-A restaurant can solve a location problem by observing the people in the proximity, neighborhood conditions and competition in the nearby area. Toy companies design toys by observing kids playing with the toys.*
Survey Research- Most marketing researches are survey based. It is a data collection approach best suited for descriptive research. As explained earlier too, this approach describes people in terms of their knowledge, belief, opinion, attitude and intention to purchase and the like. It is administered by direct questioning using a questionnaire. It is a very versatile technique because it can be conducted in person, over mail, over telephone, over social media etc.
Experimental Research-It is the most appropriate technique for causal research, which attempts to establish a relationship between two variables which supposedly share a cause-and-effect relationship. *For example-a retail store chain can have two different layouts at two*

*locations and study the impact on retail foot falls. This helps to understand the relationship between store layout and store traffic.*

**Contact Methods**

The respondents now need to be contacted. The contact methods could be as follows:

- Mail
- Telephone/Mobile
- Personal Interviewing
- Group interviewing using focus group interviewing. This involves group of 4-5 experts being interviewed by a trained interviewer called as a moderator. It is called focus group because the interviewer focuses the discussion on important issues. Focus group can also be conducted online.
- Online Interviews

**Sampling**

Any kind of research needs data and this data has to be obtained from respondents. The population of respondents is too large in the universe but a researcher cannot collect data from all of them. A census is not possible. Hence, a few people have to be drawn from the population of respondents for the purpose of data collection. These few chosen people are called as Sample. A sample is a segment of the population selected for marketing research to represent the population as a whole. Ideally, the sample should be representative of the population so that the findings of the study on the sample can be generalized on the population as a whole.

**Research/Measurement Instrument**

These include the interventions from capturing data from the respondents. These could be

- Questionnaires-As explained above, questionnaire has a set of questions to be administered to the respondents. Questionnaire is by far the most commonly used research instrument. It is flexible in nature and can be administered over multiple platforms.

Mechanical Instruments-These are scientific and mechanical devices for data collection.

*For example-People meters are attached to television sets to observe TV watching behavior of respondents in media studies. IBM devised Blue Eyes technology offers an interpretation of facial expression and eye movements to track the audience's reaction to the advertisements.*

## 6.6 IMPLEMENTING THE RESEARCH PLAN

This involves executing the marketing research plan. The plan is already in place, its success now lies on the execution. The firm can do data collection on its own or outsource the data collection to an external agency. Data collection is indeed the most expensive step of market research and also susceptible to errors and biases. A good researcher keeps a close watch on the execution of research too. It may involve contacting some respondents to check their genuity. Keeping a tab on the surveyor to see that he/she is doing an authentic and impartial job and not using indiscreet shortcuts.

Data once collected needs a meticulous analysis. More important than analysis is the interpretation of the analyzed data and reporting the findings to the client. A very important aspect here is the research ethics. This implies that the respondent should be kept anonymous. At no point, should his identity and demographic details be revealed. The data should be used strictly for the purpose that it is collected. Also, the research findings should not be revealed to the competitors. It involves a lot of ethical commitment and behavior.

*Check Your Progress- B*

**Q1. What do you understand by research design? Discuss the different kinds of research design with appropriate examples.**

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**Q2. Differentiate between primary data and secondary data. When is each appropriate and how are they collected?**

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**Q3. What is observation? Explain when observation should be used as a data collection method.**

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**Q4. A retailer wants to find out the effectiveness of the extra money he has put in advertising. He wants to know if the investment has increased awareness, recognition, and recall and has finally translated into more sales. The retailer has hired you as a consultant. What kind of a research design would you use for this scenario? Give reasons for your answer.**

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## 6.7 INTERPRETING AND REPORTING THE FINDINGS

After all the steps have been executed, the researcher now has to interpret the findings, draw conclusions and report to the client. There can be two kinds of reports-Popular reports and Technical Reports. Popular reports are simple and non-jargonized while technical reports are complex.

Reports should ideally be simple and should not be written to impress upon the client with statistical prowess. The client is looking for insights to solve the problem that he/she is facing or an opportunity that he is confronted with. He wants simple solutions and thus a good report must capture insights.

A marketing research report should not be followed blindly. A researcher is a statistician; he knows how to play with numbers. But, a marketing manager is a person who is in the field and has a firsthand interaction with customers, dealers, and channel members. Thus, a researcher’s report and a marketing manager’s prowess should be combined for deriving more meaning out of the report. The same report can prove to be much more meaningful, when the researcher and manager co-operate.

## 6.8 SUMMARY

The unit talks about marketing research. The unit begins with the meaning of marketing research. Multiple examples have been cited for explaining the meaning and importance of marketing research. Next, is an elaboration on the steps involved in the research process. Problem definition is the most important step of marketing research and all the tasks involved have been explained well with examples. A problem well defined is a problem half solved. Differentiating between a problem and symptom is very important and a lot of care and caution is needed. Research design has been explained as the blue print of research. Data collection, research approach follows in the latter part of the unit. A note on data collection methods adds value to the unit. Implementation of research and research ethics is an integral part of any good research. Research report is a document that presents the findings, analysis, conclusions, and recommendations to the client.

## 6.9 GLOSSARY

**Ad tracking**: Monitoring a brands performance with an advertisement to determine the effectiveness of the media targeting, the quality of the advertisements, and ROI.

**Applied Research:** Research that is conducted with specific objectives in order to develop new products or applications.

**Causal Research:** Research that examines the cause-and-effect relationship among variables.

**Causation:** The action of causing something.

**Data Collection:** The gathering and preparation of data for research purposes.

**Data entry:** It is the process of entering data from surveys, research, etc., into an electronic format.

**Data:** Statistics collected for research purposes.

**Focus Group**: It is a type of qualitative research where a group of people have a discussion on their perceptions, opinions, etc., toward a product or service.

**Market Research:** It is process of gathering, recording, and analyzing data and information about customers, competitors, and the market in which you intend to enter.

**Qualitative Research:** Research that uses exploratory techniques to obtain words and descriptions as data, as opposed to numerical data.

**Quantitative Research:** Research that uses numbers for data to analyze results.

**Research Design**: how the information is to be gathered for research, including the instruments to be used and how the information will be analysed.

## 6.10 ANSWERS TO CHECK YOUR PROGRESS

**Check Your Progress –A**

**Q3. Choose the correct alternative.**

i) c

ii) a

iii) b

Q4. Fill in the Blanks with appropriate word or words.

i) A company is experiencing a decline in sales due to poor distribution. Decline is sales is a symptom and poor distribution is the problem.

ii) A company wants to understand whether it should change the product design and features. This is a management problem /a marketing research problem (choose the correct option)

## 6.11 REFERENCES


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## 6.12 SUGGESTED READINGS

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5. Coombs, C. H. (1953).."Theory and Methods of Social Measurement", in *Research Methods in the Behavioral Sciences,* eds. Feslinger, L. and Ratz, D., Holt, Rinehart and Winston.

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## 6.13 TERMINAL QUESTIONS

1. A coconut water manufacturer from South India wants to launch his ready-to-drink coconut water in North India. He does not know anything about north India and is thus unsure of his decision. He has hired you as a researcher to understand whether he should go ahead or not. In the above scenario, answer the following questions:

   a. Management Problem

   b. Marketing Research Problem

   c. How would you define the problem? Discuss the tasks involved.

   d. What research design would you use?

   e. Who shall be the respondents for your research?

   f. What shall be the contact methods?

   g. How do you plan to capture the data? (Hint: Measurement instrument)

# Block II
# STP Concept and Consumer Behaviour

# UNIT 7 STP CONCEPT AND MARKET SEGMENTATION

**7.1 Introduction**
**7.2 Objectives**
**7.3 Mass-Marketing: The Precursor To Market Segmentation**
**7.4 Market Segmentation**
**7.5 Effective Segmentation**
**7.6 What Follows Segmentation: Targeting & Positioning**
**7.7 Summary**
**7.8 Glossary**
**7.9 Answers To Check Your Progress**
**7.10 References/ Bibliography**
**7.11 Suggested Readings**
**7.12 Terminal & Model Questions**

## 7.1 INTRODUCTION

In the previous units, you were introduced to the discipline of marketing management. You came to know of the various stages through which marketing has evolved over the years. This was followed by an elaborate discussion about the marketing process. Marketing mix and its various constituents were also discussed. You also learned about the various forces in the environment which have a bearing on the marketing process and the fortunes of a product or service in the market. You also understood how market researches are conducted to assist the marketers in decision making.

These market researches also bring out the fact that the markets are not homogenous in the sense that all the customers in a market seldom have the same needs. In fact, in a market, it is very common to find customers with varyingly different needs. This makes it possible to group customers in a market according to their needs. These different customer-groups, in which all the members have almost similar needs, are called market segments. In this unit, we shall study about these market segments.

Marketers generally find it more prudent to select one or more of these numerous segments and direct their marketing efforts to them rather than trying to cater to the whole market. This process of selecting one or more segments for purpose of selling is called targeting. You shall also be introduced to Targeting & Positioning towards the end of this unit.

## 7.2 OBJECTIVES

After reading this unit, you will be able to:

- Describe the evolution of market segmentation as a marketing tool
- Understand the importance of market segmentation in marketing
- Outline the process of market segmentation
- List the segmentation variables used in consumer & business markets
- Explain the inter-relationship of segmentation, targeting and positioning
- Quote corporate examples of market application of the concept of segmentation

## 7.3 MASS-MARKETING: THE PRECURSOR TO MARKET SEGMENTATION

In older days, marketers used to sell only one type of product without any regard to the special needs of the customers. This was cost-effective also- fabricating a single type of product would not require a variety of machines or vastly different types of production set-ups. The shop-floor/production workers also needed to be trained in only a few skills. Workers also gained proficiency faster since they had to produce the same product again and again. In other words, it was easier for them to climb up the experience curve. Sourcing the raw material was also easy since the same raw material had to be purchased every time for successive production cycles.

For these reasons, producing a standard product in very large volumes used to be much less expensive. Therefore, the marketers would pass on the cost savings to the customers by selling the product at a much cheaper price. They used to think that the customers would also not mind the lack of variety and product choices if they get the product at dirt-cheap prices.

So much so that Henry Ford, the pioneer of assembly line production and automobile manufacturing, had once famously remarked that he would sell his Model-T Ford brand of cars to his customers in 'whichever colour they prefer as long as it is black'. What he actually implied was that he would not sell this brand of cars in any other colour except black notwithstanding the customer preferences.

Do you know what this kind of marketing philosophy is known as? You would recall from the discussion regarding the evolution of marketing that this most closely resembles the 'production' orientation.

Gradually, the marketers realised that this approach to marketing can't bring a lasting success. This is so because not all customers in a market-place are exactly alike. They may have different expectations from a product and may wish to derive vastly different benefits from its use. Do you have TV at your home? Do all the family members like watching the same programmes? The children in your family might be interested in cartoons, the elders might prefer watching news broadcasts. Some members can be found glued to the TV when a cricket match is being telecasted while others find the movies more engaging. If this is the level of disparity in entertainment preferences within a small family, you can imagine how diverse the customer choices shall be in a marketplace!

This understanding of the inherent differences in customer needs and preferences in a marketplace led to the evolution of micro-marketing.

Micro-marketing is the exact opposite of mass-marketing. Micro-marketing recognises that the customers may have different expectations from a product or service. It hinges on customising the market offerings to suit the customer-requirements.

Naturally, this entails additional costs. The marketer may have to design a variety of products to satisfy the disparate customer needs. S/He shall have to run different product lines and use different promotional features. Still, it is an approach worth adopting as it results into a highly satisfied customer base which translates into repeat sales and higher earnings.

Market Segmentation is one of the ways in which micro-marketing can be accomplished.

## 7.4 MARKET SEGMENTATION

Market Segmentation is the process of breaking down the whole market into smaller & homogenous groups of customers. These groups are homogenous in the sense that the customers within a particular group have similar needs and thereby similar product preferences. On the other hand, the customers in two different groups have widely different needs and product preferences. These customer-groups into which the whole market is divided are referred to as market segments.

For instance, the TV audience (market) may be divided into different segments based on the kind of programmes they prefer watching. In the adjoining figure, six different market segments can be spotted based on the programme preferences of the TV audience.

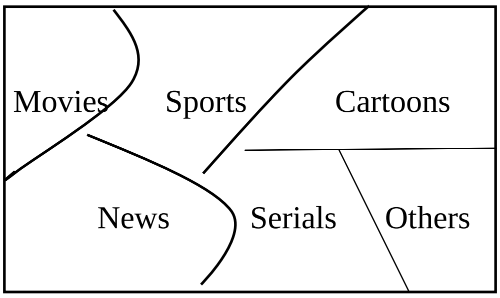


**Figure 7.1: Market Segments Based on Programme Preferences**

## 7.4.1 SEGMENTATION VARIABLES FOR CONSUMER MARKETS

Let’s now discuss how the markets are segmented. The major segmentation methods used in the consumer markets have been discussed in the following passages.

### 7.4.1.1 Geographic Segmentation

It is done by dividing the market into different geographical units like regions, countries or states. For instance, the firms operating internationally segment the global market into USA & Western Europe, Latin America, Africa, Middle East, South Asia & South-East Asia etc. Marketers selling domestically in India many-a-times segment the Indian markets into Northern, Southern, Eastern, Western & Central regions. This region-wise segmentation makes sense also as customers in a particular region experience almost similar geo-climatic conditions resulting into similar lifestyles and product choices. McDonald’s India segmented the Indian market on this basis and introduced *masala-dosa* burger in southern parts to suit the local palate.

Geographic segmentation may also be done on the basis of population or soil-type. Prominent luxury car-makers like Lamborghini segment the Indian market into metros (population greater than 10 lakh) and non-metros and focus primarily on the former. Firms selling agricultural equipments & tractors in India segment the market with respect to soil types. This is so because some soils are hard (eg- black soil in Maharashtra) and hence ploughing them requires considerable effort in comparison to softer alluvial soils found in Uttar Pradesh. So, they equip their tractors with greater horse-power engines for purpose of selling in regions with predominantly black soil.

### 7.4.1.2 Demographic Segmentation

Demographic segmentation is the most widely used method of segmentation. This is so as the demographic variables can be measured every easily. In this, the customers are divided into segments based on the variables like age, gender, education, income, occupation, religion, family size, family life cycle, nationality, generation & social class.

Johnson & Johnson presents a good example of segmenting the market on the basis of age. They have earned a fortune by designing & selling a range of products meant exclusively for toddlers. They have developed a ‘no more tears’ formula for use in bathing soaps and shampoos. This formula prevents any irritation even if the soap or shampoo bubbles get into the eyes of the toddlers and hence is popular among mothers tending to their newborns. There are marketers who focus exclusively on customers in the 50 & above age group & bring out medicines for diseases like dementia which general strike during old age.

Marketers also use gender to segment the markets. Do you known about the famous rivalry between the FMCG firms, HUL and Emami? HUL segmented the markets based on gender and introduced a fairness cream, ‘Fair & Lovely’ meant exclusively for women. As it emerged later on that the Indian men also secretly long for a fair skin tone, Emami cashed in on the opportunity by launching ‘Fair & Handsome’ targeted on such male customers.

Tata Motors used income as a demographic variable to segment the market and brought out ‘Nano’ brand of cars around 2008 for customer segments with relatively lower income levels. One could have bought the base version of ‘Nano’ in just one lakh rupees. Do you recall the ‘Nano’ television advertisements? ‘Nano’ is shown in these advertisements as an affordable car for the first time car buyers. Compare this with Mercedes or Audi which cost in crores. Which customer groups are these premium car brands targeting? Indeed the super-rich with very high income levels.

Education and literacy levels of customers can also be utilized as a segmentation variable. The Uttarakhand Open University is offering distance learning courses for students at the graduate and post-graduate levels. They must have segmented the market on basis of education and literacy levels. Subsequently, they must have decided to target those customers who have completed schooling. On the other hand, National Institute of Open Schooling predominantly serves those customer segments who are yet to complete secondary education. What about Adult Literacy Programmes offered by the governments? Are they not being run for those who are illiterates?

Have you noticed doctors using a device called sphygmomanometer to measure blood pressure? Suppose that you run a firm which markets these devices. You would certainly want to use occupation as a variable to segment the whole market; and then try to sell your devices to only those in the medical profession-doctors and nurses- and not to teachers and lawyers!

Religion is another prominent segmentation variable. Have you heard of Geeta Press? It publishes and markets Hindu religious & mythological texts like *Ved-Puran*, *Ramayana* etc. They must have segmented the market with regard to religion. What about those marketers who sell the ‘Santa-Claus’ outfits around Christmas? They are also using the same segmentation variable.

In India, some families just have two or four members- think of the nuclear families which have children staying with their parents. Some joint families may have more than ten members spanning across three-four generations. This family size offers an opportunity for segmentation. Do you purchase wheat flour? You must have noticed different package sizes in which this flour is available- 1, 5, 10, 20 and even 50 kilograms. While the smaller package sizes are suitable for smaller nuclear families, the 50 kg size is meant for joint families with more number of family members. ITC makes use of family size as a segmentation variable to sell its ‘*Aashirvaad*’ brand of flour.

Family life cycle consists of various stages which a family witnesses over a period of time. Suppose you get a job in Delhi and settle there. You would be at the ‘Bachelor’ stage. After some time, you shall get married (‘Newly Married’ stage). Over a period of time, you would have children (Full Nest). Eventually when these children grow up and settle in some other city for educational or employment reasons, you shall be left behind with your spouse (Empty Nest). As old age approaches, either of the life-partners dies leaving the other all alone (Solitary Survivor). Thus, you see your family progressing through various stages in the family life cycle, which shall determine your needs and product choices.

Let’s take some examples. In Delhi, there are many entities providing tiffin services, i.e. home-cooked food at your doorsteps. Can you guess who their prime customers are? Indeed, the bachelors. What about travel companies like Cox & Kings which provide special tour packages for honeymooners? They must have segmented the market on the basis of stages in the family life-cycle to zero-in on the newly-married couples. Walt Disney Company operates a chain of amusement parks & resorts meant for visits by full-nesters. In older days, before the emergence of online-banking, India Post, a government owned enterprise, used to provide money-order services. A daughter employed in Mumbai could send some money for her parents back home in Haldwani by paying a small commission to India Post. This was how India Post served empty-nesters. Likewise, old-age homes primarily serve the empty-nesters and solitary-survivors.

Nationality is another variable used in market segmentation. Do you like watching movies? If you do, you might find the following case-study interesting.

**Bollywood: *Paisa Vasool* !**

The Indian film industry, popularly referred to as Bollywood, has now find new avenues to fill up its already brimming coffers. Till the 1990s, Bollywood primarily depended on the sales proceeds of music rights and box-office collections from the movie releases in cinema halls across the country. It soon realized that there is a large Indian diaspora settled outside the country in places like USA, Canada and UK. These migrants, who left the country in search of jobs long ago are still connected to their roots. Their friends and relatives back home who visit them once in a while and bring along *achaars* and *chutneys* for their culinary indulgence just can’t let this connection wither away. Bollywood found it a profitable proposition to feed on this nostalgia by planning simultaneous movie releases in the adopted countries of these migrants also.

*Dilwale Dukhaniya Le Jayenge*, released in 1995, raked in 16 crore rupees from foreign releases. *Kabhi Khushi Kabhi Gam* and *Lagaan* earned more than 10 crore rupees in 2001. More recently, *Dangal* and *Sultan* earnings from foreign theatrical releases has been beyond 80 crore rupees according to some media reports. Unearthing this new set of audiences has truly helped Bollywood hit a jackpot!

Do you understand that the Bollywood movie-makers must have segmented the audience in these foreign countries based on their nationality/ country of origin? A substantial segment of people of Indian origin in these countries must have prompted them to release their movies there also.

You must have noticed in your family that members belonging to different generations have widely different tastes. These differences come to fore while deciding which music channel to watch! You love the Yo Yo Honey Singh rap songs while your grandparents fondly remember the Kishore Kumar & Mohammad Rafi melodies of yesteryears. The mobile handset marketers have segmented the markets to understand these generational gaps. HMD Global has recently re-launched the Nokia 3310, which was in vogue in 2000s and was known for its ease of handling. This re-launch is expected to entice those from the older generation who are not as tech-savvy as the younger generations and hence have no use for complicated features found in the most advanced smartphones now-a-days.

Lastly, social class is also used as a segmentation variable.

**Social Class**

Social classes are artificial divisions in the society which reflect the difference in living standards and social recognition. For instance, celebrities like Sachin Tendulkar, Amitabh Bachhan, Anil Ambani etc. belong to the same social class. Likewise a teacher in a government run school, the doctor in a public hospital and the postmaster can be thought to belong to the same social class.

Social classes are perceived to be arranged hierarchically on the social class ladder. For instance, you might be placed much below Sachin Tendulkar in the social class ladder. But, compared to a slum dweller or a rag-picker, you shall be perceived to be occupying a superior position in the social class ladder.

Individuals may move up or down the social class ladder. What if tomorrow you found a business empire and become a billionaire? You would have moved up the social ladder to be placed alongside Sachin Tendulkar and Anil Ambani! Unlike people from two different social classes, those in the same social class have similar needs and product preferences. Hence, the utility of social class as a basis for market segmentation.

Versace, the Italian luxury fashion company, segments the market with respect to social class and targets those at the very apex of the social class ladder by offering them premium products. Similar is the case of Raymond Group, an Indian branded fabric retailer.

### 7.4.1.3 Psychographic Segmentation

In psychographic segmentation, customers are divided into segments on the basis of their lifestyles, personality and value-systems.

Have you observed your friends, relatives and neighbours closely? They might be having widely different lifestyles reflected in their unique interests and hobbies pursued by them. Marketers like Ranbaxy segmented the markets based on lifestyles. They brought out a food supplement ‘Revital’ for those with a very busy lifestyle.

Likewise, the customers can be segmented on the basis of their personalities. Some customers are extremely risk-averse: they prefer stability and take every possible precaution to guard themselves from unforeseen risks. Insurance companies cleverly exploit this tendency to sell their insurance products. Many people are stimulated by variety. They are open to new experiences and among the first ones to try a new product in the market. Hence, marketers launching a novel product try to obtain purchase from this customer segment. ‘Woodland’ is a brand of rugged shoes meant for those customers who are rough and tough. ‘Dove’ is a bathing soap meant for gentle personalities with delicate skins!

Grown-ups have a fully developed value system. Value-system comprises of all the values that an individual holds dear. The value-system of an individual can be inferred from his activities. For instance, altruism- the tendency to help others- can be part of the value system of an individual. Such an individual would donate money and volunteer for social work.

Since, customers tend to favour those products and services which correspond to their value systems, segmenting the market using this variable makes a lot of sense. NGOs looking for donations segment the market and focus on the altruists for fund raising. Bajaj Auto tries to woo the customer segment which cherishes the values of patriotism and loyalty when it promotes its ‘Bajaj V’ brand of bikes as being ‘made with the invincible metal of INS Vikrant’. INS Vikrant, incidentally, is now-decommissioned warship of the Indian Navy.

#### 7.4.1.4 Behavioural Segmentation

This type of segmentation is done on the basis of the behaviours exhibited by the customers towards the product. These behavioural variables include the product buy/use occasions, benefits sought from product use, user status, usage rates, loyalty & attitude displayed towards the product and buyer-readiness stage. Let’s discuss these one at a time.

Customers can be segmented based on the occasions on which they buy or use the products. Some products are bought/used on occasions of critical life events like birth, marriage, illness, divorce, retirement etc. Divorce lawyers segment the market on the basis of these occasions and offer their services to those customers/couples who are getting divorced. In Uttarakhand, there are *pandits* who solemnize marriages. Young people of your age know of so many brands who sell romantic wares on the occasion of Valentine’s Day! Kellogg’s sells cereals for breakfast. Haldiram segmented the Indian market on basis of occasions on which customers buy sweets and launched its own line of packaged sweets for purpose of consumption on festive occasions.

Customers also differ with respect to the benefits they seek from the consumption of a product or service. Some customers look for convenience of purchase. E-commerce firms like Grofers which deliver grocery items at customer-doorsteps in metro cities like Bengaluru & Delhi are catering to this segment of customers. Likewise, there exists another customer segment which seeks the benefit of reliability of service. Maruti Suzuki catered to this reliability seeking customer segment by setting up an extensive network of service stations spread across the country. This network provides prompt service to its customers in event of a car breakdown. In India, a significant number of customers hunt for low prices. Marketers organize discount sales to cater to this segment- Flipkart’s ‘Big Billion Days’ sale is a good example. Similarly, Indian Railways offer ‘Premium Tatkal’ ticketing service for those passengers who plan a trip at a very short notice and seek the benefit of prompt service.

Customers can also be segmented on the basis of their user status into non-users, potential users, first-time users, regular users and ex-users of a product or service. Coaching institutes arrange demo-classes for potential students to tempt them into applying for admissions. The *Swatch Bharat Abhiyaan* aims to encourage use of toilets among non-users.

Customers also differ a lot with regard to their intensity of use of a product. They may range from being heavy to medium to light users which can be used as a basis for segmentation. Car-manufacturers have brought diesel versions to cater to the heavy user customer-segment. Since diesel is cheaper than petrol, the diesel version of car helps the owner save on fuel costs despite using the car on a regular basis. The light users may not be too enthusiastic about the diesel version as they, anyway, use their cars only occasionally. Electric cars being sold currently are meant for light users as they run only 80-100 kilometres after being charged for 7-8 hours at a stretch.

Customers may exhibit 'hard-core loyalty' towards a particular brand and stick to it on every purchase occasion. Alternatively, they may patronize two-three brands simultaneously displaying 'split-loyalty'. Or they may be 'switchers'- not loyal to any of the brands and making purchase decision with the aim to get the best deals. The marketers segment the market on the basis of their loyalty and reward the hard-core loyals. Jet Airways' 'Jet Privilege' programme offers special perks like airport-lounge access and priority boarding to its loyal customers. Marketers offer random-discounts to entice the switchers into making purchases.

Customers do exhibit different attitudes in a marketplace. Marketers can segment them into five groups- enthusiastic, positive, indifferent, negative, hostile- based on their attitude towards their offerings. They may then decide not to waste any marketing effort on those with a hostile attitude while trying to win over those with a negative or indifferent attitude. Many marketers request customers displaying enthusiastic attitude towards their offerings to advocate them to fellow customers.

Buyer-readiness is another variable that can be used as a basis for segmentation. Do you know what buyer-readiness is? Any prospective buyer moves through different stages before actually buying a product or service. He starts as somebody absolutely 'unaware' of the existence of the product. Gradually, he becomes 'aware'. Over a period of time, he accumulates substantial information about the product (informed). This may generate a genuine interest in him about the product (interested). He may go on to start harbouring a 'desire to buy' the product. Finally, this desire intensifies and transforms into an 'intention to buy'. These are the exact stages through which you moved before finally applying for admission to the Uttarakhand Open University. Try and recall! Thus, the buyers may be segmented into different groups- unaware, aware, informed, interested, desiring to buy and intending to buy. Marketers run promotional campaigns (advertisements etc.) for those in the 'unaware' segment and provide product information to those in the 'aware but uninformed' segment. The Indian government runs various promotional campaigns on *Doordarshan* to create awareness among those unaware of its various schemes. The informative advertisements on 'Dengue' which are run around the peak months of October and November are meant to provide exhaustive information to that segment who is aware of the disease but is not fully informed. 'Early bird' discounts (special discounts offered to the first few buyers) are offered by many marketers to tempt those who intend to buy a product to rush their purchase.

## 7.4.2 SEGMENTATION VARIABLES FOR BUSINESS MARKETS

Let's move on to the segmentation variables used in business markets. By the way, do you remember the difference between the two- consumer and business markets?

**Consumer Markets V/s Business Markets**

Consumer markets consists of those entities which purchase goods or services for personal use. Customers in the consumer markets tend to make frequent but small volume purchases.

On the other hand, business markets consists of those individuals or organisations which acquire goods and service not for personal use but for some commercial purpose. Bulk volume purchases are common in business markets.

Take example of a soap. How many soaps do you purchase in a month for your family? Just a few! What about the shopkeeper from whom you buy these soaps? How many units of soap does he purchase from the wholesaler every month? At least a few hundred! And he has purchased these soaps not for his personal use but to sell them to customers like you.

Hence, while your family and other such families constitute the consumer market, the shopkeepers are part of the business market.

The variables used for market segmentation in business markets are only slightly different from those in the consumer markets. So, we shall keep the discussion brief. Following are the variables used to segment the business markets-

### 7.4.2.1 Demographic Variables

The business customers can be segmented on the basis of their size: large industries, small-scale industries, micro-units and cottage enterprises. This makes sense as the purchase capacity of a business customer depends on its scale of operations. Marketers may decide to offer their products or services to a few large scale industries or numerous small scale industries.

The business customers may also be segmented based on their location.

At times, they are segmented based on the industrial sectors to which they belong. For instance, a steel producer may segment the business customers requiring steel into industrial sectors like automobile assemblers, white-goods manufacturers and construction firms etc. and decide which industrial sector to target.

### 7.4.2.2 Operating Variables

Operating variables like technological sophistication of the business customers can be used for segmentation. Customers may be segmented depending on whether they are using obsolete, current or cutting-edge technology.

They may also be segmented into heavy, medium, light or non-users based on their use intensity just like the consumer markets.

Some business customers want a single product or service while others expect the full range of product or services to be provided to them. These special requirements can also be used as a basis for segmentation. Thus, two educational institutions- one expecting the computer dealer to supply only the hardware while the other also asking for installation of computer systems as well as their timely maintenance - shall fall in two different segments.

### 7.4.2.3 Purchasing Approaches

Business customers exhibit a variety of approaches towards the purchase process which provides the opportunity for dividing them into different segments.

Business customers may have a system in which purchases for all the organisational requirements are made centrally by the same set of people (centralised procurement). The exact opposite may also be true- different departments may have the freedom to make their own purchases as per their requirements (decentralised procurement). It is for the marketer to decide which of these two segments to target.

Different functions/departments may dominate purchase decision-making in different business organisations. Marketers may segment the business customers based on which function- finance, sales, production, marketing etc. - has the greatest say in the purchase decisions.

Business customers may also have different purchase policies. Some prefer outright purchase of products, other prefer leasing (obtaining the right to temporary use the assets owned by others by paying usage charges). For example, to run its branches, one bank might acquire a whole building while another might decide to function from a rented one. Real estate marketers decide whether to serve the former segment or the latter, i.e. whether to construct office space for selling or for renting out to banks.

Business customers may have different purchase criteria. For some, quality is the top-most priority while for others the price may matter the most. For quite a few, the prompt response of the seller to the customer's distress calls in event of an unforeseen problem with the product after its purchase is the biggest concern. Marketers have to decide which of these customer segments to cater to.

### 7.4.2.4 Situational Variables

Some business customers want prompt deliveries while others give sufficient time to their suppliers by ordering much in advance. Since the former segment is willing to pay a premium for quick service, it presents a lucrative opportunity to the marketer though also requiring considerable efforts on his part.

Business markets can also be segmented based on the size of the order placed by them. The marketer has to decide whether to concentrate on large or small orders.

### 7.4.2.5 Customer Characteristics

Just like in consumer markets, some business customers display high loyalty to their suppliers while others switch suppliers at the slightest opportunity. This can be used as a basis for segmentation.

Business markets may also be segmented on the basis of their organisational culture and values. Marketers may decide to serve that customer segment of which the culture and values align closely with theirs. Or alternatively, they may decide to serve those segments with entirely different values and culture.

Business customers also have vastly different orientations. Some are transactional buyers looking for the best bargains in terms of price, quality or delivery terms. Others may look at the purchase occasion not as a one-off transaction but as an opportunity to improve their functioning. This latter segment expect the marketers to provide them a comprehensive 'solution' to their problems and not just a bunch of stand-alone products or services and is ready to pay a premium for it. Marketers can decide to focus on either of these segments.

***Check Your Progress-A***

**Q1. Mark True/False against the following-**

i. Mass-marketing treats all the customer alike while segmentation recognises the difference between the customers in a market.
ii. The Uttarakhand Open University, offering correspondence course at under-graduate and post-graduate levels, must be segmenting the market using psychographic variables.
iii. Firms selling ice-scooters focus mainly on Himalayan regions of the country. These firms must be employing geographic segmentation.
iv. A company selling engine assembly to automobile manufacturers is operating in consumer markets.

# 7.5 EFFECTIVE SEGMENTATION

You have understood that a market can be segmented variously. Does it mean that all segmentation is useful? For it to be useful, market segments obtained by segmentation should have the following attributes -

- They should be measurable. It should be possible to obtain information regarding the segment size (number of customers in the segment), purchasing power (how much they can spend to buy an offering), special needs & preferences as well as other characteristics. This is so as this information shall be utilised by the marketer to decide his product design, pricing policy and promotional strategy to suit the segment requirements.
- They should be substantial in size and should have large number of customers. Then only can the marketer serve them profitably. For instance, demographic segmentation on the basis of age may yield a 100+ age group segment. But, this segmentation is not useful because even if a marketer decides to produce dietary supplements for this segment, he would only be able to sell a few hundred units a year which is just not viable.
- They should be accessible. It should be easy for the marketers to reach and serve them.
- They should be differentiable. They should have some unique attributes to help marketer distinguish them from other segments. For instance, they should respond differently to product features, product pricing and promotional campaigns.
- They should be actionable. It should be possible for the marketer to devise marketing programmes to attract and serve them.

So, it is advisable for a marketer to use only those segmentation variables which help him identify the market segments having the attributes listed above.

You should also bear in mind that actual use of segmentation in the marketing world is a lot more complicated than what has been discussed above. Seldom are the markets segmented using just one of these variables. Marketers rather practise multi-attribute segmentation in which a bunch of segmentation variables is used simultaneously.

Let’s take the example of a newly launched upmarket restaurant in Delhi. The restaurant might first segment the whole market on the basis of ethnicity (demographic segmentation) to discover the *Garhwali* community segment. Then, it might further segment this *Garhwali* community with regard to disposable incomes (demographic segmentation) to zero-in on the ‘affluent *Garhwalis’*. Within this ‘affluent *Garhwali*’ segment, psychographic segmentation may be used by the restaurant to uncover a sub-segment of ‘affluent *Garhwalis* who value their traditions’. The restaurant may then decide to pursue this segment of customers and offer ethnic *Garhwali* delicacies in its menu.

# 7.6 WHAT FOLLOWS SEGMENTATION: TARGETING & POSITIONING

Now that you understand segmentation, you must be wondering what next! Segmentation is not an end in itself. We segment the market so that we may target one (or a few) of the segments for purpose of selling our products. This is called Market Targeting.

Let's build up on our example in the preceding section. The Delhi-based restaurant might have found various community segments in Delhi apart from the *Garhwalis*. The fact that they chose to pursue the *Garhwali* segment further, and not the other communities, is an instance of market-targeting.

Remember, the HUL and Emami rivalry? They both segmented the market into male and female customers on the basis of gender. While HUL targeted the female segment with its 'Fair & Lovely' brand, Emami focused on meeting the needs of the male segment and brought its 'Fair & Handsome' brand of fairness cream. Thus, their target segments were different.

Targeting is followed by Positioning. Positioning is the act of designing a company's offering and image to suit the needs of the target market. This shall cause the company's offering to occupy a unique place (position) in the mind of the target market and help in attracting it.

In our example, the Delhi based restaurant might position itself as an ethnic *Garhwali* restaurant by offering *Garhwali* delicacies in its menu and designing its outlet to give the feel of a traditional *Garhwali* dwelling to attract the target segment.

Thus works the triumvirate of Segmentation, Targeting & Positioning- STP, in the marketing lingo. Remember that all the marketing strategy is built on STP. We shall be discussing targeting and positioning in the subsequent units.

***Check Your Progress- B***

**Q1.** Mark True/False against the following-

i. Customers in Uttarakhand can be geographically segmented into two groups- *Kumauni* & *Garhwali*. If both the customer segments have the same product preferences and respond similarly to marketing programmes, they lack in differentiability and hence useless.
ii. The act of promoting the Boroline brand as a '*Khushbudar* anti-septic cream' most closely resembles market positioning.
iii. Segmentation is the basis for targeting and positioning.
iv. 'Tiger *Jinda Hai*' movie tries to cash in on the audience which likes watching action movies. It is not meant for those who like comedies or real-life cinema. This statement made by a critic defines the target market of the movie.

## 7.7 SUMMARY

In this unit, we started by discussing the evolution of segmentation as a successor to mass-marketing. We followed this up with a detailed deliberation on the various segmentation variables commonly used in consumer and business markets. A few corporate examples were also taken up to understand how segmentation is actually used in marketing. We also touched upon the attributes which make the segmentation exercise useful. This was followed by a brief explanation of how the troika of segmentation, targeting & positioning works in tandem.

## 7.8 GLOSSARY

**Mass-Marketing-** It is the practice of producing & selling the same standard product to all the customers without any regard to their unique needs and preferences.

**Experience Curve-** A graphical representation of improvement in workforce-efficiency that results from faster accumulation of experience owing to doing the same work repetitively.

**Production Orientation-** It is the marketing philosophy that advocates that the customers prefer widely available & inexpensive products and seeks to provide the same through high-volume production of standardised products.

**Micro-marketing-** The strategy of focussing marketing efforts on a small group of highly-defined customers.

**Consumer Markets-** Customers who buy a product or service for personal consumption.

**Business Markets-** Customers buying a product or service for commercial or business use.

**Segmentation-** It is the process of dividing the customers into different groups on the basis of their needs and product preferences.

**Market Segment-** It is a homogenous group of customers with similar needs and product preferences.

**Brands-** Those names or symbols which help customers distinguish between different products (eg-Lux, Breeze, Dove) in the same product category (bathing soaps).

**Market Offerings-** The term used to denote both products and services being offered by a marketer to customers in a market.

**Multi-Attribute Segmentation-** It is the practice of using two or more segmentation variables simultaneously to identify customer segments.

**Targeting-** The process of deciding how many and which market segments to serve.
**Positioning-** Designing company products and image to suit & attract the target segments.

## 7.9 ANSWERS TO CHECK YOUR PROGRESS

**Check Your Progress –A**

1. True
2. False
3. True
4. False

**Check Your Progress –B**

1. True
2. True
3. True
4. True

## 7.10 REFERENCES


- Kotler, P. (2003), Marketing Management, Pearson Education, Singapore
- Kotler, P., Keller, K. L., Koshy A. & Jha M. (2008), Marketing Management: A South Asian Perspective, Pearson Education, India


## 7.11 SUGGESTED READINGS


1. Philip Kotler, Marketing Management, Pearson Education.

2. Kotler, Keller, Koshy & Jha, Marketing Management: A South Asian Perspective, Pearson Education

3. Mc Daniel, Lamb & Hair, Introduction to Marketing, Thomson/ South-Western

4. Stanton, Fundamentals of Marketing, Mc-Graw Hill

5. Subhash C Jain, Marketing: Planning & Strategy, Thomson/South-Western

6. Armstrong & Kotler, Marketing: An Introduction, Pearson Education.

7. Philip Kotler, Marketing Management: Analysis, Planning & Control, Prentice-Hall

## 7.12 TERMINAL & MODEL QUESTIONS

1. What is mass-marketing? How does it differ from micro-marketing?
2. What do you mean by segmentation? Elaborate with the help of corporate examples.
3. What are the variables commonly used for segmenting consumer markets?
4. How is segmentation applied in business markets?
5. What attributes help the marketer assess the utility of a segmentation- variable?
6. How are targeting and positioning different from segmentation? Explain their inter-relationship using a hypothetical product of your choice.

# UNIT 8 TARGET MARKET


**8.1 Introduction**

**8.2 Objectives**

**8.3 Selecting Target Markets**

**8.4 Approaches to Target Market Selection**

**8.5 Segments-By-Segment Invasion Planning**

**8.6 Targeting Niches and Individual Customers**

**8.7 Summary**

**8.8 Glossary**

**8.9 Answers To Check Your Progress**

**8.10 References/ Bibliography**

**8.11 Suggested Readings**

**8.12 Terminal & Model Questions**


## 8.1 INTRODUCTION

In the preceding unit, we saw how the failure of mass-marketing led to the emergence of market segmentation. We deliberated on the application of segmentation as a marketing tool. This was followed by a detailed discussion on commonly used segmentation variables both in consumer as well as business markets. We also understood that the segments identified using these variables need to have some attributes to be useful for the marketers. Towards the end of the unit, you were also introduced to the other two dimensions of the STP troika- targeting and positioning. We also touched upon the inter-relationship among the three.

In this unit, we shall be discussing Targeting in greater detail. As you already know, marketers begin by segmenting the markets on the basis of different segmentation variables. This is followed by targeting in which the marketers select one or more of these segments to focus their marketing efforts on. The segment(s) thus chosen become their target market(s). In this unit, we shall be discussing the basis on which these target markets are selected. We shall also discuss some prominent target market selection patterns commonly observed in the markets.

Marketing is a dynamic discipline. It may so happen that in due time, the marketer may decide to expand his market coverage by targeting more number of segments. Such a move should, however, be grounded in market logic. Therefore, the precautions which need to be taken while making such strategic moves shall also be deliberated upon. We shall also supplement this discussion with some real life corporate examples and case-studies.

## 8.2 OBJECTIVES

After reading this unit, you will be able to:

- Explain the link between segmentation and targeting
- Understand the basis for evaluating and selecting target markets
- Compare and contrast the commonly observed target market selection patterns
- Differentiate between segment marketing & niche marketing
- Learn tools commonly used by marketers to gather competitive intelligence
- Quote corporate examples of market application of the concept of targeting

## 8.3 SELECTING TARGET MARKETS

You have now understood the process of segmentation in which we divide the market into different customer groups / segments with similar needs and product preferences. The next marketing task is to decide how many and which all segments to cater to. Targeting refers to the process of selection of one or more market segments as target markets. Once the marketer knows which customer-groups are his/her target markets, s./he spends considerable time in understanding their unique needs and product preferences. The insights thus gained by the marketer help him/her customise his/her offering to suit target markets with the objective of becoming the marketer of choice for them.

But how to go about this task of selecting these target markets? For this, the marketer needs to do a comparative evaluation of the various market segments identified by the segmentation exercise using some criteria.

### 8.3.1 CRITERIA FOR EVALUATING MARKET SEGMENTS

The first requirement for doing a comparative analysis of the different market segments is to decide the criteria to be used for this purpose. Let’s now take a look at some of these gauges.

#### 8.3.1.1 Overall Attractiveness of Market Segment

The overall attractiveness of a market segments can be determined by a variety of factors. Some of these factors have been discussed in detail in the preceding unit. Let’s recapitulate.

Firstly, the segment characteristics-like size, needs, purchase capacity, media habits- should be measurable.

Secondly, the market segment should be substantial in size. This is because more number of customers in a segment make it incumbent on the marketer targeting that segment to increase production volumes to match their demand. And high volume production is often efficient-per unit cost of production reduces as the production volumes grow. This provides an opening for the marketer to reduce the price and attract even more number of customers, including the price-sensitive ones.

Please note that the ‘size’ here is not limited to the number of customers in the market segment but also entails their purchase volumes. So, a segment with very few customers may also be attractive if these customers make purchases in very high volumes. At times, a small sized segment- with small number of customers and low purchase volumes per customer- may still be preferred if the segment has reasonable chances of growing at a rapid pace in future. Let’s take an example. When the e-commerce firms (like Flipkart) first started their operations in the country, the number of people having access to internet was very small. You must be aware that internet connection is a prerequisite for the customers to visit websites of e-commerce firms and place orders. So, a very small proportion of Indian population having internet access should have dissuaded the e-commerce firms from entering the Indian market. But they were not too bothered because they expected this segment of internet-user customers to grow rapidly. And grow it did. From just 1% of the population having access to internet in 2000 to almost 30% of the population online today, India has raced past many countries to now rank second globally in terms of the total number of internet users. No surprise that the e-commerce firms have also witnessed their business growing in tandem.

Next, the market segment should be accessible- easy for the marketer to reach and serve. The segment should also be unique enough to be easily distinguishable from the other segments- its response to the product features and promotional campaigns should be different from that of the other segments.

Lastly, the segment should be actionable- it should provide the marketer ample scope for formulating effective marketing programmes.

Segment profitability is another factor that determines the overall attractiveness of a market segment. How is the segment profitability determined? It is the net of the price charged from a customer in lieu of a product or service and the total cost incurred in producing and delivering that product or service to the customer. So a market segment in which the customers are ready and willing to pay a premium on their purchase shall be more profitable for the marketer. Likewise, if the segment is accessible- it does not cost much to reach and serve the segment- the marketer shall be able to rein in his expenses and shall therefore enjoy greater profitability.

The risk inherent in a segment should also be carefully considered. What if the segment suddenly shrinks? Let’s take an example. A ferocious civil war broke out in our southern neighbour, Sri Lanka in 1990s. This forced lakhs of Sri Lankan Tamils to run for their life and take refuge in our country. These refugees were settled temporarily in various refugee colonies in Tamil Nadu. Sensing an opportunity in their large numbers, some local marketers brought products targeted exclusively on this segment of Sri Lankan Tamil refugees. Now that the war in Sri Lanka is over, there are speculations that these refugees might be sent back to Sri Lanka. This is a frightening prospect for the aforementioned marketers who face the risk of a sudden shrinkage in the market segment targeted by them. Such segment shrinkages may also happen due to change in legal and regulatory norms. Augusta Westland, an Italian helicopter design & manufacturing firm had zeroed in on India as one of its target markets. However, owing to bribery allegations surfacing around 2013, the firm was blacklisted and barred from participating in defence contracts with Indian armed forces. These two examples bring home the point that a market segment has to have a low risk profile to be considered attractive.

#### 8.3.1.2 Market Segment Overlap with Marketer-Capabilities

Before discussing any further, we need to find out whether you can be of some help to our friend Kabeer Bhagat. Kabeer has decided to become an entrepreneur and start a restaurant in his hometown. He comes from a modest family which also has reservations against this career choice of his. So, he borrows some money from his friends to start his food outlet. He also can't afford the luxury of hiring a cook and will have to prepare the dishes himself. Having studied marketing management, he starts by segmenting the market and finds out that among those who eat outside, there are two prominent customer segments in his hometown: the more sizeable segment prefers having Chinese food like noodles etc. while the other segment, which is much smaller in size, prefers Italian dishes like pizza etc. Both these segments are otherwise similar in terms of challenges & opportunities offered by them.

His research has revealed that it is easier to obtain supplies of ingredients/raw-materials that go into the Italian dishes. Plus, he also knows how to cook Italian food. But, since the Chinese food segment is much bigger in size, he finds it to be more attractive. He is in a big dilemma. Should he target the more sizeable Chinese food segment or should he target the Italian food segment which suits his capability but is much smaller in size? Please advise him.

If you compare the two segments on market attractiveness, you might find the Chinese segment superior owing to its size. But, if you also consider that it is easier to obtain raw-material for the Italian segment and, even more importantly, Kabeer already knows how to cook Italian food, you may decide to target the Italian segment. That shall certainly be a more prudent decision because the Italian segment fits in well with the marketer's (Kabeer's) capabilities and therefore easier to serve.

Thus, you now understand that marketer's capability is also an important consideration for selecting the target market. A marketer should choose the market segment which matches his capabilities closely. Let's discuss in detail.

Capability refers to whether the marketer has the skill-set necessary to serve a market segment. Recall that Kabeer didn't know how to prepare Chinese food but had the skills to prepare Italian food. For this reason, targeting the Italian food segment, despite its smaller size, was the correct choice. You must have heard of Apple Inc. It started as a personal computer manufacturer and diversified later to smart-phones. Of late, it has also launched its smart-watches targeted on the upper-middle class because it already had the technological skills required for manufacturing them, the basic technology behind the various smart-devices being the same.

Capability also includes having access to resources. If a marketer already possesses or can easily arrange resources to serve a market segment, it makes sense for him to choose it as his target. Kabeer found it easier to obtain raw-material supplies for the Italian food segment and hence chose it as his target market. India Post has recently set up a banking subsidiary, India Post Payments Bank, to offer deposit & remittance services targeted mainly on the thrift-minded middle-class customer segment because it already has an extensive post-office network to house the bank branches.

It also helps if the marketer decides to target the market segment which aligns closely with his own long term objectives.

Once all the market segments have been evaluated & comparative analysis done using the aforementioned two criteria, the marketers select the market segment(s) which presents the best marketing opportunities to them as their target market(s).

# 8.4 APPROACHES TO TARGET MARKET SELECTION

A marketer may approach the target market(s) selection in five distinct ways discussed below.

## 8.4.1 SINGLE-SEGMENT CONCENTRATION

The marketer may decide to concentrate entirely on a particular market segment. He makes all-out efforts to understand the needs of the customers in the target segment and design a product to suit them. Since, all the aspects- product design & development, procurement (of raw-materials), production, distribution and promotion- are geared to just the one target market segment, the marketer tends to benefit from operational efficiency. This helps him in keeping expenses under control.

However, one prerequisite is that the segment should be sizeable enough to offer the marketer sufficient selling opportunity. Secondly, this approach of targeting a single market may turn out to be considerably risky if the target-segment suddenly shrinks due to various environmental developments as has been discussed in the preceding section also. Additionally, a strong rival may also enter the same segment and cause the marketer to suffer considerable loss. So, it is advisable to adopt this approach only when the marketer has reasonable chances of capturing leadership position in the lone target market segment.

## 8.4.2 SELECTIVE SPECIALISATION

Alternatively, the marketer may decide to target more than just one segment. She/He may pick up a number of segments, based on his/her assessment of their attractiveness and his own capabilities, as his target markets. She/He researches the customer needs in these target markets and comes up with different offerings for the different market segments.

This safeguards a marketer from risks inherent in the single-segment concentration approach. Even if the marketer doesn't perform well in one target segment or is outperformed by a stronger rival, he still has other target markets to fall back on. This explains the popularity of this approach among the marketers. For instance, HUL has different brands of bathing soaps, each targeting a particular market segment. While 'Lifebuoy' targets the health conscious customers, the freshness-seeking customers have been targeted by 'Liril'. 'Hamam' is meant for those who value traditional & nature-based solutions. Likewise, Titan, a Tata Group company, also has different sub-brands targeting different market segments. It offers 'Sonata' for the price-sensitive segment, 'Fastrack' for the young & sporty personalities and 'Raga' range of ornamental watches for the female customers.

However, this approach leads to a ballooning of expenses. The customers in the different target markets may have widely different product and attribute preferences requiring the marketer to design and develop a different product for each target market. He may also have to vary his distribution and promotion according to the different target markets.

Therefore, for the marketers adopting this approach, it is advisable to target those segments which have some synergy. This synergy may be harnessed if the raw-material base, processing requirements or distribution channels are similar for the market offerings meant for the different target segments.

## 8.4.3 PRODUCT SPECIALISATION

This approach entails specialising in a product or technology and offering it to different market segments with minimal alteration, if any at all. The specialisation results into operational efficiencies. The marketer may also benefit from a strong reputation in a particular product or technology. Pidilite Industries Limited, offers a good example. It specialises in adhesive technology. It has brought spin off products using this technology to serve the different market segments. For instance, 'Fevicol' is for use by the household segment as well as the wood-based industries (eg-furniture) segment while the instant adhesive 'Feviqwik' is used for minor repairs in household & industrial segments. 'Dr. Fixit' is used as water-proofing material in construction sector segment. Thus, it offers a range of solutions to different market segments using the same technology.

However, the marketers who adopt this approach have to be wary of those technological changes which may threaten their technology and products.

## 8.4.4 SEGMENT SPECIALISATION

This approach is diametrically opposite to the product specialisation approach discussed above. In segment specialisation, the marketer targets a single market segment and aspires to offer the full range of products to fulfill all its needs in entirety. Tour operators practice segment specialisation by offering the whole range of services that the tourists may need. They make transport and accommodation arrangements and also organise sight-seeing and random leisure activities.

Segment specialisation is a more expensive approach than product-specialisation because the marketer might have to offer a range of disconnected products in a bid to service all the requirements of the targeted market segment. However, the marketers who execute it successfully enjoy a strong reputation for serving this customer segment.

This approach is very sensitive to changes in spending by the target markets. For instance, their disposable incomes may reduce due to inflation which may force them to endure spending cuts thus impacting the business of the marketer. High inflation has been found to be associated with low tourist inflow impacting the earnings of tour operators. Do you remember the floods that struck Uttarakhand in 2013? This disaster impacted the tourist inflow causing significant losses to many a tour operators in the subsequent months.

## 8.4.5 FULL MARKET COVERAGE

The marketer also has the choice to target the whole market- all the segments. He does this by researching the customers and accordingly designing individual products for every single market segment. The promotional strategies are also tailored to the different customer segments. This approach is, therefore, also known as differentiated marketing. Here, the endeavour is to be the marketer of choice for customers in all the segments.

'Coca-Cola' has adopted this approach to be the largest selling thirst- quencher in the world. Apart from the flagship 'Coca-Cola' brand, it has many other brands each targeted on a particular market segment. 'Fanta' is a carbonated beverage available in different fruit-flavours while 'Sprite' is a lemon/lime flavoured beverage. 'Diet Coke' is meant for health conscious segment which avoids carbonated beverages. 'Minute-maid' is a fruit based non-carbonated beverage for the segment which prefers to have fruit juice while 'Dasani' is bottled water. 'Powerade' is an instant energy drink for sportspersons.

However, this approach requires the marketer to have deep pockets. The reason is that the expenses in product design & development, production, distribution and promotion multiply manifold. Multiple production lines have to be run to manufacture the different products. Raw-materials may have to be procured from different sources and separate distribution channels might have to be set up to serve the different customer segments. Advertising costs shall also be high.

These expenses can be curbed to considerable extent if the marketer's segment managers, in-charge of different customer segments, co-ordinate their efforts. This inter-segment co-operation may be in combined sourcing of raw-material supplies, sharing of company resources- both men and machines etc. It is for the top management to nudge the segment managers towards such collaborative behaviour.

### *Check Your Progress-A*

The figures given below represent a particular approach to target market selection. In the figures, $S_1$, $S_2$ and $S_3$ correspond to the three market segments while $P_1$, $P_2$ and $P_3$ correspond to three different products. The segment(s) targeted by the marketer is marked as T. The cells left blank denote the segments side-stepped by the marketer. You have to name the target market selection approach that each of the following figures most closely resembles.

1.

| | $S_1$ | $S_2$ | $S_3$ |
|---|---|---|---|
| $P_1$ | T | T | T |
| $P_2$ | T | T | T |
| $P_3$ | T | T | T |

2.

| | $S_1$ | $S_2$ | $S_3$ |
|---|---|---|---|
| $P_1$ | | T | |
| $P_2$ | | | T |
| $P_3$ | T | | |

3.

| | $S_1$ | $S_2$ | $S_3$ |
|---|---|---|---|
| $P_1$ | T | | |
| $P_2$ | T | | |
| $P_3$ | T | | |

4.

| | $S_1$ | $S_2$ | $S_3$ |
|---|---|---|---|
| $P_1$ | | | |
| $P_2$ | T | T | T |
| $P_3$ | | | |

## 8.5 SEGMENT-BY-SEGMENT INVASION PLANNING

Just as in normal life, in the hyper-competitive world of marketing also, long-term planning is a must. Ordinary firms plan only for the current year, while the best of the lot plan for the longer haul, at times, for as much as 20-30 years into the future. Most of the global automobile majors have been making substantial investments in developing autonomous car (driver-less) technology with an eye on the future only. Consider the case of Maruti Suzuki India Limited, India's leading automobile manufacturer owned by the Suzuki Motor Corporation, Japan. It has recently announced a substantial investment in Gujarat to set up a lithium-ion battery production plant in partnership with Toshiba and Denso. This is with an eye on the future when electric cars are expected to fully replace the current generation of petrol & diesel based vehicles.

A firm which is considerably successful in its chosen target markets shall gradually outgrow them. As sales-volume & sales-revenue increase, some of the profits are ploughed back into the business to expand the production capacity. Gradually, the firm recognises the inadequacy of its current target markets in absorbing its augmented capacity and starts experiencing the need to expand to other customer segments. Alternatively, increased earnings may augment the firm's resources and encourage it to expand to other customer segments also.

At times, a marketer may want to expand the existing target market by catering to other customer segments also in search of potential synergies and operational efficiency resulting from such a move. Many times, intense competition in the existing target market may force the marketer to look for greener pastures elsewhere in other market segments.

A marketer should be well prepared for such future eventualities. He should have a clear idea regarding which customer segments to 'invade'- in the form of a 'segment-by-segment invasion plan'- if such a need is felt in future.

The criteria for preparing invasion plans is the same as used for selecting target markets. Customer segments for prospective invasions are also earmarked with due consideration to their attractiveness (segment size & growth prospects, segment profitability, presence or absence of competition etc.) and capability (skill-set, access to resources etc.) of the marketer.

One additional consideration is the 'fit' with the target markets which are being served by the marketer currently. What do we mean by this? 'Fit' refers to a considerable overlap between the prospective invasion target and the currently served target markets in terms of similarity of resources and skills required to serve them. The greater this overlap, more attractive shall be the prospective invasion target. Let's take an example to understand this.

'Amul', a cooperative, started by selling branded packaged milk to household customers in Gujarat and nearby areas. It used to source milk from famers in villages, perform quality assessment, process and package the milk before selling it under its registered brand name. With the objective of expanding its business, Amul started offering processed-milk items (curd, butter and ice-creams etc.) also apart from milk. It also started selling its packaged milk products in other geographical segments like the nearby states of Rajasthan, Maharashtra, Delhi and UP. Subsequently, it expanded its product portfolio further to offer biscuits, chocolates and flavoured milk also.

Note that this segment-by-segment invasion was carefully planned by Amul. It first invaded those segments which could be easily served using its existing resources and capabilities. For instance, supplying branded milk in other states didn't require any extra effort apart from having to extend the distribution network. Similarly, different processed food items like curd, ice-cream, chocolate and flavoured milk have milk as raw-material and also share many of the vital ingredients.

## 8.5.1 SEGMENT-BY-SEGMENT INVASION PATTERN

Most of the segment-by-segment invasions adopt a particular pattern. Marketers, originally serving a particular target segment initiate the invasion by targeting other hitherto untouched customer segments and introducing their existing products in them. Once the newer customer segments have been invaded and won over with the marketer selling well, it is time to plan the next invasion. This time, it is effected by way of introducing new products one by one in all the customer segments- the original target market as well as the freshly invaded customer segments. The following illustration (Figure 8.1) is being used as a comprehension aid.

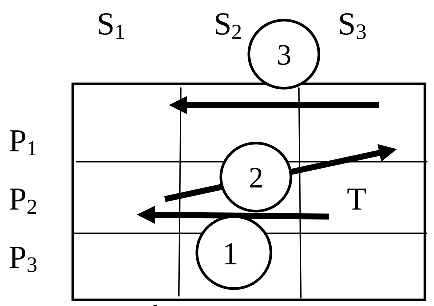


**Figure 8.1: Segment-By-Segment Invasion Pattern**

This figure is a crude approximation of a marketplace. In this market, three distinct market segments- $S_1$, $S_2$ and $S_3$- have been identified. $P_1$, $P_2$ and $P_3$ correspond to three different products. To begin with, the marketer has chosen to target the market segment marked by T. All the remaining cells, left blank represent the market segments not currently being targeted by him. The marketer's segment-by-segment invasion plan has been shown by the three arrows. The encircled numbers 1, 2 and 3 correspond to the successive moves in this invasion plan.

You can see that the marketer is currently offering only product $P_2$ and catering only to the $S_3$ market segment. The first move in his invasion plan shall be to introduce the existing $P_2$ product in $S_2$ and $S_1$ segments also. He may do this by effecting minor modifications in his product. This shall entail an increase in distribution costs while also offering the marketer an opportunity to increase his sales.

Once this product $P_2$ is well established in the whole market- all the three segments- he shall initiate the second move of his invasion plan, which will be to introduce another product $P_1$ in his original target market, $S_3$. This implies significant investments in procurement (of raw-materials required to produce $P_1$), production (for setting up a new production line for $P_1$) and promotion (to sell $P_1$).

This would be followed by the third move to also introduce $P_1$ gradually in the freshly invaded $S_2$ and $S_1$ segments just as was done with $P_2$ in the first move. Eventually, this freshly introduced product, $P_1$, shall also get a foothold in the whole market.

Please don't think that the invasion plan terminates here. The marketer may decide to offer $P_3$ gradually to the whole market just like $P_1$.

## 8.6 TARGETING NICHES & INDIVIDUAL CUSTOMERS

Now you know how marketers segment the markets and target one or more customer segments and how they invade newer customer segments over a period of time. You also know that a segment comprises of customers with similar needs and preferences and that the marketer's endeavour is to customise his/her offering to them. But, don't you think that there may be subtle differences among the customers within a segment also? Those residing in hills are addicted to tea. But, not all the customers in this segment have similar taste. Some like it mild, others like it strong. Some will only have tea brewed with *elaichi* while others prefer *adrak-chai*! So, at times, the marketer may dive much deeper than just the customer segment level to unearth the special needs of the customer(s) and bring products to cater to them. Let's find out how.

### 8.6.1 NICHE

A niche can be understood as a more narrowly defined customer segment. For instance, 'those who watch movies in their leisure is a broadly defined segment while those who watch only sci-fi (science-fiction) or rom-coms (romantic comedies) is a niche within the aforesaid broader segment.

Since broadly defined segments are also generally large enough (sizeable number of customers), they are proactively sought by the marketers. As such, you may find a couple of marketers serving a segment. Since niches are smaller in size, only a few marketers are attracted to them. In-fact at times, none of the marketers finds it worthwhile to serve a niche. These niches remain unserved or only partially served. In our example, those who watch only the sci-fi genre have to make do with whatever movies are being released. Only once in a while, they get a chance to watch movies like Robot or Ra-1which suit their taste!

Being underserved, niches offer a lucrative opportunity especially to new market-entrant firms. Gather.com, a social networking site for people in prime of their career & having high disposable incomes has gained rapid popularity. Note that this was a niche otherwise neglected by Facebook. Also owing to the same fact, the niches are always willing to pay a premium to the marketers offering them products or services exactly according to their taste. This sometimes makes it a profitable proposition for the marketers to serve them.

'Krack' cream and 'Itch Guard' brands marketed by Paras Pharmaceuticals and targeted on different niches have done brisk business. While STAR Sports targets the broader segment of customers who watch sports events, STAR Cricket is meant exclusively for the niche customers who only watch cricket.

Just as in the case of a segment, attractiveness of a niche is also determined by its size, profitability and growth potential as well as the premium that the niche customers are willing to pay. Additionally, the marketer should be able to determine the distinct needs and preferences of the niche and should have the skill and resource capability to satisfy them. It would be even better if the niche is unlikely to attract potential rivals.

It would be prudent for the marketer to target an unserved niche where it can benefit from the first-mover advantage and establish a strong foothold, thus also dissuading potential market entrants from challenging him. This is very important since niches are often so small that they can't be simultaneously viable for more than a few marketers.

## 8.6.2 INDIVIDUAL CUSTOMERS

What can be the 'ultimate' in marketing? Researching the needs & preferences of individual customer and bringing customised offering to satisfy that customer. Just like the roadside *aaloo-tikki* vendor! Remember, how he prepares his concoction exactly as per your wish. Or the tailors & the hairdressers who customise their offerings to every single customer. 'Lenskart' provides you the opportunity to pick up any design for your specs from thousands of options. Some of the apparel firms offer you the option of uploading your photograph and bodily dimensions which are then used as inputs to prepare your 'virtual' body profile. You can then dress this virtual *avatar* of yours in various design & colour combinations to find out the best option for yourself and place your order.

Firms operating in this manner are said to be having a 'customer' orientation. In earlier times, it would have been difficult to execute this model on a mass scale and simultaneously keep down the expenses. Not so anymore, now that we have access to enabling technologies. Have you observed that the advertisements that appear on your Facebook page are not exactly the same as the ones which appear on your friend's page? Actually, Facebook uses sophisticated algorithms to analyse your browsing habits, comments, location data etc. and predict your needs & product preferences. Accordingly, advertisements promoting various products and services are placed on your page. The organised retailers- discount stores or shopping malls- keep a record of purchases made by their customers and accordingly customise their promotional offers to each one of them.

Yet, this approach is not for every marketer to adopt. After all, a product like car can't be customised to every single customer! Moreover, the profits to be made by having this orientation should make up for the expenses incurred in customer data collection & producing customised offerings for it to be a worthwhile strategy for the marketer.

**One last word!**

Now that you have understood the concepts of market segmentation (Unit 7) and targeting (Unit 8) and their role as marketing tools, you should augment your knowledge by observing their real life application in the world of marketing. Please understand that it would be very difficult for you to lay hands on reliable data regarding the variables used by a marketer for segmenting the markets or his specific reasons for targeting a particular market segment. Why so? Because these are those strategic decisions which have a significant impact on the marketer's sales volumes, market share and revenue earnings. Hence, the marketers prefer not to keep such information in the public domain so as to not allow their market-rivals any opportunity to plan their counter-strategies.

Therefore, it is very difficult to understand the segmentation and targeting strategies adopted by a marketer. But, it is not impossible! Let's discuss how.

The promotional campaigns unleashed by a marketer provide sufficient hints regarding his target market and his approach to segmentation. For instance, take the '*dar ke aage jeet hai*' themed 'Mountain Dew' advertisements which show the protagonists consuming the beverage to conquer their fear before indulging in some dangerously risky adventure. It is very much clear that the brand is targeting thrill-seeking individuals who accept the challenges thrown to them head-on. Does this not seem like psychographic segmentation using personality types as a segmentation variable?

Media- selection by marketer for promotional purpose also gives a rich array of information. Different customer segments have different media-preferences. The younger generation might prefer 'MTV' while '*Grihshobha*' is a magazine popular among housewives. So, just by observing the media used for promotional purpose, the customer segments targeted by a marketer can be guessed reasonably accurately.

Scanning the external communication emanating from a firm can also help fathom its segmentation and targeting strategy. Business firms put out press releases and organise media briefings from time to time. The top executives deliver public speeches and give interviews where they may fleetingly touch upon their segmentation & targeting strategies and prospective invasion plans. Many senior executives of Mahindra & Mahindra publically hinted at the company's plans to bring cutting edge electric mobility (vehicles) solutions to India much before the company came up with an official declaration to this effect.

Patanjali Ayurveda Limited, which now figures among the leading FMCG marketers in India has recently briefed media about its plans to enter the apparel market also.

Lastly, the tactical moves made by a marketer are sure give-aways of their prospective invasion plans. For instance, what for would a marketer rent office space in a particular region other than for launching his brand in that region also?

So, in a nutshell, you can guess the segmentation and targeting strategy of a marketer with reliable accuracy if only you keenly observe his actions. In fact, marketer do this all the time-gather competitive intelligence- so that they may pre-empt their rival and safeguard their market position. For instance, the rivals of a leading automobile firm in India correctly predicted its foray into in-house vehicle design & development when news of it recruiting design engineers in droves from Italy surfaced!

***Check Your Progress- B***

**Q1.** Answer the following questions.

i. If out of the 8000 cars sold in Chamoli district in a year, a company sold 2000 cars, what is its market share?
ii. Out of LG, Nestle, Google and Acer, which one is an FMGG brand?
iii. ‘Dettol’ was launched as anti-septic liquid by R&B. Now, it is also sold as a soap and hand-wash. Which concept does this targeting of additional customer segments most closely resemble?
iv. If a marketer places his advertisements in the Uttarakhand Open University text books, which customer segment is most likely his target market?

## 8.7 SUMMARY

In this unit, we understood the concept of targeting and its application in the marketing world. We also discussed the criteria used by the marketers for evaluating the various customer segments and selecting one or more of them as target markets. A comparative analysis of the commonly observed target market selection patterns was also done. We came to know about how marketers draw up long-term plans to augment the number of customer segments targeted by them. The approach to marketing that goes beyond customer segments, to identify and cater to niches as well as individual customers with unique needs, was also briefly touched upon. Towards the end, the techniques for gathering competitive intelligence were taken up for discussion.

## 8.8 GLOSSARY

**Targeting-** It is the act of deciding how many and which market segment(s), identified through market segmentation, to target. This decision is taken with due consideration to the segment attractiveness as well as marketer's capabilities.

**Target Market-** It refers to the market segment which the marketer decides to cater to. This is followed by researching the preferences of the customers in the chosen target market and accordingly designing products and services.

**Single Segment Concentration-** Choosing only one market segment as target market.

**Selective Specialisation-** Selecting two or more market segments as target markets and bringing out different products or services customised to each of them.

**Product Specialisation-** Targeting all the market segments with the same standardised product or service with minor modifications.

**Segment Specialisation**- Targeting a particular market segment by offering the full range of products and services demanded by it.

**Full Market Coverage-** The market targeting approach in which the marketer caters to all the customer segments by offering customised products or services to each of them.

**Differentiated Marketing**- The practice of using different product designs and promotional strategies for different customer segments.

**Segment**-By-Segment Invasion Planning- It refers to the marketer's deliberate act of planning for a gradual expansion from the customer segments currently targeted to hitherto untouched ones.

**Niche**- Narrowly defined group of customers with distinctive needs and preferences. It is smaller in size than a customer segment and often willing to pay a premium to obtain customised products and services.

**Customer Concept-** Marketing approach in which every individual customer is offered products & services customised to suit his unique requirements.

**First Mover Advantage**- The benefit of greater market share and higher customer recall which accrues to the marketer in the market in which he is the first one to offer products and services to the customers.

**External Communication**- The tools like press releases, media briefings, speeches and interviews by top executives used by a business firm to communicate to the general public.

**Market Share-** It is the portion of the total market controlled by a company or its brand. It is mathematically determined product category-wise by calculating the company's sales as a percentage of total sales in the market.

**FMCG-** It is the acronym for Fast Moving Consumer Goods. These goods are sold in consumer markets. They are purchased frequently and in small quantities by the customers for personal consumption. Examples include toothpaste, hair-oil, biscuits etc. HUL, P&G, Dabur & Patanjali are the major firms in the FMCG category.

**Competitive Intelligence-** The information gathered legally about the market rivals with the objective of securing and enhancing one's competitiveness in a market.

## 8.9 ANSWERS TO CHECK YOUR PROGRESS

**Check Your Progress –A**

1. Full Market Coverage
2. Selective Specialisation
3. Segment Specialisation
4. Product Specialisation

**Check Your Progress –B**

1. 25%
2. Nestle
3. Segment-by-segment invasion planning
4. Those pursuing higher studies after completing secondary education

## 8.10 REFERENCES


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- Kotler, P., Keller, K. L., Koshy A. & Jha M. (2008), Marketing Management: A South Asian Perspective, Pearson Education, India

## 8.11 SUGGESTED READINGS

1.Philip Kotler, Marketing Management, Pearson Education

2.Kotler, Keller, Koshy & Jha, Marketing Management: A South Asian Perspective, Pearson Education

3.Mc Daniel, Lamb & Hair, Introduction to Marketing, Thomson/ South-Western

4.Stanton, Fundamentals of Marketing, Mc-Graw Hill

5.Subhash C Jain, Marketing: Planning & Strategy, Thomson/South-Western

6.Armstrong & Kotler, Marketing: An Introduction, Pearson Education

7.Philip Kotler, Marketing Management: Analysis, Planning & Control, Prentice-Hall

## 8.12 TERMINAL & MODEL QUESTIONS

Q1. Using corporate examples, describe the inter-relationship of segmentation and targeting.

Q2. What are the aspects to be considered while selecting target markets?

Q3. Compare & contrast the target market selection patterns commonly observed in markets.

Q4. How does a marketer formulate its segment-by-segment invasion plans? Elucidate using examples from the marketing world.

Q5. What risks and returns are inherent in niche marketing?

Q6. The management of a government owned and financed higher education institute in your area is wary of the frequent initiatives taken by the privately owned rivals in a bid to snatch its students. Suggest how the management of the government owned institute can predict these competitive moves to be able to pre-empt them.

# UNIT 9 DIFFERENTIATION AND POSITIONING STRATEGY

**9.1 Introduction**

**9.2 Learning Objectives**

**9.3 Meaning of Differentiation**

**9.4 Meaning of Positioning**

**9.5 Objectives of Positioning**

**9.6 Various Types of Positioning**

**9.7 Procedure of Setting of Positioning Strategy**

**9.8 Positioning Errors**

**9.9 Summary**

**9.10 Glossary**

**9.11 Answer to Check Your Progress**

**9.12 Reference/ Bibliography**

**9.13 Suggested Readings**

**9.14 Terminal & Model Questions**

**9.15 Case Study**

## 9.1 INTRODUCTION

In the previous unit you learnt Segmentation and Targeting. Segmenting is breaking the large heterogeneous market into small homogeneous market, to have better understanding about the customer and their purchase behaviour. As STP is a technique of Identifying, Understanding and placement of product in market. It assists company in identification of potential segment of market and positioning the product in the identified customers.

Differentiation suggests a unique marketing mix, which make its different from those of its competitors. It helps a company in developing differentiation strategy, to get market leadership through which company creates unique identity in the market and differentiates from other.

Post Liberalization, Privatisation and Globalisation policy there was increase in the private companies' and producers at large scale in almost all the sectors. It created a perfect competition market where in order to sustain in the business operation and to grow in long run firms (producers and sellers) need to develop some USP (Unique Selling Proposition) to create differentiation among the other competitor and in order to be remembered in a crowded marketplace.

In this unit, you will study about Differentiation, its objectives, importance, types and strategy of differentiation. Next is Positioning, definition, objective, strategy. One aspect of the success of a company is its marketing mix, which serves its target markets in a way better and unique from its competitors.

## 9.2 LEARNING OBJECTIVES

After studying this chapter you should be able to:

- Concept of differentiation: meaning, objective
- Identify the type of product differentiation.
- Procedure of creating differentiation.
- Define positioning, meaning, importance and describe positioning strategy.
- The reasons of adopting a positioning strategy.
- General positioning errors that a company should avoid.
- Recognize the different positioning strategies that a firm can pursue.

## 9.3 MEANING OF DIFFERENTIATION

The dictionary meaning of Differentiation is the "act of differentiating" or "the process of becoming or making something different". Studies have proved that the success of any brand completely depends on a smart differentiation strategy. Product Differentiation is "offering those set of attribute that competitors don't have."

According to Philip Kotler -

"Differentiation is the process of adding meaningful and valued differences to distinguish the company's offering from the competition".

Differentiation is the process of distinguishing a product or service from its competitor, to make it more striking and build superiority in the market, so marketers are always looking for new dimensions of differentiation.

Every Company is having different strategy of differentiation to create unique image and build brand equity. The company develops the strategy on the basis of company's internal competency and competitive environment.

While preparing Differentiation strategy the marketer must focus on the following questions:

a) Whether the company offer product with some unique features and creativity in the industry, new solution, better services, new offers.

b) Whether the company will/ can create credibility through the offering by company, which need long time where credibility protects identity, builds Brand equity and image of company.
c) Does a company offering, deliver better value for money to customer?

## 9.3.1 OBJECTIVES OF DIFFERENTIATION

Differentiation is a strategy that not only creates uniqueness but also provides competitive edge. Here the seller faces an abundance of design parameters, including form, features, performance quality, conformance quality, durability, reliability, reparability and style. Some of the objectives of differentiation are;

1. To create Unique, Valuable and Visible presence of product in the market.
2. To have competitive edge over other competitor and exploit Opportunity.
3. Providing marketing advantage to the company.
4. Attracting new customers.
5. Building loyalty with the customer.
6. Establishing strong brand equity.
7. Provide new alternative to customer.
8. To neutralize threat from new entrant, rivalry, supplier.

## 9.3.2 TYPES OF DIFFERENTIATION STRATEGY

All companies are using different differentiation strategy, which completely depends on the Unique Selling proposition of the company(USP). Some of the differentiation techniques are discussed below.

A) Product Physical Differentiation
B) Service Differentiation
C) Personnel Differentiation
D) Image Differentiation
E) Price Differentiation
F) Promotion Differentiation
G) Process Differentiation
H) Distribution Differentiation
I) Packaging Differentiation

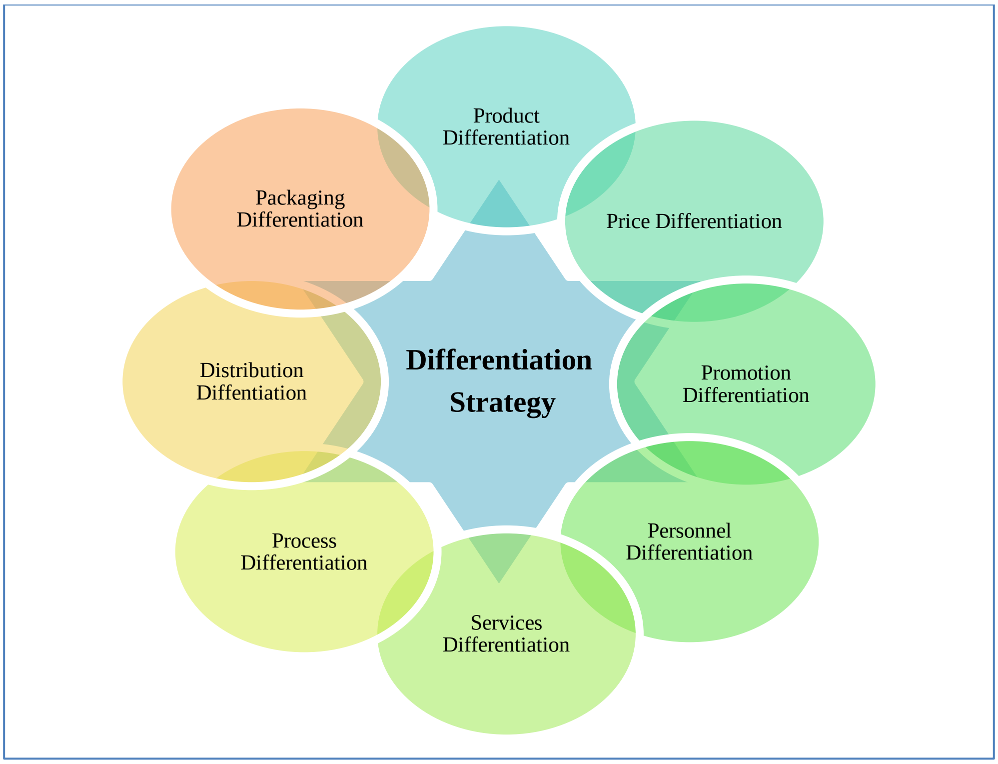


**Figure 9.1: Types of Differentiation Strategy**

### A) Product Physical Differentiation.

Product can be goods or services. When the product is differentiated on the basis of its unique physical characteristics or appearance that is design, colour, size, weight, packaging, features, durability it is called Product Physical Differentiation.

Example- Two cars of different company and different model can be easily distinguished on the basis of visible nature like, Design, Colour, Size, Weight, functions. Household goods and Furniture are bought on the basis of latest design, features.

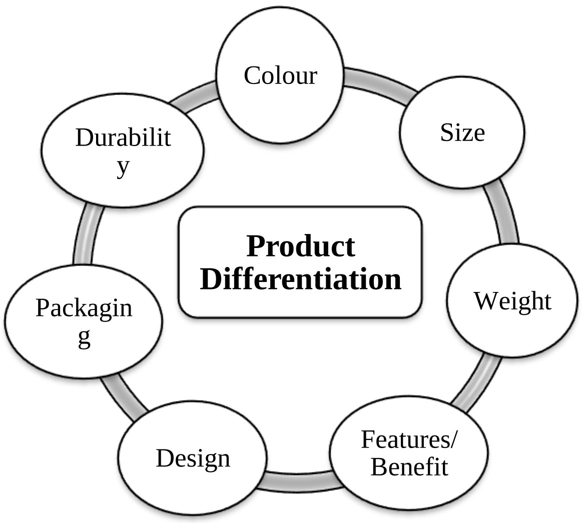


**Figure 9.2: Product Differentiation**

**B) Service Differentiation:**

When the product is intangible in nature then it is called services. Services are intangible, inseparable, perishable, non- transferable. If the service is labour focussed then labour differentiation is been adopted, but when the service is technology focussed then technology differentiation is being adopted. Services differentiation is based on delivering a superior service than other competitors, like 24x7 services, Fast response.

Example- Banking, Insurance, Hotel, online shopping, service centre industries uses different aspect of services industry to create edge over competitor. Another example is different services are offered to current account holder in bank than the saving account holder. Different services offered by different Airline industry, differentiation between services offered to economical class and Business Class passenger of Airline. Services offered to Dell Inspiron customer are superior to the Dell Vostro customer. Dell Inspiron customer gets 24x7 services where as Dell Vostro get 24x5 service.

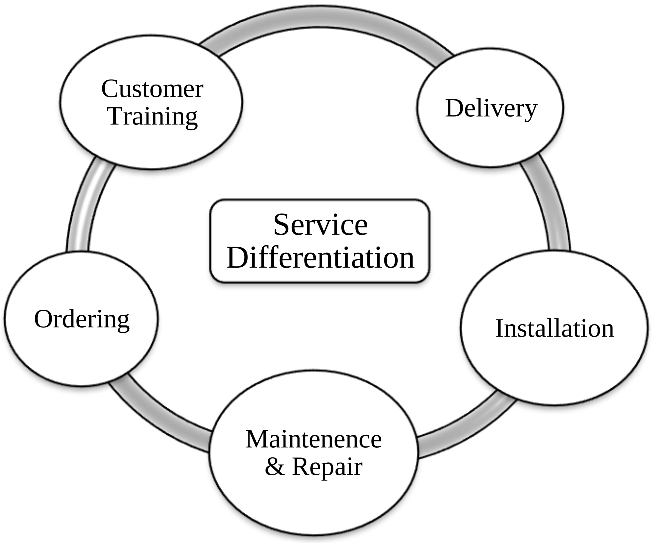


**Figure 9.3: Service Differentiation**

**C) Personnel Differentiation:**

Companies can gain competitive edge in human capital through recruitment, selection, training experts over other competing companies.. Especially in service sector by ensuring best, qualified, trained staff and sound manpower their industry the company can do Personnel differentiation. Mainly in labour focussed services where the quality of manpower plays important role. On the basis of competence specialised employee the company creates differentiation. Competitive personnel characteristics like trustworthy, courtesy, competence, responsive.

Example- Hospital industry, Management Consultancy, legal services and coaching institute differentiate their company by hiring most qualified.

**D) Image Differentiation:**

The corporation can build more attracting, appealing and convincing image of the product, which helps the corporation get the differential advantage (Timothy, 1996). Image refers to the public's opinion, thoughts, and feelings about the product and the company. The company can create an exceptional image. The outstanding and distinctive image of the company creates and improves the loyalty of the customer. Name, colours, logo, slogan are some of the tools used in Image differentiation.

Example- Brand like Sony and Apple had created different image. Max Newyork Life Insurance Company, ABN AMRO Bank, HSBC Bank, Blackberry mobile created Image differentiation in their fields.

**E) Price Differentiation**

Price differentiation occurs when the company sell the product at different prices. It is a technique of creating a distinction on the basis of differential pricing.

Example- in Transportation Industry like Airline industry, Roadways and Telecom companies uses Price differentiation. Insurance company charges different amount of premium for the same policy from their customer as per their age.

These industries keep different pricing on the basis of Age, Slack period, peak period, peak hour and off- peak hour. Some company offers a student discount.

**F) Promotion Differentiation**

Promotion is the communication mechanism of exchange of information. It adds value in the eyes of customer, which creates premium over other competitor. Promotion builds interest of customer and distinguishes from other. The various techniques used to create promotional differentiation are Personal selling, Advertising, Word of Mouth (WoM), Sales promotion, Public relations, Net Marketing, Electronic media, print media etc.

Example- There are company which promote their product through special and premium magazines like Harvard Business Review, Forbes etc.

**G) Process Differentiation**

Process differentiation is a unique system in company where they are developing best value services in whole industry.

Example- Tiered activities, Especially in Mutual fund, companies are offering different techniques to sell the funds. Franklin Templeton provides easy process of purchasing the funds online. The customer can change the amount of SIP (systematic Investment Plan) and the customer can also change date of SIP deduction through login account himself.

ICICI prudential Mutual fund provide URN to customer which have to be fetch by customer to their bank account, after that the customer is required to send NACH mandate form to Mutual fund company.

**H) Distribution Differentiation**

It is also called channel differentiation. The objective is to create unique distribution network to facilitate easy access of the product to the customers. Depending upon the companies' policy different channels of distribution are adopted. On the basis of target market and need of the customer the companies are adopting the effective distribution pattern.

Example: Mutual Fund companies like ICICI Pru Mutual Fund and HDFC Mutual fund sell their schemes through online- offline platform. But Axis Mutual Fund outsources Karvy Stock Broking Company, online and offline to sell their product.

**I) Packaging Differentiation**

Brand differentiation is fundamental to companies' success, so packaging plays a main role by calling attention of customer to products over those of competitors. Design, Shape, colourful graphics, unique presentations, unique messaging and technological assists are a few of the equipment company use to stay ahead in the competition.

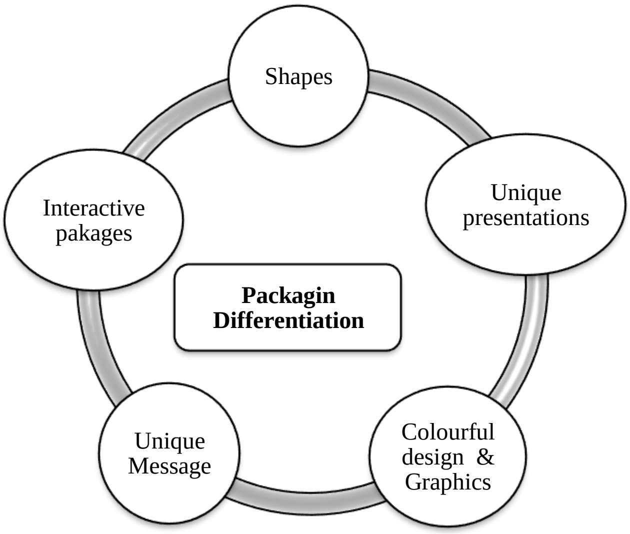


**Figure 9.4: Types of Packaging Differentiation**

Packaging is the art of designing and packing the product which makes the product attractive and appealing to customer.

a. **Colourful design & Graphics**, it refers to the quality and combination of colours and graphics printed including glossy surfaces. Example- chocolate rapper and packing
b. **Shapes & design,** attractive shapes and design of packaging is done by company so that product is easy to handle and at the same time innovative packing at times attracts the attention of the customers, e.g., moulded bottles of cold drinks are used.
c. **Custom presentations** Multipacks and variety packages, increasing visibility and creating unique presence on the shelf. The dimensional presentation creates uniqueness than a symmetrical box does.
d. **Unique messages:** Some of the companies use unique messages to their customer and give non-verbal message in the form of pleasant environment, temperature, quality of Air, customised treatment.


**Figure 9.5: Packaging of Product**


**Figure 9.6: Design of Product**

### 9.3.3 STEPS TO DIFFERENTIATION STRATEGY

As we have discussed the need and importance of differentiation in this competitive market environment. Now the question is, How to create differentiation strategically? The company incorporate systematic procedure to develop product differentiation. Following are steps suggested.

1. **Identify current image about the product, brand and company, understand the unique features that customer value in product.**

Understanding the current image of the company is very important. Here current image is how customer perceives about a company and their experience with the product. Through market research and intensive study the company can easily list out features customers consider in their purchasing criteria.

2. **Collect, compare and rate top performing company in the industry.**

   A study must be conducted to understand the current image of the competitor and their products in the market. Once the data is collected top performing companies should be rated and ranked as per the preferred feature in the product.

3. **Identify the top performers in the industry and ratings your company to competitors'.**

   After collecting the information about the best performing company, these must be compared and rated, each in relation to the competitors, on a scale of 1 to 10.

4. **Create a simple, unique, visible concise differentiation.**

   Once the information related to companies market offering and their competitor is collected then identify the gap. On the basis of gap identification the company must develop USP that suggests a dimension for differentiation. It acts as the competitive edge for the company and medium to fight the competition. The most successful USPs is concise and difficult to copy.

5. **Confirm that sufficient efforts and appropriate time on devising the right differentiation.** Because as you start promoting your differentiation factor, the competitors will make all efforts to neutralize it. Once USP finalise, the company must put all strategy to keep the differentiation in whole industry.

6. **Be constant with your differentiation once finalised.** Once the perfect selling proposition is created, the company must ensure that they will keep this differentiation for long time period and to be consistent with its use. Customers will start recognizing company by distinct feature and this will create an edge over competitors.

***Check Your Progress-A***

**Q1. What do you mean by differentiation?**

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**Q2. Explain various types of differentiation strategy.**

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**Q3. Choose the correct alternative.**

i) Differentiation is a process that making customer believes that:
   a. The Product is inferior to the competitors.
   b. The company's offer is better than those of the competitors.
   c. Both a & b correct
   d. None of the above.

ii) ______________ may be basis for Differentiation of the product:
   a. features
   b. Trade mark
   c. Unique packaging
   d. All of the above.

iii) Reliability is associated to:
   a. The design.
   b. Model.
   c. The performance of the product.
   d. The name of the producer.

iv) Which of the following is a service differentiation variable?
   a. Ordering & delivery.
   b. Installation & maintenance.
   c. Customer training.
   d. All of the above.

v) Which is a criterion to be successful in differentiation for any company?
   a. Affordability & Importance
   b. Profitability & Superiority
   c. Communicability & Distinctiveness
   d. All of the above.

## 9.4 MEANING OF POSITIONING

After marketers have identified the targeted customer, the next step is to create & get the space in the customer mind to achieve long-run customer base. Strategies that assist marketers to maximize market share include adding values desired by consumers.

Positioning is concerned with, the placing of the product in the mind of customer. Developing a favorable image, that creates positive attitude towards the company and their product. Positioning is getting the space in the mind of consumer.

According to Al Ries and Jack Trout "The positioning gurus, define positioning as: Positioning is … your product as the customer thinks of it. Positioning is not what you do to your product, but what you do to the mind of your prospects/customer".

According to Philip Kotler:

"Positioning is the act of designing the company's offer and image so that it occupies a distinct and valued place in the target consumer's minds."


The combination of product differentiation with market segmentation is called Product positioning.

Positioning is the process of creating a desired image for a company in the minds of a identified customer segment. Positioning refers to **'how organizations want their consumers to see their brands'.**

There are three types of images:

A. **Current image:** The way that a company is seen by customer. Current image is the ground reality about the product and company. It is the perception of customer regarding the offers of company. Current image can be known through market research, survey, feedback and complaints from the market.

B. **Mirror image:** The way that a company thinks it is being seen by consumer without taking any input from the market. It is observation of the company without interacting consumer.

C. **Wish image.** The way that a company would like to be seen by customer groups. This is the image that any company desire.

In positioning the company makes strategy to convert current image into wish/desired image. Positioning is playing with the mind of customer through differentiation.

Positioning is based on two approaches either the Consumer or the Competition. Both involve the association of product features with consumer needs. In Consumer approach, the product associated with the benefits the consumer will receive or by creating a favorable brand image, like Sony, Apple, Mercedes and BMW offers in their product, whereas in competition approach, there is comparison of product/offers with the competitor like Banking, Insurance and Mutual Fund Company.

**Positioning** has been defined as "the art and science of fitting the product or service to one or more segments of the broad market in such a way as to set it meaningfully apart from competition."

Positioning is the image that includes beliefs/opinion, feeling, attitudes, and impression of customer or consumer towards the product, brand and company. Positioning includes not only one but total impression.

Every product/service has potential to have some distinction over other. Customers are attracted to different needs as per their needs or problem which may include either one or combination of best quality, best service, lowest price, ,best value, safest, fastest, most customized, most convenient, most advanced technology.

The companies are selecting some unique basis for positioning which are as follow:

a. Distinctiveness

b. Superiority

c. Affordability

d. Profitability

e. Importance

f. Communicability


**Figure 9.7: Basis for positioning the Product/offers**

**a. Distinctiveness:**
The unique feature/characteristics which are distinctly superior over the other competitor in the market.

**b. Superiority:**

The unique features/characteristics of product that cannot be easily copied by competitor.

**c. Affordability:**
The customer and consumer are able and willing to pay for the unique feature.

**d. Profitability:**
The company will attain additional profits by incorporating the distinct character.

**e. Importance:**
The unique character is highly valued and identified by the consumer.

f. **Communicability:**
The unique feature should be convincing and possible to communicate the difference in a easy and strong manner.

## 9.5 OBJECTIVES OF POSITIONING

1. To create space for product and service in the minds of target customer.
2. To improve consumer perceptions.
3. To have unique identity in the market and grab an unoccupied position.
4. Establishing brand equity and strengthen the current position.
5. Develop superiority over the competitor.
6. Promoting the products premier quality.
7. Develop business for the company.
8. Empowering the business partners and shareholders.

## 9.6 VARIOUS TYPES OF POSITIONING STRATEGIES

Marketers in a company follow different positioning strategies. Companies are using strategies on the basis of Unique Selling Proposition. Some of techniques are.

**1. Positioning by Attribute or benefit:**

The most commonly method used for positioning is on the basis of the unique feature or benefits offered. It is with a specific use or application.

For example there are many company of Toothpaste like Colgate, Pepsodent, Close Up, Sensodyne, Anchor, Oral-B, Babool, Dabur Red, Aqua Fresh. All are doing well in the market because of different benefits associated with each. Colgate is popular and most recommended by dentists for whiten teeth, strength the enamel on teeth and freshen breath. Close-Up is the brand known for including mouthwash ingredients and designed to prevent cavities. Sensodyne toothpaste is trusted by people with sensitive teeth, it is designed to reduce the pain with tooth that protects tooth enamel.

Surf Excel is positioned as stain remover. Clinic All Clear is positioned to remove dandruff.

**2. Positioning by Comparison/Competitor:**

It is an offensive positioning strategy and is often seen in comparative advertising of perfect competition market. In this approach positioning is done within the same product category.

Companies position their product by advantages over their competitors and position themselves against an entire industry. It is also called positioning as a leader.
For Example: Bangur Cement compare with other competitors, Comparison between the various News Channels. A comparison between Aaj Tak and other News channel is one of best example. An advertisement where there is comparison of two competing brand like Amar Ujala and Hindustan, Wheel and Nirma washing powder.

**3. Positioning by user:**

Another approach is positioning by associating the product with a particular group/individual users. Positioning a brand done by focusing a specific class of customer like Luxurious car Audi A3, Lexus IS, Mercedes-Benz E-Class, BMW 4 Series are designed for the white-collar employee and Businessmen.
Other examples are Instagram and Face book are exclusively positioning young population. LinkedIn is used by Professionals, Naukri.com, Shadi.com, Canteen and other facility provided by Defence to serving or retired army personnel.

**4. Positioning by price/quality:**

Marketers some time use price/quality to position their product/company. By an advertisement that reflects a high quality product and the quality benefits derived from using the product. Another technique to use price/quality features for positioning is to focus on the quality or value presented in the product at a very competitive price.

For example, the advertisement of Bangur cement they say “Sasta nahi, Sabse Accha”. Although price is an important consideration, remember that the product quality must be comparable to, or even better than, competing brands.

**5. Positioning by Celebrity/Brand Endorsement:**

Most of the companies are positioning their company/product by celebrity endorsement in order to establish Trustworthiness, Attractiveness, superiority and Expertise. Celebrity Endorsement concept helps brand/company to create its image in the market and make customer to remember their brand with the image of celebrity. It is a marketing strategy where social status or the fame/name and image of well-known personality are used for positioning the product/ company.
Example: **Amitabh Bachchan**- Dabur, Cadburys, ICICI Bank, Parker, Zen mobile, **Salman Khan-** Wheel, Revital, Scott, Thums-up, Relaxo, Audi, **M.S. Dhoni-** Reebok, Exide, Big Bazaar, TVS motors, Dabur honey, **Deepika Padukone-** Axis Bank, Fiama DI, King, Yamaha Scooters, Sony, Nescafe, Tanishq. **Sachin Tendulkar-** MRF Tires, Aviva Insurance, Canon camera. Luminous.
Marketers some time uses the names of well established powerful brands for introducing their new product line or while entering another product category. Example is Hindustan Uniliver Ltd

**6. Positioning by Corporate Identity:**

Most of the company generates a unique Identity in the society by delivering quality product/ offers. These types of positioning take time and cannot be established over a night. This is the result of companies’ dedication to fulfill their commitment towards the society. These are the tested and trusted brand serving the market since long time period.

For example: Sony, Apple, TATA, Wipro, Honda, BMW, Royal Enfield etc.

**7. Positioning as an Expert:**

When a company develops some specialization, then it starts positioning them as an expert. After acquiring sound knowledge and technical control over certain process or technology the company is identified as Expert in the whole industry.

For Example:

BuzzValve ,is full-fledged content production firm helps brands and start-ups strategize, write, and design excellent web-based content. Their customers are BJP, Honda, Dr. Reddy's, Omni Active Health Technologies, Mindshare, UNICEF, Indigo 91.1 fm, Dancing Turkey, Johnson & Johnson etc.

Ethinos is one of the leading digital marketing agencies which provide all-round digital marketing services including social media, digital strategies, branding & design, SEM, SEO, content marketing, PPC, ORM, and mobile & app marketing in India. Their clients include Accenture, Ambuja Cement, Wipro, NASSCOM, KPMG, NIIT technologies, The Times of India, Kotak, etc.

Sanyo is the Japan based company known for the technological expertise which supplies maximum technical parts to all electronic company around the world.

RAW & IB is the specialized agency known for Intelligence and security in India.

**8. Positioning through Guarantees:**

Most of the Marketers adopts the strategy of unconditional money back and Buy Back Guarantee to the customers. In order to establish loyalty with customer and deliver satisfactory product they returns money to customer with no question asked. These companies are well known for best quality service and error free product. It is one of the best strategies used in service industry to create credibility and reliability.

For Example: Flipkart, offer its unique buyback guarantee offer on purchase of product during 'Big10 Sale'.

Dawn dishwashing liquid. Money-back refunds are one thing but Dawn, manufactured by Procter & Gamble, says if you're unhappy with the cleaner's grease-fighting power, the company will give you two times what you paid for it.

Wal-Mart's warehouse membership club has a new guarantee on its perishables—fresh meat and baked goods. If customers do not like the food, the chain will give double money back or exchange the product and still refund the purchase price.

**9. Positioning through smart Tag line:**

Smart Tag Line is a statement that resembles any company or its product and act as unique Identity for a company. These smart lines convey some benefits or message to the customer which attract the customer. Through smart tag line companies tries to explain that how better they understand the problem and needs of customer. Here are name of some company with their tag line.

Birla Sun Life Insurance Company- "Your Dreams, Our Commitment", HDFC Standard Life Insurance- "Sar Utha Ke Jiyo", Max Life Insurance – "Karo Jyada Ka Iraada", Oriental Insurance Company – "Prithvi, Agni, Jal, Akash, Sabki Suraksha Hamare Paas", HDFC Bank-“We Understand Your World”, Aditya Birla Group- “ Taking India to the World”, Aaj Tak- “Sabse Tej”, Acer- “Empowering People”, Airtel- “Express Yourself”.

**10. Positioning through Emotions:**

Positioning through Emotions is a commercial advertisement where marketer uses and tries to link the emotional moment (such as love, affection, fear, concern, relationship) with the product. Here the company appeals the customer that product is important their relationship which empowers the relation.

For example: A granddaughter in India decides to surprise her grandfather on her birthday by reuniting her with her childhood friend (who is now in Pakistan) after over 6 decades of separation, with a little help from Google Search.

Commercial Advertisement of MetLife Insurance company-

"My Father is a Liar" a Heart-touching video advertisement, where a girl telling about a father who lies to his daughter to make her happy.

Commercial advertisement of Bourn Vita Badam-

“Taiyari Har Exam Ki.” in which a school principal makes parents question if they are chasing after the right thing when it comes to their child’s education.

MAX NewYork Life Insurance commercial Advertisement for India-

Where the marketer tries to identify the gap and bridging with Insurance policy and give assurance to meet the need of all with tag line “Nazar ko kya chahiye, bus khwab thode Jyada”

## 9.7 PROCEDURE OF SETTING POSITIONING STRATEGY

Once the types of positioning are understood and explored the marketer must identify strategy which is best suitable for the company, brand and product and start establishing platform for developing the positioning strategy. Certain procedure is being recommended for developing the positioning platform. The step-by step process of creating positioning platform is as follow:

1. **Identifying competitors.**

Identification of competitor is one of the prime step that is to be taken by marketer because the objective of positioning is to get the space in the minds of customer and that is only possible when company will able to differentiate from the competitor through some USP. There are few questions which are to be answered for establishing strong positioning strategy. Who is our competitor?, In which industry our company exists? The are regulatory body of the Industry? This process requires critical thinking.

For example- Mutual Fund Company offers many schemes like Equity, Debt, Hybrid, and Balanced Funds. Each of these funds has to compete with not only with each other but also with other Mutual fund company in the industry. So, it is one of the important inputs for designing the effective Positioning strategy for any company.

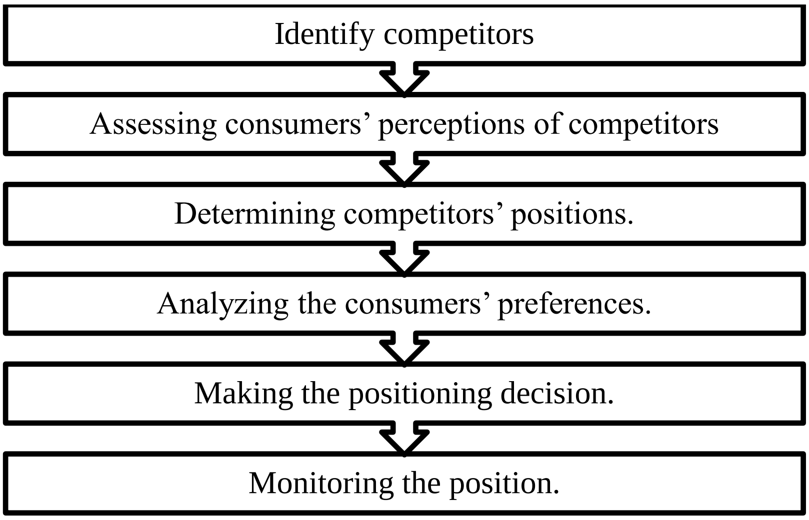


**Figure 9.8: Designing the Positioning Strategy**

2. **Assessing consumers' perceptions of competitors.**

After the identification of competitor, the company must understand the current image of the customer to see, how competitors are perceived by consumers. Here the company must find the solutions to certain questions like; while evaluating a product and/or brand, what attributes are important to consumers? The attribute of the competitor product helps in understanding the unique specialisation of company which helps any company in creating superiority over others.

Assessing the current image of competitor through focus groups or complete surveys clears the kind of placement and existing position of product in the mind of customer and it pros & cons. As the company prepare their positioning strategy to compete with the competitor and develop superiority over others.

For example- important attributes considered in the selection of a Mutual Fund may include easy transacting, convenient to use, secured returns, friendliness, financial security, credibility and reliability.

3. **Determining competitors' positions**.

Current image provide necessary information about competitors. The information collected should be arranged in a systematic manner and determine how all competitor is positioned with respect to each attribute. Now the all competitor including our own company should be ranked as per the market research to understand the competitors' position.

4. **Analyzing the consumers' preferences**.

Consumers' preferences can be analyse after understanding various segments of consumer, as Demographic, geographic, psychographic etc rates on different attribute of product in each segment. Identification of Ideal product or Brand is necessary as Ideal products are those which consumer prefer most over all available product. Secondly, customers expected attribute which is not available in any brand till now must be observed. Identification of ideal product can help us identify different attributes.

5. **Making the positioning decision.**

Next step is deciding the positioning method to place product in the customers mind. The marketer or the concerned management must make subjective decisions by answering the questions like.

a) Is the segmentation strategy appropriate?
b) Are there sufficient resources available to communicate the position effectively?
c) How strong is the competition?
d) Is the current positioning strategy working?

a) **Is the segmentation strategy appropriate?**

Segmentation facilitates the marketer in identification and positioning of product; the marketer must ensure that the segmentation selected is suitable and provide convenience in understanding the potential customer and market. Segmentation should be done by keeping the best interests of the company to reduce the impact of the remaining market.

Positioning is done on the basis of attributes available in product and the targeted customers need. Segmentation is done to identify the segment with high opportunity.

When product is designed to undifferentiated market then segmenting may not play a much significant role. If the company is dealing with differentiated segment then segmentation plays very important role if the segmentation is done appropriate manner.

b) **Are there sufficient resources available to communicate the position effectively?**

Secondly, the marketer must put all efforts to project and place their USP in the customers mind. Company should use all the medium of advertisement to promote products. The marketer must assess the effectiveness of resources available to communicate to targeted population.

Company must use all and most effective methods of promotions as per the changing technology and customers' reach.

c) **How strong is the competition?**

The marketer must assess and evaluate whether the positioning strategy strengthen the brand equity of company. The efforts of marketer should be based on two basic questions:

1. Whether company will be successful in maintain their position, if company first enter -s into market?
2. Whether company will able to fulfil their commitment?

d) **Is the current positioning strategy working?**

Next thing that a marketer should check that effectiveness of existing positioning strategy and if positive results are not found then as an effective measure, they must go for other alternative. If the current strategy is not performing well, it will weaken a brand's position.

Until and unless there is strong reason for change in positioning is necessary, the company must continue with the current strategy.

6. **Monitoring the position**.

After the positioning strategy has been established, the marketer needs to observe that how the positioning strategy is doing. The marketer should study and measure the image of the product over time. If the wish image of company is not converted into current image then remedial actions should be adopted.

## 9.8 POSITIONING ERRORS

Positioning is one of the effective tools for the company to create brand equity for the company. It assists company in creating the wish image in the minds of the customer. The marketer must be careful while designing the positioning strategy. Any error in the positioning strategy will mislead the message and divert them from achieving the objectives.

It means the positioning should not increase the expectations beyond the company's competency. In this case customer will always be dissatisfied. Secondly, the company should project only on one attribute rather than highlighting many attribute; it will create confusion in customer mind and difficulty in differentiation.

Company can easily position the current Image to wish image avoiding following three errors and to ensure clear positioning of its product:

a. **Under-Positioning:**
   If the company is unable to differentiate their product from competitors' brands, it is called under-positioning. If a company is not able to develop unique attribute and they are similar to the other brand in the market.
b. **Over-Positioning:**
   Some time the projection of attribute is so highlighted that customer get doubt on the attributes of the product. The customer does not believe on the offers of the company. The consumer does not get confidence in purchasing the product.
c. **Confused/Doubtful Positioning:**
   This is the situation where the company highlights many attribute ,than focusing on one attribute. It creates ambiguity among the all competitors. Due to the gap between the claims made in company's product and advertisement by the company.

***Check Your Progress- B***

**Q1. Define the term Positioning and discuss various types of Positioning strategy.**

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**Q2. Why positioning is considered as an important element as targeting consumers.**

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**Q3. Explain various positioning errors that any company should avoid while designing the positioning strategy.**

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**Q4. Examine the procedure for setting the positioning strategy.**

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**Q5. Multiple Choice Questions-**

i) A positioning strategy is used by company to:
   a. Differentiate a product from its competitors.
   b. Positioning a company to serve customers in one or more product market niches.
   c. Both a & b
   d. None of the above.

ii) Positioning is a marketing strategy of:
   a. Establishing a position for a product in the consumer’s mind.
   b. Differentiating the product from others.
   c. Both a & b
   d. None of the above.

iii) Which decision does not consists a positioning strategy?
   a. The product or service offering.

b. Welfare programme for employee family.
c. How distribution will be accomplished.
d. Choice of a pricing strategy

iv) The necessity of a strong positioning strategy is:
a. Deliver customer satisfaction to the firm's target market
b. Meet the corporate and marketing objectives
c. International competition.
d. Both a & c

v) Head-to-head positioning may be suitable when:
a. The price is higher
b. The product's performance characteristics are superior
c. Both a & b are correct
d. None of the above.

## 9.9 SUMMARY

In this chapter we have discussed differentiation, the topic that covered are Meaning of Differentiation, objectives and importance of differentiation. As differentiation is one of the important vehicles for any company to achieve company's goal in a smooth manner. Differentiation is a mechanism which assists company in creating unique attribute in their product. Without differentiation the positioning is difficult. There are many types of differentiation i.e. Product Differentiation, Price Differentiation, Promotion Differentiation, Personnel Differentiation, Services Differentiation, Process Differentiation, Distribution Differentiation, Packaging Differentiation. Each differentiation is explained with example. We have learnt process of developing the differentiation strategy for the company.

Second concept we discussed is positioning, where we learn about positioning, its importance. More over we discussed that Differentiation is managing the attributes of product where as Positioning is playing with the minds of customer. We also learned about types of Positioning and process of positioning. Finally we understood about the barriers in the positioning product that suggest the company to take precautionary measures while preparing positioning strategy.

## 9.10 GLOSSARY

**Unique Selling Preposition (USP) -** Special quality, expertise, specialization.
**Mirror Image** - Image that a company feels it is being seen by customers.
**Current Image -** The way that a company is seen by customer, Actual perception of customer about Company/Brand/ product.

**Wish Image -** The way that a company would like to be seen by customer groups. This is the image that any company desire.

**Celebrity -** The fame and public attention accorded by the mass media to an individual.

**Endorsement -** The action of endorsing someone or something.

**Perception –** It is process of receiving and interpreting the stimuli from the environment.

## 9.11 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress –A

3.

i. b
ii. d
iii. c
iv. d
v. d

Check Your Progress –b

5.

i. c
ii. c
iii. b
iv. d
v. c

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## 9.14 TERMINAL QUESTIONS

1. What do you understand by differentiation? And discuss the significance of differentiation in present business world.
2. Discuss the various types of differentiation strategy.
3. Explain process of differentiation with suitable example.
4. “Positioning dealing with the consumers’ mind where as Differentiation is dealing with the attribute of product” comment.
5. Discuss the types of positioning strategy adopted by company.
6. Explain the term Current Image, Wish Image and Mirror Image with example.
7. Distinguish between product differentiation and product positioning?
8. Discuss various types of positioning strategy marketer use with example.
9. Explain the importance and scope of positioning.
10. Explain various the Positioning Error that any marketer should avoid in positioning the product with suitable example

## 9.15 CASE LETS/CASES

Barley is a brand that has been growing gradually over the years. The increasing in the customer base as they well addresses their customer. The new ad campaign of the Rs 1000 crore Barley brand is just hitting national networks and the message is clear to many people. Although Barley features in the top 10 of most consumer surveys this is one of its highest ratings so far, Says Mr. Sashwat Basu, managing director, Bal Dev Products (BDP), "We are delighted at the rating that Barley has got in one of the Research agency”.

However, we are aware of the quality of Barley through our closeness to consumers, but it is always nice to get independent acknowledgement of the fact." The flagship of BDP, Barley has been showing consistent annual value growth of about 30 per cent in the last two years. And more may be expected. Thus, BDP is busy setting up a Rs. 250 crore dedicated Barley facility at Sonepat, Haryana. Invented in 1984 by Philip Barley, the brand has been available in India for 20 years. From being a drink taken only during period of recovery the brand has repositioned itself since the eighties as a 'great family nourished'. Mr. Vaibhav, Advisor, BDP, says, "We have continuously nurtured the equity of Barley Company very carefully over the years and this has resulted in a healthy bonding between the brand and consumers.” In fact, the company's consumer survey shows that consumers over time and experience have developed a good relationship with the brand. That's something they find more effective than an ordinary bonding. Enthusiasm has been maintained despite its maturity stage by avoiding complacency. Many big companies with huge equities tend to fall to the temptation of sitting tight. And that in return can result in a brand losing their importance.

But Barley has taken a proactive stance. Explains Bhawika Pant, Head of marketing-dietary business, BDP, "it has been our learning that if there is a giant company with a lot of equity and it does not bring changes to meet the changing need of consumer and some other brand with more consumer satisfaction comes in competition and in market segments. So before anyone else could, the company stake out some new territory. This is the reason why Barley has come out with new products such as Junior Barley, Mother's Barley and Barley bakers, Barley chips. The idea here is to lengthen the core values to new formats and benefits. And that in turn raises the market share. Take biscuits. They have meant a different distribution and marketing technique – easy availability of the brand at a low price. And this gives the brand a new way to get into smaller outlets - including the all local shop where it never could have been before. Even if products like Junior Barley support the mother brand, at least 60 percent of its users are new incremental consumers.

Q**uestions:**

1. Design an effective positioning strategy for the Barley Company.
2. Discuss the differentiation technique adopted by Barley Company to position their company/Brand/ Product.
3. Explain and suggest Positioning Error that Barely should avoid.
4. Suppose that you are Marketing Executive of the Barley, Mr. Sashwat Basu asked you to plan a positioning plan for their company and their product.

# UNIT 10 CONSUMER BEHAVIOUR

**10.1 Introduction**
**10.2 Objectives**
**10.3 Meaning of Consumer Behaviour**
**10.4 Objectives of Consumer Behaviour**
**10.5 Significance of Consumer Behaviour**
**10.6 Consumer Buying Behaviour**
**10.7 Factors affecting Consumer Behaviour**
**10.8 Categories of consumer**
**10.9 Consumer adoption process**
**10.10 Summary**
**10.11 Glossary**
**10.12 Answer to Check Your Progress**
**10.13 Reference/ Bibliography**
**10.14 Suggested Readings**
**10.15 Terminal & Model Questions**
**10.16 Case study**

## 10.1 INTRODUCTION

In the previous unit you learned Differentiation and positioning strategy. Differentiation is the technique of developing unique identity for company by creating Unique Selling Proposition. On the basis of proposition the company creates and get space in the minds of potential customer. Differentiation is means for positioning the offering of the business houses in the society and in customers mind. The differentiation is necessary for giving a unique image of the company which is company focussed whereas the positioning is the strategy and the art of creating favourable attitude of customer towards the company's product, here the positioning is customer focussed. So, it is very important to understand the concept of consumer, their types and everything related to customer.

Days are gone when it was a producer centric market, where everything was decided by company whether goods/ services, price, place, promotion. Due to the economic policy, Industrial growth and advancement of Information & Technology, the complete scenario has changed. Now the power has shifted from the producer to consumer, where everything is decided on the basis of consumer .

The concept of Marketing is customer oriented, which provides effective solutions for certain important questions like What to produce?, How much to produce? What attributes to produce in product? What should be the price of the product? How to distribute the product to targeted customer? Until and unless the answers are collected from the customer, it will be difficult for the company to survive and play in a long competition. It is identification of potential customer, converting them to regular customer and establishing a long relationship with them.

Customer and competition are opportunity for the company. It is to understand the customer because they change their attitude over a time period and there are many factors that influences consumer purchase behaviour. Over a period of time it is found that demographic factor are changing, customers' economical power is changing, and social psychology is changing which is a threat as well as opportunity for the company. Finally, we may conclude that consumer is the prime interest of the company which provides the solution to various problems and gives reasons for existence to the company. After LPG (Liberalization, Privatisation and Globalisation) the world has become a small village, where large numbers of MNCs are competing not for profit but for surviving in the market by understanding and satisfying customer.

In this unit, you will study about Consumer, consumer behaviour, types of consumer, significance of studying consumer behaviour. It will also be discussed what are the factors affecting consumer behaviour and how? Finally consumer adoption process will be discussed.

## 10.2 OBJECTIVES

After reading this unit you will be able to:

- Concept of Consumer and consumer behaviour.
- Objectives of studying consumer behaviour.
- To understand the customer, customer behavior and factor designing them.
- Consumer decision making process.
- Buying Behaviour of consumer and types.
- Factor affecting Consumer Behaviour.
- Designing Marketing strategy.

## 10.3 MEANING OF CONSUMER BEHAVIOUR

Consumer behaviour is one of the functions of marketer where company study actions of consumer and the factor that affect the consumer purchase behaviour. We must understand the difference between Consumer and Customer.

In 1890, Mahatma Gandhi gave a made a visionary statement at South Africa:

"A customer is the most important guest for every company. Customer is not dependent on company but Companies are dependent on customer. Customer is important part of companies' premises, he is not an interrupter. Company exist because of them. Customer is favouring company by providing opportunity to serve them".

Consumers are individual or group of people that are ultimately disposing the utility of product. Consumers are end user of the product. Customers are individual or group of people who all act as an intermediary between Producer and final user. All consumers are customer but not necessarily that all customers may be consumer. Anyone who buys product are customer if the purchase is for other then he/she is customer but, if the product is purchased for own use it is called customer as well as consumer.

There are basically two types of consumer- Retail consumer and Organisational consumer. Retail consumers are those consumers who buy the product for their personal use. When the product is purchased by end users for final consumption is called Retail consumer or Individual consumer.

Example- If any customer purchases car, mobile, laptop or any other consumable product for their personal use or family purpose they are called Retail consumer.

Organisational consumers are the institutional buyers who purchase the product for the industrial purpose. Organisational consumer purchases the product in bulk as per their manufacturing requirement where as retail consumer purchases the product in small quantity.

Consumer behaviour is the study of consumer, about their purchasing habits, types of decision and factors affecting their purchase decisions. It is that subset of human behaviour that is concerned with decisions and acts of individuals in purchasing and using products.

Consumer behaviour refers to the behaviour that consumer display while making a purchase decision, searching for purchasing using evaluation and disposing of product & services that they expect will satisfy their needs, it includes the study of what they buy?, when they buy?, where they buy?, how often they buy? And how often they use it?

Consumer behaviour is more than just how a person buys. Consumer behaviour is dynamic interaction of affect, behaviour, cognition, decision process, emotional process and environment.

According to American Marketing Association consumer is defined as, "The dynamic interaction of affect and cognition, behaviour, and the environment by which human beings conduct the exchange aspects of their lives".

Consumer Behaviour is periodical study by marketer about consumer behaviour, their taste, purchase pattern and the factor influencing consumer behaviour. The researchers believe that by identifying, studying the factor which influences consumer to choose a product over the other, it become easy to know the customers taste, preferences and attitude towards the product and company. On the basis of the facts collected in the study, effective marketing strategies are designed to create market leadership.

Study of Consumer behavior has become prerequisite for every company. It has become a prerequisite necessity for the companies for making suitable strategic decisions. The marketer can easily predict the response of consumer once he has knowledge about consumer taste and preferences. Consumer behaviour is necessary for company to serve the consumer better. It helps the company in segmenting, positioning, pricing, scheduling, advertising and designing the activities.

Consumer Behaviour is a specialised marketing field that study all the stages a consumer experiences before purchasing the goods and services for ultimate use.

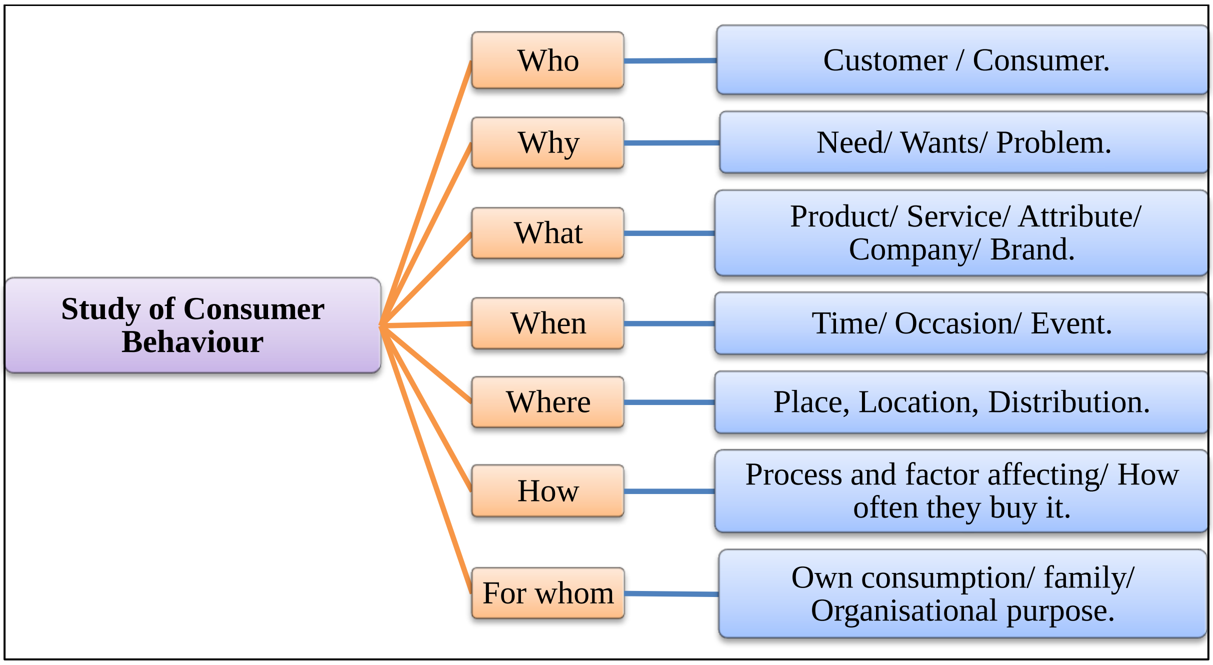


**Figure 10.1: Study of Consumer Behaviour.**

## 10.4 OBJECTIVES OF CONSUMER BEHAVIOUR

Consumer behaviour is having very significant role in the present scenario of competitive environment. Now the challenge is not to earning profit but to survive.

1. Identify the existing, potential and ex-customer.
2. Creating effective marketing strategy.
3. Facilitating and satisfy customers by adding value.
4. Creating brand equity for the company.
5. Developing a customer focused marketing mix.
6. Creating favourable business opportunity for the intermediaries.
7. Design effective solution for customer's problem.
8. Survive and have consistent growth of company.
9. To observe and analyse consumer response.
10. Understand new business opportunity with new product length.
11. Creating an effective advertisement and promotion strategy.
12. Providing training and enhancing the skills as per the dynamic nature of consumer.

## 10.5 SIGNIFICANCE OF CONSUMER BEHAVIOUR

Consumer behaviour plays significant role in designing competitive marketing strategy. Marketer develops solutions to the consumers' problem. Company need to continuously update and innovate as per the dynamic nature of consumer. Until and unless the company understand the relevance of consumer behaviour, it will be complicated for company to enjoy market leadership.

Consumer behaviour suggests key input for carving the companies fortune. Presently it is consumer era where customer plays centre role in the companies governance.

1. **To survive and achieve goals:**
   In the modern era customer-oriented market, customer plays central role in the growth of any company. In this highly competitive environment only those company will be surviving who will understand and satisfy the customer. By achieving the satisfaction of customer the company can survive and attain their objectives. Companies are priority is not to earn profit but to survive. Satisfied customers are means of success for the customer.
2. **Facilitates channel partner:**
   Consumer behaviour is also useful for the various channel intermediaries who plays vital role in the facilitating the product from the company to the final user. Awareness and knowledge about consumer changing taste & preference helps the distributer and retailer to serve customer in a wise manner. It enhances the performance of all distribution system.
3. **Effective marketing strategy:**
   The study of consumer behaviour assists company in designing marketing policy for the company which explores important input in deciding the attribute customer searches in the product. Consumer behaviour share the expectation consumer is having from the company to serve them better. Company makes various important decisions like pricing, on the basis of the consumer purchasing power. Company can easily understand the purchase behaviour of consumer, their life style and factors influencing the purchase decisions. All the marketing decisions are prepared with an objective of market leadership.
4. **Continuous development of the company:**
   Consumer behaviour is a continuous exercise by any consumer-oriented company. As consumer are dynamic in nature, where consumer change their taste and preferences over a time. The company needs trap the momentum of change in order to stay long in the competition. There are various factor both controllable as well as uncontrollable factors which influences the consumers. Company adopts changes as per the current market trend to develop and grow consistently.

5. **Identifying the emerging opportunities:**
   Consumer behaviour acts as barometer to identify and to measure the quantum of future trends. The practitioner can easily predict future trend on the basis of the past market trend to enjoy the emerging market opportunities and dealing with threats. Consumer behaviour assists company to equip with necessary technique in the upcoming amendment to serve the customer.
6. **Facilitates segmentation and positioning:**
   There is large degree of heterogeneity in the customer behaviour. If the company designed their product on the basis of common needs of, general consumer as a whole then it is fine but when the product is for the specific attribute or unique need. The consumer behaviour helps a company to indentify the potential consumer by segmenting them into homogeneous group to understand and serve them better.
7. **Customer Relation Management:**
   Managing customer relationship has become the challenge for the company. Organisation had identified the relevance of retention and now instead of focusing on new consumer the companies are putting efforts to retain their existing consumer. The growth and success of company depends on how long the consumer stays with company. Consumer behaviour guides company to develop loyalty programme, satisfaction and quality.
8. **Market leadership:**
   Consumer behaviour provides important input for developing competitive edge to fight and survive in the market at global level. Consumer behaviour harnesses unique feature in the company and product which creates differentiation with rest of the competitors. Differentiation provides an advantage over other companies in the industry. It helps the company in creating superiority over the other brands and enjoys leadership.
9. **Expanding new product length:**
   After assessing the needs and expectation the company can expand the product under their company umbrella. Consumer behaviour discloses the current needs and unsatisfied problem that gives clue to marketer to increase the product in their brand which leads to growth and new business opportunities.
10. **Optimum utilisation of resource in dynamic environment:**
    As the consumer behaviour is dynamic in nature which updates and alerts company and assists marketer to make companies efforts consumer-focussed. It helps in predicting the possible challenges in the upcoming environment and to prepare company to achieve maximum returns.

## 10.6 CONSUMER BUYING BEHAVIOUR

Consumer buying behaviour is the mechanism which explains how decision is made to purchase the product, various types of decisions and steps in buying process. It refers to behaviour and decision making by the final consumer. Consumer buying behaviour involves answers of three questions.

1. Who makes the purchase decision?

2. What are various types of decisions taken by customer?
3. What is the buying process adopted by customers?

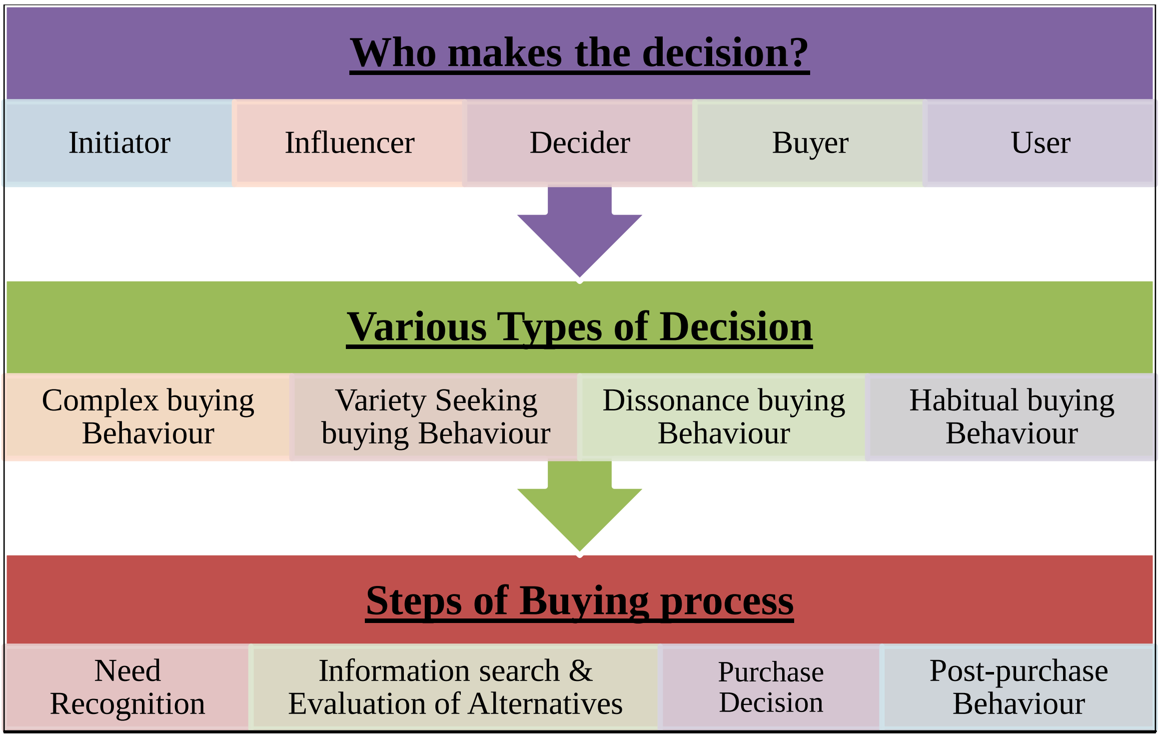


**Figure10.2: Consumer Buying Behavior**

1. The first thing that is of interest to companies is, who makes the purchase decision?
    a) Initiator- The person who first suggests or thinks of the idea of buying particular product.
    b) Influencer- A person who views or advice to influence the buying decision.
    c) Decider- The person who ultimately makes a buying decision and decides whether to buy and from where to buy.
    d) Buyer- The person who make an actual purchase.
    e) User- The person who consumes or uses a product or finally disposes the attributes of products.

    While purchasing the Car, Insurance policy, House, washing machine Initiator, influencer, decider, Buyer and user may differ.
2. The various types of decision are:
    **a) Complex buying Behaviour:**
    When the consumers are highly involved in purchase and there is a significant level of difference between available brands. Consumers are highly conscious because product is of expensive brand, not purchased frequently, risky and highly self expressive. The customer does not know much about the products and wants to collect a lot of information about various brands.

For example- Purchase of House, Luxury product, Software for company, investment in Mutual fund and share market

**b) Variety Seeking buying Behaviour:**

When the consumers are low involved in purchase of product and there is a low level of difference between brands available. In this consumer is having low involvement as the product is not expensive and it is frequently purchased. Secondly, there is a significant level of difference between brands.

The consumer is having some belief; chooses a brand without much evaluation.

For example - Purchase Chips, salt, pen, and shoes.

**c) Dissonance buying Behaviour:**

It is like complex buying behaviour where consumers are highly involved in purchase of product because product is expensive and risky but, there are low differences between brands available. So the customer is confused and wants to collect a lot of information.

For example- purchase of diamonds, Jewellery, furniture, aqua guard.

**d) Habitual buying Behaviour:**

When the consumer is having low involvement in purchasing the product and there is low level of difference between the available brands. These products are neither expensive nor risky and purchase frequency is high. For example- Toothpaste, purchase of grocery products, FM channels.

| Degree Difference between brand | **High Involvement** | **Low Involvement** |
|---|---|---|
| **High difference between brand** | Complex buying Behaviour | Variety Seeking buying Behaviour |
| **Low difference between brand** | Dissonance buying Behaviour | Habitual buying Behaviour |

**Figure 10.3: Types of Purchase decision**

3. Steps in Buying process are

**a) Need recognition:**

The buying starts with need recognition, as we know that the person is motivated to act only when he has some unsatisfied needs. If someone's needs are not in activated stage then he can be made activated by providing the information about the product. Need recognition occur because of dissatisfaction from existing product or services, problem observed over course of time, consistent depletion,

For example- A working women feels the need for washing machine. The recognition of need will activate her search for any washing machine and it will result in some decision.

b) **Pre-purchase information search:**
After recognition of the need, the person is involved in gathering the information about the product or service. Search may be of two type internal search which refers to recalling the relevant information stored in the memory. External search refers to seeking of new information from relative, friend and literature available.

c) **Evaluation of alternatives:**
Once the interest in the product is around, the consumer makes the final decision using certain alternatives like product attributes brand image, price etc.

d) **Purchase decision:**
After the evaluation the consumer develops the intention either to purchase or reject the product. The final purchase will however depend on the strength of positive intention to buy.

e) **Post-purchase behaviour:**
Once making the purchase decision, the person shows the response of the purchase. It may be positive or negative. If the learning is positive then it results in repeat purchase and if it negative then it result in no-purchase.

## 10.7 FACTOR AFFECTING CONSUMER BEHAVIOUR

Factors affecting consumer behaviour can be classified into four categories which are discussed as follows:

A. Cultural factor
   i. Culture
   ii. Sub-culture
   iii. Social class
B. Social factor
   i. Reference group
   ii. Family
   iii. Roles & Status
C. Personal factor
   i. Age & Life cycle stage

ii. Occupation
iii. Economic determinant
iv. Life style
v. Personality & self concept

D. Psychological factor.
i. Motivation & involvement
ii. Perception.
iii. Learning
iv. Attitude & belief

**A. Cultural factor:**

Cultural is factor includes Culture, sub-culture and social class

**i. Culture:**

Culture is the unique identity of society, country or region which acts as basis of differentiation. Culture is a set of custom, belief, attitude, perception and preference commonly shared, accepted and followed by group of people in a territory. Culture is the ritual of society that is seriously followed and learned from parent, teachers and society. When we classify culture on the basis of nationality or citizen of a country it could be understood as culture shared in a territory.

In India saving for the daughters' marriage has been the culture. The lifestyle of Indian and American is different, which defines their culture.

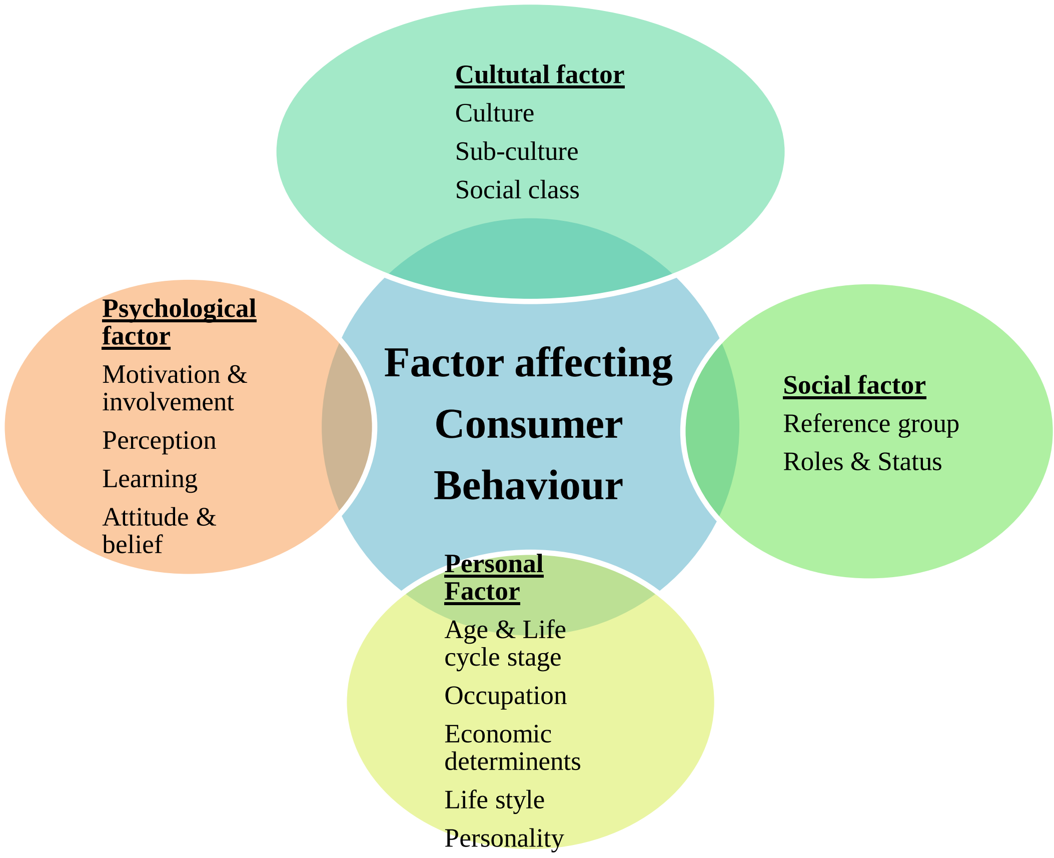


**Figure 10.4: Factor affecting Consumer Behavior**

**ii. Sub-culture:**

Each culture consists of sub-culture that gives them separate identity like religion, caste, language. North Indian culture and south India culture is different like their taste, preference, thought.

South-Indian people use coconut oil and coconut in every dish, whereas North-Indians do not. Bengali's like maximum sea food whereas Punjabi love chicken, *sarsau ka saag* & *makki di roti.*

**iii. Social class:**

These are those homogeneous groups which evolved from the Sub-culture. Social-class is enduring divisions in the society which are arranged according to hierarchy where individual identify as occupying superior or inferior positions as per social class and whose member share common interest and behaviour.

Almost, every human societies show social stratification which takes the form of caste based roles that can't be changed by their member. Stratification sometimes takes the form of a caste system where the members of different caste are reared for certain roles and cannot change their caste membership. Social class can be indicated by education, income, wealth, occupation.

**B. Social Factor**

Social factor include Reference group, roles & status.

**i. Reference group:**

Reference group are group that affect the consumer behaviour. According to Philip Kotler – “A person’s reference group consists of all groups that have direct or indirect influence on the person’s attitude or behaviour”. Reference group are membership group, Aspiration group, Dissociative group, Disclaim group, Primary group and Secondary group.

**Membership group** are the group to which a person belong and feel delighted to be member of. **Aspiration group** are group to which a person is not member but would like to be part of that group, like purchasing a brand, which is endorsed by any celebrity. Student wants to study in IIMs. **Dissociative group** are those groups to which the individual have negative attitude and don’t want to be member. **Disclaim group** are group to which individual is part of group but don’t want to associated longer and wants to leave the group as soon as possible. **Primary group** are those groups with which a person interact continuously and directly like, Family, friend. **Secondary group** are formal and professional group to where doesn’t interact regularly. Sports club, Bank, Telecom Company.

**ii. Roles & Status:**

A role consist of activities that a person is expected to perform according to the person around him. The role and status played by the individual also affect the consumer buying behaviour. The purchase behaviour of white collar employee will be different from blue collar employee. Women plays different role in life, like role of mother, wife, daughter In-law, sister which influence their purchase behaviour.

**C. Personal factor**

**i. Age & Life cycle stage:**

People come across various stages at their different life time. There are nine stage of family life cycle and people behave differently at different stage. Below are stages that create and affect the buying behaviour.

- Bachelor state: At this stage young single people not living at home, enjoy vacations and parties.
- Newly married couple: At this stage of life cycle young couple with no children purchases durable product for their household.
- Full Nest I: Married couple with child under 6 years age.
- Full Nest II: Married couple with child over 6 years age.
- Full Nest III: Old couple with dependent child.
- Empty nest I: Old couple with no children living at home.
- Empty nest II: Old couple with no children living at home and head of family retired.
- Solitary survival: One of the spouses is dead.

- Solitary survival retires.

ii. **Occupation:**

Consumer buying behaviour is also influenced by his profession. A blue collar employee will purchase cloths, daily family needs whereas white collar employee prefers club membership.

iii. **Economic determinant:**

Economic parameters of consumer also affect the buying behaviour. It depends on the individual's purchasing power, savings and borrowing.

iv. **Life style:**

People coming from same sub-culture, social class and occupation have different life style apart from the person of other occupation.

v. **Personality & self concept:**

Personality is the sum total of unique individual characteristics that make each one of us what we are.

Self concept is the way we perceive our self in social frame work. Individual always tend to buy those product which we think will make his personality.

**D. Psychological factor.**

i. **Motivation & involvement:**

Motivation is that force which stimulates some needs and provides direction of behaviour towards fulfilment of the need. Involvement refers to the personnel relevant or importance of a product, which a consumer perceives in a given situation. For example: For a professional photographer the camera is his main tool, he can be motivated to buy best possible camera without seeing the price tag. For an ordinary consumer a camera is just a means and just any camera which is convenient to handle and of low price will be purchased.

ii. **Perception:**

It is the way of looking for a situation by different consumers differently. It is how a consumer perceives the product and how he reacts on it. In perception people are exposed to huge number of advertisement but it is not possible to give attention to all and a person pay attention to limited advertisement as per his needs.

iii. **Learning:**

Learning is the change in an individual's behaviour from the information and knowledge. It is result of reasoning, thinking and information.

iv. **Attitude & belief:**

It is our learned dispositions towards any object, event and people. Attitude influence how we respond to different product. It is not inherent but learned from academic institutions and society. The consumer buying behaviour is the result of learning and experience in life.

## 10.8 CATEGORIES OF CONSUMER

Researchers have identified and classified the consumer in to five categories such as Innovators, Early adopter, early majority, late majority and Laggards. All are discussed below:

a) **Innovators:**
Innovators are those consumer who take initiative and as a leader they are first to purchase the new product from the market, not because of need or dissatisfaction from existing product but due to their desire for using new, latest, trendy, different. They are fascinated towards new available product, risk taker, full of confidence and eager to use the some new. They purchase product without waiting because they have interest, purchasing power, access to information and product. These are consumers who watch first show of every new launch movie. The marketer must invite innovator in designing their products.

b) **Early adopters:**
Early adopters are that purchases the product not because fascinated nature but due to their need for product and social prestige which act as effective drivers. Early adopters are economically sound; they spend time in purchasing product and socially respected. The marketer must recognise, reward and maintain lengthy relationship with customer with consistent feedback.

c) **Early majority:**
These are consumers who are economically healthy and purchases product because they have need but they take time to make purchase. These customers are collecting lot of information, compare and then take decisions.

d) **Late majority:**
Late majority are those consumers, who purchase the product after the success rate of the product. The consumer purchase product at last after seeing success ratio and performance of the product. They are highly influenced by the society, peer group and reference group for purchase. They spend very wisely and consciously while purchasing the product. They are the last in the society, friends and relative who buys the product.

e) **Laggards:**
These consumers are those, who don't wants to change and purchase the product when they do not have alternate option to satisfy their problem. They are economically, socially weak and wait for price fall. They expect credibility and accessibility for product. Generally marketer does not rely on laggards.

## 10.9 CONSUMER ADOPTION PROCESS

Consumer adoption process is the stages that every consumer moves for making purchase decision. There are five stages which all consumer experiences discussed below:

i. **Awareness:**
This is first stage where individual is exposed to new offering from the company. Here marketers' goal is to inform and educate people about the new product and services. This is first step that is always initiated by company where they communicate through advertisement and promotion regarding new set of attributes.

ii. **Interest:**
Once the consumer is aware about the offers of the company then, the company focuses on interest generation. Here consumer consciously involve in the assimilation of knowledge about the product. Consumer develop attitude towards the product on the basis of product performance in the market.

iii. **Evaluation:**
At this stage, after the interest is generated the next important thing is comparing the product and its attribute with other alternative with respect to price, features. If the consumer observes that the offers and services are value for their money, he moves to next stage otherwise consumer quit at this stage.

iv. **Trail:**
Once the consumer is satisfied with the evaluation, then consumer wants to check, wants a demonstration, takes a trail, taste/ test the product. If consumer is successfully satisfied that he will move to next stage otherwise quits if not satisfied.

v. **Adoption:**
This is the stage where consumers decide whether to purchase the product. If the consumer is satisfied then it will result in adoption process where consumer purchases the product consistently.

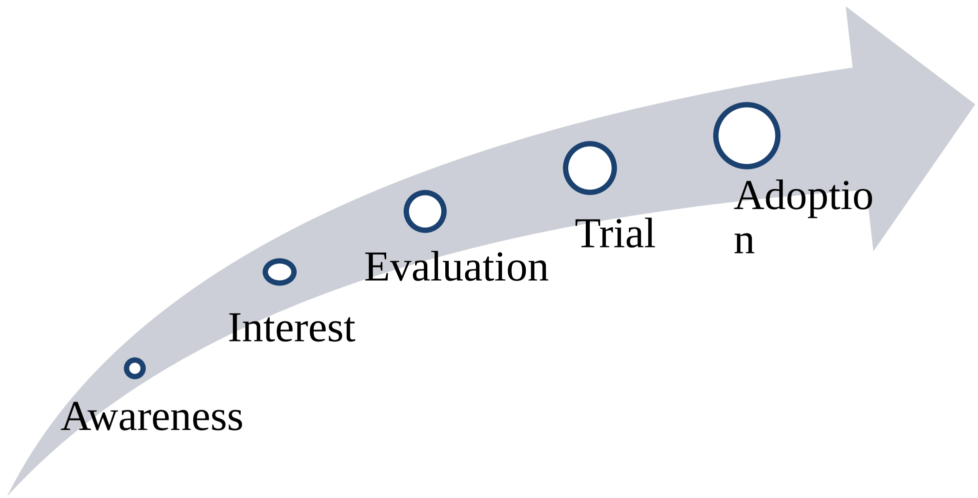


**Figure 10.5: Consumer Decision Making Process**

### *Check Your Progress-A*

**Q1. "The study of consumer behavior is the study of how individuals make decisions on consumption-related items." Discuss.**

**Q2. What are Reference group? How do they influence buyer behaviour?**

**Q3. What are the main characteristics of Institutional buying? In what ways the Organizational consumer is different from Retail consumer?**

**Q4. Define consumer behaviour. How the field of consumer behavior is evolved?**

**Q5. Why marketer requires knowledge and information about consumer behavior? Explain with suitable example.**

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**Q6. How environmental factors influences consumer behavior? List out and justify with a suitable example.**

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**Q7. Illustrate the emerging trends in Indian market with reference to changing consumer behaviour. Discuss interrelationship between consumer behaviour and marketing strategy?**

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**Q7. Choose the correct alternative.**

i. Consumer behaviour is concern with:
   a. A study focussing on market.
   b. A study focussing on consumer.
   c. A study based on promotional activity.
   d. A study focussing on psychology.

ii. Consumption analysis means:
   a. Why and how consumer uses products.
   b. When, where, when consumer use products
   c. Why, when and how consumer uses goods.
   d. a and b

iii. Researchers & Marketer believe that:
   a. Consumer behaviour is dependent on marketing activity.
   b. Marketer is dependent on consumer behaviour.
   c. It is difficult to get Consumer satisfaction on product.
   d. Consumer behaviour cannot be changed.

iv. Consumer decides and becomes loyal with the product in this stage:
   a. Interest
   b. Evaluation
   c. Adoption
   d. Awareness

v. "Consumer-oriented market" mean:
   a. Campaign for consumer awareness.
   b. Marketing strategy is designed by consumer.
   c. Company are completely following consumer.
   d. Promoting quality to consumers.

vi. A company that is consumer-oriented include all except:
   a. Producing product as per need of consumer.
   b. Conducting study to understand consumer.
   c. Offer value for the satisfaction of consumer.
   d. Facilitating consumer by providing financial assistance.

vii. Consumer's buying behaviour is effected by primary or secondary factors directly or indirect:
   a. Sub-culture
   b. Reference group.
   c. Life cycle stage.
   d. Attitude.

viii. A decision of consumer, where consumer is less involved and there is significant difference between the available brands:
   a. Complex buying behaviour
   b. Variety seeking buying behaviour
   c. Dissonance reducing buying behaviour
   d. Habitual buying behaviour

ix. Types of decision, where consumer is highly involved and there is no significant difference between the brands:
   a. Complex buying behaviour
   b. Variety seeking buying behaviour
   c. Dissonance reducing buying behaviour
   d. Habitual buying behaviour

x. "All Consumer are customer but all customer are not consumer" means:
   a. Consumer are important than customer.
   b. Customers are important consumer.
   c. Consumer disposes the utility of product.
   d. Consumer can be customer but customer may not be consumer always.

## 10.10 SUMMARY

In this chapter we discussed, Consumer behaviour, its meaning and importance in the current scenario. Customers oblige company by entering in the organisations premise and approaching the company. Consumers are important key for the success and survival of company in this competitive business environment. Consumer behaviour is the medium to understand the marketers' demand. Today's market is consumer oriented and marketer believes that those companies exist & survive who put all efforts to understand the consumer. Study of Consumer behaviour has some objective such as Identify the existing, potential and ex-customer, Creating effective marketing strategy, Facilitating and satisfy customers by adding value, Creating brand equity for the company, Developing a customer focused marketing mix, Creating favourable business opportunity for the intermediaries, Design effective solution for customer's problem, Survive and have consistent growth of company, To observe and analyse consumer response, Understand new business opportunity with new product length, Creating an effective advertisement and promotion strategy.

Consumer behaviour plays significant role in designing competitive marketing strategy. Marketer develops solutions to the consumers' problem. Company need to continuously update and innovate as per the dynamic nature of consumer. Until and unless the company understand the relevance of consumer behaviour, it will be complicated for company to enjoy market leadership.

Consumer behaviour suggests key input for carving the companies fortune. Presently it is consumer era where customer plays centre role in the companies governance.

In the modern era customer-oriented market, customer plays central role in the growth of any company. In this highly competitive environment only those company will be surviving who will understand and satisfy the customer.

Consumer behaviour is also useful for the various channel intermediaries who plays vital role in the facilitating the product from the company to the final user. Awareness and knowledge about consumer changing taste & preference helps the distributer and retailer to serve customer in a wise manner. Consumer behaviour share the expectation consumer is having from the company to serve them better. Company makes various important decisions like pricing, on the basis of the consumer purchasing power. Company can easily understand the purchase behaviour of consumer, their life style and factors influencing the purchase decisions. The company needs trap the momentum of change in order to stay long in the competition. There are various factor both controllable as well as uncontrollable factors which influences the consumers. Company adopts changes as per the current market trend to develop and grow consistently. As the consumer behaviour is dynamic in nature which updates and alerts company and assists marketer to make companies efforts consumer-focussed. It helps in predicting the possible challenges in the upcoming environment and to prepare company to achieve maximum returns.

We have also discussed what makes the purchase decision? Like Initiator- The person who first suggests or thinks of the idea of buying particular product, Influencer- A person who views or advice to influence the buying decision, Decider- The person who ultimately makes a buying decision and decides whether to buy and from where to buy, Buyer- The person who make an actual purchase, User- The person who consumes or uses a product or finally disposes the attributes of products. There basically four types of decision that consumer faces such as Complex buying Behaviour; when the consumers are highly involved in purchase and there is a significant level of difference between brands available. Variety Seeking buying Behaviour; when the consumers are low involved in purchase of product and there is a significant level of difference between brands available. Dissonance buying Behaviour; It is like complex buying behaviour where consumers are highly involved in purchase of product because product is expensive and risky. Habitual buying Behaviour**;** when the consumer is having low involvement as the product is neither expensive nor risky and the product is purchased frequently.

Researchers have identified and classified the consumer in to five categories such as Innovators, Early adopter, early majority, Late majority and Laggards.

Consumer adoption process is the stages that every consumer moves while making a purchase decision which are Awareness, Interest, Evaluation, Trail, and Adoption.

## 10.11 GLOSSARY

**Consumer** - The individual who finally disposes the utility of the product.

**Customer** - Any individual who may purchases the product is called customer.

**Retail consumer** - These are individual household consumer who purchases for personal or family use.

**Institutional consumer**- Those groups of consumer who purchases the product in huge quantity. They are also called organisational consumer.

**Culture**- Culture is the custom, value and traditions learned and acquired from parents.

**Family life cycle**- It comprises different stage of human being as growing older, plays different role.

**Learning-** It is a process of updating the information and knowledge..

**Complex buying Behaviour-** When high involvement and high significance difference between the brands.

**Variety Seeking buying Behaviour -** When Low involvement and high significance difference between the brands.

**Dissonance buying Behaviour-** When high involvement and low difference between the brands.

**Habitual buying Behaviour -** When Low involvement and low difference between the brands**.**

**Initiator**- The person who first suggests or thinks of the idea of buying particular product.

**Influencer**- A person who views or advice to influence the buying decision.

**Decider-** The person who ultimately makes a buying decision and decides whether to buy and from where to buy.

**Buyer**- The person who make an actual purchase.

**Membership group** are the group to which a person belong and feel delighted to be member of the group.

**Aspiration group** are group to which a person is not member but would like to be part of that group, like purchasing a brand, which is promoted by any celebrity. Student wants to study in IIMs.

**Dissociative group** are those groups to which the individual have negative attitude and don't want to be member.

**Disclaim group** are group to which individual is part of group but don't want to associated longer and wants to leave the group as soon as possible.

**Primary group** are those groups with which a person interact continuously and directly. Family, friend,

**Secondary group** are formal and professional group to where doesn't interact regularly. Sports club, Bank, Telecom Company.

# 10.12 ANSWERS TO CHECK YOUR PROGRESS

**Check Your Progress –A**

i. b
ii. d
iii. b
iv. c
v. c
vi. d
vii. b
viii. b
ix. c
x. d

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## 10.15 TERMINAL QUESTIONS

Q1. Explain the demographic and psychological factors affecting consumer behaviour with suitable examples.

Q2. What do you mean by consumer behaviour? Discuss the interrelationship between Marketing Mix Strategies and Consumer Behaviour with suitable examples.

Q3. Examine the rising trends in Indian market with special reference to changing consumer behaviour. Discuss the implications of studying consumer behaviour in marketing decisions.

Q4. How would you define culture? Discuss important characteristics of culture that reflects its nature? Why is the study of culture important to marketers?

Q5. What is ‘reference group’? Explain its significance to consumer behaviour.

Q6. Explain the psychological, Personal and social factors influencing consumer behaviour.

Q7. Explain with suitable examples how buying behaviour varies with stages of family life cycle?

Q8. Describe various adopter categories.

Q9. “An industrial goods buying is a very complex process” Explain. Examine Industrial buying process.

Q10. How does Institutional buying behaviour differ from individual buying behaviour? Explain with suitable examples?

Q11. What are the factors that influence the extent of pre purchase information search by consumers? How can marketers of consumer durables utilize this information?

Q12. How does the family influence the consumer socialization of children? What role does television advertising play in consumer socialization?

## 10.16 CASE LETS/CASES

Bhawika Dairy products private manufacture Skimmed milk, Baby foods, Milk biscuits, chocolates and drinking chocolate. They started their business some forty years back with a few cows and some people to assist them in milking. In the initial phase, the people at Bhawika Dairy used to sell milk to other vendors either for direct consumption or to be used into various dairy products. Slowly and gradually, the company started taking its shape. It was immense hard work and dedication of the employees and the founders of dairy that led to the conversion of a small dairy into a major regional player in dairy products. The company has reached the present level of turnover at Rs.5 cores.

The company faces tough competition from major players like ‘Parle’ ‘Britannia’ ‘ITC’ and Cadbury’ and some of the local players like ‘Cremica’ and ‘Bonn’. The prime consideration is given to the quality of the product. The company hasn’t adopted the concepts of professional management. Because of this, the company is unable to find the perfect markets for its products.

Mr. Vaibhav Gupta, Marketing Manager of the company was planning to enter into the potential market of ‘malted food drinks’. He collected the sales trend of previous year region wise of Dairy Business. After watching advertisements of many brands and analysing them thoroughly, he came to a conclusion that understanding consumer behaviour of potential consumer will create a platform for perfect launch of his own brand and will increase the probability of its acceptance & success.

Mr. Gupta, approached Sachin Saxena, R&D manager and he asked Mr. Saxena to design an exercise to know about consumer behaviour and their response. Mr. Gupta gave a time of three month. Mr. Saxena, after various consultations and meetings, put all his efforts to get valuable input for making effecting strategic policy for the company.

**Questions:**

1. Discuss the key area that Mr. Saxena needs to explore while conducting the activity.
2. What are various types of decision is involved in the consumer behaviour.
3. Identify various factors affecting the consumer behaviour.
4. Explain the consumer buying process with reference to above case.

# UNIT 11 PRODUCT AND PRODUCT LIFE-CYCLE

11.1 Introduction

11.2 Objectives

11.3 Meaning of Product

11.4 Objectives of Product

11.5 Significance of Product

11.6 Classifications of Product

11.7 Levels of Product

11.8 Product Mix

11.9 New Product Development

11.10 Product Life Cycle and stages of PLC

11.11 Various types of PLC

11.12 Summary

11.13 Glossary

11.14 Answer to Check Your Progress

11.15 Reference/ Bibliography

11.16 Suggested Readings

11.17 Terminal Questions

11.18 Case study

## 11.1 INTRODUCTION

In the previous unit you learnt Consumer Behaviour, where we discussed the consumer, objectives of studying consumer behaviour, scope of studying consumer behaviour and the beneficiaries. Concepts like Consumer, Customer, Retail customer and Institutional customer were also studied. Study of Consumer buying behaviour includes three important things; who makes the decisions? Different types of decisions involved in buying behaviour, process of buying. The factors affecting consumer behaviour like cultural factor, social class, reference group, occupation, lifestyle and psychological factor. As after knowing about consumer and various factors affecting them a company gets strong position and develops confidence in designing suitable strategies to serve their consumer better.

Organisations are created for producing some product. No company exist without producing anything, each and every company is engaged in producing some product as per their objective and specialisation of the company. Anything that is produced by an organisation to provide solution and satisfaction to customer with a purpose of earning profit and survive in the market is called product.

The company in the marketplace producing any product, they produce as per the need, wants and demand of the market. Without producing a product of value, no company can exist, now the questions arise that what to produce, why to produce, how to produce, where to produce, for whom to produce and when to produce. Getting the answers to these questions is objective of this unit. This unit will assist academician to have better understanding about the concept of product.

The scale of production and quality of product may be different but every firm in operation undergoes production function. It is very essential to study product as companies are established for producing product for fulfilling the demand in the market. All the business functions are designed to get the right product manufactured as per their abilities.

In this unit you will study about product, its objective and importance. There are various types of products. Product Life Cycle of is explained further in this unit.

## 11.2 OBJECTIVES

After reading this unit you will be able to:

- Concept of Product and its components.
- Objectives of product.
- Importance of product
- Classifications of Product.
- Levels of product
- Product mix
- Various stages of Product Life Cycle
- New Product Development

## 11.3 MEANING OF PRODCUT

Product is bundle of attributes offered by company to their consumer in exchange with value for it. Anything that is been produced by a company to provide solutions to the problem of customer is called product.

A product is the set of tangible and intangible attribute that satisfy the hope of seller and the value for a product to potential customer. Product is the output of efforts and exercise perform to produce with an intention to deliver convenience and satisfy. Product may be value that is created in an available resource by targeting consumer and exchange with the monetary value.

Product is one of the components of marketing mix which plays significant role in companies marketing' policy. Product is so important that every decision concern with Price, Place, Promotion, Process and Physical evidence are dependent on features of product.

Anything that a company produce and sell to customer against the price is called product. The product may be goods or services where goods are tangible and services are intangible in nature. Product is collection of quality, feature, value developed to offer comfort to targeted consumer.

Any creation of company that not only meets the expectations of company, customer and their employee but also the expectations of society, government and other stakeholders is called product.

For manufacturer, a product is means for establish their business operations and expansions. Product helps to earn profit and generate revenue for the organisation. For consumer, a product is set of offering that make the consumers' life easy to live. A product is solution to consumer to overcome obstacles in daily routine.

## 11.4 OBJECTIVES OF PRODUCT

Consumer behaviour is having very significant role in the present competitive environment. Earlier the organisations were fighting for profit but now they are struggling to survive. Following are some of objectives of the product and product development.

1. To satisfy the needs and wants of consumer.
2. Business Developing and expansion.
3. Fulfil the demand of product in the market.
4. To offer comfort, convenience and facilitate to consumer.
5. Providing alternatives to solve the routine problems in the society.
6. For satisfactory convincing customer and retention of consumer.
7. Developing brand Equity for a company.
8. Generating business solutions to various channel intermediaries.
9. To enhance to standard of living of the society.
10. To give a memorable and quality experience by creating unique offers to users.

## 11.5 SIGNIFICANCE OF PRODUCT

As product is one of the important elements of marketing mix which plays vital role in the establishment and growth of the company. Product plays a significant role as stated below:

1. As every company is profit oriented and wants to increase profit by designing some unique attributes through quality product.
2. Quality product helps company in survival and growth.
3. All the strategy of a company is based on features and quality of the product.

4. Product planning assist company to fight in competitive environment.
5. New products are highly exposed to high rate of risk as new products are having high mortality rate.
6. Product helps company to enhance their skills and competency.

## 11.6 CLASSIFICATION OF PRODUCT

Marketer has responsibility to design and develop strategic plan for their entire product range. In order to create a competitive strategy, it is necessary to understand the nature of product. The products may be classified into three categories. Products can be categorised on the basis of Durability, Tangibility and Use.

1. **According to Durability of the product:**
    a. Durable products
    b. Non-durable products
2. **According to Tangibility of the product:**
    a. Tangible products
    b. Intangible products
3. **According to Users of the product:**
    a. Consumer products
    b. Industrial products.

Each category of products is discussed below:

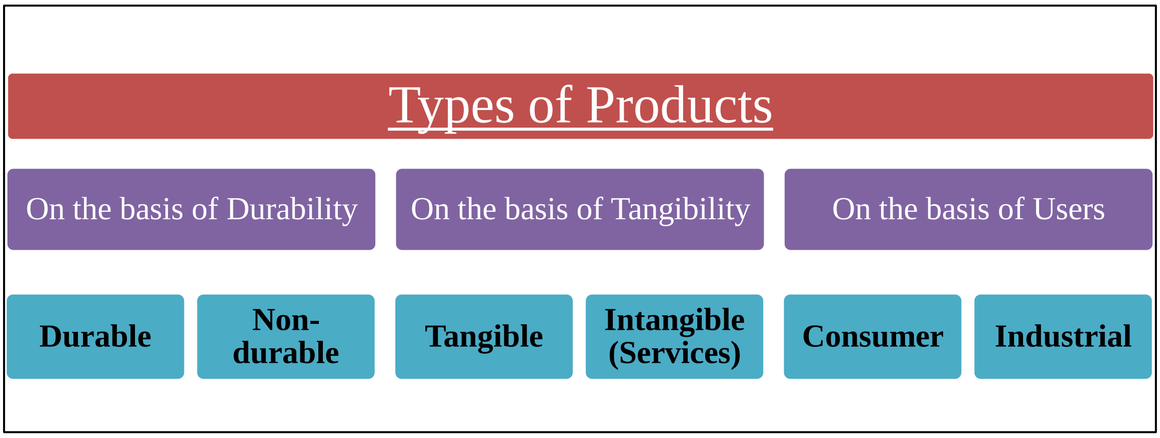



**Figure11. 1: Types of Products**

1. **According to Durability:**
    Classifications on the basis durability are time period for which the product is consumed.

    A. **Durable products:**

Durable products are those tangible goods which are having long term usage. In other words durable products are all those products that are used for long time period. Durable goods are having normal used for 3 to 5 years. These products are regularly used and plays vital role in the routine work of consumer. Durable goods are normally expensive and not purchased frequently. In this guarantee and warrantee by seller plays significant role in sale of product.

For example: Car, motorcycle, furniture, Refrigerator and Laptop etc.

**B. Non-durable products.**

Non-durable products are those tangible goods that are consumed in one or two uses. Non-durable goods are having limited usage and finishes in few usages. These are those consumable goods which are purchased frequently and normally cheaper than durable goods. Marketer must design an effective marketing strategy because these products are frequently purchased and these should be made easily accessible to the targeted customer.

For example: Bread, toothpaste, cosmetic item, vegetable, species, petrol etc.

**2. According to Tangibility of the product:**

Classification of product on the basis of tangibility is visibility of product where product may be categorised as tangible and intangible. Tangible products are also called goods whereas Intangible goods are called services.

**A. Tangible products**

Tangible products are all those goods that can be seen, felt, touched, tested and demonstrated. Any product that is having some physical appearance, colour design and weight is called Tangible goods.

For example: Mobile, books, furniture etc.

**B. Intangible products**

Intangible products or services. Services are those products of any company which cannot be seen, touched, no colour, no design and no weight. It may be concluded that services are intangible, perishable, heterogeneous, inseparable etc. Services are promises, memories, experiences, concept and thoughts offered by the company to satisfying the needs and demand in the market.

For example :services of a doctor, Lawyer, and Insurance company, Airline, Telecom, consultancy and Teaching etc.

**3. According to Users of the product:**

**A. Consumer products:**

Consumer are also called final users of the product. Consumer products are goods that are produced for household consumer who finally disposes the utility of the products.

Consumer products are meant for retail user. These may be of different types like Convenience, Speciality, Shopping, and Unsought goods. Each type is discussed below with suitable example.

**i. Convenience**

Convenience goods are those products which are mostly purchased frequently as a routine without making any delay. These products are low-priced and consumer purchases these goods straight away with minimum efforts, time without delaying and without comparing. Consumer purchases the product as per his convenience, conformability and availability of product. For example: Newspaper, salt, vegetable, chips, pen and juice.

Convenience product may be of three types Staples goods, Impulse goods and Emergency goods.

Staples goods are purchased on routine basis, like sugar, vegetable, spices etc. Impulse goods are purchased without planning and buy on the spot like chips, toffee. Emergency goods are purchased as when problem or need arise like medicine.

**ii. Speciality**

Speciality goods are those products with special feature or brand image. These goods are preferred just because of the unique attribute in it. This unique quality in product generate loyal consumer. For example: Consumers preference towards certain brand like Sony, Apple in electronic company. Consumer prefer different toothpaste brand as per the special features like Sensodyne, Dabur Red toothpaste, Close-up, Babool and Colgate.

**iii. Shopping**

Shopping goods are those products which are not purchased immediately after purchase decision, but customer takes time to make final purchase. These products are generally expensive and complex. The customer performs lot of exercise to compare and evaluate the product on the basis of quality price and availability. In other words these products are not frequently purchased and consumers are very conscious. The consumer puts all efforts to collect information regarding the product and comparing it.

For example: Software, Investment decision, DSLR camera.etc.

**iv. Unsought**

Unsought goods are those ordinary products, about which targeted consumers doesn’t know that these product exist. The customer neither knows about the existence of the product nor he/ she wants to purchase that.

The consumer generally does not think of purchasing the product but circumstances create necessity for the product.

For example: fire extinguishers, funeral services, encyclopaedias, third party insurance.

**B. Industrial products:**

Industrial goods are also called Institutional goods or organisational product. These are those finished goods of a company that are used as raw material by other company. Industrial products are the goods produced for the industrial consumption only. These products may be of following types like Installations, Accessories, Raw material, Supplies and Components part & materials.

**i. Installations**

These are large expensive capital item that determine the nature, scope & efficiency of the company. They are huge and very expensive last for many years and do not change their physical property"

For example: blast furnishes, generators, boiler in sugar mill, installation of satellite in space etc.

**ii. Accessories**

These equipments are movable, last for a number of years and do not become part of the final product or change its form.

For example: storage racks, almirah, computer, and furniture and Xerox machine.

**iii. Raw material**

These are those industrial products which a company purchases with an objective of producing other goods. All the raw materials are processed in the manufacturing activity and become the part of finished goods. The physical attributes changes in the finished product of the company.

For example: Iron ore, Coal ore, minerals, sugarcane and petroleum

**iv. Supplies**

Supplies are those industrial goods, which are necessary for normal organisational function. These goods do not become the part of the final product but it just facilitates the normal routine of the business activity.

For example: Fuel to run a machine in the factory, repair & maintenance, stationary.

**v. Components part & materials**

These are those goods which become the part of the finished goods. These are semi- finished goods that undergo further changes in their physical properties.

For example: Steel, cement, chemicals etc.

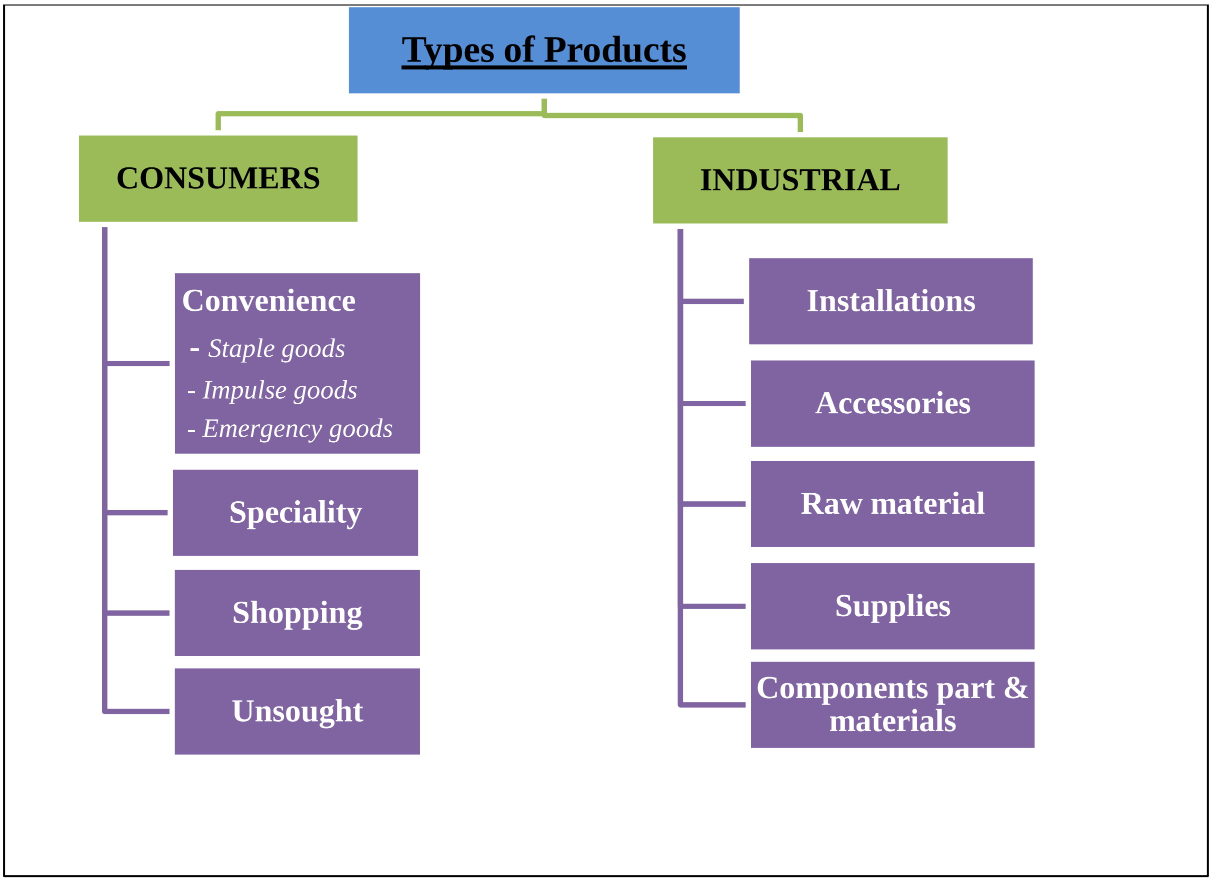



**Figure 11.2: Types of Products on the basis of Users**

## 11.7 LEVELS OF PRODUCTS

It is more important for a company to satisfy the needs of the customer than designing effective marketing strategy. By satisfying customer, the product would be sold in the market and can generates revenue. The consumer searches and seeks different benefits from product offered by company. Customer generally purchases the product which meets the perceived value of it. As there is a huge complex market with heterogeneity in consumer group, different consumer purchases varied product as per their need. It is not possible for a company to satisfy a huge market with different needs.

Philip Kotler had suggested the five levels of products which assist company to identify the needs at different level and develop suitable value for it. A level of product is also called Customer Value Hierarchy because as the level is increases, the value also increases.

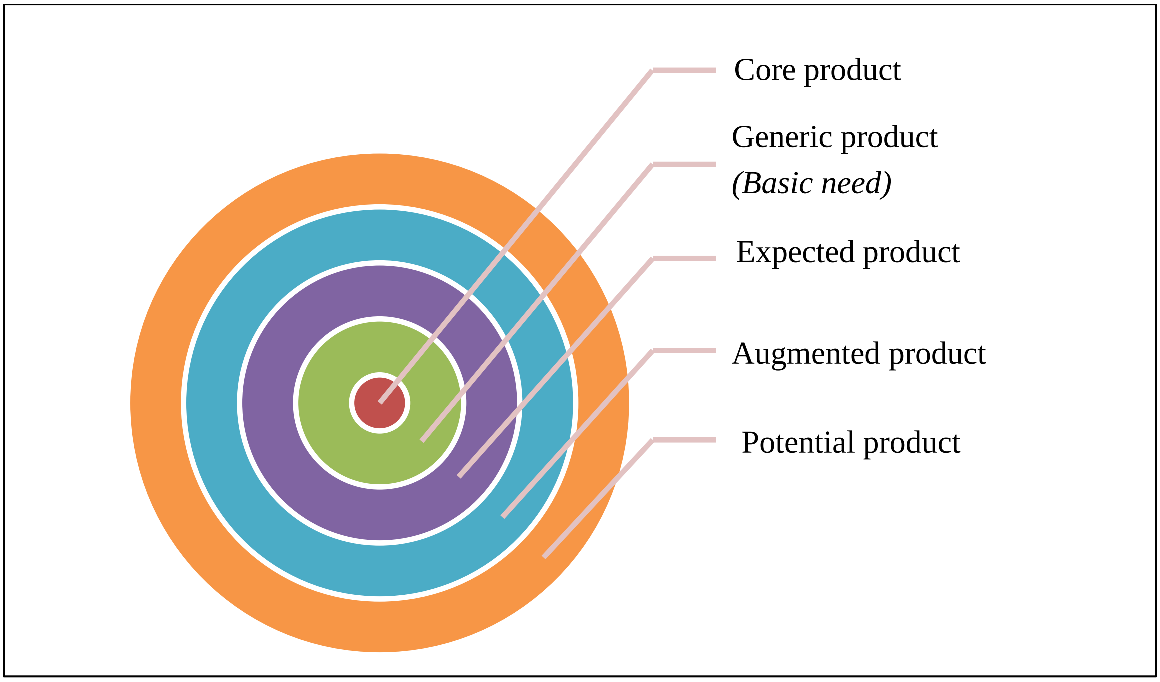



**Figure11.3: Levels of Products**

1. **Core product**:

   Core product defines core feature and fundamental characteristics of the product. These are generally benefits which are intangible in nature. Core product is value customer expects from companies product. Core benefit explains about the category of industry to which the product belongs. This is the basic need or difficulty that creates need and consumer urge for the product.

   For example: A man purchasing Car is actually purchasing convenience & comfort and not engine, seats and Iron. Amusement parks are in leisure and entertainment business.

   Sleep and rest is the core product of Hotel for traveller.The core product of schools and college is education, literacy, expertise and skill development.

2. **Generic product:**

   Generic product is also called basic product. This represents all the physical qualities of the product. These are Basic product without which services can't be performed. Generic products are medium of distributing the value. Without Generic product core benefits cannot be produced. It is necessity for offering core value of the product.

   For example: Convenience, comfort and transportation are core value that Core product offer to a consumer like from a Car, Bike etc, where as the Car is generic product.

   Room is generic product for a traveller searching for rest and sleep.

3. **Expected product**:
   Expected product are those goods that fulfils the standard expected by customer. These are the minimum set of expected standards by the consumer. These are hygiene factor which is included just to protect from dissatisfaction. This is maintained to furnish the minimum purchase conditions. Hygiene, safety & security. These are expected features from the product at the time of purchasing the product.

   For example: While purchasing movie ticket in a Multiplex cinema theatre, a customer expect proper & comfortable seat, friendly and prompt customer service, quality of snacks with fair price, safety & security, pleasant ambient, good temperature and air quality.

4. **Augmented product:**
   Augmented products are the attributes that differentiate the product from its competitors. After some time period the augmented product becomes expected product. These are additional benefits offered along with the product. Extra value offered by the company on the basis of Unique attribute in entire industry. These benefits are over and above or by-product of the core products. The customer may be charged for availing augmented products.

   For example: Extra facilities in Hotel like; Swimming pull, gymnasium, nightclub and Jacuzzi are Augmented product.

5. **Potential product:**
   Potential products are those added values in the product that surprises consumer and feel delighted while purchasing. The company offer superior quality goods which are beyond the expectation of customer. These products are offered free and creates loyal consumer.

   For example: Free starter and dessert dishes offered to the consumer in Hotel. Free water distribution in

   Free alcohol distribution in International flight. Extra extended warranty & guarantee.

| ***Basis*** | ***Hotel for traveller*** | ***Camera*** | ***Insurance*** |
|---|---|---|---|
| **CORE BENEFIT** | Rest & Sleep | Capturing experience & memory. | Safety & Security |
| **BASIC PRODUCT** | Bed, Bathroom, light, Table, Fan | Display, lens, easy to operate | Policy Documents, premium receipt |
| **EXPECTED PRODUCT** | Clean Room, Clean Bed sheet, hygienic wash room, proper | Good quality picture, easy to operate. | Courtesy & warm behaviour, prompt response |

| | | | |
|---|---|---|---|
| | ventilation. | | from agent |
| **AUGMENTED PRODUCT** | LED TV, daily music concert (Unique features of the product that differentiates from other competitors) | Lens quality, features and design, free services & repair, free demonstration | Unit Linked Investment Plans (**ULIPS**), Pension plan, online premium payment |
| **POTENTIAL PRODUCT** | Free swimming facility, Gym, complementary meal | 2 year extended Guarantee and 7 years extended warranty. | Three year extra life cover. Free medical claim. |

**Table 11.4 Levels of product**

## 11.8 PRODCUT MIX

Product mix is collection all product offered by company to consumer. It is also called Product Assortment. Total number of product produced for consumer under a company's umbrella. In simple words Product mix is combination of Product Length, Product width and Product Depth is called Product Mix. Companies are offering large range of product in diversified industry. Product mix is the combination of ingredient designed to achieve the company's objective in which companies are producing multiple product in diversified industry.

Organisations are now wants to serve their existing customer rather than find new customer. Companies are creating new utility for the current consumer because they know their customer well since long and it cost effective as well as profitable for company as whole. It is easy to work in the existing market with current consumer. Product mix is the number offering by a company. The company design and distribute products to current customer on the basis of Brand equity. Once company attains brand equity then they makes an efforts to encash the opportunities of acceptance among the satisfied consumer.


The objective and significance are given below:

a) To expand business operations.
b) Providing alternatives or competing products to customer.
c) Retaining customer with the brand.
d) Creating brand image for the company.
For example: Airtel, Videocon, Reliance Industries Ltd, Proctor & Gamble (P&G), Hindustan Unilever Limited (HUL), Godrej, Sony, Adidas.

**a) Product length:**
Product length is also called Product line which is diversity of companies operations in different product.

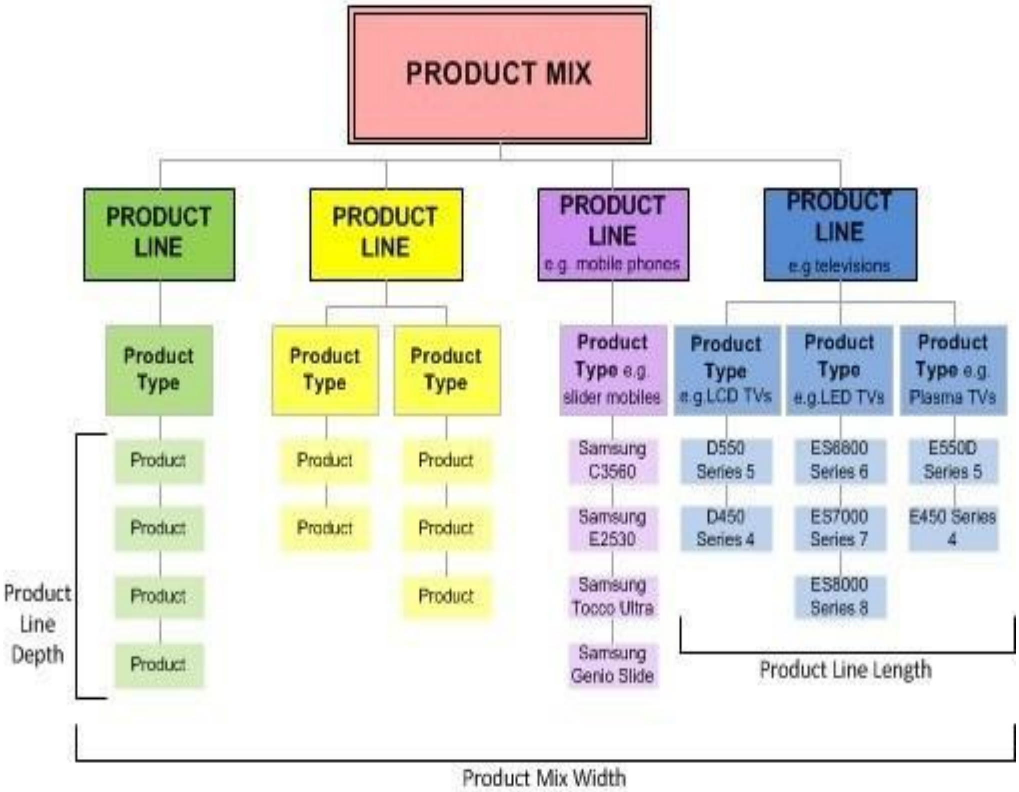



**Figure 11.5: Product Mix**

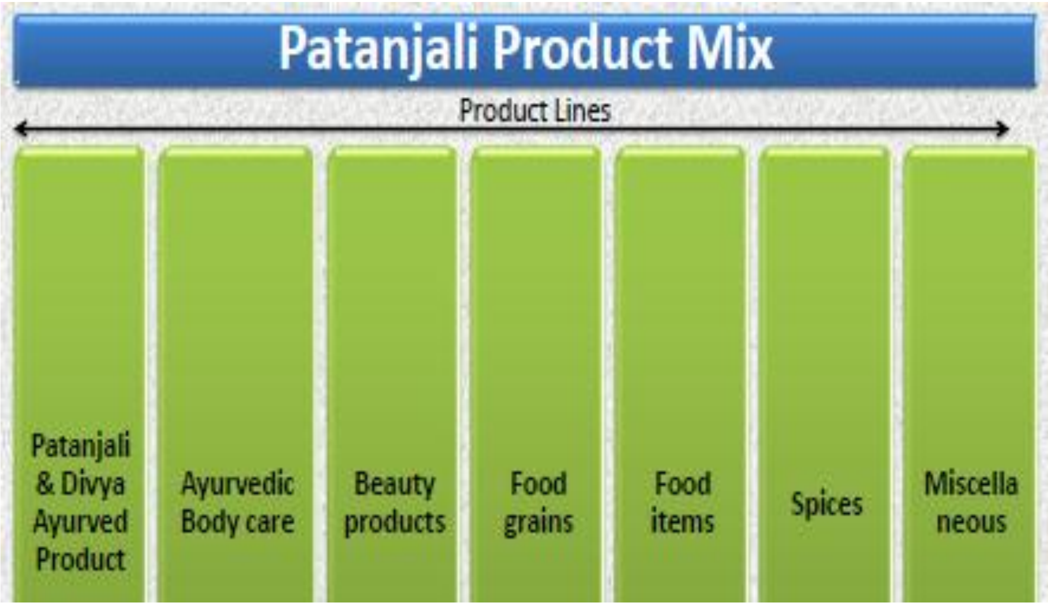



**Figure 11.6: Patanjali Product length**

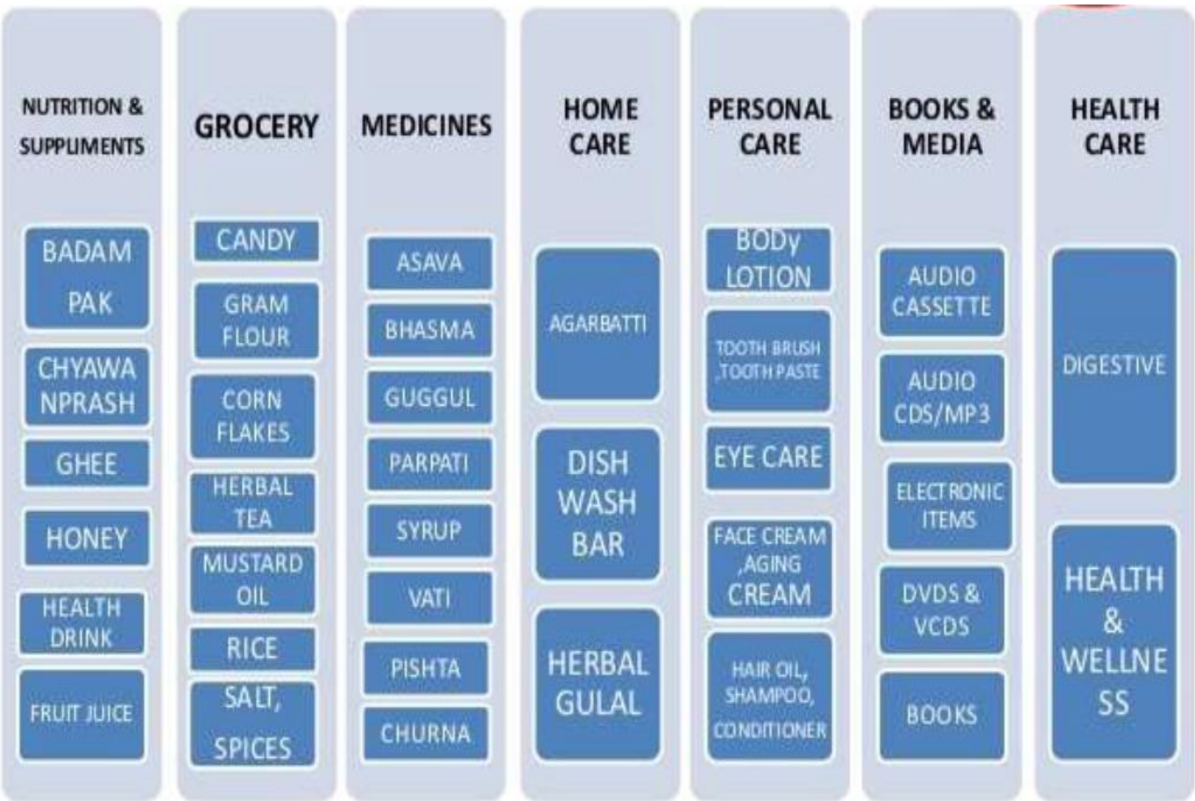



**Figure 11.7: Patanjali Product Mix**

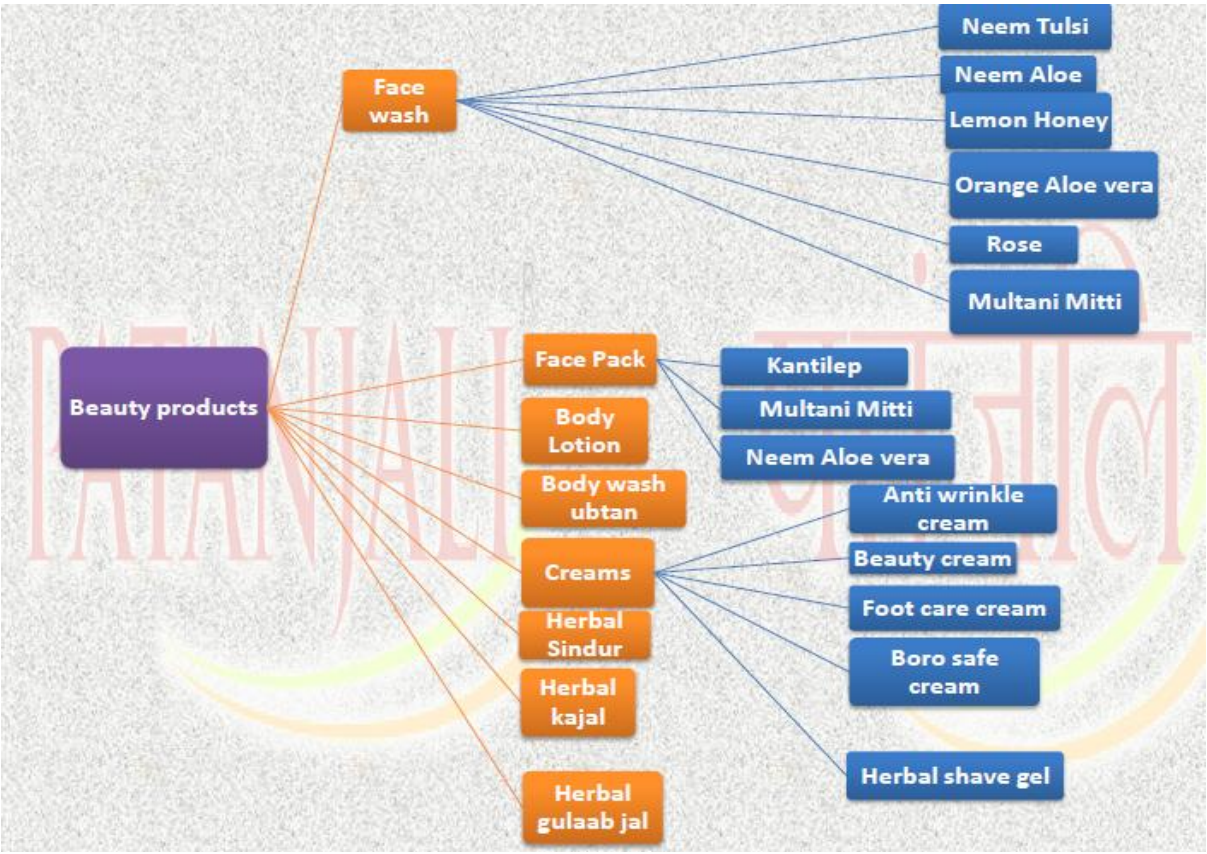



**Figure 11.8: Patanjali Product – Beauty Products width & Depth**

**b) Product width:**

Product width is types of alternative options product with different attributes to satisfy maximum consumers.

**c) Product depth :**

Product depth is the diversification in each product width as per the taste and preference of consumers.

**d) Product consistency:**

Product consistency means less variation between the products offered by the company.

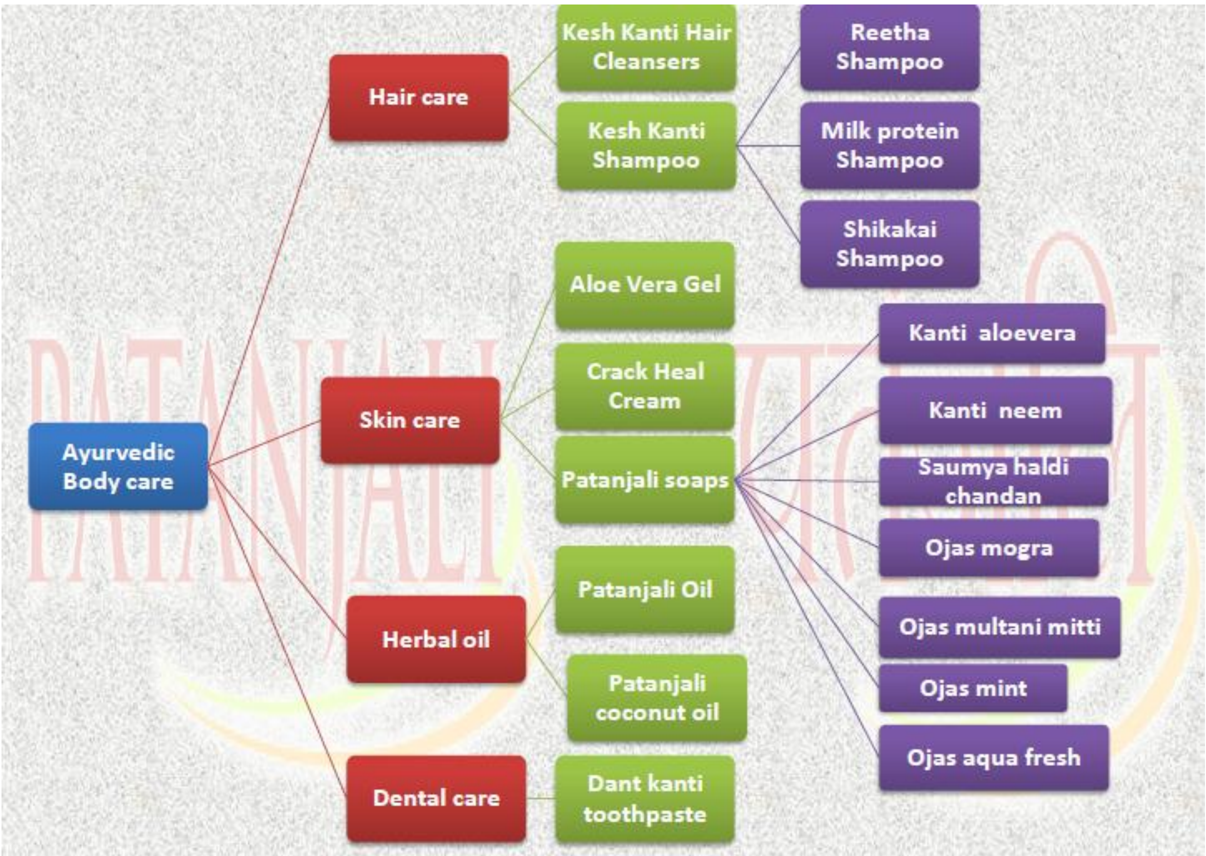



**Figure 11.9: Patanjali Product – Ayurvedic Beauty Products width & Depth**

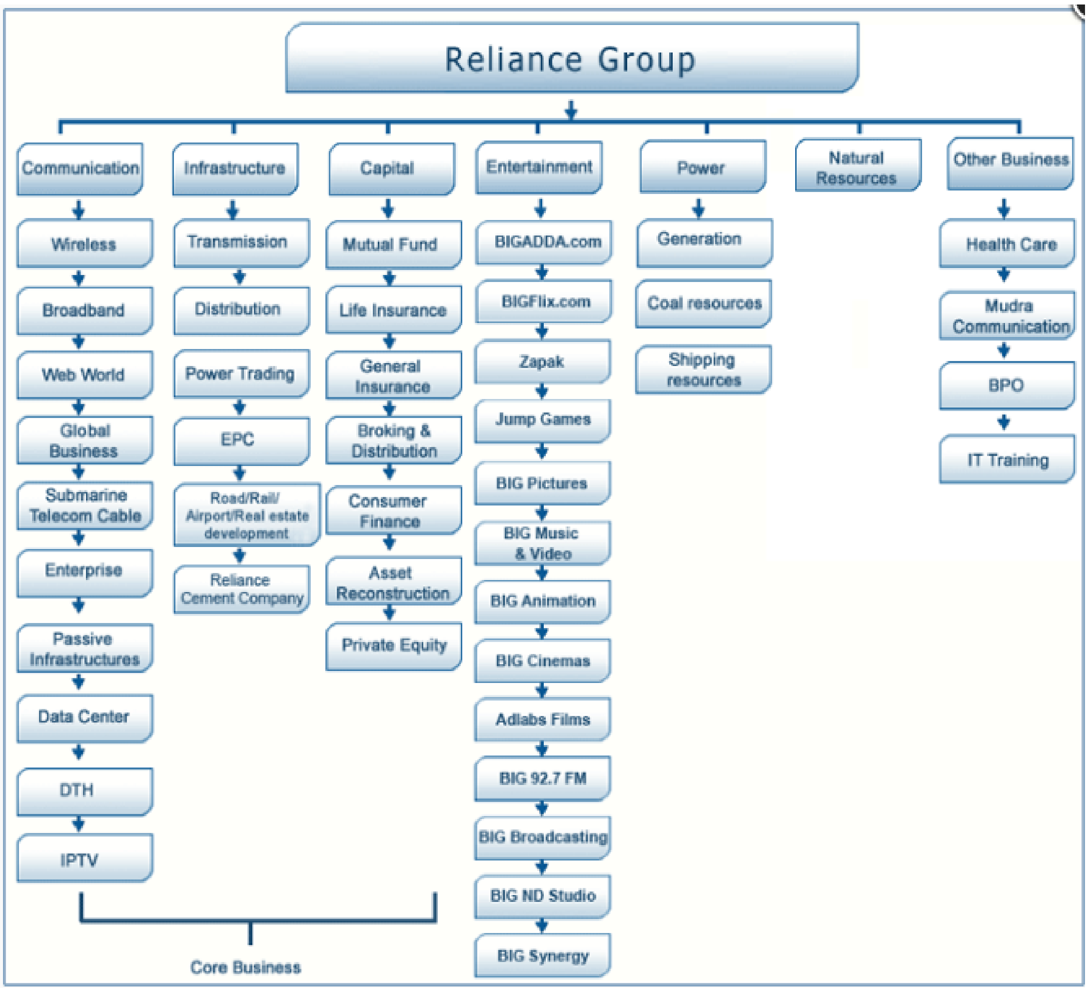



**Figure 11.10: Product Mix of Reliance Group**

| ITC Group | | | | |
|---|---|---|---|---|
| | **Length of Products** | | | |
| **Width of Product** | **FMCG** | **Hotels** | **Paper Board & Packaging** | **Agribusines s** |
| | Food | Welcome Group | Specially Paper | Rural Services |
| | Cigarettes | Welcome Heritage | Packaging | Leaf Tobacco |
| | Life Style Retailing | Fortune | | Spices |
| | Education & Stationary | The Luxury Collection | | Agri-Input |
| | Personal Care | | | |
| | Safety | | | |

| | |
|---|---|
| | Matches |
| | Agarbatti |

**Figure 11.11: Length of the ITC Product Mix**

| ITC Group | | | | | | |
|---|---|---|---|---|---|---|
| **Width of Product** | | | | | | |
| **Foods** | **Cigarettes** | **Lifestyle Retailing** | **Education & Stationery** | **Personal Care** | **Safety Matches** | **Agarbatti** |
| Kitchen Of India | Insignia | Wills Lifestyle | Classmate | Essenza D'wills | I-Kno | Mangaldeep |
| Aasirwaad | India Kings | John Player | Papercaft | Fiama D'wills | Mangaldeep | Expression |
| Sunfeast | Gold Flake | Miss Player | Expression | Vivel D'wills | Aim | |
| Mint-O | Silk Cut | | | Superia | | |
| Candyman | Navy Cut | | | | | |
| Bingo | Capston | | | | | |
| | Scissors | | | | | |
| | Berkeley | | | | | |
| | Flake | | | | | |

| ITC Group | | | | |
|---|---|---|---|---|
| **Depth of Product** | | | | |
| **FOODs-*Kitchen Of India*** | | | | |
| **Curry Pastes** | **Conserves** | **Chutneys** | **Biryanis** | **Desserts** |
| Butter Chicken | Strawberry & Mint | Shredded Mango | Noormahal | Jodhpuri Moong Dal Halwa |
| Fish Curry | Pineapple & Green Pepper | Mango & Jeera Mango & Garlic | Yakhni Pulao | Awadhi Badam Halwa |

**Figure 11.12: Width of ITC Product &Depth of ITC- Kitchen of India**

| ITC Group | | | |
|---|---|---|---|
| **Depth of Product** | | | |
| **FOODs-*Aashirwaad*** | | | |
| **Flour** | **Salt** | **Spices** | **Instant Mixes** |
| Aashirwaad | Aashirwaad | Chilli Powder | Gulab Jamun |
| Select Atta | | Turmeric | Rava Idli |
| Chakki Atta | | Coriander | Rice Idli |
| | | Pickle Mirch | Rice Dosa |
| | | | Khaman Dhokla |
| | | | Rasmalai |
| | | | Vada Mix |

**Figure 11.13: Depth of ITC, Foods- Aashirwaad**

| ITC Group | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Depth of Product** | | | | | | | |
| **FOODs-Sunfeast** | | | | | | | |
| **Biscuits** | | | | | | | **Pasta** |
| **Special** | **Snacky** | **Glucose** | **Dream-Cream** | **Marie** | **Golden Bakery** | **Fit-Kit** | **Masala** |
| Butter | Chilli Flakes | Orange | Choco | Orang e | Choconut | Vitamin | Cheese |
| Cashew | | Milky Magic | Vanila | | Butternut | Multigrain | Pizza |
| Crunchy | | Nice | Orange | | Butter Scotch | | Chicken |
| Coconut | | | Milk Cream | | | | Benne Vita |

**Figure 11.14: Depth of ITC, Foods- Sunfeast**

| ITC Group | |
|---|---|
| **Depth of Product** | |
| **FOODs** | |
| **Mint-O** | **Candyman** |
| Minto Cool Blue | Fruit Fun |
| Minto Fresh | Butter Scotch Licks |
| Orange Mint | Eclairs |
| Lemon Mint | Cofitino |
| | Natkhat Mango |
| | Natkhat Guava |
| | Mango Links |
| | Maha Mango |
| | Lacto |

**Figure 11.15: Depth of ITC, Foods Mint-O & Candyman**

| ITC Group | | |
|---|---|---|
| **Depth of Product** | | |
| **Foods - BINGO** | | |
| **Potato Chips** | **Mad Angles** | **Hatke Jhatk** |
| Salted | Tomato Mischief | Funky Masala |
| Masala | Chilli Dhamaka | Tomato Twist |
| Tomato | Achaari Masti | |
| Chatkila Nimbu Achar | | |
| Tandoori Paneer Tikka | | |

**Figure 11.16: Depth of ITC, Foods Bingo**

| ITC Group |
|---|
| **Depth of Product** |
| **LIFE STYLE RETAILING** |
| Wills Life Style |
| Wills Classic |
| Wills Sports |
| Wills Club life |
| Wills Signature |

**Figure 11.17: Depth of ITC -LIFE STYLE RETAILING**

## 11.9 NEW PRODUCT DEVELOPMENT

New product development is either modifying the existing product or introducing a new product with more value. New product development is the strategy where company develop a new model of product to satisfy the targeted consumers. It is a process of collecting ideas from various sources and producing value in the commercial product.

Once the company have enjoyed maximum market share and achieved market leadership in the targeted territory, where the company was selling their existing product in existing territory, the company make effort to expand their business operation further.

The company have two options either to adopt Market Development or New Product Development strategy. Market Development is the strategy where the company expand its business functions to new potential territory with market Growth Avenue. Product Development is the strategy, where company develops and offer a new set of attribute to the existing customers.

It depends on the companies competency and vision, whether they choose Market Development decision or Product Development decisions. Because it is more cost effective to serve existing customer rather than new consumer. In Market Development, company offer their existing product to the new consumer in a new market. The marketer will have to conduct lot of efforts to identify and understand new consumer in new market. It is convenient and effective for a company to adopt Product Development strategy. Because the company understand their existing customer since long span and they already have database of consumer, well established management and distribution system.

| *Basis* | | **PRODUCTS** | |
|---|---|---|---|
| | | **Existing Products** | **New Products** |
| **MARKET** | **Existin g Market** | Market Penetration | New Product Development |
| | **Existing New** | Market Development | Diversification |

**Figure 11.18: Ansoff Model**

New product development is strategy where company improve and modify product through a systematic process. There six stages of product development.

1. Idea Generation
2. Idea Screening
3. Concept development & Testing
4. Marketing Strategy
5. Business Analysis
6. Product Development
7. Testing Market
8. Commercialization

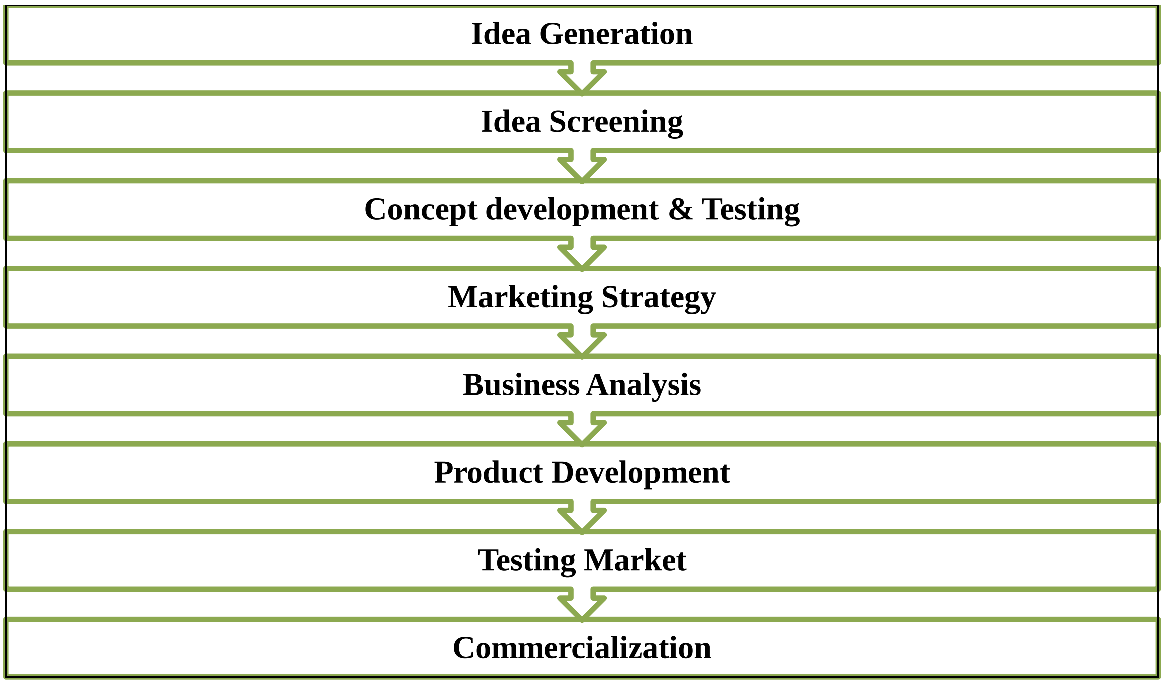


**Figure 11.19: Stages of product development**

1. **Idea Generation:**
   The process starts with the search for ideas. It would state how much effort should be devoted to develop the product, modify the existing product and observing the competitors' product. A large number of ideas can be generated by the help of individuals and groups by various techniques.
   a. **Attribute listening-**
      This technique calls for listening the major attributes of a existing product and then modifying each attributes in the search for an improved product. The sources of idea generation include customer, Sales staff, R&D, competitors, employees, distributors and environmental analysis.
   b. **Forced relationship-**
      It means that several objects are considered in relation to each other and are complementary.
   c. **Brain storming-**
      Group creativity can be stimulated through brain storming techniques. A group of about six to ten members come together and discuss specific problem.
2. **Idea Screening:**
   The purpose of idea generation is to generate a large number of ideas to an attractive viable idea. The rationale of screening is to eliminate all infeasible ideas as soon as possible. Few concepts are selected and some are screened out as per the company's feasibility and available resources.

   The ideas evaluated by the team through rigorous screening to ensure reliability and uniformity of selected idea. Selection of wrong and unsuitable concepts will lead to negative consequences in long term which may create unnecessary expenses and challenges.
3. **Concept development & Testing:**
   Selected ideas must be developed into valid product concepts. Concept testing determines customer thoughts before product development to see which market to target, who are prospective buyers and who all are your competitors.

   Once the concept is developed then it is to be tested among the targeted consumer. Response of the consumer is collected for attributes offered and to enhance the value in the product.

4. **Marketing Strategy Development:**
   The planner must now develop a marketing strategy for introducing a product in to the market. It describes the size, structure and behaviour of the target market. It also outlines market share, possible sales and revenue from the planned product in the initial years. It also highlights the marketing mix and budget for the forthcoming year.

5. **Business Analysis:**
   It involves the detail review & projection of relevant market factors, revenues, cost & trend for a proposed new product. In this stage sale is estimated so that management may calculate approximately whether sales will be high enough to yield a satisfactory product. After preparing the sales forecast management can estimate the possible cost and profit of the project. The costs are estimated by R&D, manufacturing, marketing, finance department. This process assesses financial and marketing feasibility of a product. It helps to measure and understand the market potential. Market potential is the maximum revenue or the sale in unit achieved through marketing exercise in a targeted territory.

6. **Product Development:**
   If the product concept passes the business test, it moves to the R&D to develop into a physical form with an objective of safe, quality and economical product . Till now it was just paper works which have to be changed into a final product to the customer. The R&D department will develop one or more physical copy of the product. It finds a prototype which will satisfy the consumer need. At the same time marketing personnel are engaged in finding the appropriate brand name and making sure that supreme quality product is designed.

7. **Market Testing:**
   It is the stage at which the product & marketing programme are introduced into more realistic market setting. Test marketing involve placing a fully developed product for sale in some selected territory and observing performance. The purpose is to evaluate the product & pre-test marketing efforts in a real setting prior to commercialisation. Test marketing helps marketer to identify the flaws in the product

8. **Commercialization:**
   After the successful market testing of the product, the company is ready to introduce the product which is called commercialisation. Commercialisation is introduction stage of PLC. The company must understand when to launch a product (timing), where to launch (Geographical setting), How to launch a product (media), and to whom (Target market).

# 11.10 PRODUCT LIFE CYCLE

The product life cycle is a concept that attempts to describe a products sales, profits, customers, competitors & marketing emphasis from its beginning until it is removed from the market. The PLC refers to stages a product progressing through while in the market. The start of the first stage is the introduction of the product to the market, its birth followed by the growth, maturity, decline and finally its death.

**Characteristics of Product Life Cycle (PLC)**

The life cycle is nothing more than the pattern of demand for the product over time. The basic Product Life Cycle consists of four stages for which have following characteristics.

1. Every product does not goes through every stage but many product just enter introduction stage & have their death.
2. All products have a limited life.
3. The length of time a product spends in any one stage may differ. Some products may move through the entire cycles in weeks.
4. Repositioning of a product can led to a new life cycle.

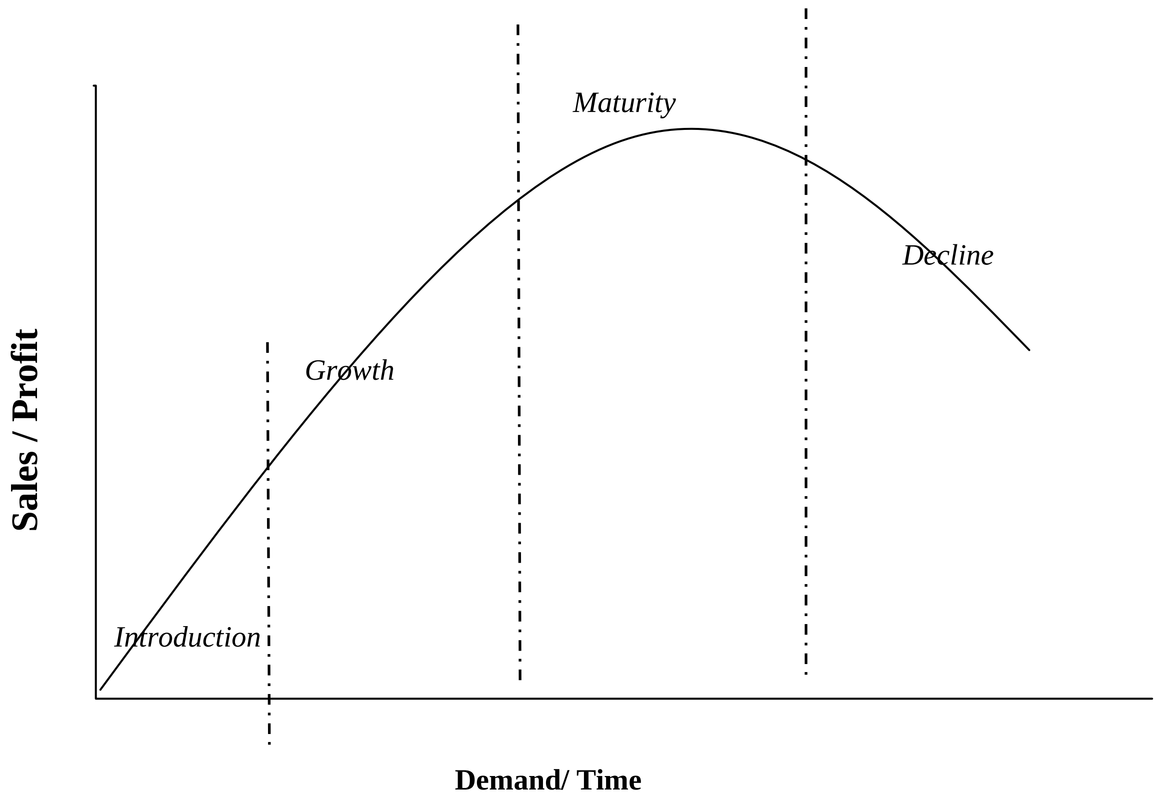



**Figure 11.20: Product Life Cycle**

**Assumption of Product Life Cycle (PLC)**

1. Products have limited life.
2. Product sales passes through distinct stages, each having different challenges to seller.
3. Profits rise & fall at different stages of the PLC.
4. Products require different marketing, human resource, finance, product strategies in each stage of their life cycle.

**Stages of Product Life Cycle (PLC)**

There are four stages of Product Life Cycle (PLC):

1. **Introduction stage:**
   At this stage of introducing the product into the market characterised by slow sales and negligible profit because of heavy expenses of introduction & production.

2. **Growth stage:**
   The most profitable stage for the marketer is growth stage, a period of rapid acceptance & substantial profit improvement. At this stage the company enjoy market leadership and collects, revenue as increasing rate. This stage is supposed to be shortest stage.

3. **Maturity stage:**
   At this stage, there is constant sale and slowing declining profits. A period with slow down of sales growth, because the product had achieved acceptance by most potential buyer. Profit stabilises because of increased expenses to defend the product in the market against the competition. This span of period is also called boom period.

4. **Decline stage:**
   This is a stage of declining sales & product. The marketer wants to come out with this stage as soon as possible. Either company have to introduce a new product or developing the existing product with more attribute which will start new PLC

## 11.11 VARIOUS TYPES OF PRODUCT LIFE CYCLE

There are basically six types of Product Life Cycle. Each one is discussed below.

a. Growth slump maturity.
b. Cycle, Recycle
c. Scalloped.
d. Style
e. Fashion
f. Fad

**a. Growth slump maturity**

In this model the sales of the product mature quickly after it is introduced & then unexpectedly chop down to certain level. For example: Food processor.

**b. Cycle, Recycle**

In this the sales increases aggressively in the initial phase and afterwards start diminishing but after some promotional push it again starts increasing. For example: Pharmaceutical industry.

**c. Scalloped**

It is a collection and combination of series of Life cycle in progression form. When a company introduces or bring some changes in their product on the continuous basis, it lead to scalloped product Life cycle.

**d. Style**

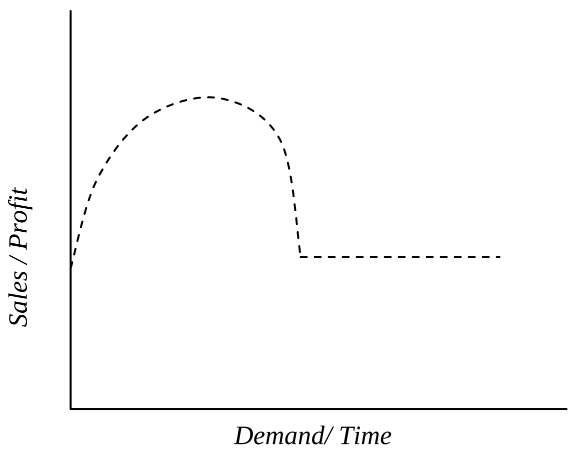
It is a basic distinctive mode of expression appearing in a field of human nature. For example: In clothes we wear formal, causal, funky dresses.

**e. Fashion**

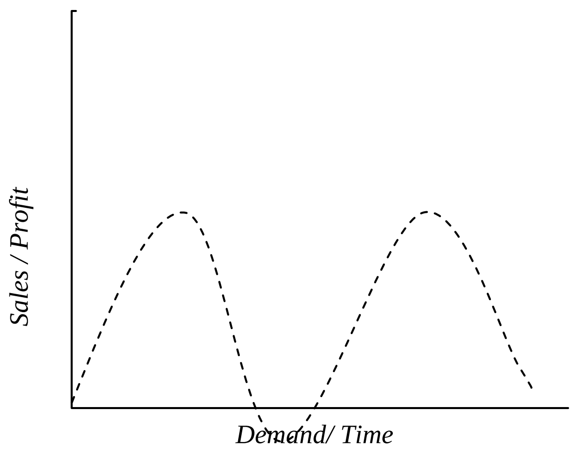
It is currently accepted or a popular style in a given territory. For example: Tattered , ribbed (distorted), Jeans is in fashion and Hindi-pop.

**f. Fad**

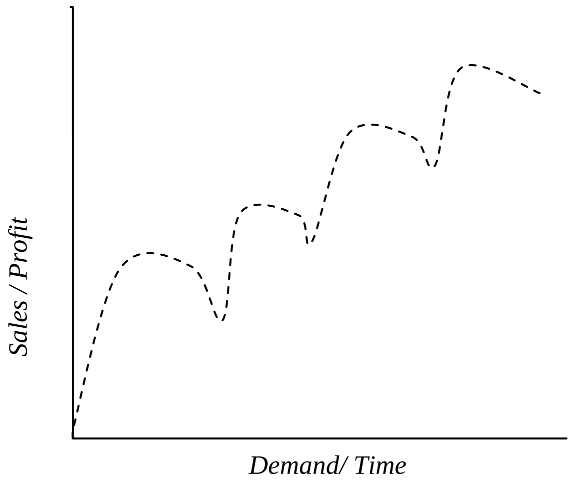
These are trend that come rapidly into the public eye and adopted with great enthusiasm, summit early & decline very quick. For example: design in various clothes, Body Piercing and Tattooing.



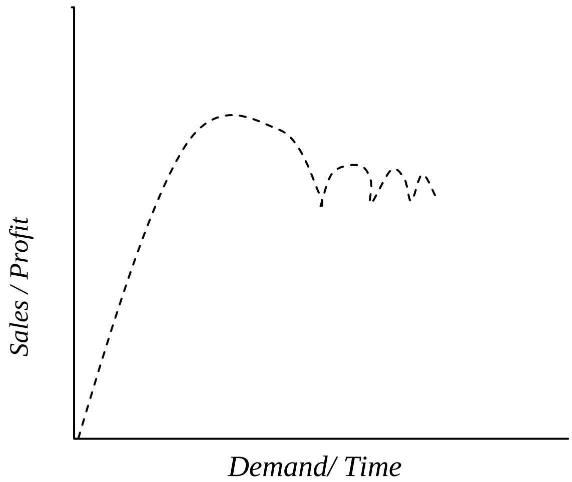

**a) Growth Slump Maturity**



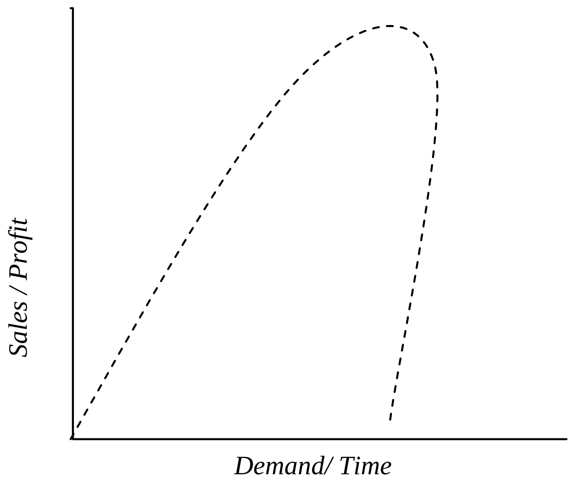

**b) Cycle Recycle**



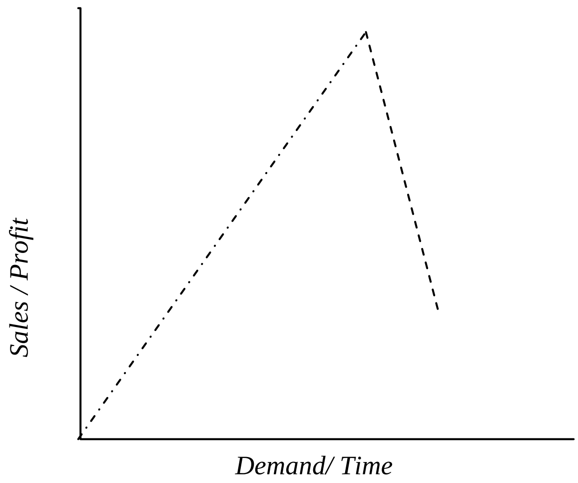

**c) Scallopped**




**d) Style**




**e) Fashion**




**f) Fad**

**Figure11.21: Various types of Product Life Cycle**

| Srl. no | Basis | Introduction | Growth | Maturity | Decline |
|---|---|---|---|---|---|
| **1** | Revenue | Low | Rapidly increasing | Peak | Declining |
| **2** | Costs | High cost per customer | Average cost per customer | Low cost per customer | Low cost per customer |
| **3** | Profits | Low | More | High | Declining |

| | | | | | |
|---|---|---|---|---|---|
| **4** | Customer | Innovators | Early Adopters | Early Majority And Late Majority | Laggards |
| **5** | Competitor | Few | More | Fixed Number Of Competitor | Declining |
| **6** | Product | Offer core product & expected value | Offer expected value | Offer augmented product | Offer potential product |
| **7** | Price | Rapid skimming & slow penetration | Slow skimming | Price bundling | Rapid penetration and odd pricing |
| **8** | Place | Selected locations | Intensive distribution | Deeply penetrated & well planned. | Selective outlets |
| **9** | Promotion | High among the Early Adopters | Mass Marketing | All channel of marketing | Sales promotions |

**Figure 11.22: Comparison of stages of PLC**

***Check Your Progress-A***

**Q1. How can industrial products be classified? How can this classification be beneficial for marketers? Discuss marketing implications of each-division in detail.**

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**Q2. Write a note on idea generation in new product development.**

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**Q3. Explain the significance of new product management. Explain the reason for failure and give your suggestion for improvement to India manager.**

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**Q4.How goods may be distinguish from services?. Explain with suitable example.**

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**Q5. What is the role of Levels of Product in making marketing strategy of product?**

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**Q6. Discuss the relationship between Product mix and Product Life cycle with appropriate example.**

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**Q7. Multiple Choice Questions:**

i. From the following industrial marketing is treated in which manner ?
   a. B2B
   b. Business Marketing
   c. Organisational Marketing
   d. All the above

ii. B2B marketing is fundamental different from Consumer goods or services marketing because:

a. Distribution channels for business products are significantly longer.
b. Customer relationship for business products tends to be short-term transactions based.
c. Organisational buyers do no consume the products or services themselves.
d. Customer service plays a smaller role in the distribution of business products.

iii. What do we call a strategy that results in customers demanding your product from retailers?
a. Pull strategy.
b. Push strategy
c. Increased derived demand
d. Dictated demand

iv. “Product” refers to:
a. Physical goods with all its related services.
b. The need-satisfying offering of a company.
c. Companies all producing and distribution activities.
d. A well-packed item with well-advertised brand name.

v. All are consumer product except:
a. Convenience
b. Unsought
c. Installation
d. Unsought

vi. Which is not industrial product?
a. Accessories
b. Raw materials
c. Supplies
d. Specialty

vii. What is the correct sequence of Level of Product?
a. Core, Generic, Expected, Augmented and Potential
b. Expected, Core, Generic, Potential and Augmented
c. Core, Generic, Expected, Potential and Augmented
d. Potential, Augmented, Expected, Generic, and Core

vii. This level of product creates differentiation from the competitors products.

a. Potential

b. Augmented

c. Expected

d. Generic and Core

ix. The convenience product marketing strategy includes:

a. More than ordinary prices.

b. Low promotion

c. Extensive distribution of goods

d. Limited outlets

## 11.12 SUMMARY

In this unit we have discussed Product, it meaning and its significance. There are various types of products, which may be classified on the basis of Durability, Tangibility and Users. On the basis of Durability, product may be durable and non-durable, on the basis of Tangibility, product may be tangible and intangible. On the basis of Users, product may be consumer's product and Industrial product.

The types of Products on the basis of Users can be divided into consumer and industrial product which may be further sub-divided into Convenience**,** Speciality, Shopping, Unsought, Installations, Accessories, Raw material, Supplies, Components part & materials.

Level of product is a device which assists a company in developing effective marketing measures for product growth. The levels of product are Core product, Generic product *(Basic need)*, Expected product, augmented product and potential product. Product mix is sum total of solution offered by a company under single umbrella. New Product Development helps company to introduce innovative product which starts a Product Life Cycle. There are six types of PLC such as Growth slump maturity, Cycle & Recycle, Scalloped, Style, Fashion and Fad.

## 11.13 GLOSSARY

**Product mix**: It is total number products offered by company.

**Product line**: It is the diversification of company in different category of product. It may or may not be complementary.

**Convenience goods**: These products are usually purchased frequently, immediately, and with a minimum of effort by the customer.

**Shopping goods**: Those goods that the customer, in the process of selection and purchase, characteristically compares on such bases as suitability, quality, price and style.

**Style**: It is a necessary and unique manner of expression appearing of human being performing a task.

## 11.14 ANSWERS TO CHECK YOUR PROGRESS

**Check Your Progress –A**

Q7. i) d

i. ii) d

ii. iii) a

iii. iv) b

iv. v) c

v. vi) d

vi. vii) a

vii. viii) b

viii. ix) c

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## 11.17 TERMINAL QUESTIONS

Q1. Define the term product.

Q2. Discuss important characteristics of product.

Q3. Explain significance of Product to all stakeholders.

Q4. Describe the various types of product with suitable example.
Q5. “There is a wider difference between Industrial product and Consumer Product”. Discuss.
Q6. What do you understand by Levels of Products?
Q7. Define the term “Product mix”. Explain with an example.
Q8. Differentiate between Product mix and Marketing mix.
Q9. Explain the term Length, Width, Depth and consistency in product mix.
Q10. “New Product Development is very crucial decision for every business organization”. Elaborate with its significance.
Q11. Explain the process of New Product Development in detail.
Q12. What you understand by Product Life Cycle (PLC).
Q13. “Product is also having Life Cycle like any Human Being” comment.
Q14. Discuss the important characteristics of different stages of PLC.
Q15. Examine various the sources of new product idea generation with its pros and cons..
Q16. What do you mean by concept testing and why is it a crucial stage in new product development?
Q17. Write a short note on below given types of product with suitable example:

a. Convenience
b. Speciality
c. Shopping
d. Unsought
e. Installations
f. Accessories
g. Raw material

## 11.18 CASE LETS/CASES

M/s Kumar India Pvt Limited was launching its Litchi juice with special precaution. It first undertook two year test marketing run in Dehradun and then followed it up by a test market launch in July 2012. For the meantime, the company in just six months launched its Litchi Juice Dehradun. The ready-to-use juice is made from fresh Litchis. The milky white colour and flavour are 'natural', as the product does not contain artificial colour or preservatives. Priced at Rs 15 for a 250 gm tetra pack, it was available in Uttarakhand. The product life was of one year, till it is opened once, after opening the tetra packet this has to be stored under refrigeration and used within one week. 'The concept of juice was the same as for both, lemon and mango juice" says Dr. Sapna, Production Head. Though buransh juice is used in fairly large quantities in the Uttarakhand, housewives in other parts of India, under pressure of time, have also stated substituting it for soft drinks. The company's pre-launch research also revealed that the respondents (working women and housewives) were positive in product attributes like ease of use, storage and time saving.

QUESTIONS:

If you had undertaken the pre-launch survey for Litchi Juice in Uttarakhand

1) Why it is necessary to conduct research or final commercialisation?
2) What is the role of test marketing in preparing the strategy for product?
3) Design prospective Product Mix for the company.
4) How company can develop new product? Suggest some of the measures to sustain and lead in the perfect competition.

Uttarakhand Open University, Haldwani

MS 107

School of Management Studies and Commerce

**Marketing Management**


Block III Product Packaging and Pricing

Block IV Promotion Mix and Sales Promotion

MS 107

# Marketing Management

**Block – III**

**Block Title- Product Packaging and Pricing**

**Block – IV**

**Block Title- Promotion Mix and Sales Promotion**

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# Block III
# Product Packaging and Pricing

# UNIT-12 BRANDING

**12.1 Introduction**

**12.2 Objectives**

**12.3. Meaning of Brand, Role and its Significance**

**12.4 Categorisation of Brands**

**12.5 Brand Equity**

**12.6 Strategic Brand Management Process**

**12.7 Brand Development Strategies**

**12.8 Summary**

**12.9 Glossary**

**12.10 Reference/ Bibliography**

**12.11 Suggested Readings**

**12.12 Terminal & Model Questions**

## 12.1 INTRODUCTION

Brand represents everything that a product or service means to consumer. They are a valuable asset to a company. It plays an important role in differentiating one product offering from other. Managing a brand is one of the major tasks of marketing. With the change in time, we have seen an increment in the importance branding. Brands are powerful assets that must be carefully developed and managed. In this unit we will discuss what brand is, key strategies for building and managing a brand.

## 12.2 OBJECTIVES

After reading this unit you will be able to:

- Role and Significance of Brand.
- Characteristics of Strong and Successful Brand.
- Task involved in Brand Building.
- Different issues involved in Brand Extension.
- Challenges in Maintaining a Healthy Brand Portfolio.
- Issues Concerning Brand Equity.

## 12.3 MEANING OF BRAND, ROLE AND ITS SIGNIFICANCE

Brand has been used for centuries for distinguishing one product offering from other. Word brand is derived from old Norse word *Brandr* means to burn as it is used as a means by which owners of livestock mark their animals to identify them. According to the American Marketing Association (AMA), a brand is a "name, term, sign, symbol, or design, or a combination of them, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competition." Technically speaking, then, whenever a marketer creates a new name, logo, or symbol for a new product, he or she has created a brand. For example, Coca Cola, Microsoft, Apple, Amazon and Facebook are few brands that have been successful in creating an image in the minds of the customers and thus differentiating its product offerings. In present scenario branding has become quite strong that finding unbranded goods is quite difficult. Even commodities like salt, nut and bolts are packaged and branded.

Brand at a very basic level is a mark of ownership and identity. This is quite narrow manner of defining what a brand is. Brand, in present scenario has become much bigger than what it was thought before. It is now-a-days used something that has actually created a certain amount of awareness, reputation, prominence, and so on in the marketplace.

Brand tends to have different significance for different set of users. For analysing the role of a brand, we must look it in terms of the role it plays for buyer and for sellers. For both the parties' role of brand is going to be quite different.

Let's begin with the role that the brand plays for its customers:

I. Role as an Identification of source of the product: Customer tend to have information regarding the well-known brands and its origin. This assures customers about its purchase decision. It is seen that if a consumer is able to recognize a brand and is having some knowledge about it, then he will not have to engage in a lot of time for putting of additional thoughts or processing of information that he receives for make a product decision.

II. Assignment of responsibility to product makers: Purchasing a well-known brand helps in transferring the responsibility to the producers. A person buying a recognised brand feels assured that the product will be as per the specifications laid by the producers, thus will not bother much about the quality compliances.

III. Risk Reducer: While making a purchase decision a buyer faces many risks. Few common risks associated with purchase of a product are: Functional risk that the product will not perform as per the specification, Physical Risk that the product may possess threat to the health of the customers., Financial Risk that the product will not match the expenses made in buying the product, Social risk that the product will lead to social embarrassment of the consumer and Psychological risk that the product will affect the mental well-being of the consumer. When a customer goes for buying a well-known brand these types of risk can be reduced drastically, thus reducing the pre and post purchase dissonances.

IV. Search Cost Reducer: A customer looking to buy a well-known brand tend to spend very less time in making a purchasing decision as he is aware about the features and performance of the product as compared to a less known brand.

V. Symbolic Device: Brand name tends to have a positive impact in the minds of the customer. Brands take on unique, personal meanings to consumers that facilitate their day-to-day activities and enrich their lives.

VI. Signal of Quality: A brand name is considered as name of trust as well as a signal of quality of the product. Customers can easily trust a product with respect to its quality on the basis of it brand name.

Apart from customer producer also get benefit by knowing a brand name.

I. Means of identification to simplify handling or tracing: Brand name helps in identification and tracking a particular product. It helps in organizing inventory and maintaining accounting records.

II. Means of legally protecting unique features: Brands can be protected through registered trademarks, manufacturing processes can be protected through patents, and packaging can be protected through copyrights and designs. These intellectual property rights help in ensuring that the firm with full safety can invest in the brand and reap out the benefits of that valuable asset.

III. Signal of quality level to satisfied customers: Brands can ascertain a level of quality so that satisfied buyers can choose the product easily. This brand loyalty helps in ensuring the continuous demand of the product thus creating barriers of entry for the rival firms.

IV. Source of competitive advantage: A strong brand name acts as a tool for providing competitive advantage to the firm with respect to its rival’s offerings.

V. Source of financial returns: An established brand name tends to attain a stable position in the market. This helps the firm selling that particular brand in reaping out the financial benefits of that particular brand.

## 12.4 CATEGORISATION OF BRANDS

There are different types of Brand that the company builds. If we talk in terms of Value Offered to the customers, we can easily see that there are broadly three categories in which the brands can be categorized: a) Functional Brand b) Image Brand c) Experience Brand.

I. Functional Brand: This is the category of brands that are typically bought to satisfy the functional need that the customer has. Functional brands are those that are tied in minds of the consumers to specific product categories and they share association with other brands that lie in the same category. For example, in case of automobiles everyone has basic functionality. Each is designed to transport passengers from one point to other and they all do the same thing in essentially the same manner. Thus, all the functional brands must differentiate from their competitor's brands by stressing either better performance or better economy. Success of functional brands is dependent on the product related efficiencies and cost effectiveness.

II. Image Brand: This is the category of those brands who offer image value to the users. The consumers are made to believe that by using or owing these brands, they will become part of a league which they aspired for. For example, Parker pen, never talked about its writing, smoothness and durability rather they have projected Parker as a pen that is used by people successful in their fields and are considered legends. For projecting this image, they used legendary actor Amitabh Bachhan for the campaign. One of the important ways of building image brand is using marketing communication in general and advertising in particularly.

III. Experience Brands: In this category lies that brand that emphasizes on the unique experience that they provide to the customers. These brands rely on delivery of the personal experience to the customers. For example, Walt Disney world bargains on the experience that they provide to the visitors. In case of experience brands it's the people, place and processes that become important in delivering the desired service to the customers.

***Check Your Progress-A***

**Q1. Define the term brand?**

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**Q2. Discuss different benefits that the brand provides to a consumer and to a producer?**

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## 12.5 BRAND EQUITY

Brands are much bigger concept than names and symbols. They are an important element in the company's relationship with the consumer. Brands tend to represents the feeling and perception that the consumer have towards the product and its performance. An important saying in the field of marketing is that the products are created in the factory, but the brands are created in the minds of the customers.

A popular and potentially important marketing concept that came to existence in the 1980s was brand equity. Brand equity is defined as the differential effect that knowing the brand name has or customer's response to the product or its marketing. Branding is all about creating a difference. A brand can be perceived to have a positive brand equity when the perception of the customers towards the brand is more favorable than the generic or unbranded product, whereas as it is perceived to have a negative brand equity if the consumer has less favorable responsible than unbranded products.

Ad agency Young and Rubicam's Brand asset valuator measure brand strength on the basis of four consumer perception dimension. These four dimensions are (a) Differentiation (b) Relevance (c) Knowledge (d) Esteem. The first and foremost is identifying those things that makes a brand different for others or makes them stand out. This means that the brand must be distinct and the customers do not have any reason to choose it over other brands. But differentiation alone can't make brand powerful. The brand apart from being distinct should be relevant in meeting the customer's needs and wants effectively. Value enhancement of a brand is directly associated with the amount of knowledge that the customers have for a particular brand. Before making a purchase-decision consumer must have knowhow and understanding about the brand. This know-how about the brand leads to familiarity which is important for developing strong, positive, consumer brand connection. Having an understanding about the brand and its offerings is important for brand valuation. Last but not the least, there is esteem. Buyers of a brand, must have a proud feeling about owing a product. More respect that the consumer attains in owing a brand more is the value that customers place about the brand in their minds.

A brand with high brand valuation is a valuable asset. It is important to understand and measure the value of a particular brand. Brand valuation is the process of estimating the total financial value of a particular brand. Brand with higher brand valuation lie high on all the four parameter that are discussed above.

Branding as we have discussed before is all about creating differences. Most marketing experts have given few basic principles of branding and brand equity:

• Differences in outcomes arise from the "added value" endowed to a product as a result of past marketing activity for the brand.

• This value can be created for a brand in many different ways.

• Brand equity helps in providing a common denominator for assessing marketing strategies and analyzing the value of a brand.

• There are many different ways in which the value of a brand can be manifested or exploited to benefit the firm (in terms of greater proceeds or lower costs or both).

# 12.6 STRATEGIC BRAND MANAGEMENT PROCESS

Brand building is time taking process. It is a strategic process that a firm follows for creating strong brand. ***Strategic brand management process*** involves creating a design and then implementing the marketing programs and activities that helps in building, measuring, and managing the brand equity. The steps involved in this process are as follows:

I. Identifying and Developing Brand Plans.
II. Designing and implementing Brand Marketing programs.
III. Measuring and interpreting Brand Performance
IV. Growing and sustaining Brand Equity

Details of following steps are given as below:

**Identifying and Establishing Brand Plans:** Strategic Brand management as a process start with identifying and developing brand plans. First and foremost step in brand planning is understanding what brand stands for and later on the basis of this understanding creating a program that can help in positioning the brand in the minds of customers. Three basic models that play an important role in establishing brand planning are brand positioning, brand resonance and brand value chain model. We will discuss each of them in detail. ***Brand positioning*** lies at the core of marketing strategy. It is defined as the "act of designing the company's offer and image so that it occupies a distinct and valued place in the target customer's minds." While taking a call on brand positioning, firms must act on determining a frame of reference, the point of parity and point of difference. This means that the marketers are supposed to know the target consumers, main competitors of the brand, similarity of the brand with respect to competitors' brand and the differences that the brand have with respect to competitor's brand. Identification of the target customers is done in a systematic manner. Firstly, the firms design and decide the basis of segmenting the consumers market. Segmentation is the process of dividing the heterogeneous market into homogenous lot. Segmentation is done on the basis of different parameters like Behavioural, Demographic, Psychographic, Geographic etc. After identifying the target customers next step is to list down major brands that compete with the firm's brands for the same set of customers. This is done to create a strategy for catering the customers in a better manner as compared to that of competitors. Firms need not to be myopic in identifying the competitors and fail to recognize the most compelling threats and opportunities. For example, sales in the apparel industry often have been stagnant in recent years as consumers have decided to spend on home furnishings, electronics, and other products that better suit their lifestyle. On the basis of competitor's firms decide their frame of reference. Firms may choose to have single frame of reference or multiple frames of reference. After discussing the frame of reference, the firms must choose upon the ***point of parity and point of difference***. The target and competitive frame of reference chosen will dictate the breadth of brand awareness and the situations and types of cues that should become closely related to the brand. ***Point of Difference*** is defined as attributes or benefits that customers associate with the brand, evaluate them positively and thus believe that they cannot be find in the competitors' brand. Point of difference may arise out of performance attributes, performance benefits and imagery associations. A lot of top brands tend to have a point of difference on the basis of overall superior quality, whereas on the other hand, other firms tend to create the point of difference on the basis of low cost service providers. ***Point of Parity*** on the other hand are not unique to the brand but may be shared with other brands. There are three types of point of Parity association. They may be either category, competitive and cocreational. ***Category points-of-parity*** means that they are necessarily but not a sufficient condition for brand choice. This point of parity exists minimally at the generic product level and is most likely at the expected product level. ***Competitive points-of-parity*** are those associations designed to negate competitors' points of-difference. These points of parity associations are designed so that the brand can mitigate the strong point of difference that the other brand have. ***Correlational points-of-parity*** are those potentially negative associations that arise from the existence of other, more positive associations for the brand. In many cases the brands attribute that the customers identify may be negatively associated. For example, "cheap and best quality" is highly negatively co-related statement. Customers finds it tough to believe in these statements thus the firms have to create marketing programs in such a manner that it makes customer believe that its true. On the basis of competitive frame of references, point of parity and point of difference firms finalise their positioning strategy.

Another model that plays important role in developing brand plan is resonance model. Brand resonance model describes how to create intense, loyal relationships with customers. The model discusses how brand positioning plays an important role on what consumers think, feel, and do. This also tend emphasize on to the degree to which they resonate or connect with a brand.

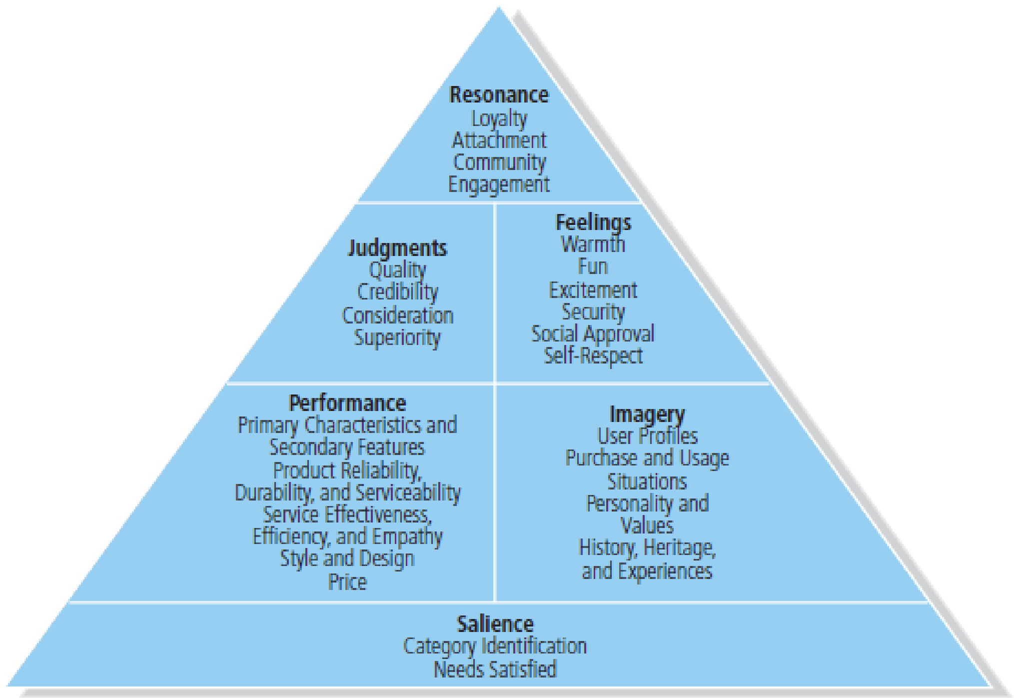


**Fig 12.1 Strategic brand management process Source*: Strategic Brand Management; Building, Measuring and Managing Brand Equity; Forth Edition; Kavin, Lane & Keller***

The above picture gives an idea about the brand resonance model. Four basic questions that the brand answers in this model are

Who are you (Brand Identity)

What are you (Brand Meaning)

What about you (Brand Response)

What about you and me (Brand Relationship)

These four questions are answered in a sequential manner to achieve to the level of brand resonance. Now if we look in resonance model left side stands for rational criteria's and right side is for emotional appeal.

First question is about brand identity and lies at the bottom of the model and talks about brand salience. ***Brand salience*** measures various aspects of the awareness of the brand and how easily and often the brand is evoked under various situations or circumstances. It talks about the category in which a brand lies (for example, cornflakes lie in breakfast category) and the basic need that the brand satisfies (for example, cornflakes satisfies the basic need of hunger). The next question is about the meaning of the brand, that is what it stands for. This question is answered on the basis of brand performance and Brand imagery. ***Brand performance*** describes how well the product or service meets customers' more functional needs. This can be identified on the basis of different factors. These are, primary and secondary characteristics of the brand, level of reliability, durability, serviceability and effectiveness and efficiency of the brand. On the right of brand performance is the emotional aspect of ***Brand Imagery***. Its refers to more intangible aspects of the brand, and consumers can form imagery associations directly from their own experience or indirectly through advertising or by some other source of information, such as word of mouth. For example, Venus razors have a feminine association whereas Gillette razors have more of masculine imagery. After answering the second question firms answer the next question about how the customer respond to a particular brand. On one hand, it generates a rational response of brand judgement and on the other hand it leads to brand feelings. **Brand judgments** are customers' personal opinions about and evaluations of the brand, which consumers form by putting together all the different brand performance and imagery associations. The major consideration about the brand judgement are based on quality of the brand, credibility of the brand, consideration while purchasing the product and superiority of the brand with respect to competitors' brand. On the emotional front lies brand feeling. **Brand Feelings** are customers' emotional responses and reactions to the brand. Brand feelings may either be of warmth (as is case of some heritage brands), fun (as in Disney fun park), excitement (that is evoked by MTV), security (as is towards LIC of India), Social approval *as seen in Mercedes) or of Self-respect (like towards Tide detergent with campaign like doing best for the family). The first three feelings are experiential and immediate, increasing in level of intensity; the latter three types of feelings are private and enduring, increasing in level of gravity.

After accomplishing these lower hierarchical aspects in resonance model the last question that the brands answers are of Brand relationship. Brands, that are able to satisfactorily answer the questions of identity, meaning and response reaches to last level of relationship (resonance). **Brand Resonance** describes the nature of this relationship and the extent to which customers feel that they are "in sync" with the brand. The four categories of brand resonance are Behavioural Loyalty (as is seen in case of repeat purchases), Attitudinal Attachment (having a positive attitude towards a particular brand), Sense of Community (sense of affiliation towards a brand user as in case of Harley Davidson where the owner of the bike have a strong connection with other owners of the bike) and Active engagement (when a person is willing to invest time, energy and money for brand apart from purchases, like joining a club centred around brand).

The last aspect in this is of brand **Value Chain** which means to trace the value creation process for brands, to better understand the financial impact of brand marketing expenditures and investment.

**Designing and Implementing Brand Marketing Programs:** The second step in developing a strong brand is designing and implementing brand marketing programs. The three basic steps of brand building process are as follows:

a) Choosing the right mix of brand elements.
b) Integrating brand marketing activities.
c) Leveraging secondary brand association.

Now we will discuss all these steps in detail.

Choosing Right Mix of Brand elements: **Brand elements** are also called brand identities. They are those trademarkable devices that help in identifying and differentiating the brand. The main brand elements are Brand Names, URLs, Logos, Symbols, Characters, Spokespeople, Slogans, Jingles, Packages, and Signage. In the customer-based brand equity model it is suggested that marketers should use brand elements for enhancing the brand awareness; in facilitating the formation of a strong, favourable, and unique brand associations; or generate a positive brand judgments and feelings. For testing the brand-building ability of a brand element, firms must identify what consumers would think or feel about the product if they knew about only that particular brand element and nothing else about the product. A brand element that provides a positive contribution to brand equity conveys or implies certain valued associations or responses. There are six criteria's for choosing a brand element. They are Memorable, Meaningful, Likable, Transferable, Adaptable and Protectable. **Memorable** means that the brand must be easily recognised and recalled. For example, image of half eaten apple of Apple products is easily recognised. **Meaningful** means that the brand element must convey some sort of meaning be it descriptive or persuasive. **Likability** means that whether the brand element is aesthetically appealing. It means that whether they are visually, verbally or in any other way likable to the customers or not. **Transferability** talks about measuring the extent to which the brand element adds to the brand equity for new products or in new markets for the brand. For example, usage of word Amazon by the bookseller was easily transferred to each and every business in which the firm entered. **Adaptability** means suitability of the brand element over time. It means that whether the brand element is able to adjust to the changing consumer values and opinions over time. This means that the brand name is able to adjust to the changing time and situations. For example, When Pepsi started marketing its products in

China, it translated the slogan “Pepsi Brings You Back to Life” pretty literally. In Chinese it really meant, “Pepsi Brings Your Ancestors Back from the Grave.” This shows that this slogan was not at all adaptable. **Protectable** means that the brand must be protected both in legal and competitive sense.

Integrating Brand Matching Activities: Choosing the right set of brand elements no doubt helps in building brand equity but for building a strong brand the biggest contribution comes from marketing activities related to the brand. This basically deals with the contribution of Product, Price, Distribution and Promotion strategy in building strong brand equity. It is seen that successful brands tends to create strong, favorable, and unique brand associations to both functional and symbolic benefits. We know that the marketers are personalizing their consumer interactions through experiential and relationship marketing. On one hand, experiential marketing tends to promote a product not only by communicating its features and benefits but it also does it by connecting the product with unique and interesting consumer experiences. Relationship marketing includes those marketing activities that helps in deepening and broadening the manner in which consumers think and act toward the brand. Different means of getting consumers more actively engaged with the product or service are Mass customization, one-to-one, and permission marketing. Other ways that help in creating holistic, personalized buying experiences are after marketing and loyalty programs. In terms of pricing strategies, marketers should fully understand consumer perceptions of value. Now days, it is common for firms to adopt value-based pricing strategies for setting prices and on the other hand everyday-low-pricing strategies that can guide their discount pricing policy over time. Value-based pricing strategy is the best way for maintaining the balance between product design and delivery, product costs, and product prices. Every day-low-pricing strategies tends to set low prices regularly and introduce price discounts very selectively. For channel strategies, firms need to match brand and store images that can maximize the leverage of secondary associations. They must work on creating a channel of distribution that can enhance the level of satisfaction in the minds of customers. The designed channel must meet the objectives of the firm effectively. Firms may choose either direct channel or indirect channel. They can go for using one channel or may adopt multiple channel strategy to meet the firm’s objective. Last but not the least, the communication options must be chosen strategically so that they can contribute to brand equity. For the same, marketers need to have some theoretical and managerial guidelines by which they can determine the effectiveness and efficiency of various communication options available to them. These channels must be weighed both singularly and in combination with other communication options so that the best communication program can be created.

**Leveraging Secondary Brand Association**

Secondary Brand association means “borrowing” some brand knowledge and brand equity from other entities that are associated with the brand. As the brand is identified with another entity even though this entity may not directly relate to the product or service performance the consumers can easily make out that the brand shares associations with that entity, thus producing indirect or secondary associations for the brand. These secondary brand association can arise from (1) the company making the product( Benefit that i-phone has because of its maker, “Apple” ) (2) the country or some other geographic location in which the product originates (the association of France for making premium quality wine; French Wine) (3) retailers or other channel members that sell the product (high quality perception of the goods sold by “Nordstrom”) (4) other brands, including ingredient brands (Laptop are considered good when then have Pentium processor) (5) licensed characters (firms selling kids product using the name of Diseny) (6) famous spokespeople or endorsers ( Sachin Tendulkar in “Boost” ) (7) events (Paytm sponsoring IPL) and (8) third-party sources (Online blogs and opinions of people saying good about some product). This secondary brand association tends to enhance the image of the brand and strengthen the existing brand equity of the product.

The above mentioned three steps help in developing and implementing the desired marketing plan for enhancement of brand equity.

**Measuring and Interpreting Brand Performance:** The success of a marketing program lies in bringing the profitability to the organisation. For verifying whether the brand is successful in meeting its objectives or not, a firm must implement a proper brand equity measurement system. A ***brand equity measurement system*** is a set of research procedures designed to provide timely, accurate, and actionable information for marketers so that the can make the best possible tactical decisions in the short run and the best strategic decisions in the long run. The three steps for brand equity measurement are (a) Conducting Brand Audits (b) Designing Brand Tracking Studies (c) Establishing Brand-equity Management System.

A **brand audit** is a comprehensive examination of a brand. This is done to assess the health of the brand, to uncover the sources of brand equity and for suggesting the ways to improve and leverage the brand equity. For carrying out brand audit effectively one must work for understanding the sources of brand equity from the perspective of both consumers and the firm. After the marketers have determined the brand positioning strategy, they can now put in place the actual marketing program that can help in creating, strengthening and/or maintaining the brand associations. **Brand tracking studies** work for collecting information from consumers on a routine basis over a long period of time using different means typically quantitative tools of brand performance. The dimensions that are using for tracking are identified via brand audit or other means.

The techniques used for data collection can be classified as either quantitative or qualitative. Qualitative research techniques are those that can be used as a means to identify possible brand associations. On the other hand, there are Quantitative research techniques that can be used as a means to better approximate the breadth and depth of brand awareness, the strength, favourability, and uniqueness of brand associations; and the nature of brand relationships. Since qualitative data is unstructured in nature, it is well suited for situations that can provide an in-depth glimpse about the feelings that costumers have towards the brands and products. But for obtaining some precise and generalizable information marketers typically use quantitative scales.

A brand equity management system is defined as the set of organizational processes that are designed for improving the understanding and enhancing the usage of the brand equity concept within a firm. The three major steps that help in implementing a brand equity management system are creation of brand equity charters, assembling of brand equity reports, and defining brand equity responsibilities.

**Growing and Sustaining Brand Equity:** Creating Brand equity is not an easy task. Firms invest huge amount of time and money in creating and nurturing a brand. This whole exercise will become useless if the brand is not able to maintain the desired performance for a long time. Brand equity management system talks about the broad and more diverse perspective of the brand equity. It talks about understanding how the branding strategies should reflect corporate concern and be adjusted with time and geographical locations.

**Defining Brand Architecture.** Brand architecture helps in providing the general guidelines about the branding strategy of a firm. It also provides an insight about those brand elements that the firm uses across all the different products that are sold by them. Two basic concepts that are used in defining brand architecture are ***brand portfolios and the brand hierarchy***. Brand portfolio is defined as the set of different brands that a particular firm sells to buyers in a given category. On the other hand, brand hierarchy is defined as the number and nature of common and distinctive brand components across the firm's set of brands.

***Managing Brand Equity over Time:*** Brands can be managed effectively by having a long-term view towards marketing decisions. It must be kept in mind that if there is any change in the supporting programs for a brand than it will lead to change in the customer knowledge thus affecting the success of that marketing program. Long term view also takes into account creation of those proactive strategies that are designed to maintain and enhance the customer-based brand equity. It also deals with implementation of reactive strategies that can re-vitalize a brand so that it can effectively encounter difficulties and problems.

**Managing Brand Equity over Geographic Boundaries, Cultures, and Market Segments**: A successful brand management program also helps in creating marketing programs and strategies so that the brand becomes easily acceptable across geographical boundaries. It is able to adopt to social and cultural changes that it encounters in different places and among different marketing segments. For example, Amul girl has been speaking about social issues from decades and her views have been acceptable from a long time as they have been updated with changing situations.

These above-mentioned steps are important for creation of a strong brand.

***Check Your Progress- B***

**Q1. Explain the steps in strategic brand management process.**

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**Q2. Write a short note on Brand Resonance Model**

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**Q3. Discuss different criteria's for choosing Brand elements.**

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**Q4. What do you mean by secondary brand association? Discuss different things that help in leveraging secondary brand association.**

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## 12.7 BRAND DEVELOPMENT STRATEGIES

There are four choices that the company has for developing the brands. These strategies are Line extension, Brand extension, Multi Brands and New Brands.

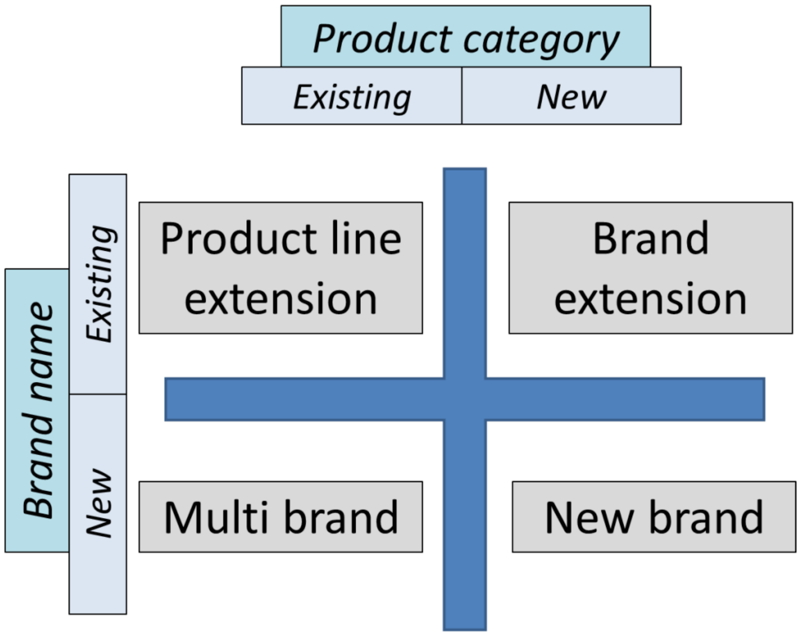


**Fig 12.2 Brand Development Strategies**

**Source: http://www.marketingstudyguide.com/four-brand-strategies/**

**Line extension**: Line extension is a strategy that occurs when the firm uses its existing brand name for launching products with new forms, colours, sizes flavours etc. within the existing product category. The benefit of brand extension is that brand is well known in the existing product category so the firms don't find it tough to place the product in the minds of the customers. But there is risk associated with this strategy. If the firm overextends the brand it may lose its meaning. Example of successful product line extension is Geo news venturing to Geo Sports and Geo Entertainment.

**Brand Extension:** Brand extension is defined as the strategy where the firm uses the current brand name to the new and modified product category. Firm takes this decision to take benefit of the well-known brand name. This gives new product instant recognition and fast acceptance. This also helps in reducing the advertising cost drastically as the firms need not to invest in making people aware about the brand name. For example, when Nestle used the Brand name Maggie for launching the products like noodles, soups, Ketchup etc. In case of Maggie brand extension was quite successful but this is not true in every case. Ponds that one of the famous names in fairness creams category, came up with toothpaste and it failed drastically. The customers of the product were not able to link the link ponds with toothpastes. Firms must plan to extend only on those categories that don't confuse the customers.

**Multi- Brands:** It is defined as the scenario where the firms introduce additional brand in the existing product category. For Example, Hindustan Unilever makes different brand in each of their product category. This helps firm in establishing different sets of features thus appealing to different sets of motives. But the flipside of it is that, each brand will obtain a quite small market share and few might become unprofitable for the company. This also leads to wastage of resources.

**New Brand:** This is the strategy when a firm comes up with a new brand name in a new product category. This strategy is appropriate when the firm is willing to enter into those product categories where none of the brand name is acceptable.

## 12.8 SUMMARY

Brand is "name, term, sign, symbol, or design, or a combination of them, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competition." Technically speaking, then, whenever a marketer creates a new name, logo, or symbol for a new product, he or she has created a brand. Brand building is time taking process. It is a strategic process that a firm follows for creating strong brand. ***Strategic brand management process*** involves creating the design and then implementing the marketing programs and activities that helps in building, measuring, and managing the brand equity.

Firms can go for brand development using different strategies. They can either go for line extension, brand extension, multi-brands or new brand development.

## 12.9 GLOSSARY

**Brand :** It is a “name, term, sign, symbol, or design, or a combination of them, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competition.”

**Functional Brand:** This is the category of brands that are typically bought to satisfy the functional need that the customer has.

**Image Brand:** This is the category of those brands who offer image value to the users.

**Experience Brands:** In this category lies those brands that emphasizes on the unique experience that they provide to the customers.

**Brand positioning:** It is defined as the “act of designing the company’s offer and image so that it occupies a distinct and valued place in the target customer’s minds.”

**Point of Difference:** It is defined as attributes or benefits that customers associate with the brand, evaluate them positively and thus believe that they cannot be finding in the competitors’ brand.

**Brand elements:** These are those trademarkable devices that help in identifying and differentiating the brand. The main brand elements are Brand Names, URLs, Logos, Symbols, Characters, Spokespeople, Slogans, Jingles, Packages, and Signage.

**Line extension:** Line extension is a strategy that occurs when the firm uses its existing brand name for launching products with new forms, colours, sizes flavours etc. within the existing product category.

**Brand Extension:** Brand extension is defined as the strategy where the firm uses the current brand name to the new and modified product category.

**Multi- Brands:** It is defined as the scenario where the firms introduce additional brand in the existing product category.

**New Brand:** This is the strategy when a firm comes up with a new brand name in a new product category

## 12.10 REFERENCES

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- Chapter ii. Review of literature http://shodhganga.inflibnet.ac.in/bitstream/10603/10139/10/10_chapter%20ii.pdf
- Brand Management, https://quizlet.com/70206995/brand-management-flash-cards/


## 12.11 SUGGESTED READINGS


1- Strategic Brand Management; Building, Measuring and Managing Brand Equity; Forth Edition; Kavin, Lane & Keller


## 12.12 TERMINAL QUESTIONS

Q1. What is Branding? Discuss different benefits of branding

Q2. Discuss Brand Resonance Model in detail.

Q3. What is Brand Audit? Discuss the importance of Brand Audit and Brand Tracking studies.

# UNIT13 PACKAGING

**13.1 Introduction**

**13.2 Objectives**

**13.3. Packaging and its Role**

**13.4 Importance of Packaging**

**13.5 Type of Packaging**

**13.6 Summary**

**13.7 Glossary**

**13.8 References/ Bibliography**

**13.9 Suggested Readings**

**13.10 Terminal & Model Questions**

## 13.1 INTRODUCTION

Packaging involves the process of designing and producing the containers as well as the wrappers for a given product. Traditionally, packaging was used for the basic purpose of holding or protecting the product, but with the change in times it has become one the important marketing tools. In this unit we will try and study the basics of packaging, its types function and importance.

## 13.2 OBJECTIVES

After reading this unit you will be able to understand:

- about Packaging.
- Types of Packaging.
- Function and Importance of Packaging.

## 13.3 PACKAGING AND ITS ROLE

Packaging is defined as the process that is involved in designing and producing the container or wrappers for a product. Packaging plays an important role in marketing of the product and it is used as an effective tool for encouraging consumers for buying the product. Packaging is also taken as an effective medium for sales promotion.

Different authors have defined packaging in different manners.

According to W.J.Stanton, “Packaging may be defined as the general group of activities in product planning which helps in value designing and producing the container or wrapper for a product.” On the other hand, according to Pride and Farell, “Packaging involves the development of container and a graphic design for a product.”

In both the definition we can see that the basic functions of packaging i.e. storage of the product is emphasised. Packaging apart from storage has many other functions. In the next section we will try and discuss as many functions of packaging as possible.

I. Protection of the Product: The first and foremost function of the packaging material is to protect the product. It helps in protecting the product from damages, dirt, leakage, contamination etc. Product when kept in open tends get contaminated by the surroundings. Proper packaging can help in storing a product for a longer time in safe, contamination free environment. A good packaging is necessary for protecting the product from getting damaged. For example, in case of electronic goods bubble raps are used as inner layering in the packaging for protect the product from damaged.

II. Provides the Product Density: Packaging plays an important role in providing density to the products. The main idea behind it is to select the packaging material that has effective design and shape for storing the product in an effective manner within a limited space. This on one hand helps in proper storage, on the other hand helps in carrying the product from one place to other.

III. Acts as Promotional Tool: Good, proper packaging helps in selling the product in the more effective manner. Packaging plays an important role in self advertising of the product. An attractive packaging, carrying all the relevant information about the product and tends to attract customers more. It has been seen that a lot of buying decision take place at the point of purchase. So, an effective packaging material has the capacity of attracting the customers and compelling them in buying the product. Attractive designs, size, colours and graphics of the packaging material are essential for generating interest among the customers.

IV. Provide User Convenience: Packaging material has another important function to fulfil. It plays an important role in enhancing the usage convenience. A well-designed packaging material tends to facilitate in storing, carrying and transporting the product from one place to another. It also plays an important role in enhancing the usage of the product. A good packaging material like in case of tetra packs of Amul Milk makes it convenient for the user to use and store the product.

V. Facilitates Product Identification: Packaging material acts as an identification mark of the product. It helps in differentiating the product offering. A costumer can easily recognise the product with the help of its packaging material. A proper packaging acts as the personality of the product. For example, colour and shape of the Real juice differentiates the product offering from its competitors.

VI. Allows easy Product Mix: Packaging is an integral part of Product mix. Product mix is associated with the product line and width. A lot of researchers and marketing experts are counting packaging as one of the P's of marketing. The reason behind the same is importance of packaging in facilitating the product acceptance in the minds of the customer. A good product packaging is important for allows customers to easily remember and recall the product.

## 13.4 IMPORTANCE OF PACKAGING

In this section we will discuss the importance of having a proper packaging material.

I. Helps in generation of Demand: A lot of purchase decisions in present times are made at the point of purchase. Impulse buying plays an important role in making purchases at retail outlets. In this case packaging places an important role. An attractive packaging that is able to grab attention of the customers can help in moving the goods from shelves. Also, the details mentioned in labels of packaging material act as an important source of information for the customers, thus compelling them to buy the product.

II. Helps in Transportation: Packaging material act as an important source of protecting the goods while transporting them from one place to other, without getting damaged. It helps in ensuring that the product is handled in a better manner. It plays an important role in carrying the goods in transit and from one place to another. Product packaging is done in various sizes thus facilitating provisions for easy and open carrying.

III. Provide Guidelines to the Customers: Packaging material contains the details of product, its expiry date, direction of use, ingredients etc. These things help customers in using the product correctly.

IV. Proper Storage: Packaging material helps in storing the product in a proper manner. Goods with proper packaging can be stored safely without utilizing much of the space.

V. Reducing the cost: No doubt packaging is a costly affair. But it helps firms in reducing a lot of other costs. Proper packaging helps in reducing the damages and wastage of the product thus saving a lot of money. It acts as a point of purchase promotional tool thus reducing a portion of burden from other promotional tools.

***Check Your Progress-A***

**Q1. What is packaging? Discuss its role in attaining the customers interest**

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**Q2. Explain the benefits of packaging?**

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**Q3. Discuss in detail the importance of Packaging.**

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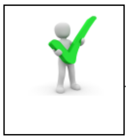
## 13.5 TYPES OF PACKAGING

There are different types of packaging. In this section we will discuss those packaging in detail.

Packaging in the basis of level:

I. Primary Packaging: It is the packaging material that is the first one to envelope the product and holds it. This packaging is usually the smallest unit of use. This form of packaging is in directly touched with the contents of the product. The main function of this packaging is to protect and preserve the product.
II. Secondary Packaging: This packaging is done usually outside the primary packaging. The main purpose of this packaging is to display the brand, storing and protecting the product. This is sometimes referred as group or display packaging.
III. Tertiary Packaging: This type of packaging is helpful in facilitating the protection, handling and transportation of the product. This is done outside the secondary packaging, where lots of secondary packages are stacked together in tertiary packages.



*Check Your Progress- B*

**Q1. Discuss different types of packaging at its uses.**

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## 13.6 SUMMARY

Packaging plays an important role in marketing of goods. On one hand it helps in storing the product in a proper manner, on the other hand it plays an important role in sales promotion. Attractive packaging tends to generate customers interest and facilitates buying. Firms give due importance in designing the packaging material so that they can attract customers towards buying their product.

## 13.7 GLOSSARY

**Packaging:** Packaging is defined as the process that is involved in designing and producing the container or wrappers for a product.
**Primary Packaging:** It is the packaging material that is the first one to envelope the product and holds it.

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## 13.9 SUGGESTED READINGS


1- Principles of Marketing Management, A South Asian Perspective; Philip Kotler, Gary Armstrong, Prafulla Y. Agnihotri, Eshan ul Haque. Pearson Publication, 2013.


## 13.10TERMINAL QUESTIONS

Q1. Discuss the role of packaging in promoting the product?

Q2. Discuss in detail different types of packaging?

Q3. Write a short note on functions of packaging.

# UNIT 14 PRICING

**14.1 Introduction**

**14.2 Objectives**

**14.3 Price and Different Factors Affecting Pricing Decision**

**14.4 Different Pricing Objectives**

**14.5 Pricing Strategies**

**14.6 New Product Pricing Strategy**

**14.7 Product Mix Pricing Strategy**

**14.8 Price Adjustment Strategies**

**14.9 Changing the Price of the Product**

**14.10 Summary**

**14.11 Glossary**

**14.12 References**

**14.13 Suggested Readings**

**14.14. Terminal & Model Questions**

## 14.1 INTRODUCTION

One of the important aspect for a customer while making a purchase decision is price. If we look it in terms of marketing mix, we can easily identify that of all the four mixes, price is the only one that helps an organisation in attaining the revenues directly. In a narrow term, price is defined as the amount of money that is charged from a consumer for availing any product of service, while in a broader sense it is regarded as sum of all the values that a customer gives up in order to attain benefits of using a given product. Managers tend to have divergent views with respect to pricing of the product. A section of managers treats pricing as an additional burden thus focuses more on the others aspects of marketing mixes while smart mangers take it as an important strategic decision that can help them in serving the customers in a profitable manner thus enhancing the overall profitability of the organisation.

In this unit we will try and understand the different factors that play an important role in determining the prices of a product, also we will try and look to the different pricing strategies that are adopted by organisation to enhance their bottom line.

## 14.2 OBJECTIVES

After reading this unit you will be able to:

- Understand the meaning price
- Explain the reason how firm takes decision regarding price.
- Factors that affecting pricing of the product.
- Different pricing strategy followed by firm

## 14.3 PRICE AND DIFFERENT FACTORS AFFECTING PRICING DECISION

As per Philip Kotler, Price is defined as the amount of money charged for a product or service, or the sum of values that the customer exchange for the benefits of having and using product or service. Price tends to play an important role in purchase decision of customers. It helps in attainment of revenues thus contributing to the bottom line of an organisation. While taking a decision regarding pricing of goods and services it must be kept in mind that it is neither too high that it is not able to generate any demand (price ceiling) nor too low that it becomes a loss-making scenario for the organisation (price floor). Prices of the product must lie between these two extremes.

**1- Customer Perception of Value:** It is the customer that decides whether the prices charged by the company are right or not. Pricing decision like other important marketing decision must start with the customers. The pricing decision must be based on the value of the product rather than any other factor. Setting the prices based on the buyer's perception of the value rather than the sellers cost is called ***value-based pricing***. In this pricing strategy, the foremost thing that a company tries to access is, the needs and value perception of the customers and uses it as the basis of pricing the product rather than the sellers cost. This strategy considers pricing along with other marketing mix variable before setting the marketing program. Value based pricing is reverse of cost-based pricing strategy, which is more of a product driven marketing strategy. In ***cost-based marketing strategy***, companies first design the product than adds up the total cost of manufacturing the product, after that the company tries to add up the percentage of profit to that cost for setting up the price of the product. The customer lies as the end of the cost-based pricing and the company tries to convenience the customers about the purchase of the product at the stated price is worth the value. This strategy is considered a wrong way of pricing the product.

There are two types of value-based pricing: Good-Value Pricing and Value-Added Pricing.

**Good Value Pricing**: This pricing strategy deals with setting the right combination for quality and services at a fair price. Organizations that have adopted good value pricing are involved with introducing the less expensive version of established brand name products. The examples of the same is “Value Menus” of McDonald and Nano car launched by Tata Motors. The concept of the good value pricing has also find its place in retail business. A type of good value pricing that is used by retailers is Every Day low Pricing (ELDP). For example, Wal mart one of the giants in retail business uses ELDP pricing strategy. This pricing strategy talks about charging low prices on a constant continuous basis. This mode of pricing is in contrast with High Low Pricing (HLP) strategy, where the prices are kept bit higher on everyday basis, frequent promotions are used to lower the prices temporarily on few selected items.

**Value Added Pricing:** It is that pricing strategy, where companies attach value added features and services with their products that helps them in differentiating a company offering. This facilitates a company in charging higher prices. Companies following the value-added pricing strategy don’t go for cutting the prices to match it with the competitors’ price, rather they tend to attach value added features and services that can differentiate their offering and thus they can ask for higher prices.

**2- Cost of Production:** Cost of Production tends to have an impact on the pricing of a product. The price floor (minimum price below which it becomes non-profitable for the organisation to sell the product) is set on the basis of cost involved in different activities of manufacturing and selling a product. Cost based pricing involves setting prices based on the cost for producing, distributing and selling the product plus the fair rate of return for its efforts and risks. Low cost producers like Indigo Airlines sets lower prices leading to lower margins but generating higher volumes and high overall profit. On the other hand, few companies like Bentley tend to spend higher cost thus claiming higher prices and margins.

**3- Overall Marketing Strategy, Objectives and Mix:** Price is an important part of company’s broader marketing strategy. The decision regarding price must be taken by giving due consideration to the other marketing strategies/activities. If a company has clear cut idea about its target audience and their position strategy, that they are going to adopt, it becomes quite easy for them to decide on the prices of the product. For example, when it comes to BMW cars, they have a well-defined target audience that have high paying capacity and consider buying BMW as a luxurious vehicle that is associated with their status. Customers from high income group are their target audience. This makes it easier for BMW to price their cars at a higher rate than the normal luxurious cars that are sold in the market. On the other hand, Maruti Alto in India has a strategy of catering to the needs and requirement of the middle class. The strategy is to provide low price variant to the emerging middle class that looks for a cheap, affordable and low maintenance alternative for meeting their requirement.

Many a times companies tend to position their product on the basis of price they are going to charge for the product and then design the marketing strategy that can help them in justifying those prices. This strategy is known as target costing. In this the firms tend to set the target price on the basis of the customer value and then do the reverse engineering in deciding on cost that can be set for achieving the target price.

For example, when Tata decided to bring Nano, they initially set the prices as one lakh and then went on to do the reverse engineering in arriving at the cost of the manufacturing of the product.

4- **Organisational Consideration:** Organizations have variety of ways for setting the prices. In small companies the decision regarding the prices is taken by the top management, the role of marketing and sales department is not that important. On the other hand, most of the bigger companies tend to hand over the responsibility of pricing to their divisional managers. In some companies that are mostly involved in B2B selling it is the company that takes decision regarding the price range and the sales people are giving the liberty of setting the price within this range and charge it from the customers.

5- **Type of Market and Demand of the Product:** Companies' must give due consideration to the market condition and demand of the product. Organisations operating in the perfect market situation, where the number of sellers is large and the product is homogenous in nature, prices are decided by the forces of demand and supply. Individual firms are price takers rather than price makers. In case of monopolistic market, the number of firms' is higher and the product is differentiated in nature. This differentiation can be on the basis of quality, product design, style or the services that are associated with it. This differentiation in the offerings gives liberty to the sellers for operating at a range of prices rather than charging similar prices as in case of perfect market. In case of Oligopoly, the number of sellers is less and product is either homogenous or are close substitute of each other. Firms tend to have huge amount of competition between them. Sellers give huge importance to the competitor's strategy and tend to respond as per the changes in the competitor's strategy. In case of a monopoly there is only one seller. In case of government regulated monopoly, the prices are fair for both sellers and customers. In case of unregulated monopoly, the sellers tend to decide the prices but they don't charge very high prices as it may not be able to attract the customers.

In case of products that are unique, or of high quality or prestige products consumers tend to have less sensitivity towards the prices.

In those cases where the demand of the product is elastic in nature sellers can attain higher revenue by reducing the prices of the product.

6- **Other External Factors:** Organisations tend to price their product keeping in mind the competitor's strategy. Consumers, who think of buying one product, tend to evaluate the product offering with respect to competitors offering. Pricing is one of the marketing mix factors that is considered while making a purchase decision. Economic condition like recession, boom etc. tends to affect the pricing of the product. Government policies, regulations and social concern tend to play an important influence in pricing decision.

## 14.4 DIFFERENT PRICING OBJECTIVES

While deciding on pricing alternatives a firm takes into consideration different objectives behind it. Objectives are those goals that the company needs to achieve with the prices of the product. Companies realize that the prices are an important tool for cementing their strategic position. They decide upon the prices of the product by giving due consideration to the objectives that they want to achieve by fixing the prices. Different objective behind pricing of the product are as follows:

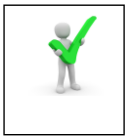
**a) Survival:** This is one of the fundamental objectives of pricing the product. Many a times companies face problems like change in consumer preferences, enhancement of competition. These situations are quite difficult to overcome and companies try very hard to come up ideas that can help them in coping with the changing situation. They tend to overcome this hardship and difficult situations by selling as much units as possible so that they can attain desired resources for surviving in the industry. Prices play an important role in survival. Firms are willing to enhance their sales volume by pricing the goods and services so that they are able to meet out their expenses.

**b) Profit:** Another objective that the organisation can set is profit maximization. Profit maximization is set for long term, as in short term, many a times firms have to settle with minimal profits or sometimes even losses. Identifying and calculating maximum profit is almost impossible. Firms rather than profit maximization establish a profit figure on the basis of previous profits and take it as an optimum profit for the given accounting year.

**c) Return on Investment:** In this pricing objective firms tend to achieve a price level that help companies in achieving pre-decided return on investment. Firms following this pricing strategy utilize hit and trial method for setting the prices. This is done because, attaining all the relevant data regarding actual cost and revenue is not possible. In this pricing strategy, no importance is given to the ongoing competitive price as well as perception of consumers towards the price.

**d) Market Share:** In this pricing objective the major aim of the firm is to enhance the market share of the firm. Sellers are more interested in capturing the market share that is profitable for the company. Organisations can either maintain their existing market share or can look for enhancing the percent of market share with respect to their currently holding. Companies want to maximize market share believing that a higher sales volume will consequently bring down unit cost and lead to higher profits in the long-run. Prices are set at the lowest possible level to generate higher sales and larger market share. As the unit costs dip, prices are further reduced.

**e) Product Quality:** Another major objective for a firm while setting the price is establishing the product on the basis of quality. Consumers tend to associate quality of the product on the basis of price. Firms that want to use pricing as a tool for signifying the quality of the product use this strategy. Such companies consistently strive and maintain high quality and accordingly set higher prices to cover quality and high cost of research and development.



***Check Your Progress-A***

**Q1. What is price? Discuss the importance of pricing in changing business environment?**

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**Q2. What is price floor and price ceiling?**

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**Q3. Discuss different factors affecting a firm pricing decision.**

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## 14.5 PRICING STRATEGIES

After discussing what pricing is and understanding different factors that affect pricing we will discuss different strategies that the companies adopt for setting the prices of the product. The different pricing strategies available to the marketers are new product pricing strategy, product mix pricing strategy, price adjustment strategy and price reaction strategy.

## 14.6 NEW PRODUCT PRICING STRATEGY

Products that are introduced in the market are priced keeping different aspects in mind. Companies face huge challenge for pricing the product for the first time. They have to make a choice between two broad strategies that are Market Skimming and Market Penetration.

**Market Skimming Pricing:** In this pricing strategy, firms launching the new product must set the initial prices high. Setting the initial prices very high, helps them in skimming the revenue from the market. This strategy helps sellers in attaining higher revenues by keeping the prices higher. For example, when Sony launched HDTV in 1990 they deliberately kept the prices quite high. The television initially was meant for those customers who actually were interested in advance technology and had the capacity of paying higher prices. This helped the company to skim higher returns in a very short span of time. With time new entrants came up with their offerings. This led Sony to reduce their prices for attracting new buyers. This helped them in attaining higher revenues in different segments of market. Market skimming strategy is feasible in following condition: Firstly, the product, brand and image quality must support higher prices and the customers are comfortable in purchasing the product at that higher price. Another important aspect is the cost of production of smaller volumes. The cost of producing must not be so high that it cancels the advantage of charging more price from the customers. Last but not the least is the ease of entry in the market. The competitors must not enter into the market easily thus leading to under cutting of the prices.

**Market Penetration Pricing:** This pricing strategy is opposite of the market skimming strategy. In this strategy the prices are initially kept quite low thus helping the company in penetrating the market. This strategy helps company in attracting the customers and capturing the larger market share. For example, when the telecom market in India was in the initial phases, Reliance telecom came up with their offerings in market that were revolutionary in many aspects. They entered market with very lucrative low price offering that attracted a larger segment of customers. This led to enhancement of market share in a very short span of time.

There are different conditions that are pre-requisite for this low-price strategy.

First condition that is important for penetration pricing to succeed is having a price sensitive customer so that low prices can attract customers and can lead to market growth. Second condition is that with increase in sales production and cost must go down. Another important aspect associated with penetration pricing is that the firm must maintain its low-price strategy so that the firms may retain their market position.

## 14.7 PRODUCT MIX PRICING STRATEGY

Individual products are part of larger product mix and thus the prices of it are fixed according to product mix strategy. In case the product is part of the larger product mix the firms look to set the prices of individual product that maximize the profit of the total product mix. Different product mix pricing situation are explained below:

**Product Line Pricing:** A product line is a group of related products under a single brand sold by the same company. Companies tend to sell multiple product lines under various brands. In case of product line pricing the organisation sets prices across the entire product line. They must decide upon the prices that are set between various products in a line. For example, Samsung offers different types of mobile handsets at various price level. On one hand they have Samsung guru for those who are looking for a basic headset at a very low price and on other hand they have premium Galaxy series for those customers who are interested in buying high end mobile sets. Between these two extremes there are different mobile handsets that cater to different customer needs.

**Optional-Product Pricing:** In this pricing strategy the organizations tend to sell optional or accessory products along with their main product. Main product is sold to the customers at a fix price and apart from it they are offered different optional product that can be used along with the main product. For example, an automobile company may come-up with a base product at a given price. Apart from the basic product there are multiple accessories that the customer can think of buying for their vehicle. All these optional products are available with the car dealers and are sold along with the main product.

**Captive Product Pricing:** In this pricing strategy, firms sell those product/ accessories that are used along with the main product. Producers in this case tend to sell the main product at a low price so that the customers can purchase it and set higher prices for the supplies. For example, pricing of video games and cassettes, razor and blades are in the category of captive product pricing. Gillette sells razor at low price to the consumers and charges higher prices when the consumer goes to purchase cartridge. In case of services the captive product pricing is regarded as two-part pricing, fixed fee and the variable usage rate. For example, in case of telecom industry, a consumer gets a base plan with 600 minutes free plan than the consumer will be charged a fixed rate for the first 600 minutes and when the customer crosses this limit, he is charged separately for minutes over and above the base plan. The plan for captive product pricing must be designed so that the base rates are low enough to attract the customer and the extra profit can be generated by variable fees.

**By Product Pricing:** Production of final and goods services often leads to creation of by-products. If the by-product is of no use than firms have to spend extra amount in disposing it safely, thus enhancing the cost of production. In case, the company is able to sell the by-products, they can reduce the prices of final goods and make them competitive. For example, in dairy industry the by-product is cow dung. If the farmers are able to sell this cow dung, he can, without compromising the profit, easily reduce the prices of milk in the market to make it competitive.

**Product Bundle Pricing:** In this pricing strategy, the firms tend bring together multiple products and sells a bundle of product offerings. The selling price of the bundle is less than that would be charged if the customers bought them together. For example, value meals at restaurants and bundling of channels by cable operators.

***Check Your Progress- B***

**Q1. Explain new product pricing strategy.**

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**Q2. Write a note on product mix pricing strategy**

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# 14.8 PRICE ADJUSTMENT STRATEGIES

With change in business scenarios companies tend to change their prices. They need to evaluate the change in consumer preferences, competitor strategies and other factors that affect the prices and then adjust these prices for meeting the changing business scenario. Different price adjustment strategy that are used by the companies are *Discount and Allowance Pricing, Segmented Pricing, Psychological Pricing, Promotional Pricing, Geographical Pricing, Dynamic Pricing and International Pricing*.

**Discount and Allowance Pricing:** A lot of companies tend to adjust their prices for rewarding the customers for certain responses. These responses may be early bill payments, high volume purchases and buying in off-seasons. For example, garment retailers tend to give huge discount to the customers buying in off season clearing sales. These adjustments can either be in the form of discounts or allowances.

Discounts are straight reduction in prices on purchase of an item. There are many forms of discounts:

a) Cash Discounts: It is price reduction to the buyers for making the prompt payments. For example, if the bill amount is Rs X and the time for payment is one month, the seller offers a scheme to the buyer that if they make the payment within 10 days than the they will get a discount of 10 percent on the bills payed.
b) Quantitative Discounts: It is the form of discount that is offered to the buyers for buying in huge volumes. These discounts act as an incentive for the buyers who prefer to buy from one given seller.
c) Functional Discounts: Also known as trade discounts. It is offered to the channel members who assist sellers in specific functions associated with selling of the goods.
d) Seasonal Discounts: This form of discount is offered to the buyer who purchase goods and services during off season.

Allowances are a form of price reduction where the promotional money is paid to retailers in return of an agreement to feature manufacturer’s product in some way. For example, promotional allowances are payment that are given as rewards for participating in advertising and sales support.

**Segmented Pricing:** Segmentation is defined as dividing the heterogeneous market in homogenous lot. In segmented pricing the seller of the product or service sells the product at different prices to different sets of customers. Different form of segmented pricing is given below:

a) Customer-segment Pricing: In this form of pricing structure the customers are segmented to different group and are charged different prices. For example, the charges for kids and adults are different in roadways and railways.
b) Product form Pricing: In this form of pricing different versions of a product are charged differently. For example, price of two litters of Coca-Cola is rupees 79 while 600 ml bottle cost rupees 37. If we look per ml cost of 2-liter bottles is much less than 600 ml bottle and the difference is just on the basis of quantity.
c) Time Pricing: In this pricing strategy the prices vary according to either seasons, months, week days and weekends or even hourly. For example, happy hours in restaurants to bring customers in the lean hours.

**Psychological Pricing:** This is a pricing approach where the prices are fixed on the basis of psychology of the consumers rather than any economic consideration. For example, consumers tend to perceive that expensive products are higher in quality as compared to cheaper products. Price becomes an important criterion of judging the quality when the consumers don't have desired information and skills.

**Promotional Pricing:** This is a price adjustment strategy where the companies temporarily reduce the prices of their products below the list prices for enhancing the short run sales. Promotional pricing is quite famous among retailers for attracting new customers. This pricing strategy has some adverse effect too. Frequent reduction of prices may adversely affect the brand image and will also compel the customers to wait for such promotional pricing for buying the product.

**Geographical Pricing:** This is a price adjustment strategy where the sellers sets different prices for consumers located in different locations. Different forms of Geographical Pricing are as follows:

1) **Free on Board (FOB) Pricing**: It is a pricing strategy where the sellers are responsible for loading the goods on carriers and the customers are supposed to pay the freight from factory to their destinations. For example, a factory located in Mumbai is supposed to deliver goods worth ten thousand to two destinations Delhi and Nagpur. The customers of Delhi and Nagpur are supposed to pay the transportation cost from Mumbai to their respective locations. Since the distance between Delhi and Mumbai is much higher as compared to Nagpur and Mumbai, the freight charges of Delhi will be higher (let's assume 5000 rupees) as compared to Nagpur (let's assume 2000 rupees). In this case the prices are similar but the transportation cost depends upon the location of buyer.
2) **Uniform Delivery Pricing**: In this Pricing strategy, firms charge same prices (inclusive of freight) from all its customers without any consideration of their locations. Taking into account the above example let's say the freight charges are fixed at an average of rupees 4000 the customers in Nagpur will have to pay higher charges (as the freight charges from Mumbai to Nagpur are taken as rupees 2000 in above example). On the other hand, this would be a cheaper option as compared to free on board for Delhi based buyer.

3) **Zone Pricing**: This pricing strategy falls between FOB and Uniform Pricing strategies. In this pricing strategy, consumers are divided into different zones and consumer in one zone pays one single price that is different from another zone. For example, consumers in India can be divided into North, South, West and East zones and different sets of prices are fixed for each zone.

**Dynamic Pricing:** It is a price adjustment strategy, where prices are adjusted on continuous basis to meet the needs of individual customers and situations. This pricing strategy helps to adjust prices according to the market forces. For example, Alaska Airlines create unique prices and advertisements for people as they surf the web. Dynamic Pricing has many advantages. Sellers can utilize the data that they have for designing a tailor-made product that fits buyer's behavior and adjust the prices accordingly. Buyers get an advantage of comparing the prices from various vendors online and can choose the most suitable prices.

Apart from advantages, there are flip sides of this pricing strategies. People tend to feel cheated after knowing that they have paid higher prices for the same service as they had not chosen the different vendor than that of others.

## 14.9 CHANGING THE PRICE OF THE PRODUCT

Firms enter into different situations where they adopt a strategy of changing the price of the product. The firms may either go for price cuts or may increase the prices of the product.

**Price Cuts:** There are various situations where firms feel that reducing the price of the product will help them in achieving their objectives. Different factors that compel a company reduce the prices of the product are as follows: excess capacity, reduction in the demand of the product or usage of price cuts for boosting the sales and capturing the market share. Reducing the prices is a tough call. Many companies after facing the situation of excess capacity reduces the prices of the product, but when the industry is dominated by such firms it will lead to price war as every competitor will try to hold their market share.

A lot of companies have used this price reduction strategy profitably. Big Bazaar came with the concept of *"sabse sasta din"* and attained huge success. Price reduction is perceived in different ways by consumers too. While on one hand the consumer will feel that they are getting a good deal in low prices, on other hand they may take it as reduction in the quality of the product thus degrading the brand value. Price reduction many a times tend to have more adverse effect than positive effects.

**Initiating Price Increase:** Firms many times go for increasing the prices of the product. If the price increase strategy of the firms is successful, it leads to enhancement of revenues. Price rise may be initiated by different reasons: rise in the cost of production may lead to increasing the prices so that extra cost can be covered easily. Another factor that leads to price rise is overdemand. When firms face the situation of overdemand they may raise their prices to cater to the smaller set of customers. Price rise is perceived in different manner by the customers'. On one hand the customers feel the rise in prices is associated with enhancement of quality thus creating a sense of loyalty among the customers. But the same strategy can boomerang if the customers perceive that the company is becoming greedy and is charging higher prices. They may feel that this is a strategy of extracting more money from the customers. Thus, it is quite important that firms while increasing the price must assure customers via different promotional tools about reason behind price rise so that they don't feel cheated.

## 14.10 SUMMARY

Price is defined as the amount of money charged for a product or service, or the sum of values that the customer exchanges for the benefits of having and using product or service. Price tends to play an important role in purchase decision of customers. It helps in attainment of revenues thus contributing to the bottom line of an organisation. It is the customers who decide whether the prices charged by the company are right or not. Pricing decision like other important marketing decision must start with the customers. The pricing decision must be based on the value of the product rather than any other factor. Setting the prices based on the buyer's perception of the value rather than the sellers cost is called value-based pricing.

Different objectives that motivate pricing strategy of the firms are Survival, Profit, Market share, Return on Investment and Indication of product quality. Firms may adopt one of the above objectives for setting the prices of the product.

Fixation of pricing is dependent on various factors. Some important factors that affect pricing are customer perception of value, type of market, firm's objective and policies, demand of the product, marketing strategy of the firm, economic factors affecting the businesses, government policies etc. Firms may either adopt market skimming or market penetration pricing strategy for pricing the new goods. Many a time firms look for ways of adjusting the prices so that it can mitigate the effects of different market forces. Discounts and allowances, Segmented pricing, Psychological pricing and Promotional pricing are few basic techniques of price adjustment strategy. Companies selling mix of products to the customers may either adopt to product line pricing, captive product pricing, optional product pricing or product bundle pricing.

In short pricing is one of the major decisions in the total marketing mix that the companies need to take for catering to the customers in a profitable manner. Organization's must give due importance to pricing along with other marketing mix options. Organisation must not set a single price for all the products but array of different prices that covers different items and these prices tends to change with time. Firms must take into consideration different outcomes of price cuts and price rise before initiating the process of price change.

## 14.11 GLOSSARY

**Price:** Price is defined as the amount of money charged for a product or service, or the sum of values that the customer exchanges for the benefits of having and using product or service.

**Good Value Pricing**: This pricing strategy deals with setting the right combination for quality and services at a fair price.

**Value Added Pricing:** It is the pricing strategy, where the companies attach value added features and services that helps them in differentiating a company offering thus charging higher price.

**Market Skimming Pricing:** In this pricing strategy, the firms while launching the product set the initial prices high. Setting the initial price very high helps in skim the revenue from the market.

**Market Penetration Pricing:** This pricing strategy is opposite of the market skimming strategy. In this strategy the prices are initially kept quite low thus helping the company in penetrating the market.

**Product Line Pricing:** In case of product line pricing the organisation sets prices across the entire product line. They must decide upon the price steps that are set between various products in a line.

**Discounts:** Discounts are straight reduction in prices on purchase of an item.

**Allowances:** Allowances are a form of price reduction where the promotional money is paid to retailers in return for an agreement to feature manufacturer's product in some way.

**Psychological Pricing:** This is a pricing approach where the prices are fixed on the basis of psychology of the consumers rather than any economic consideration.

**Promotional Pricing:** This is a price adjustment strategy where the companies temporarily reduce the prices of their products below the list prices for enhancing the short run sales.

**Geographical Pricing:** This is a price adjustment strategy where the sellers sets different prices for consumers located in different locations.

**Dynamic Pricing:** It is a price adjustment strategy where prices are adjusted on continuous basis to meet the needs of individual customers and situations.

## 14.12 REFERENCES


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## 14.13 SUGGESTED READINGS


1. Principles of Marketing Management, A South Asian Perspective; Philip Kotler, Gary Armstrong, Prafulla Y. Agnihotri, Eshan ul Haque. Pearson Publication, 2013


## 14.14 TERMINAL QUESTIONS

Q1- What is pricing? Explain the difference between cost based and value-based pricing?

Q2- Discuss different new product pricing strategies and explain their relevance.

Q3- What are various product mix pricing strategy?

Q4- Discuss various price adjustment strategy.

# UNIT 15 DISTRIBUTION CHANNELS

**15.1 Introduction**

**15.2 Objectives**

**15.3 Nature and Functions and Role of Marketing Channels**

**15.4 Number of Channel Levels**

**15.5 Types of Intermediaries**

**15.6 Channel Behavior and Organization**

**15.7 Need for Intermediaries: An Analysis**

**15.8 Summary**

**15.9 Glossary**

**15.10 References**

**15.11 Suggested Readings**

**15.12. Terminal & Model Questions**

## 15.1 INTRODUCTION

Another important marketing mix decision that is taken into consideration by producers for catering the customers profitably is Distribution. Firms rarely work individually for creating value for the customers. It is rather collaborative effort of all the channel partners. The availability of the product in the market depends upon the efficacy of the distribution channel, thus it is an important player in the overall marketing strategy.

## 5.2 OBJECTIVES

After reading this unit you will be able to understand:

- Different channel partners in a distribution network.
- Importance of Distribution Network.
- Roles and Responsibility of Different Channel Partners.
- Different issues involved in Brand Extension.

# 15.3 NATURE AND FUNCTIONS AND ROLE OF MARKETING CHANNELS

Distribution channels are probably the most visible aspect of any company's marketing efforts. It has been estimated that number of retail outlets in India is more than 5 million. There are more than 15 million people who are dependent on retail industry for livelihood. This figure is going to increase many folds if we start adding distributers, wholesalers, agents and other who become part of market channels. Distribution function is currently undergoing tremendous changes in terms of both its span and productivity. Change in technology has transformed distribution network drastically. All the changes in distribution network are targeted towards enhancing the convenience of consumer. Usage of internet has enabled manufacturers to perform several distribution related activities with ease and effectiveness.

Marketing channels means a set of interdependent organizations that helps in making a product or service available for use or consumption to the consumer or for business use. There are few companies who sell their product directly to the consumers. In this form of distribution there are no intermediaries. On the other hand, there are marketing channels with multiple channel partners that cater to the requirement of customers. Decision regarding marketing channel plays a huge impact on other marketing mix elements. Pricing of the product depends upon the choice of the channel partner. Acquiring and developing new product depends on the feasibility and expertise of the channel partner in carrying the new product.

Distribution channels have been defined in various ways by different authors.

According to Stern and El Ansary, "Distribution channels are set of interdependent organization involved in the process of making a product or service available for the use or consumption." The process of exchange is an important aspect of marketing by these channels. By this process of exchange, it helps in performing an important role in the overall marketing function. Pitt and et al have sighted that intermediaries essentially plays three important functions. Firstly, they are there to adjust the discrepancy of assortment through the process of sorting, accumulation, allocation and assorting. Secondly, they help in minimizing the distribution cost thus making exchange more efficient and effective. Thirdly, these intermediaries play an important role of facilitating both buyer and sellers in terms of attaining information as well as in assisting them by providing a place and opportunity for meeting and reducing the uncertainty.

Robinstein and Wolinsky have attributed that distribution channels have emerged for facilitating exchange. They do this by speeding up the time-consuming matching process of buyers and sellers. According to Biglasier middlemen have emerged due to two reasons. Firstly, their volume of purchase is more than a normal buyer, thus they have a higher incentive to invest in skills that enable them to detect the true quality of goods and secondly their stay in market is for a longer time thus they are highly reputation conscious and will report the true quality of the product.

Morris and Sirgy states that the channel members alter their functions and adjust to the organization programs for coping up with the changing environment. Thus, according to them channel evolution is a continuous adaptation process that changes with economic, technological and social political forces both within the channel and in the external environment.

Marketing intermediaries are supposed to carry out various functions for catering to the customers profitably. A single channel member may perform all the below mentioned functions in certain situations. However, in most of the situations, channel members at different levels are involved in performing the following functions jointly:

a. **Channel Members helps in creating Utility**: Utility means a state of being useful. Channel members are responsible for creating utility for the customers. They provide time, place and possession utility. Time utility means, making the product available to customers when they need it. Channel partners helps in making the product available at a time when they want them. Place utility means, making the product available at the place where they can buy them. Channel partners helps in making the products available to those locations where it becomes convenient for them to buy the desired product. Procession utility means, customers having access to obtain and have the right to use or store the product for future use. Channel partners assist customers by transferring and leasing the title of the product to them, for using it.

**b. Channel Members Facilitate Exchange Efficiencies:** Channel members offer exchange efficiencies and help reduce the exchange costs by providing certain functions or services. For example, there are four customers who are looking to buy from four different producers. In case of involvement of no intermediary one customer has to deal with four producers thus 4 customers will have in total 16 transactions (4*4=16). This a long and tiring process. Now if we involve one intermediary in between than all the four producers will sell to one retailer thus four transaction and all the four consumers can buy from that one retailer adding four more transaction. Thus, in totality there are only 8 transactions as compared to 16 without any middlemen.

**c. Channel Members may Reduce Discrepancies and Separations:** Most of the producers are located far from the consumer. The distance between the producer and customers is one of the barriers for catering to the customers. Another aspect is production volume. Firms find it profitable to produce at a higher volume. But the volume that consumer demands is quite less as compared to what is produced. Also, the producer may be a specialist in producing one type of product for example pen. But the customers won't look only for pen but they would be desiring for a bundle of stationary products. Now the middlemen in between take the responsibility of same. They will bring the product close to the consumer. They will break they volume as per the need of the consumer and also will keep different type of stationary items so that each and every product is available to the consumers.

**d. Information:** Marketing intermediaries plays an important role in gathering information about consumers, competitors and other market scenarios. Producers always look for collecting information about needs and preferences of the customers. They also look to collect information about competitors and their offerings. Marketing intermediaries comes handy in this. They assist firm in gathering the desired information. Also, they act as link in providing the feedback to the customers.

e. **Promotion:** Intermediaries play an important role in assisting producers/manufacturers in developing and spreading communication about the offering of the company. Middlemen helps in introducing and establishing the new products in the market. Buyers tend to rely on the information and knowledge of the dealers. These middlemen provide salesmanship to the firm. They help in establishing the product in the market through their persuasive selling and one on one communication.
f. **Contact:** Intermediaries play an important role in finding the prospective buyers and contacting them for selling the companies offering. They help in providing pre-sales and post sales services on the behalf of the firms.
g. **Matching:** Intermediaries play a role in matching the product offering of the company to that of the needs of the customer. They help in activities like grading, sorting, packaging, assembling etc. for meeting to the requirements of the customers.
h. **Negotiation:** They carrying out the negotiation with the buyer with respect to quantity and prices of the product offering. Intermediaries are the one, who bring buyer and sellers in close contact of each other. They act as a bridge that facilitates free and open negotiation with respect to quantity, price and quality of the product.
i. **Physical Distribution:** Members of the marketing channel carry out the function of distribution of goods and services. The final product has to be moved from the point of production to the point of consumption. This means it involves storing the product till it is delivered. Most of the big retailers hold enough quantities of the product in order to cater to the consumers
j. **Financing:** Channel members carry out the function of financing. They work on acquiring and using the funds to cover the cost of the channel work. Even though there are firms which are predominantly cash and carry kind of intermediaries still most of the intermediaries provide credit facility or even paying in parts. Many intermediaries offer about 30 to 45 days to the retailers for paying back.
k. **Risk Taking:** Channel member takes the responsibility of risk associated with ownership and transfer of goods. Not every product finds favor in the eyes of the customer, much fallout within few months, as a result of which the intermediaries would be at risk. An uncontrollable factor like floods, earthquakes or even contamination or fire could pose a serious threat. The intermediaries have to bear these risks along with the market risks.

These are some of the core functions intermediaries perform enabling goods and services to reach consumers at the right time

## 15.4 NUMBER OF CHANNEL LEVELS

In any distribution network channel level refers to the number of intermediaries in marketing distribution channel that lie between the producer/ manufacturer and the end consumer. Marketing channel can be divided into two parts consumer and industrial marketing channels. This shows that the two members who are part of any distribution channel are producer and consumer. Between these two extremes lie different channel partners thus creating different channels levels.

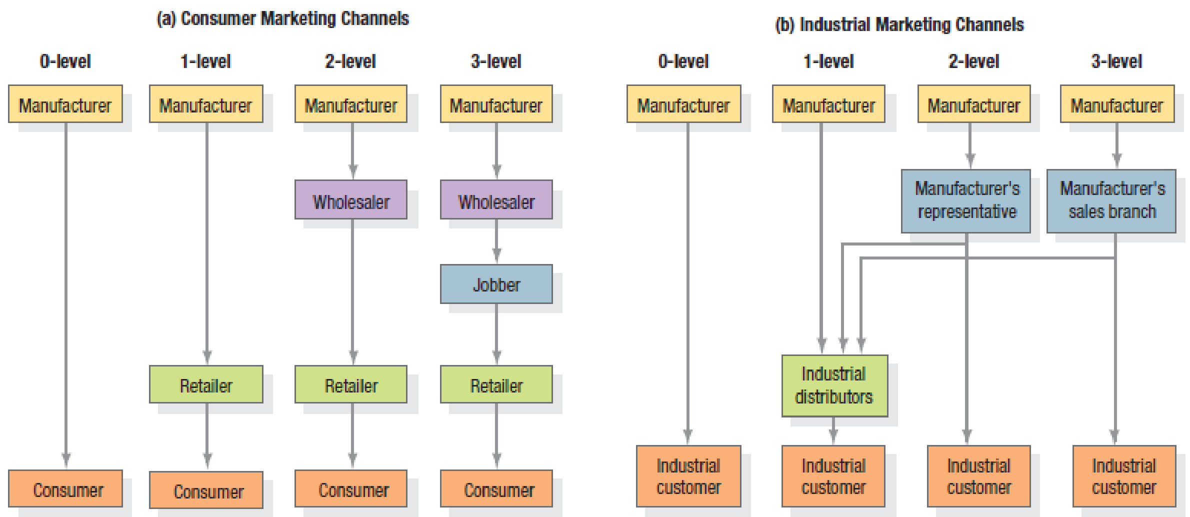



**Fig 15.1Number of Channels Source*: page 420; part 6 delivering value; kotler_keller_-_marketing_management_14th_edition***

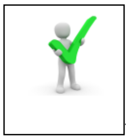
a) Zero Level Channel: Another name for a zero-level channel is direct marketing channel. In this marketing channel manufacturers sell directly to consumer. Examples of zero level marketing are direct mail orders, telemarketing, TV and internet selling. In this marketing channel manufacturers directly deals with the consumers and they don't have any channel partners to facilitate the trade between them. There are many advantages of direct marketing channel. One of the biggest benefits of direct marketing channel is that it helps in building loyalty. The control that manufacturers enjoy in marketing channel is quite high in direct marketing channel. But the disadvantage of the same is, that the reach of direct marketing channel is bit limited as compared to other marketing channels.

b) Level One Channel: This is a channel arrangement with one intermediary in between manufacturer and consumer. Large retailers who act as a middleman between the producer and consumer takes the responsibility for making the product available to the customers. Retailers such as supermarkets and chain stores prefer to buy large quantities of goods from manufacturers and sell directly to the consumers. Advantages of single level intermediaries is the customization and the discounts that they transfer to the buyers.

c) Level Two Channel: A two-level channel contains two intermediaries. In consumer markets, these are typically a wholesaler and a retailer. This channel arrangement is a practical option for those producers who are catering to the needs and requirement of the thousands of consumers residing in various geographic locations. The wholesaler caters to the needs of the retail outlets established in these diverse geographical locations making it easy for the manufactures to transfer goods to final consumers.

d) Level Three Channel: This channel arrangement involves intermediaries at three levels. Manufacturer does not handle any distribution functions and appoints sole agents with substantial resources or C&F agents. They have their own network of wholesalers, and retailers all over the country. This kind of arrangement may also be on territorial basis. C&F agents handle only distribution functions. Sole selling agents may also handle personal selling on behalf of producer besides taking care of distribution.

**Industrial Product Channels**: It is the marketing channel that is used for business to business selling. It is quite in contrast with the above-mentioned business to consumer selling scenario. The users buy products from the marketing channel not for personal consumption but for the operation of their businesses. This relationship to the products use affects the development and management of the marketing channel structure. It is quite different for those who are true consumers. Higher volumes, frequent purchases and complex decision making make industrial buying different from consumer buying channels. An industrial-goods manufacturer can use its sales force to sell directly to industrial customers; or it can sell to industrial distributors who sell to industrial customers; or it can sell through manufacturer's representatives or its own sales branches directly to industrial customers, or indirectly to industrial customers through



***Check Your Progress-A***

**Q1. Discuss different functions of channel partners?**

**Q2. Differentiate between direct and indirect marketing channel?**

## 15.5 TYPES OF INTERMEDIARIES

There are many types of intermediaries that assist in flow of goods and services from producer to consumer. In this section we will try and list down different intermediaries and their role.

a) **Merchant Wholesaler:** Wholesalers are organizations who are responsible for buying from the producers and selling to the retailers or organizational customers. They deal in bulk and sell mostly to the intermediaries. Different types of wholesalers are:

I. **Full Service Wholesalers**: These wholesalers provide full line of services. They deal in carrying stock, maintaining sales force, offer credit, make deliveries and provide management assistance to the manufacturers. There are two types of full service wholesalers:

**A) Wholesale Merchants:** These wholesalers sell primarily to retailers and provide a full range of services. General merchandise wholesalers carry several merchandise lines, whereas general line wholesalers carry one or two lines with greater depth. Specialty wholesalers specialize in carrying only one part of line. For example, health food wholesalers.

**B) Industrial Distributer:** These distributers sell to manufacturers rather than retailers. These distributers provide several services like carrying stock, offering credit and providing delivery. These wholesalers may either carry broad range of merchandise, a general line or a specialty line.

**II. Limited Service Wholesalers:** These wholesalers provide fewer services than full service wholesalers. Few basic types of limited service wholesalers are as follows:

**A.** Cash-and-Carry Wholesalers: These wholesalers carry a small line or limited line for small retailers and sell the commodity on cash. Generally, these wholesalers don’t offer delivery services.

**B.** Truck Wholesalers or Truck Jobber: They are generally involved in performing the selling and delivery function. They often carry a limited line of semi perishable goods like milk and bread. They make rounds to different places and sell goods on cash.

**C.** Drop-shippers: They do not carry the inventory or handle the product. On receiving the order, they try and find the manufacturer who can ship the desired product directly to the consumers. These drop shippers take title and risk from the time order is accepted to its delivery to the customer.

**D.** Rack- Jobbers: They generally serve grocery and drug retailers. They carry goods to the store, set up the point of purchase from where these goods are sold to the final consumer. They price the goods on their own and sell it to final consumer. They retain title of the goods and bill the retailer only for the goods that are sold to the consumer.

**E.** Producer Co-operative: They are owned by the members of manufacturing community. They come in group, collect the produce and sell it to market. The profit is later distributed among different producers.

**F.** Mail-order Wholesalers: These wholesalers send catalogue to retail, industrial and institutional customers featuring jewellery, cosmetics, specialty food etc. they do not have any outside sales force. The orders that are received are send by mail truck or any other means of transportation.

b) **Agent/ Broker:** It often refers to intermediaries with the legal authority to market goods and services and performs other functions on behalf of the producer. Also, there are situations where an agent or broker can work for the person buying the product rather than the one who is selling it. For example, in case of real estate business situations may occur where an agent can work on behalf of buyer to identify the right type of property.

Both agent and broker do not take title of the goods. They are mainly responsible for facilitating the process of buying and selling, for which they earn commission on the selling price. They are generally specialized by the product line or customer type

**Brokers**: Main function of broker is to bring buyer and sellers together and assist them in negotiation process. They are paid by the party who hires them and do not carry inventory. For example, real estate broker, insurance broker etc.

**Agents**: They are similar in function to that of broker but represents buyers and sellers on more permanent basis than brokers. There are different types of agents:

I. **Manufacturers Agent**: They represent two or more than two manufacturers in complementary lines. Agents enter into a written agreement with the manufacturers in which they cover price, territories, order handling, delivery services, warranty and commission rates. Usages of manufacturing rates is most prevalent in apparel, furniture’s and electrical goods. Mostly the manufacturing agents are small business houses with limited staff. These agents are hired by either small manufacturers who don’t have their own sales force for selling their own product line or by those big manufacturers who have are looking to enter into new territories or they are looking to cover those territories that can’t be catered profitably by full line salespeople.

II. **Selling Agents**: These agents have full authority to sell the full line of the products. The manufacturers are either not interested in selling the product or do not possess desired skill set. In this case the selling agents come to rescue and operate as the sales department of the company. These agents have a lot of influence over the prices, terms and condition of sales. Selling agent agreement is seen in case of textiles and industrial machineries etc.

III. **Purchasing Agents**: These agents have a long-term relationship with buyers and make purchases for them. They often deal in receiving, inspecting, warehousing, and shipping the merchandise to the buyer. They also help in collecting the relevant market information to clients and helps them in obtaining the best goods and prices.

IV. **Commission merchants**: These merchants take physical possession of goods and negotiate the sales. These agents are not employed on long term basis. This is mostly used in agricultural produce marketing. Farmers who don't want to sell their output and do not belong any cooperatives may use these merchants. These agents take possession of the goods and sell it in market. After selling the goods they deduct their commission and expenses and remit the balance to the producers.

c) **Distributors:** Also called functional wholesalers, distributors do not buy products from the producers. Instead, they expedite sales between the manufacturer and retailers or other businesses. Like agents and brokers, they can be paid by commission, or they can be paid in fees from the manufacturer.

d) **Retailers:** Retailers sell directly to household/ultimate consumers. They are at the bottom of the distribution hierarchy, working under wholesalers or distributers. In case of level one channel they operate directly under producers. They operate in relatively small territory. They buy assorted products in suitable lots and resell them to household- consumers in small quantities- as and when household demands. They cater to the need of large number of households, located in limited geographical areas, competing as a general rule, with other retailers. Different types of retailers are as follows:

I. Specialty Store: They carry a narrow product line with deep assortment like apparel stores, sporting-goods stores, furniture stores, florist and book stores.

II. Department Stores: These stores carry several product lines- typically clothing, home furnishing and household goods. In these stores each line is operated as a different department managed by specialist buyers and merchandisers.

III. Supermarkets: These retail outlets are relatively large, low-cost, low margin, high volume, self service operations that are designed to serve needs of consumers regarding grocery and household product.

IV. Convenience Stores: These are relatively small stores as compared to others and are located near residential areas. They are open for long hours generally for whole week. They carry a limited line of high turnover convenience products at a slightly higher price.

V. Discount Stores: They carry standard merchandise that are sold at a lower price with very low margins but higher volumes.

VI. Off-price Retailers: These outlets sell merchandise that are bought at less than regular wholesale prices and sold at less than regular retail price. These stores generally carry leftover goods, overruns, and irregular goods obtained at a reduced price either from manufactures or other retailers. They include factory outlets, independent off-price retailers etc.

VII. Superstores: They are very big stores that are larger than regular supermarkets and are traditionally aimed at meeting consumers total needs for routinely purchasing food and non-food items.

## 15.6 CHANNEL BEHAVIOR AND ORGANIZATION

Marketing channel consists of firms that have come together for meeting their common goal. There are complex behavioural systems in which people and companies interact to accomplish individual, company and channel goals. Some channel systems consist only of informal interactions guided by strong organizational structures. While others consist of formal interactions guided by strong organizational structure.

Channel Behaviour: A marketing channel consists of firms that have partnered for their common goals. Each channel member depends on the others. Every member in channel plays a specialized role. For example, i-phone maker apple work in creating a world class mobile that caters to the need and requirement of the customers, whereas the retailer selling i-phone will work in making the product easily available to the customers. Both the channel partners use their own specialization for meeting the same goal of serving the customers satisfactorily and thus making profit for themselves. We can see that both the channel partner work for the same cause and are dependent on each other for their success. Thus ideally, we can assume that all the channel partners will work smoothly and in a synergistic manner for achievement of the overall channel goals. But this is much easier said than done. Most of the time firms fail to understand this broader view. They are more interested in their petty gains and tend to forget the broader goals. Cooperating to achieve the broader goals means giving up individual company goals. These disagreement overall goals, roles and rewards generate channel conflicts.

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forget the broader goals. Cooperating to achieve the broader goals means giving up individual company goals. These disagreement overall goals, roles and rewards generate channel conflicts.

**Vertical Marketing System:** A vertical marketing system is one in which the producer, wholesalers, and retailers acts as a unified system. In this marketing system one of the channel member can either own other channel member or can enter into a contract with others or have so much power that they can force others to cooperate. The vertical marketing system can be dominated by either producer, wholesaler or retailer.

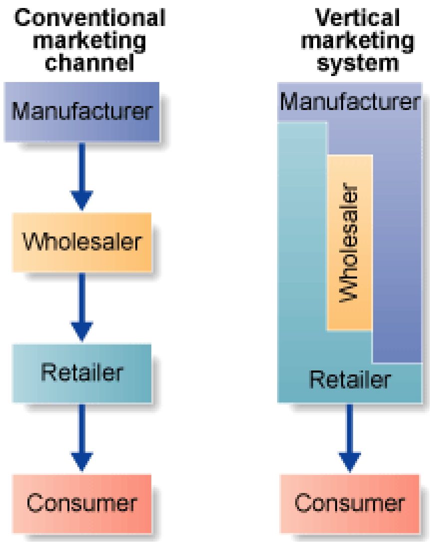


**Fig 15.2 CMSVs VMS**

Source:http://www.laukamm.de/fomweb/elearning/marketing/channel/kotl_channel_behavior.htm

There are three major types of vertical marketing systems: Corporate, Contractual and administered marketing system.

a) **Corporate VMS:** It is a vertical marketing system arrangement in which the stages of production and distribution are under one single ownership. For example, Spanish clothing chain Zara which is one of the fastest growing fashion chain controls every aspect of supply chain from design and production to its own worldwide distribution network. In this system conflict and management are attained through regular organizational channel.

b) **Contractual VMS:** It is a vertical marketing system that consists of independent firms at different levels of production and distribution who come together through contracts to obtain more economies or sales impact. In this system channel members coordinate their activities and manage conflicts through contractual agreements. One of the most common contractual agreement is franchise organization. In this system a channel member, called franchisor links several stages in production and distribution process. There are three types of franchises.

I. Manufacturer Sponsored Retailer Franchise System: This is the type of franchise system where the manufacturers enter into an agreement with the retailers who act as independent retailers. For example, Nissan and its franchise dealers.

II. Manufacturer Sponsored Wholesaler Franchise System: In this type of system the manufacturers enter into an agreement with the wholesalers and are responsible for supplying the product to retailers. For example, cocoa cola has its set of licensed bottlers (wholesalers) who buy concentrated coca cola syrup and then bottle it and sell it to retailers in the local markets.

III. Service-firm sponsored Retailer Franchise System: This is a type of system where a service provider enters into a contractual agreement with the retailer for catering the customers in a profitable and satisfactory manner. For example, Pizza Hut have their franchise in different part of the world that provide standard services to the consumers.

**c) Administered VMS:** It is a vertical marketing system that coordinates the successive stages of production and distribution. In this VMS there is neither common ownership nor contractual ties but its due to the size and power of one of the partner's. For example, big brand like Amul and Parle gets huge support and cooperation from resellers for providing self-space, promotion and pricing. In the same manner big retailers like Big Bazzar commands huge influence on the manufacturers who reply on the retail outlet for selling its produce.

**Horizontal Marketing System:** This is another type of channel arrangement in which two or more companies at one level join together to attain a new marketing opportunity. In this system companies might join forces with competitors or non-competitors. Companies can work together either temporarily or on a permanent basis. For example, MacDonald's came together with Sinope one of the largest gasoline retailers for opening chain of restaurants at their gas station. This was a win-win situation for both. On one hand it helped MacDonald in expanding its reach in China on the other hand it pulled hungry motorist to come at Sinope.

**Multichannel Distribution System:** It is a distribution system in which a firm establish two or more marketing channels for enhancing their reach among customers. This is also regarded as hybrid marketing channel. In this era of fierce competition almost every big company and many small one distributes through multiple channels. This helps in expanding their sale and marketing coverage. It also helps in catering to the diverse customer segment profitably.

## 15.7 NEED FOR INTERMEDIARIES: AN ANALYSIS

We have seen many cases where the organization have adopted to a route of not having any intermediaries. There are instances where organization have performed quite well by not having any external marketing intermediary in between or if they have intermediaries the dependence on those intermediaries is minimal. With the change in technology and advent of internet, it has become quite easy for the manufacturers to get in touch with the consumers easily and thus perform the activities of these intermediaries on their own. Dell for example performed the physical distribution activity on its own without the help of any intermediary. This vertical integration has its own set of advantages. This helps an organization to command more control in the distribution function. In case of the products that require high amount of technology transfer (the product that are complex in nature), or the products that have a short life span and constantly requires new products to be introduced requires more control in the distribution system than others. In this case too it is important to have a manufacturer own distribution network.

These above cases clearly state that having a control on the distribution network or having a network that is vertically integrated is very beneficial. But the cost associated with direct distribution is quite high as compared to one via intermediary. This is because the each of the intermediaries would be sharing the cost of distributing the company's product. Another argument that goes against direct distribution is the need for specialization. In the changing business scenario where there is a cut throat competition, it is must to have a distribution network that is run by specialists. Now a firm that specialize in manufacturing the product will require huge sum of money and time in creating a channel that can cope up with the existing competition. Rather than investing huge amount of time and money a firm can easily outsource these functions to those firms that specializes in that work.

The two important aspects that the firm must consider while deciding whether to go for intermediation are Cost and control

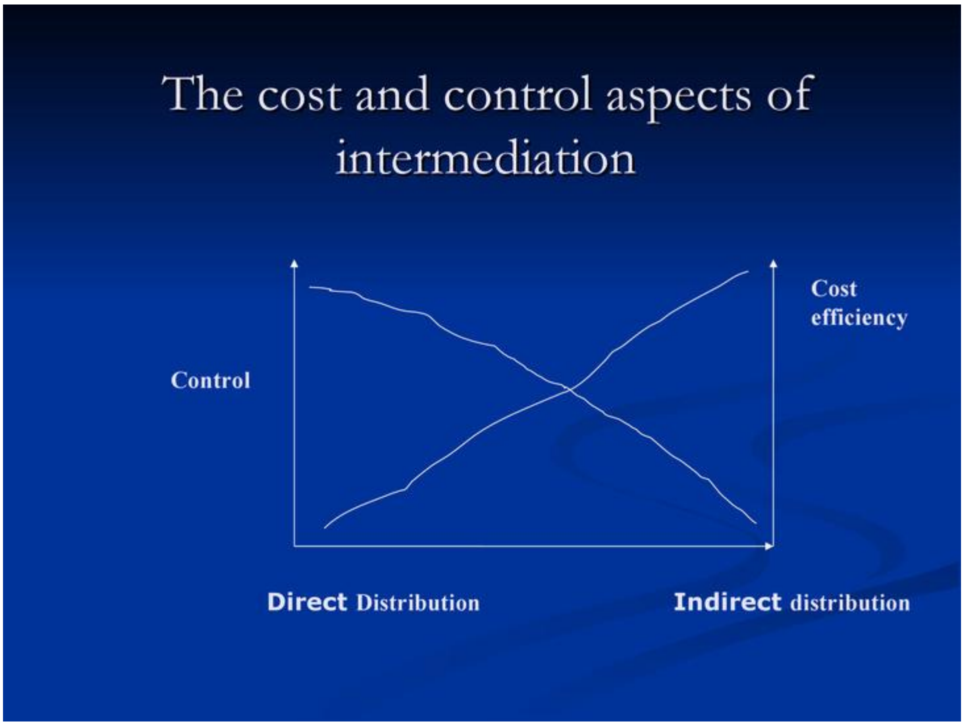


**Fig 15.3 Cost and Control aspects of intermediation Source: https://www.slideshare.net/dcsastudent/dlm**

The above graph clearly states that the level of control in case of direct distribution is quite high as compared to indirect distribution. But with the high level of control comes cost efficiency. In case of direct distribution, the cost involved is quite high as compared to indirect distribution that are highly cost effective.

A firm before taking the decision regarding whether to have intermediaries or not must take a call on the degree of control and cost efficiency. If the firm is looking to have more control on the distribution network and cost-efficient design is not the priority than the firm must invest on developing a direct distribution network. On the other hand, if the firm is looking for a cost-efficient distribution and does not have much consideration for control they must design an indirect channel of distribution. In reality, the choice is not between an absolute direct distribution or absolute indirect distribution. Except from some extreme cases, most of the companies look for a combination of direct distribution and indirect distribution i.e. one via intermediaries. Thus, the question is actually about the extent to which the distribution activities have to be outsourced to the intermediaries. Answering this question takes into account a lot of things. Apart from the nature, scope and economies of the distribution activities, the objective of the firm, its capabilities, competitor policies and programs as well as the trend in future plays an important role.

***Check Your Progress- B***

**Q1. Explain horizontal and vertical marketing system suitable examples.**

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**Q2. Write a short note in wholesaling and retailing.**

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**Q3. Distinguish between direct and indirect marketing channels.**

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## 15.8 SUMMARY

Distribution channels are probably the most visible aspect of any company's marketing efforts. Marketing channels means a set of interdependent organizations that help make a product or service available for use or consumption by the consumer or business use. There are few companies who sell their product directly to the consumers. Marketing intermediaries are supposed to carry out various functions for catering to the customers profitably. Firms can either go for direct marketing channel or may choose an indirect marketing channel. Different types of intermediaries occur in marketing channel like agents, brokers, wholesalers and retailers. Firms can either have a traditional arrangement of these marketing channels where each and every channel partner is independent or may choose to have a system where one channel member via agreement, force or power controls other channel members

Firm take call regarding marketing channel arrangements on the basis of cost involved in owning a marketing channel with respect to the control that it is looking for.

## 15.9 GLOSSARY

**Distribution Channel:** Distribution channels are set of interdependent organization involved in the process of making product a product or service available for the use or consumption.

**Agents:** They are similar in function to that of broker but represents buyers and sellers on more permanent basis than brokers.

**Full Service Wholesalers**: These wholesalers provide full line of services. They deal in carrying stock, maintaining sales force, offer credit, make deliveries and provide management assistance to the manufacturers.

**Wholesale Merchants:** These wholesalers sell primarily to retailers and provide a full range of services.

**Distributors:** Also called functional wholesalers, distributors do not buy products from the producers. Instead, they expedite sales between the manufacturer and retailers or other businesses.

**Horizontal Conflicts:** This channel conflict occurs among firms at same level of channel.

**Vertical Conflicts:** These conflicts occur between different levels of same channel.

**Vertical Marketing System:** A vertical marketing system is one in which the producer, wholesalers, and retailers acts as a unified system.

**Horizontal Marketing System:** This is another type of channel arrangement in which two or more companies at one level join together to follow a new marketing opportunity.

**Multichannel Distribution System:** It is a distribution system in which a firm establish two or more marketing channels for enhancing their reach among customers.

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## 15.12 TERMINAL QUESTIONS

Q1. What are different types of intermediaries in a given marketing channel?

Q2. Discuss different types of vertical marketing systems.

Q3.How is Horizontal marketing system different from Vertical Marketing System?

Q4. Discuss different factors that play an important role in identifying the type and number of intermediaries in a given marketing channel.

# UNIT 16 DECISION MAKING FOR EFFECTIVE DISTRIBUTION CHANNELS

**16.1 Introduction**

**16.2 Objectives**

**16.3. Channel Design Decision**

**16.4 Channel Management Decision**

**16.5 Contemporary Channel Scenarios in India**

**16.6 Summary**

**16.7 Glossary**

**16.8 Reference/ Bibliography**

**16.9 Suggested Readings**

**16.10 Terminal & Model Questions**

## 16.1 INTRODUCTION

In the previous unit we had tried to understand the basics of marketing channel. In this chapter we will discuss different set of activities associated with the creation and maintenance of distribution channel. We will also look to study different steps that are involved in designing an effective marketing channel that can cater to customer's requirement in effective manner. We will also discuss steps involved in selecting, managing and motivating individual channel.

## 16.2 OBJECTIVES

After reading this unit you will be able to:

- Understand the concept of customer-oriented channel
- Explain the process of designing the customer-oriented marketing channel.
- Discuss in detail the steps involved in channel management decision making process.

## 16.3 CHANNEL DESIGN DECISION

For extracting maximum benefits of the marketing channel, it is quite important that the channel is designed in a proper manner. Channel design decision is an amalgam of all the steps that are involved in the development of new marketing channels or modifying the existent ones. Steps involved in the channel design decision are analysing the customer needs and wants, establishing channel objectives and constraints, and identifying and evaluating major channel alternatives. In this section, we will try and discuss these steps in detail.

I. **Analysing the Customers Need:** For an effective decision-making, it is very important to keep customers at the centre of any marketing process. In case of designing the marketing channels it is very important to understand the mindset of the customers. Without knowing what customers are actually looking for we cannot think of designing a channel that will be able to serve them properly. There are few major questions that any company must answer before taking any decision regarding choice of marketing channel. The first thing that the firm must understand is whether the customers are looking to buy the product from the nearby shop or will they think of moving to some distance for buying from a centralized location. Another thing that the firm must think of while deciding for a marketing channel is whether the costumer is looking to buy in person, order on phone or via internet. They must keep in mind that whether customers tend to look for a breath of assortment of a product or they are looking for (or are preferring) specialisation. One thing that plays important role is whether the customers are looking for a marketing system in which they rely on the firms for providing add-on services like delivery, repairs and assortments, or will they plan to avail it from somewhere else. Now no doubt every firm will look to have a distribution network that will provide goods and service to the customer in a convenient location, in a quick and efficient manner, they will also prefer to carry deep assortment and provide best of the services to the customers. But it is not possible. Providing the fastest delivery, greatest assortment and almost all the services is not practically possible. Firms may lack on the resources and skillsets that is required to provide the desired level of service to the customers. Apart from it providing the high level of service to the customers mean higher cost for the channel and thus higher prices to the consumers. The most important aspect of the designing the marketing channel is to balance consumer needs not only against the feasibility and costs of meeting these needs but also against customer price preference.

II. **Setting the Channel Objectives:** Setting the channel objectives is another important task in designing the marketing channels. Firms must give due consideration in identifying the channel objectives. One way of setting the channel objectives is on the basis of target level of customer service. Firms are supposed to give due consideration to the level of customer service that the target audience desire. There are many segments of customers that the company can cater too and each of these segments may desire for different level of customer services. Of these segments company must identify the segments that it wants to serve and also the channel that can help them in serving in the most effective manner. This is done by keeping in mind the cost involved in serving these customers. Best channel strategy is the one that minimizes the cost of serving the target customers in best possible manner. Other aspects that influence channel objective are nature of the company, the product line that it carries, different marketing intermediaries involved in the process, the strategy that is adopted by the competitors and the environment in which they work. We will look into these factors one by one. First thing that influences the channel objective is nature of the company. Size of the firm and its financial status plays an important role in deciding on the type of channel that it must use. This helps in determining the marketing functions that the firms can undertake and the functions that it must outsource to meet the expectation of the customers. A firm that is small in size and doesn't have financial liberty of carrying out all the operations on its own will prefer to outsource most of the work associated with distribution to a third party. Whereas as big firms with a good financial backup can look to control most of the distribution associated work for itself thus will design a channel that will work under their own supervision. Type of product also plays an important role in designing a marketing channel. A firm that is selling perishable products will adopt a shorter marketing channel as compared to firms selling non-perishable products. The goods that require technical assistance and are high value products will generally be sold via shorter distribution network as compared to others. In case of FMCG goods where volume plays an important role, the distribution network is bound to be large so that the they are available at each and every place. A product that is in the introduction stage will be relatively unknown. It will have a smaller customer base and low sales volume. At this stage it is advantageous to have a small or direct distribution network so that firm can have more control and attain feedback from the customers in a more effective manner. There are cases where the firms are looking to operate in or near the same outlets that carry competitors' products. On the other hand, firms may totally avoid the channel that is adopted by the competitors. Environmental factors such as economic condition and legal constraints also play an important role in designing the channel objectives. In an economy that is not performing well, a firm can look for the channel alternative that can reduce the cost of distribution. Now on the basis of above factors, firms can work on identifying the different objectives that they seek from their channel partners. Few basic channel objectives are as follows

**a)** Effective Coverage of target market
**b)** Efficient and cost-effective distribution
**c)** Ensuring minimum excursion in procuring the product.
**d)** Providing assistance in selling of the product.
**e)** Partnering the firm in serving the customers and financing the sub distribution task.

**III. Identifying the Major Alternatives:** After defining the channel objectives, another major task is to identify major channel alternatives that the firms must adopt for meeting out the objectives that are set by them. Few major channel alternatives that the firms can adopt are as follows:

**a) Types of Intermediaries:** A firm must identify different types of channel members that are available for carrying out its channel work. A firm has many channel choices to choose from. It can go for direct channel with no intermediaries in between or it can wish to have a long channel with multiple intermediaries that can assist them in catering to the customers profitability. For example, Dell that once relied on direct channel for catering to customers and business buyers via sophisticated phone and internet marketing has now come up with indirect channel. This was done to cater a larger section of customers and to mitigate the challenges posed by its competitors. It also started selling via value added resellers, independent distributors and dealers who develop computer systems and applications tailored to the special need of small and medium size business customers.

Using multiple channels for selling the goods and commodities has its both benefits and limitations. On one hand having multiple channels lead to enhancement of customer base and also helps in meeting the competitors effectively. One the other hand its has its own challenges. Having multiple channels poses a threat of management and control. Also, these channels start competing with each other for the same set of customers, giving rise to conflict among channel partners. Dell has also faced the same problem. It has seen its direct sales representative complaining about new competition from retail stores, while their value-added reseller complain that the direct sales representatives are under cutting their business.

It is therefore quite important that firms must give due importance to pros and cons of different types of intermediaries and then finalize the one that suits them the best.

**b) Number of Marketing Intermediaries:** Another important consideration is determining the number of channel members to use at each level. Three strategies that are available for the firm are: Intensive distribution, Exclusive Distribution and Selective Distribution. ***Intensive Distribution*** is one the strategies where the firm stock their product in as many outlets as possible. This is done with an idea that the consumers encounter the product virtually everywhere they go: supermarkets, drug stores, gas stations, and the like. Toothpastes, candy, soft drinks, etc. are generally made available through intensive distribution. One the other hand some producer purposely limits the number of intermediaries handling their products. The extreme form of this strategy is ***Exclusive Distribution*.** In this strategy firms give exclusive rights of distribution to limited number of dealers. These dealers can distribute the company's product in their specific territories. In other words, **Exclusive distribution** is an agreement between a supplier and a retailer granting the retailer exclusive rights within a specific geographical area to carry the supplier's product. Often the supplier severely limits the number of products it supplies to the retailer as well. This form of distribution is seen in distribution of luxury automobiles and prestige goods. One of the example of this strategy is Rolex watches, where only handful of dealers are authorized to sell the watches. In this way, Rolex is able to command more dealer support and control over dealer prices. This distribution strategy also enhances the brand image of the product thus allowing higher markups. Between the two extremes of Intensive and Exclusive distribution there is ***Selective Distribution***. In this distribution strategy a firm uses more than one but much less than those in intensive distribution for carrying the company's product. Most of the furniture, television and home appliances brands are distributed using this strategy. This strategy helps in developing good working relationship with selected channel members and thus can expect better than average selling efforts from their side. This strategy helps in providing better market coverage, more control as well as lower cost than intensive distribution.

c) **Choosing the number of Tiers:** Another decision that must be taken is regarding the number of tiers in a given channel. Whenever a firm opts for outsourcing or sole selling agency, they will have their own channel partners and those channel partners will become part of firms' channel. The problem arises when the firm takes the job of marketing and distribution on its own hand. In most of the cases the choice is between single tier and two tier, while in few cases, firm can think of going for three tier system. The decision regarding the number of tiers in a channel is taken on multiple factors. Channel intensity and the product characteristics are most important consideration. These two are related to each other. For example, selling an automobile requires a single tier distribution network. In this case only one channel intermediary has the capacity of linking both the buyer and sellers. In this case the channel intensity will be low. On the other hand, products like toothpastes and other convenience product the number of level in channel may be either two three or more. The reason behind the same product requires mass distribution and high intensity. In recent times there is a trend of having short channel of distribution. As a general trend, firms that were initially dependant on three tier systems are now preferring to adopt two tier system and the firms operating with two tier systems are trying to adopt single tier system. Within the same design firms many a times choose different variants i.e. two firms having the same conventional design, same type of product can still take different approaches. For example, HUL and Nirma both sell soaps Lifebouy and Nirma respectively, have different channel approach. Nirma distribute its soap using a wholesaler weighted system, whereas HUL distributes Lifebouy via retailer weighted system. In both the cases market and channel design both are similar. But the approach adopted by them is different. Nirma off-loads its product to wholesalers at high discount than the wholesaler sends it to retailers. While HUL operates in a different manner. It reaches out to the large number retailers using CFAs to a large extent. Both these variants have its own advantages and disadvantages. In case of wholesaler-oriented system firm is not supposed to carry out the selling task. This helps them in reducing the cost of distribution. Nirma was able to save a huge amount of marketing cost. On the other hand, there are disadvantages of this system too. Since most of the marketing activity is in the hands of wholesalers, firms are forced to rely on wholesalers for brand building. It is important that the firm take both advantages and disadvantages into account for taking a call which system to choose.

d) **Responsibilities of Channel Members:** It is important that producers and intermediaries must agree on the terms and responsibilities of each channel member. The agreement must reach on pricing policies, condition of the sales, rights related to territories and services that are performed by each party. The producers are supposed to establish the list prices of the products as well as the discounts that they can offer to the intermediaries. The territories for each channel member must be clearly defined and care must be taken to place new resellers. Roles, responsibilities and duties must be clearly defined in case of franchise and exclusive distribution channels as compared to intensive distribution. Many a times firms carry out training programs for their franchise partners for assistance.

e) **Evaluating Major Alternatives:** After identifying major channel alternatives, the firms have to select the one that satisfies their long run objectives. The parameter against which they are evaluated are Economic, Control and Adaptive criteria.

f) **Economic Criteria:** This is one the major factors for selecting a given market channel. In this the firm compares sales, cost and profitability of different channel alternatives. Different alternatives will correspond to different cost efficiency combination. Firms will identify the investment required by each channel members and returns emerging out from them. Along with-it firms will rate the risk associated with the different alternatives. Firms take the call on the channel based on the above-mentioned points. The first step in this is to determine the sales volume that is obtained through each alternative design. In the second stage firms try to calculate the cost that is associated with selling the desired volume using the given channel. On the basis of this firms try to choose those channel alternatives which is attractive from the point of cost and efficiency. They also take into account the risk associated in different channel alternatives.

g) **Control Criterion:** Another important criterion for evaluating the channel alternative is level of control. Firms going for indirect channel have to rely on intermediaries for delivering the goods and services to customers. With their inculcation, there is transfer of control to these intermediaries. Some marketing channels tend to have more control on firm than others. If other things are constant than the firm tries to choose those channel alternatives on which they can keep more control.

h) **Adaptive Criterion:** Relationship between channel members and firms is mostly a long-term commitment. The types of channel that the firm adopts and the levels in any channel can't be altered every now and then. Once a channel is created with a specific structure, pattern and numbers of tiers and the channel members are also put in place and the channel compensations are established, it will be difficult for the firm to exit for that structure and put an alternative in place. Yet the company wants to keep the channel flexible so that it can adapt to the environmental changes. Thus, to be considered a channel involving long term commitments should be greatly superior on economic and control grounds.

The above step clearly states the process of Channel Design Decision process. It gives an insight about how firms proceed in designing the effective channel for distribution of goods and services

***Check Your Progress-A***

**Q1. What are the different steps that are involved in designing a marketing channel?**

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**Q2. Distinguish between Intensive, Exclusive and Selective Distribution.**

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**Q3. Discuss different factors that play an important role in setting the channel objectives**

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**Q4. Discuss different criteria's that play an important role in evaluating the channel alternatives.**

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## 16.4 CHANNEL MANAGEMENT DECISIONS

After the firm have reviewed all channel alternatives and taken a call on the best channel design, it works on implementing and managing the chosen channel. Marketing channel management deals with selecting, managing, motivating and evaluating the performance of the identified channel.

I. **Selecting Channel Members**: Selection of channel members or middlemen is a continuous process because many channel members of them leave the channel or get removed by the marketer. Thus, it is not the part of channel design. It is necessary for the marketer to determine criteria or factors for selection of intermediaries. In this step the firms must find the ways of choosing the best channel alternative. They will go for evaluating each channel member's business, they evaluate other lines that those channels carry, their growth and profit records, their inclination towards innovation and change, and their reputation in the market. If manufacturers are looking for sales agents they will look to evaluate the number and characteristics of different product line that they carry, size and quality of sales force. This is done to for checking whether the channel is suitable for carrying the sales business of the firm. One the other hand if the intermediary sought is a selective or exclusive retail store the manufacturers will evaluate it on the basis of location, footfall and type of customer visiting the place and potential for future expansion.

Firms have different abilities in attracting the marketing intermediaries. There are different producers that do not have any trouble in finding the new channel members. For example, Toyota while introducing its Lexus line was very fortunate in attracting new dealers. They had so many interested intermediaries that they had to turn down many to be resellers. On the other hand, Timex watches while launching new inexpensive line of watches, tried to look for jewellery stores as their channel partners. But the jewellery stores didn't agree their idea and refused then the company had to decide on mass-merchandise outlets for selling their watches.

Whatever the situation is firms must consider some of the common factors like financial standing, location, prior experience and type of customers served for identifying and selecting the potential channel partner. The ddistribution channels can either be short or long. A short channel is the one that involves few intermediaries whereas a long channel is the one that involves many intermediaries work together in moving goods from producers to consumers. Generally, its seen that business products tend to move via shorter channel as compared to consumer products. This happens because of geographical concentrations and comparatively few business purchases. Service firms have a tendency of marketing primarily through short channels as they sell intangible products and need to maintain personal relationships within their channels. Not-for-profit institutions (NGO's) also tend to work with short, simple, and direct channels.

**II. Managing and Motivating Channel Members:** For manufacturers intermediaries are first line of customers and partners. They must not be treated as the one through which they sell their product but as partners with which they are involved in the selling process. The firms must practice strong Partner Relationship Management for developing long term partnership with the channel members. This is done with the view point of developing and creating a delivery system that can assist in meeting the needs of both the company and its marketing partners. For proper management of the channel partners, company must convince their channel partners. The only way of succeeding is working together as part of cohesive value delivery system. For example, P&G works in close association with Big Bazaar in planning the merchandising goals, inventory level, promotional programs etc. Many companies have installed integrated high-tech partner relationship management system that can assist in coordinating their whole channel marketing efforts. They have come forward in installing Partnership Relationship Management and Supply Chain Management software that can help in recruiting training, organizing, managing, motivating and evaluating relationship with the channel partners. Another important aspect in channel management is motivating the channel members. The channel members must be motivated as a motivated channel partner have higher turnover than the non-motivated one.

III. **Controlling Channel Conflicts:** Even though the firms take lots of precaution in designing the marketing channel, there can exist some conflicts that may arise due to differences in objectives and perception of channel partners. Firms must undertake surveys of intermediaries or must engage in formal or informal discussion with the channel partners for identifying the reasons and sources of conflict between them. Different types of channel conflicts are as follows:

Horizontal Conflicts: This channel conflict occurs among firms at same level of channel. For example, one dealer of company X complains that other dealer of the same company steals sales from them pricing too low or by advertising outside their assigned area.

Vertical Conflicts: These conflicts occur between different levels of same channel. These types of conflicts are more common. For example, retailers may not be happy with the policies of the company regarding margins. This can lead to rift between the channel partners.

Many a times, conflicts can lead to healthy competition. Such competitions can be good for the channel without which the channel can become passive. But if the channel conflicts get prolonged for a longer time this can disrupt the effectiveness of the channel.

These channel conflicts arise due to various sources. For the sake of understanding we will divide sources of conflict on following basis. ***Difference in Objectives*** (where is firm is looking for a long term relationship and profitability whereas as the intermediaries are eyeing for a short term relationship), ***conflict in catering to customers (*** it happens when firm caters to the need and requirement of large customers and forces middlemen to cater to smaller customers ***)***, ***Clash of interest*** (It happens when a firm feel that middlemen has not given due importance to their total product line and are more interested in selling the products that are fast moving or have high margins. Thus, the interest of the firms and middlemen clash for the own gains), ***Difference in Perception*** (The opinion that a firm has towards a product line and marketing condition may be different from what the intermediaries has. These differences in opinion lead to perception difference thus conflicts), ***Monetary difference (***Manufacturer's representatives (agents) feel that the commission percentage offered by the manufacturer is not adequate. The manufacturer thinks otherwise***)***, ***Unclear Boundaries (***The territory boundaries between middlemen are not clear, resulting in competition among the firm's intermediaries to secure business from the same customers***).*** Managing these channel conflicts is done via following means: Developing effective communication network for developing formal and informal relationship between the company and its channel partners, joint goal setting where all the channel members come to agreement for setting the common goals, using diplomacy as tool for reducing rifts between channel partners, using mediation where a third party tries to conciliate the interest of two parties and arbitration where the third parties decision is binding on both the parties for settling channel conflicts.

IV. **Evaluating Channel Members:** The firms must carry out a continuous evaluation process for measuring the performance of the channel partners. This is done with the aim of checking whether the channel members are functioning in the proper manner or not. Evaluation is done on the basis of pre-set criteria or standards that are set for measuring the performance of channel partner. The performance is measured on the basis of sales quotas, average inventory levels, customer delivery time, treatment of damaged and lost goods, cooperation in company's training and promotion program, and services to the customers. The firms must also reward those channel partners who perform well in performance criteria and the firms who perform poorly in the performance criterion must be assisted in improving their performance or in case they don't improve must be replaced. It is very important that the firms must treat their intermediaries with sensitively and properly.

## 16.5 CONTEMPORARY CHANNEL SCANERIO IN INDIA

After understanding the ways of designing the effective channel of distribution it is very important to understand the present scenario of channel in India. In this section we will deal with current channel scenario in India

1. More and more firms take multi-channel models: With the change in business scenarios and increasing competition firms now-a-days adopt various strategies for catering to customers effectively. Reaching to the different segments of customers using only one single marketing channel is impossible. Thus, the firms must adopt to multiple marketing channel strategy for reaching out larger section of the society. Usage of Multiple channel also helps companies in coping up with the cut-throat competition.
2. Outsourcing of channel arrangements: Most of the firms in present scenario tend to outsource the channel arrangements. Although the philosophy of outsourcing the channel arrangements in not new in our nation. A lot of firms mostly the ones that were smaller in size used to concentrate more on manufacturing and used sole selling agents/ marketers that were usually big distributers for marketing and distribution of goods and services. Firms like Voltas, Spencer etc have been operating in such business for a very long time. With change in time, a new form of arrangement is seen in present situation. In this case the firms are contracting with specialist like air express companies, to operate as their backend marketing channels and logistics service providers.
3. Changes in the front of retailing: There has been a revolutionary change in the field of retailing in India. A new form of multi format retailing has emerged in present time. This format is similar to multi-channel model with the only difference that here the activities are confined to retailing while in other cases it covers the entire channel

structure. After liberalization there has been a huge/substantial growth in Modern format Stores like departmental stores, retail chains, discount stores, hypermarkets and shopping malls.

4. Strengthening of conventional wholesale-retail trade: With the change in time, although the multiformat stores have cemented their place in Indian condition, conventional wholesale retail format is still prevalent in Indian channel scene. Unlike west were the multiformat retail has totally dominated the distribution network, in India it still is in a very nascent stage. Presently the stand-alone wholesalers and retailers are in a very dominating position. With the contrasting situations that are prevalent in rural and urban India, it is quite impossible to imagine a situation where the multiformat retailers can see a massive growth. No doubt they will soon replace the traditional wholesaler and retailer channel in urban India to a very great extent but their success in rural areas is going to be limited in near future.
5. Escalating trade margins and rise in distribution cost: In present business scenarios there has been a rise in trade margins. Earlier the investment in business and infrastructure was low thus the distributers were able to operate at a modest trade margin. But in recent years with the change in technology and rise in competition they are making larger investment. Along with it the running cost of these distribution outfits have seen a rise. Keeping all these factors in mind, distributers now-a-days demand higher compensation than before.
6. Power equation among different channel partners has changed with time. At the beginning when there were few manufacturers the power was in favour of those manufacturers. The people lower in the channel had less say and were give minimal importance. With the change in time, as the number of firms increased and marketing from push concept moved towards the pull concept, baton was transferred from manufacturers to consumers. Since retailers are the closest link in this distribution chain, they started exerting more power than before.
7. In many businesses, the manufacturers do not seem to have the kind of authority or choice they enjoyed in yester years, in selecting distributers. On the contrary, the retailers and distributors have become quite choosy in in terms of selecting the manufactures that they want to represent.
8. Traditional channel with wholesaler retailer arrangement have given space to non-traditional channels like exclusive retailing, franchising etc.
9. With the change in technology and rise in usage of internet, firms have changed the traditional manner of approaching to customers. They have started embracing different forms of direct marketing channels like Mail order marketing or catalogue marketing, direct mail marketing, database marketing, telemarketing, teleshopping and online marketing.

***Check Your Progress- B***

**Q1. What are the different factors that play an important role in selecting marketing channel?**

**Q2. Explain different types of conflicts that may arise in channel of distribution**

**Q3. Discuss in detail how the companies select, motivate and evaluate channel partners**

## 16.6 SUMMARY

Designing a formidable marketing channel is an important task. Firms must take into consideration different aspects while designing the customer channels. Channel design starts with assessing customers' need, objectives and constraints. After that the company identifies major channel alternatives in terms of type, number and responsibilities of channel intermediaries. These alternatives are evaluated on the basis of economic, control and adaptive criteria. Channel management deals with selecting qualified intermediaries and motivating them. Evaluation of channel members must be done on regular basis. This is done to check whether the channel is able to meet the desired objectives or not.

## 16.7 GLOSSARY

**Intensive Distribution:** It is one of the strategy where the firm stock their product in as many outlets as possible. This is done with an idea that the consumers encounter the product virtually everywhere they go.

**Exclusive distribution:** It is an agreement between a supplier and a retailer granting the retailer exclusive rights within a specific geographical area to carry the supplier's product. Often the supplier severely limits the number of products it supplies the retailer as well.

**Selective Distribution**. This is a distribution strategy where firm uses more than one but much less than those in intensive distribution for carrying the company's product.

**Marketing Channel Design**: It is designing an effective marketing channel by analyzing consumers need, setting channel objectives, identifying major channel alternatives and their evaluation.

**Marketing Channel Management**: Marketing channel management deals with selecting, managing and motivating individual channel members and evaluating their performance over time.

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## 16.10 TERMINAL QUESTIONS

Q1- Explain why there is a need of marketing Channels and what are the functions that these channels perform?

Q2- What factors does a cosmetics company need to consider when designing its marketing channel for a new lower priced line of cosmetics?

Q3- Discuss in detail contemporary channel scenarios in India?

# UNIT 17 PROMOTION: CONCEPT AND SIGNIFICANCE

**17.1 Introduction**

**17.2 Objectives**

**17.3 Objectives and Significance of Promotion**

**17.4 Components of Promotion**

**17.5 Summary**

**17.6 Glossary**

**17.7 Answer to Check Your Progress**

**17.8 Reference/ Bibliography**

**17.9 Suggested Readings**

**17.10 Terminal & Model Questions**

## 17.1 INTRODUCTION

Promotion refers to the whole arrangement of exercises, which convey the item, brand or service to the client. The thought is to make individuals mindful, to attract and instigate the consumer to purchase an item over others.

There are a few kinds of promotions. It includes publicizing, press statements, shopper Promotion (plans, rebates), rebates, complimentary gifts, motivator excursions, awards et cetera.

## 17.2 OBJECTIVES

After reading this unit you will be able to:

- Understand the objectives of Promotion.
- Discuss various Components of Promotion.

## 17.3 OBJECTIVES AND SIGNIFICANCE OF PROMOTION

### 17.3.1OBJECTIVES OF PROMOTION

The different objectives of Promotions are:

**Increasing Business**

Advertising promotions are utilized principally to pull in new clients to a business. This should be possible through many campaigns, for example, focused promotional efforts, holding good events, or propelling an online networking rush. The goal is to achieve potential new clients and give them a motivating force to disparage your business.

**Boosting Sales**

When individuals move toward becoming clients of a business, another special advertising objective is to urge them to build their spending. A case of this advertising objective by and by is the utilization of a client's benefit and follows what the client buys and creates coupons for comparable items. In this sense, the target of the advertising strategy is to motivate clients to purchase extra items, or more costly items, than the ones that at first bought them to your business.

**Rehash Business**

The goal of promotional initiatives is to transform one-time clients into repeat clients. This should be possible through gathering client contact data and putting the one-time purchasers on a regular postal mail or email publicizing list. These clients get exceptional offers, early notification of offers, unique advantages, and "two-for-one" offers intended to hold them as a customer.

**Brand Awareness**

To keep oneself before customers and fortify its picture, an independent venture ought to have a promoting goal of building awareness for the brand. This can be refined to some extent by being reliable in all showcasing messages and utilizing reasonably modestly priced items. For example: give-away things such as cooler magnets, ink pens and espresso mugs. Individuals who take these things have a steady message before them, supporting brand attention to the business.

**Launching New Product**

The objective of launching new product is to extend an organization's venture into new markets, while holding its current client base. A cleaning organization that grows its administrations to incorporate jack of all trades to undertake other home repairs. The goal of the advertising promotions is to pull in new clients looking for home repair administrations, while strategically pitching existing clients who as of now utilize the organization for their cleaning needs.


**Fig 17.1 Objectives of Promotions**

## 17.3.2 SIGNIFICANCE OF PROMOTION

The significance of promotion can be demonstrated as follows:

**Offering products in flawed market**

Promotion helps in the selling the products in flawed market. In the flawed economic situations, the item can't be sold effortlessly just based on the differentiation in prices. It is the special action that gives data about the distinctions, qualities and the multiple uses of products. The client is attracted to buy the products based on such data effectively.

**Reducing the gap between producers and customers**

Promotion helps in filling the gap between customers and manufacturers. Because of the intense economic situation, mass sales are unthinkable without proper promotional and marketing campaigns. The separation amongst makers and customers has so enlarged in display days to get them touched with the item that limited time exercises are fundamental.

**Confronting extraordinary rivalry**

Promotions help in confronting extraordinary rivalry in the market place. When a maker expands his advertising spending and follows a strategy which is aggressive to develop its brand, other competitors also follow suit. This leads to a promotional war amongst players. Without promotions, sustaining in the market place becomes tough.

**Vast scales offering**

Promotions helps in the increasing the sales of products and services. Large scale production drives sales promotion as the units have to be sold in bulk so that inventory levels are low. Due to the sheer scale of production, promoting the goods becomes important.

**Increasing the standard of living**

Promotion helps in raising the kind of goods that consumer buys and it also raises the standard of life of the customers by giving the better merchandise at a lower rate because of expansive scale creation and offering. It helps to improve the way of life positively. Individuals can raise their way of life with the assistance of promotional activities.

**Greater work**

Promotions create increased job openings. Individuals can pick up business opportunity with the assistance of promotional campaigns. With the assistance of promotional activity, workforce gets inclined towards work. Promotional campaign expands greater work chances to the general population who are jobless, as the various activities can't be performed without the assistance.

**Increased Bargaining Power**

Promotion increases the bargaining power in the market. The development of extensive network of retailers, for example, general stores, chain stores, and so on has expedited more prominent producers. Special factors are responsible for increasing the bargaining power.

## 17.4 COMPONENTS OF PROMOTION

Promoting items is critical for any business due to the enduring effect promoting has on clients. The promotion mix is the substance of what promoting is and how promoting is done adequately. The different types of promotion mix are: Advertising

- Sales promotion
- Personal selling
- Public relations
- Direct marketing


**Fig 17.2 Components of Promotion**

These devices are utilized to impart client esteem and build client connections influentially. With the right mix of the special mix being utilized adequately, a business will keep on gaining clients and accomplish both short and long-term achievement.

## 17.4.1 ADVERTISING

Advertising is a sound or visual type of showcasing correspondence that utilizes a transparent, non-individual message to sell a service or product. Funding for promotions is frequently done by organizations wishing to promote their products. Advertising is separated from public relations in that in advertising a promoter shells out money for the advertisement and has rights over the piece of information contained in the advertisement. It is different from personal selling because the information is non-individual in nature. Advertising is imparted through different mass media, including customary media, for example, newspapers, radio, Television, etc. and outside publicizing or regular postal mail; and new media, for example, list items, online journals, web-based social networking, sites or instant messages.

Business advertisements frequently look to create expanded consumption of their items or services through branding of the companies or products, which relates an item name or picture with specific characteristics in the psyches of buyers. Non-commercial entities that publicize more than companies are political parties, religious associations and legislative offices. Non-benefit associations may utilize free methods of influence, for example, a free public announcement. Advertising may likewise be utilized to console workers or investors that an organization is suitable or good.

The advantages got from advertising are far too many. It is a standout component amongst the most essential segments of the marketing campaigns.

This is beneficial to producers, merchants, buyers and society in general. The different advantages of advertising are:

**New Product Launch:**

Advertising assumes a significant part in the launch of another item in the market. It encourages the general population to buy the item.

**Increasing the market:**

It empowers the producer to grow his market. It helps in investigating new markets for the item and holding the current markets. It assumes a major role in broadening the market for the producer's items even by communicating with clients living at the far flung and remote zones.

**Increasing Sales:**

Commercial advertisement encourages large scale manufacturing of products and expands the sales volume. Increased sales can be achieved by spending more on advertising. Per unit cost incurred on advertising will gradually reduce as and when more units are sold.

**Fighting Competition:**

Advertising is incredibly useful in meeting and beating the competition hands down in the market place. Constant publicizing is exceptionally important so that the competitor does not eat your product.

**Increases goodwill:**

Advertising is instrumental in expanding the goodwill of a company. It presents the producer and his product to the general population. Repeated publicity and better quality of items brings more name and reputation for the producer and improves goodwill of the company.

**Educating customers:**

Advertising is informative and dynamic in nature. It acquaints the clients with the new items and their different uses and furthermore teaches them about the new uses of existing items.

**Eliminating Middlemen:**

It goes for setting up an immediate connection between the producer and the purchaser and in this way does away with the intermediaries. This helps in increasing the benefits of the producer and the buyer gets the items at reasonable prices.

## 17.4.2 SALES PROMOTION

One of the main components of the promotion mix is Sales Promotion. Sales promotion utilizes the marketing communication of both types – electronic and non-electronic media - for a pre-decided, constrained time to build customer demand, empower demand in the market or enhance product accessibility. For example, free coupons, contest, purchase points, rebates, etc.

Sales promotions can be aimed at the client, sales staff, or retailers. Consumer Sales Promotion is customer focussed sales promotion. Trade Sales Promotion is focussed at whole sellers. Sales promotions which are very unusual by its nature are referred to as gimmicks by people.

Sales promotion incorporates a few communication exercises that aim to give added value or motivation to purchasers, wholesalers, retailers, or other organizational clients to get quick sales. These events can intrigue the customer towards the product, trial, or buy.

Sales promotion is actualized to draw in new clients, to hold existing clients, to neutralize rivalry, and to exploit openings or opportunities that are existing in the market place. It comprises of many inside and outside exercises aimed at improving the sales of the organization. Outside sales promotion exercises involves publicity, special events, etc. Inside/

Indoor sales promotion exercises involves window presentations, material display for products, promotional programs such as premium awards, etc.

Sales promotions more often come as rebates. Rebates affect the way purchasers think and act when shopping. The kind of funds and its location can influence the way customers see an item and influence their buying decision. The two most regular rebates are price discounts and bonus products. Price rebates are the decrease in the price of a product by a certain percentage, while bonus products are when the customer pays for the price of one product and ends up getting two for the same price. Many organizations show diverse types of rebates in promotions, planning to persuade buyers to purchase their items.

1. It inculcates in the buyers a state of mind towards the product.

2. It creates incentive in the minds of the buyers to end up buying the product. It in turn creates demand.

3. It directly aims at inducing the purchasers to make quick move.

4. It is adaptable. It can be utilized at any phase of another product introduction.

5. Sales promotion prompts low unit-cost, because of substantial scale creation and vast scale offering.

6. It is a successful supporter of sales. It supplements the salesman and helps him become more profitable for himself and the company.

7. The promotional devices are the best tool to expand the sales volume.

***Check Your Progress- A***

**Q1. Which amongst the following is not an objective of Promotion?**

a) Increasing business
b) Boosting Sales
c) Brand Awareness
d) Boosting Employment

**Q2. Which of the following does not signify the importance of promotion?**

a) Reducing the gap between producers and consumers
b) Vast scales offering

c) Increasing the standard of living

d) Greater work-life balance

**Q3. Giving short-term benefits for encouraging the sale of product in a market is termed as:**

a) Sales Promotion

b) Personal Selling

c) Public Relations

d) Advertising

**Q4. In the process of building image of a company, handling events and stories which are unfavorable to gain publicity is called:**

a) Sales Promotion

b) Personal Selling

c) Public Relations

d) Advertising

**Q5. The right mix of the different components of Promotion which leads to increase in customer value is called:**

a) Promotion mix

b) Marketing communication mix

c) Strategic buyer behavior mix

d) Both a and b

## 17.4.3 PERSONAL SELLING

Personal selling happens when a sales delegate meets with a potential customer to transact a deal. Numerous sales agents depend on a consecutive sales process that ordinarily incorporates nine stages. A few sales delegates create contents for all or part of the sales procedure. The sales procedure can be used as a part telemarketing or face to face communication.

Selling can happen in numerous kinds of circumstances. Field delegates approach customers, who are commonly business customers; door to door sales people approaching households, sales staff may work in a retail or wholesale conditions where sales faculty take care of clients by handling requests or sales may happen in a telemarketing situation where the sales individual makes phone calls to prospects. As far as number of transactions are concerned, most sales happen at the retail level; but value wise, most sales happens at B2B level, i.e. business-to-business level.

There are distinctive roles that a salesman undertakes:

- Selling that happens principally at the wholesale or retail levels are called as Order takers. They merely take the orders after deciding the client needs, indicating stock that meets the client needs and finishing the order.
- On the field sales movement where a sales delegate goes to the customer's home or work place to makes a sales pitch keeping in mind the end goal to win new business or to keep up relations with existing clients.
- Sales support part is often referred to as Missionary selling. The missionary sales individual distributes data about services or products, explains item qualities and leaves materials however does not typically bring the deal to a close. The preacher sales individual regularly readies the path for a field sales individual. For instance, a pharmaceutical sales delegate may approach specialists and leave samples, after-effects of clinical trials, relevant journal articles and so on with an end goal to induce specialists to recommend a drug or course of treatment.
- When a sales agent phones or visits a client without an earlier arrangement is called Cold calling. It is frequently thought to be the most difficult of the sales exercises. In a cool calling circumstance, the sales delegate is probably going to be more aware of the customer's time availability and may look to consolidate the sales procedure by joining the approach and the sales introduction into one step.
- The practice of maintaining a long lasting relationship with the client so that the sales person can get repeat orders from one client is called Relationship selling. Relationship selling regularly includes a critical thinking approach where the sales agent acts in a consultative partner and turns into an accomplice in the customer's critical thinking exercise and comes up with a solution to the problem of the client.

The main content to the various steps in the process of selling propounded in 1918 by Norval Watkins. The basic steps are as follows:

- Prospecting– One of the key elements in a sales process is identification of prospects. Identifying prospects or prospecting happens when the sales individual looks to distinguish leads or prospects (i.e., individuals who are probably going to be in the market for the offer). To distinguish prospects, sales agents may utilize an assortment of sources, for example, professional resources (for corporate customers), business databases or mailing records or basically just browse the internal records, for example, clients who have already left the company. Prospecting aims at improving the probability that sales staff invest energy with potential customers who have an enthusiasm for the service or the product.

- Qualifying leads– After recognizing potential clients, the sales group must decide if prospects speak to real potential clients. This piece of the procedure is known as qualifying leads/ leads who are probably going to purchase. Qualified leads are the individuals who have a requirement for the item, an ability to pay and an eagerness to pay for the item and will be reached by the salesperson.
- Pre-approach– Refers to the way toward getting ready for the introduction. This comprises of market research, establishing the objective, planning and some other tasks important to get ready for the sales introduction.
- Approach– Refers to the phase when the salesperson at first meets with the client. Since first contact leaves an impact on the purchaser, proficient conduct, including clothing, a handshake, and eye to eye connection, is advised.
- Need assessment– A critical part of the sales presentation is the evaluation of the client's needs. Salespeople ought to assess the client in view of the requirement for the product. Sales agents ordinarily make inquiries intended to uncover the planned customer's present situation, the origin of any issues, the effect of the issues, the advantages of the solution, the customer's earlier experience with the brand, the prospect's general level of curiosity and status to purchase.
- Sales presentation– A salesperson is ready for the presentation once he has ascertained the needs of the client. The objective of a presentation is to grab the attention of the customer, flame the interest, desire creation and initiating the action to buy the product.
- Taking care of objections– The salesperson must be prepared to deal with any protests. Clients who are intrigued will voice their worries, often in one of four ways. They may scrutinize the cost or estimation of the product, expel the product/service as insufficient, abstain from making a promise to purchase, or deny due to unknown factors. Salespeople ought to do their best to envision complaints and consciously react to them.
- Closing– When the sales individual feels that the prospect is prepared, they will look to pick up responsibility and close the deal. If the sales individual is uncertain about the prospect's availability to purchase, they should weigh the other alternatives.

- Follow-up – The salesperson must make sure to catch up after the deal has been closed. Following up will guarantee consumer loyalty and assist build up an association with the client.

The different advantages of personal selling are:

- Less inefficient correspondence: In personal selling, the salesperson can search out and pinpoint great prospects for the product. The salesperson can utilize the correspondence effectively to portray the great prospects of the product.
- Encourages product showcasing: Personal selling permits the showing of the product and different visuals. Purchasers indicate interests when items are exhibited in the actual set-up in their homes.
- Gives two-way correspondence: Personal selling depends on the two-way correspondence process. The salesperson can meet purchaser's queries and answer all inquiries raised by the purchaser on the item, its traits, uses and terms and state of the deal.
- Influence: Personal selling can accomplish the most astounding level of influence. The salesperson might have the capacity to visit the prospect a few times with a specific end goal to pursue sales.
- Benefit from social drives of purchasers: The salesperson may create social association with the prospects and stimulate one of their social drives – self-image, fear, love, loathe, status and eminence - and execute the deal.
- Bringing the deal to a close: The salesperson can pursue the deal and try the close the deal.

## 17.4.4 PUBLIC RELATION

Organizations can't survive in confinement they need a consistent cooperation with clients, workers and distinctive partners. This connection can be maintained by having a good public relation. The real work area of public relation office is to deal with official statements, bolster product exposure, make and keep up the corporate image, handle matters with administrators, direct administration for public issues.

Organizations are looking at approaches to join with elements of public relations and marketing in order to market public relations. The immediate obligation of Marketing Public Relation (MPR) is to help corporate and product branding initiatives.

MPR is a productive way in building awareness by creating stories in media. Once the story is available for use MPR can set up believability and make a feeling of conundrum among sales representatives and in addition merchants to increase enthusiasm.

**Media Relations**

Media strategies center around sending messages through media channels to oversee how your business is depicted by the media. Your media instruments may incorporate discharging media proclamations and fact sheets, offering media people visits to urge writers to report positive messages about your business, and utilizing online networking to get the consideration of columnists and track columnists who report in your market.

By growing great media contacts and building associations with key columnists to pitch media releases and thoughts to, you can utilize neighborhood, provincial or state media to:

- promote your business
- manage uncertainties, issues or emergencies influencing your business.

**Advertorials**

Advertorials are ads as news stories or reviews in daily papers. Advertorials enable you to connect your advertising of the daily newspaper.

Numerous organizations utilize promoting or showcasing experts to enable them to create TV advertorials - which are normally utilized as a type of product placement and advertising.

**Online networking**

Online networking gives you a chance to sidestep the media and go straight to your clients. Utilizing person to person communication platforms, for example, Facebook and Twitter enables you to follow and be trailed by columnists, drive web movement, oversee issues by reacting rapidly to reactions or pessimistic perceptions.

**Newsletters**

Print or messaged newsletters are a decent method to advance your business, speak with clients and keep them educated of new services and products.

Normal newsletters can fortify your own associations with clients and mirror your business image and identity. An elegantly composed bulletin offers data of significant worth to your clients.

**Catalogues and Brochures**

'Bring home' or mail-out catalogues and brochures can help keep your clients considering your business and its services and products.

Appropriately outlined catalogues and brochures give clients trust in you and your image and help drive clients to your site or store. Data contained in business handouts and lists can be adequately adjusted for your website, helping you work together online.

**Business events**

Events are open doors for agents to pick up exposure for their organizations, advance new services or products and ensure exact data comes to focused clients.

From a business perspective, events are an opportunity to counter client questions and build the confidence of customers. They can likewise enable you to investigate your market and rivals and construct your mailing list. Ensure you go to the event equipped with showcasing materials to distribute and an approach to gather data and client preferences.

Trade events are an open door for organizations to contend in their industry and offer data with individuals in similar professions.

**Speaking engagements**

Talking at occasions where clients are probably going to go to helps position you as a pioneer or trailblazer in your field. As an entrepreneur or pioneer, constructing your reputation for being a specialist likewise assembles the reputation of your business - and draws new clients.

Events are significant special open doors regardless of whether you don't have top positioning as a speaker. You will increase the reputation basically by having your business name or logo on the event posting or conveying a presentation about a product or service. These types of engagements also provide opportunities to network with people in similar functional areas.

**Sponsorships or associations**

Associations and sponsorships are useful for business. Supporting a not-for-profit initiative can help build sentiments of loyalty and goodwill towards the business. Associations can enable buyers to recognize your image with great business practice and great morals.

**Relationship with employees**

Your staff are brand ambassadors for your business and brand. Numerous bigger organizations build their business culture and group connections by sharing data, enhance involvement and ingraining a feeling of pride in business accomplishment. This can enhance collaboration, staff maintenance and profitability, and guarantee that staff are representing your business reliably and with the correct messages.

## *Check Your Progress- B*

**Q1. Define the life cycle of a business.**

**Q2. State the importance of salesman in a business.**

**Q3. State, any three, impact of advertising on the Indian society.**

**Q4. State the different Components of Promotion.**

**Q5. List, any two, objectives of Promotion.**

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## 17.4.5 DIRECT MARKETING

The type of publicizing where associations interact straightforwardly to customers through media including email, sites, online adverts, database promoting, fliers and focused on TV, daily paper and magazine commercials and outdoor publicizing is called Direct Marketing. Among experts, it is otherwise called direct response.

**Advantages of direct marketing**

Numerous advertisers use and are attracted to Direct Marketing since its positive outcomes can be estimated straightforwardly. For instance, if an advertiser sends 1,000 requests via mail and 100 react to the it, the advertiser can state with certainty that crusade generated straightforwardly 10% direct reactions. This metric is known as the 'response rate,' and it is one of numerous obviously quantifiable achievement measurements utilized by direct advertisers. Interestingly, general marketing utilizes indirect estimations, for example, mindfulness or engagement, since there is no immediate reaction from a customer. Estimation of results is a crucial component in effective direct marketing.

One of the other huge advantages of Direct Marketing is, it empowers promoting services or products that might not be a solid brand. Services or products with a sound incentive, coordinated with an appealing offer, bolstered with effective correspondence, conveyed through a reasonable direct advertising channel and focusing on the pertinent client segment can bring about an extremely successful cost of procurement though the brand may be little known. With respect to different channels of distribution, Direct Marketing mainly depends on the offer, correspondence, decision of channel and the target audience thus less reliant on the brand quality.

The Internet has made it less demanding for promoting managers to gauge the consequences of a campaign. This is frequently accomplished by utilizing a site greeting page straightforwardly identifying with the advertising material. An invitation to act will request that the client visit the greeting page, and the viability of the campaign can be estimated by taking the quantity of special messages circulated and dividing it by quantity of reactions. Another approach to gauge the outcomes is to think about the anticipated deals or produced leads for a given term with the real deals or leads after an immediate publicizing effort.

**Difficulties and Solutions**

While numerous advertisers perceive the money related advantages of increasing the awareness of the target audience, some immediate promoting endeavours utilizing specific media have been widely criticized for producing low quality leads, either because of poor message methodology or considering inadequately gathered statistic databases. This represents an issue for advertisers and purchasers alike, as sponsors don't wish to squander cash on speaking with shoppers not keen on their items.

Accomplishment of any Direct Marketing effort, as far as number of times the coveted reaction may shift between the best versus bad depends on:

- better target setting of the audience
- Offer (best offer may yield much more reactions, as against the bad offer)
- Timing (best timing for the campaign may yield much more reaction, as against bad timing)
- Ease of reaction (best/numerous courses offered to react may yield much more reaction, as against not cordial reaction instruments)
- Creativity (most inventive messaging may yield much more reaction, when contrasted with the minimum imaginative messaging)
- Employing media: The medium used to convey a message can significantly affect reactions. It is hard to really customize a radio message. One can even endeavour to send a customized message through email or instant message, yet an amazing post office-based mail envelope and letter will regularly have a superior possibility of producing a reaction in this situation.

Picking the best of all the above parameters may yield up much more reaction, when contrasted with picking the most exceedingly terrible of the above parameters. Tending to these mitigates the worries of the advertisers.

Some of these worries have been tended to by coordinate advertisers by the utilization of individual records, variable printing, and better-focused on list hones. Moreover, keeping in mind the end goal to stay away from undesirable mailings, individuals from the promoting business have set up inclination benefits that give clients more control over the showcasing interchanges they get via the post office.

Buyers have communicated worries about the security and natural ramifications of direct marketing. In light of buyer request and expanding business strain to build the adequacy of achieving the correct client with direct marketing, organizations work in focused direct promoting to awesome impact, decreasing the wastage of publicity budget and expanding the viability of conveying an advertising message with better geo-demography data, conveying the promoting message to just the clients keen on the item, administration, or occasion on offer.

## 17.5 SUMMARY

The promotion mix is a basic component for the achievement of a business since all organizations normally need to produce more income by developing and advancing their business. Utilizing the various promotional tools can help organizations gain extra customers and urge them to return through the arrangement of brilliant administration.

## 17.6 GLOSSARY

**Advertising:** Advertising is a sound or visual type of showcasing correspondence that utilizes a transparent, non-individual message to sell a service or product.

**Sales Promotion:** Sales promotion utilizes the marketing communication of both types – electronic and non-electronic media for promoting sales in an organization.

**Personal Selling:** Personal selling happens when a sales delegate meets with a potential customer to transact a deal.

**Direct Marketing:** The type of publicizing where associations interact straightforwardly to customers through media including email, sites, online adverts, database promoting, fliers and focused on TV, daily paper and magazine commercials and outdoor publicizing is called Direct Marketing.

## 17.7 ANSWERS TO CHECK YOUR PROGRESS

**Check Your Progress –A**

**Ans:**
**1. d**
**2. d**
**3.a,**
**4.c,**
**5.d**

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## 17.9 SUGGESTED READINGS


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## 17.10 TERMINAL QUESTIONS

Q1. Discuss the different objectives of Promotion.

Q2. Discuss the significance of promotion in the life cycle of a business.

Q3. Discuss the different Components of Promotion and its role in today's business scenario.

Q4. Critically examine the impact of advertising on the Indian society.

Q5. Elaborate on the different roles that a salesman undertakes in Personal Selling.

# Block IV
# Promotion Mix and Sales Promotion

# UNIT 18 PROMOTION MIX

**18.1 Introduction**
**18.2 Objectives**
**18.3 Promotion as a Communication Process**
**18.4 Planning the Promotion Strategy**
**18.5 Promotion Mix**
**18.6 Determinants Of Promotion Mix**
**18.7 Summary**
**18.8 Glossary**
**18.9 Answers To Check Your Progress**
**18.10 References/ Bibliography**
**18.11 Suggested Readings**
**18.12 Terminal & Model Questions**

## 18.1 INTRODUCTION

In the first block, we introduced you to the concept of marketing and its evolution over the years. We discussed how the events in the environment impact a marketer's fortunes. We discussed the application of the marketing concepts of segmentation, targeting, positioning and differentiation. The sequence of behaviours displayed by a customer while making a purchase as well as the factors influencing his purchase decision were discussed. We also learnt about the stages through which a product transitions from its introduction in the market to its extinction. Thereafter, we proceeded to discuss the Marketing Ps- product, price and place.

In the last unit, you were introduced to the fourth P- promotion- and light was shed on its role and significance in marketing. The current block is intended for a comprehensive study of this very element of the marketing mix. Promotion is the activity through which the target markets are informed about the marketer's offerings and persuaded to try them. In the current unit, we shall delve a little deeper to understand how the marketers plan their overall promotion strategy as well as the mix of promotion elements within it with the aim of realising their marketing objectives. We shall also do an analysis of the various promotion-mix elements to make an assessment of their comparative strengths and weaknesses. We shall also be supplementing the discussion with case studies & corporate examples. The subsequent units shall build on this discussion and take up some of the elements of the promotion mix for detailed deliberation.

## 18.2 OBJECTIVES

After reading this unit, you will be able to:

- Describe the steps involved in planning the promotion strategy.
- List the commonly used elements of promotion mix and their unique features.
- Compare the relative strengths & weaknesses of different elements of promotion mix.
- Appreciate the importance of a co-ordinated application of various promotion mix elements.
- Quote corporate examples of use of promotion mix by marketers.

## 18.3 PROMOTION AS A COMMUNICATION PROCESS

Promotion can be thought of as a communication process. Have you read about the communication process in some other course? Following is a depiction of the widely accepted model of communication process.

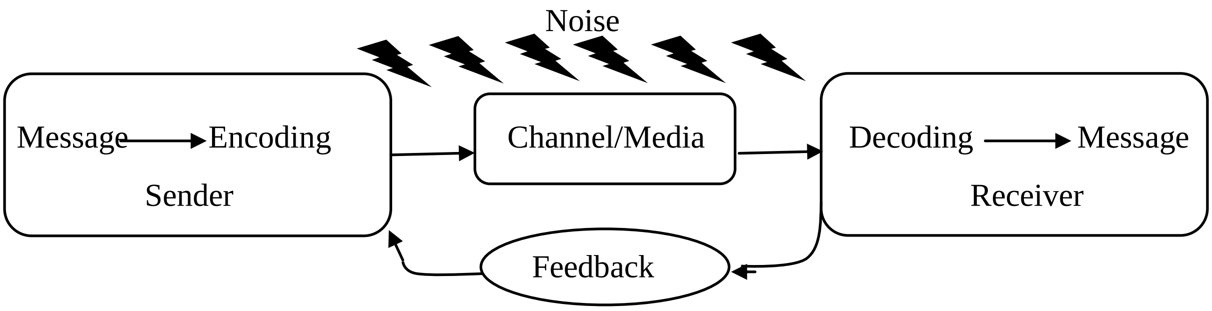


**Figure 18.1: Communication Model**

You can see that the communication process starts with the sender encoding its message and transmitting it through a media to the intended receiver. The receiver receives the message and decodes it to be able to comprehend it. An appropriate feedback confirms to the sender that the message has been understood by the receiver as desired. An inappropriate feedback, on the other hand, points to some error in the communication process. Noise refers to any hindrance that mars the effectiveness of the communication process.

The same model can be used to describe how the companies promote their offerings in their target markets. The marketers (sender) send promotional messages intended for their target markets. These messages can be encoded as advertisements, sales pitches etc.

For instance, a marketer (sender) may want to inform the target markets (receiver) regarding its upcoming launch of an 'affordable' family car priced much below any other competitor (message). He may encode this message in the form of an advertisement to be showed on television (media). The target market (receiver) shall receive the advertisement (message), decode it and emit a response (feedback) based on its comprehension of the advertisement. This response may be in the form of purchasing the car, enquiring about it or recommending it to others. Such responses act as feedback to the marketer (sender) that the message has been received and understood (decoded) by the target market exactly as he desired.

However, it may so happen that because of some error (noise) creeping in the communication process, the advertisement (message) is not clearly understood (decoded) by the target market (receiver). For example, the target market (receiver) may perceive (decode) the advertisement (message) to be showing the car as a 'cheap'- rather than 'affordable'- product and therefore of inferior quality. The response emitted (feedback) in this case would be neither to purchase it nor to enquire about it, which would result into no pick-up in sales. This again would be a feedback to the marketer that the advertisement (message) has not been understood (decoded) by the target market (receiver) owing to erroneous message transmission (noise). The marketer then has to take some corrective action.

Would you be surprised to know that this actually happened with a business firm? Can you guess? Tata Motors, it was! They wanted to promote their 'Nano' as an affordable car. Unfortunately, the target market perceived it as 'cheap' and the sales could never zoom up.

So, you understand now that promotion is a two-way communication process between the marketer (sender) and his target market (receiver). This is the reason why Robert Lauterborn proposed the term 'customer communication' as an equivalent of 'promotion.'

## 18.4 PLANNING THE PROMOTION STRATEGY

Let's now discuss how marketers plan their promotion strategy and decide on the mix of promotion elements to be unleashed in the market place. The design of a promotion strategy entails a number of steps as documented below.

### 18.4.1 IDENTIFYING TARGET AUDIENCE

The first and foremost task of the marketer is to identify and clearly define his target audience. The target audience may be the current users of the company's products who need to be assured about the quality of their purchase so that they continue patronising the company and don't switch to rival marketers. Potential buyers, who need to be persuaded to try the marketer's offerings, may also be the target.

Many times, the buying decisions are not made by the buyer himself and somebody else decides for him. Think of your mother asking you to bring edible oil from the market. You may be making the purchase but the decision regarding the brand to be bought is made by your mom. In such cases, it would make sense to target the deciders rather than the buyers.

Many a times, individuals are not the sole target audience. Business buyers generally form purchase committees tasked with comparing the different supplier-offers and deciding which supplier to place order with. So, marketers serving the business markets focus on these buying committees as their target audience and their salespersons tune their message to appeal to this group.

On other occasions, the marketer may wish to target the general public with the objective to enhance the firm's goodwill in the market. 'Airtel' sponsors sports events like marathons with the aim to boost its image and to get the general public talking about it.

Once, the target audience has been identified, it is also required to assess the target audience's awareness of and attitude towards the company's offerings. The marketer can administer awareness and attitude measurement scales to a representative sample of his target audience to obtain this information. This assessment would act as the input for the following step.

## 18.4.2 DETERMINING OBJECTIVES

Once the target audience is identified, the marketer has to decide the objectives of his promotion strategy. If the target audience scores low on the awareness scale, the marketer has to build awareness about his offerings.

Let's take example of the mobile advertising company 'Jana' which has had a pan-India launch a few years back. Users of its mobile app 'mCent' earn free mobile data for trying out other sponsored apps listed on it. The sponsor pays for the free data given to the users and also pays a commission to Jana and obtains user-downloads in return.

Here, the endeavour of the marketers would be to ensure that the target audience knows that Jana provides free internet access to customers. This may be done by erecting roadside billboards on intersections prominently displaying the brand name and logo. Jana may also sponsor some highly popular sports events.

The target audience may only be superficially aware about Jana. They may not have a thorough understanding of the services offered by it. In this case, the marketing task would be to enhance target audience's knowledge about its offerings. This can be done using mobile-advertisements and bulk e-mail pitches describing the firm's offerings in details.

If the target audience is aware and also has good knowledge about the firms and its offerings, the marketer's task would be to find out the audience's affective (emotional) response to them- whether the target audience likes them and is favourably disposed towards them. If the audience has an unfavourable attitude towards the marketer's offerings, the marketer's endeavour would be to unearth the reasons for it and change its attitude. Jana can do this through frequent media briefings and press releases to obtain sustained newspaper & electronic media coverage showing it in good light.

The target audience may like Jana and have a favourable attitude towards it but it may as well have favourable attitude towards other rival firms in the market also. It is required of the marketer to create conditions for the target audience to not only like but also prefer his firm's offerings over those by other rival marketers. The marketer may use comparative advertising to show how his offering scores over other rivals in the market by highlighting its quality, performance & other attributes. Jana may tell the customers about the free data it provides them for downloading the mobile apps from its online app-store.

The target audience needs to be further convinced about the superiority of marketer's offerings to convert its liking into actual purchase action. Testimonials by satisfied customers can build this conviction among the target audience regarding a firm's offerings. Satisfied customers, by themselves, may also spread a good word of mouth about the firm's offerings building up the conviction in prospective customers. Jana can use either of these to build conviction among its target audience.

Finally, target audience may still dither from the final purchase action despite having a strong conviction about marketer's offerings. It may wait to obtain some additional information or in expectation of a better offer from some other marketer. The marketer's task is to make the target audience advance its purchase action. He may offer free trials or early bird discounts for the first few customers. Jana may announce lucky draw contests for the target audience enticing it to try out its offerings in anticipation of surprise gifts.

Thus, a marketer has to determine the objectives sought to be achieved by him as they shall, in turn, help decide the contours of his promotion strategy.

It may so happen that the marketer might have his sights on more than one objective. Some members of the target audience may be favourably disposed towards the Jana offerings while the others may only be aware about it, without having a clear idea about its attributes. In such cases, the promotion strategy has to be developed to realise the twin objectives of building conviction and inducing purchase action from the former and imparting knowledge to the latter.

Lastly, the objectives should be stated clearly & unambiguously. Jana may decide that the objective of its promotion strategy would be to 'increase awareness about mCent among smartphone users in the 15-55 age group in India to 70% within 6 months.'

## 18.4.3 MESSAGE DESIGNING

Once the marketer has a clear idea of the objectives to be achieved, the task of designing the promotional message follows.

### 18.4.3.1 Message Content

The content of the message includes the basic theme highlighted in the message. The marketer has to select the idea that shall form the crux of his promotional message.

The marketer also has to decide the message's core appeal- whether rational, emotional or moral.

Rational appeals highlight the benefits of the product in terms of its quality, performance and economy. Such appeals work best for those products which offer a superior customer value than the rivals. Rational appeals are also useful when the target audience has the expertise to evaluate the marketer's offerings. They are frequently used in business markets and for technology products. An automobile firm's brochure highlighting the fuel efficiency and engine power is using rational appeal.

Emotional appeals stir up emotions in the target audience. They can be both positive and negative. A marketer of edible oil using the tagline '*maa ke haath ka khana*' is a good example of positive emotional appeal. Negative emotional appeals like shame and fear are used to promote perfumes and discourage smoking respectively. Emotional appeals work best where the marketer doesn't have the option of differentiating his offering from those of the rivals solely on the basis of its attributes.

Moral appeals are directed to the target audience's value systems and its sense of right and wrong. The recently unveiled government sponsored advertisement campaign exhorting the countrymen to 'pay taxes & contribute to nation-building' is a fitting example.

#### 18.4.3.2 Message Structure

Message structure refers to how the message has been organised. The same message content can be organised in different ways.

It has been found that one-sided arguments, which only mention the positive features in the marketer's offerings, work best when the target audience is less informed and lacks the expertise to make its own quality assessments. Also, in such cases, it is always beneficial to begin with the strongest argument first.

If the target audience has considerable expertise or has an unfavourable attitude towards the marketer's offerings, it is better to present a two-sided argument. A two-sided argument also presents the shortcomings of the marketer's offerings apart from its strengths. In such a case, it would be better to first state the shortcomings in a subtle manner before moving over to increasingly stronger arguments in favour of the marketer's offering.

#### 18.4.3.3 Message Format

Format is the look and feel of the message. This is determined by the headline, illustration and colour scheme if the message is being transmitted in form of print advertisements, direct mails or company catalogues & brochures. The format elements of a radio message include the voice quality and inflection points. For messages carried in person or on television, dressing, gesture and posture and facial expressions are the important format elements. Colour, odour and shape are format elements for messages carried on the product or packaging.

#### 18.4.3.4 Message Source

The one who delivers the message is called the message source. 'Big B' advocating toilet use in the *Swatch Bharat Abhiyaan* ad-campaigns is one example. Attractive sources are more capable of catching the attention of the target audience. Marketers should be careful to choose a source whose image is congruent with their offerings. Do you now understand why Yuvraj Singh promotes 'Revital' while Rahul Dravid promotes insurance products?

It adds to the message credibility if the source is perceived to be trustworthy and possessing expertise with regard to the product that is being promoted. This is why Kangana Ranaut, the Bollywood actress, is seen promoting beauty products and not sports-bikes.

## 18.4.4 CHANNEL SELECTION

The next marketing task is to identify suitable channels for transmitting the message to the target audience. The marketer may use personal and non-personal channels to take the message to the target audience.

### 18.4.4.1 Personal Channels

These channels involve two or more persons interacting directly with each other. Such interaction takes place between the marketer or somebody on his behalf and the target audience. This interaction may be face-to- face, over telephone or through e-mails etc. Examples include a salesperson making his presentation, live product demonstrations, promotional phone calls or e-mail messages.

Personal channels may be classified into advocate, expert and social channels.

Advocate channels are those sponsored by the marketer to carry the message to the target audience. Salespersons fall in this category.

Expert channels are independent entities who interact with the target audience. They may review the marketer’s offerings and share their experience with the target audience advising it on whether or not to make the purchase.

Social channels include friends, family members, neighbour, colleagues and other people associated with the target audience. A satisfied customer who convinces the other members of the target audience- his friends & relatives- to try out the marketer’s offerings is an example of social channel in action.

You would be wondering how a marketer can cultivate expert and social channels to transmit favourable messages regarding his offerings to the target audience. The marketer has the following options-

- Get the expert channels to try his offerings and share experience with others.
- Spot opinion-leaders among the target audience. Opinion leaders are those individuals in a group who greatly influence the product choices of their fellow group members. The promotion strategy used by Asian Paints provides a good template for this. To sell its ‘*Utsav*’ brand of paints in a village, Asian Paints would offer to paint the village *gram-pradhan’s* house for free. The expectation was that if he could be satisfied with the paint quality, he would convince others- those seeking his advice- to also buy the same brand.
- Request satisfied customers to refer marketer’s offerings to fellow members of the target audience, thus utilising them as social channels.
- Provide forums for the target audience to interact. Hotel aggregator sites like ‘goibibo.com’ request customers to share their reviews for fellow customers to consider before booking a hotel room.

Please note that personal channels have substantial influence on target audience. Among the personal channels, the social and expert channels are the most influential.

#### 18.4.4.2 Non-Personal Channels

Non-personal channels include print media (newspaper, magazines), broadcast media (TV, radio), network media (telephone, mobile), electronic media (websites, compact discs) and display media (billboards, posters etc.)

Events- like press briefings, public launches, customer-meets, sponsored sports and entertainment shows- designed to communicate particular messages to the target audience also constitute non-personal channels. Google hosts 'Developer Days' (app-developer meets) while Microsoft organises 'hackathons' (hacking events). Automobile firms host customer meets. Maruti Suzuki sponsors car-rallies.

Marketers may also use atmospherics like the décor of their office premises, retail outlets etc. for message transmission. Many private sector banks now prescribe uniforms for their branch-staff to underline their 'professionalism' to the target audience. Premium hotel chains prominently display famous works of art as tangible signs of 'luxury.'

## 18.4.5 DETERMINING PROMOTION BUDGET

Marketers also have to determine their promotion expenditure for which they can take recourse to any of the methods described below.

#### 18.4.5.1 Affordable Method

Many of the marketers keep it simple by deciding their expenditure based on what they can afford. This is indeed the easiest and least time consuming of all the methods.

However, this would cause the promotion budget of a firm to swing widely with its earnings making it difficult to plan for the longer term. More importantly, this approach to deciding the promotion budget goes against the market logic- newcomer firms can't afford to spend too much though they need to spend heavily in promotional activities to get a foothold in the market. On the other hand, the established firms can do without heavy promotion expenditure though they might easily afford it.

#### 18.4.5.2 Percentage-Of-Sales Method

Many marketers believe in setting the promotion expenditure at a specified percentage of sales earnings. It is a simple and easy method of fixing the expenditure.

However, this method also suffers from the same defects. Long term promotion planning is not possible. The marketer also doesn't have the flexibility to adopt counter-cyclical promotion strategies. Marketers need to intensify promotional activities when the customers have less disposable incomes owing to economic slowdown. But, since the marketer's sales volumes also decline owing to this slowdown, he is unable to spend higher sums on promotion.

### 18.4.5.3 Competitive-Parity Method

Another subjective method is to decide your promotion budget based on what the competitors are spending. The assumption is that the competitors must be having a sound basis for deciding their own budget and so it makes sense to anchor one's promotional spending to that of one's competitors.

This method shall not work if the marketer has widely different resource capabilities or recognition & goodwill among the target audience when compared to the competitors.

### 18.4.5.4 Historical Record Method

Some marketers simply believe in taking the last year's promotional figures and adding a mark-up to account for inflation. This method is again popular for its ease of use. However, marketing environment may vary significantly from year-to-year necessitating changes in promotion strategies and budgets. For instance, the competitive intensity may increase making it incumbent on the marketer to spend significantly higher sums on promotion.

### 18.4.5.5 Objective & Task Method

Under this method, marketers have to determine their promotion objectives (to gain a 20% market share in Uttarakhand state) and the tasks that need to be executed to realise them (10 television advertisements per day for 300 days in a year and 1, 00,000 telephonic sales-calls annually). Then they have to ascertain the cost of performing each of these tasks (Rs. 2000 per advertisement and Rs. 3 per telephonic call) before aggregating all such costs (Rs. 2000 X 10 X 300 for television advertisements + Rs. 3 X 1,00,000 for tele-calling) to arrive at the expected promotion expenditure (Rs. 60,00,000 + Rs. 3,00,000 = Rs. 63,00,000 annually.)

This is the most objective of all the methods but demands considerable efforts on the part of the marketers.

### 18.4.6 Deciding Promotion Mix

Once the promotion budget has been decided, the marketer has to allocate it among the different elements of the promotion mix- advertising, sales promotion, direct marketing, public relations and personal selling.

All these elements of the promotion mix have different attributes and entail different costs. They are suited to different marketing situations. No single element is suitable for all marketing situations and an eclectic mix of all the elements best serves the promotion objectives. In the next section, we shall do a comprehensive analysis of the comparative strengths of these elements. We shall also discuss the different marketing situations which suit each of the promotion mix elements.

The marketer has to however bear one thing in mind- the messages emanating from all these promotion elements should be consistent with one another and project the same image to the target audience. This can be done by developing a comprehensive promotion plan which utilises all the promotion elements in a coordinated fashion and emits the same message at every possible customer touch point. This is known as Integrated Marketing Communication.

However, it is more easily said than done. The following case study exemplifies why.

Maruti Suzuki India Limited, now owned by the Suzuki Motor Corporation, Japan originally started as a joint venture between it and the Indian government with the objective to bring small cars to the country. It built a large network of dealers across the country through which it sold a range of affordable cars to the growing middle class population in India. Its iconic ‘Maruti-800’ was targeted at the first time buyer segment. MSIL added to its product portfolio by bringing successful brands like Omni, Zen, Esteem, Baleno, WagonR & Alto. All these brands were meant for the same upwardly mobile middle class customers and cost around 4-5 lakhs. These launches helped it to become the market leader in the Indian passenger car market.

Gradually, as it solidified its position at the top, it aspired to simultaneously cater to the higher class customers also. Launches of SX4, Kizashi, S-Cross & Vitara Brezza followed. But they could not achieve immediate success. What was missing?

The advertisement-campaign for these new additions to the portfolio positioned them as premium models. And rightly so. These new offerings oozed luxury to pamper to the richer sections. Maruti Suzuki had a reputation for quality and enjoyed a certain goodwill owing to it having served the market for almost three decades without as much as a blemish. The campaigns were successful in drawing the target audience to the dealerships also. But surprisingly enough, sales could not pick up. Can you guess why?

Imagine some big-shot earning in the range of a crore rupees every year planning to buy a Vitara Brezza. He might be working for a top notch firm or may be a top bureaucrat. For him, air-conditioned environment is a necessity and not a luxury! He is accustomed to being pampered by the hosts whenever he stays in a hotel. He is offered premium wines as ‘welcome drinks’ when he dines in a restaurant. And when he visits the Maruti Suzuki dealerships, he has to make do with only a glass of water because the salesmen have been trained to offer water to the prospects. The salesman may request him to wait in the guest-lounge for he might be busy with another customer. In the guest lounge, to give him company, is a boisterous family excited at buying its first car. Though the advertisements harped at the comfort of owning a Vitara Brezza, it was the very thing missing during his first experience with Maruti Suzuki. And so, he makes up his mind to visit some other dealership rather than waiting there.

Maruti Suzuki understood that there is discrepancy between their promotional messages and the customer experience at the dealership. So, they decided to launch a different chain of dealerships ‘Nexa’ to sell such premium brands. Nexa dealerships were given a premium look and were designed to offer the customer the same ‘luxury’ and ‘comfort’ while making the purchase as was promised by their premium offerings & promotional messages.

Often, large firms have different individuals or teams in charge of different promotion mix elements. They all may not have exactly the same idea of the image that a firm wants to project. At times, these teams may outsource their activities to different supplier firms causing a certain disconnect in their promotional efforts. For instance, in Maruti Suzuki, the promotion strategy and dealer-relationships are handled by different departments. This, also, ultimately confuses the target audience.

### 18.4.6 MEASURING OUTCOMES

'That what is not measured, cannot be improved!' This management dictum is true in the world of marketing also.

Marketers make use of output variables (like number of ads placed, customers contacted by salesperson, media coverage obtained) to assess whether their promotion strategy is working well. They also see whether the budget earmarked for promotion has been fully utilised. These variables do need to be measured, but should not be mistaken as a proxy for the effectiveness of the promotion strategy.

The effectiveness of the promotion strategy can be determined by behaviour changes in the target audience. If the objective was to increase customer awareness of a brand, the marketer should conduct a market research to find out whether the awareness levels in the target audience have risen. This requires the marketer to have baseline data on customer awareness levels before the promotion strategy is unleashed. He will have to compare the before-and-after awareness levels to make a clear assessment of the effectiveness of his promotion strategy. Likewise, the marketer can assess whether his promotion campaign has had a discernible impact on knowledge, liking, preference and conviction levels among the target audience.

Please note that awareness, liking & attitudes etc. are all intermediate goals which should finally result into an increase in sales. Marketers, therefore, also compare the sales volume & sales revenue to assess the effectiveness of the promotion strategy.

***Check Your Progress-A***

**Fill in the blanks.**

1. For a marketer, rival-ads, which reduce the effectiveness of his own promotional efforts, is the _______ (noise/ feedback/ channel/ sender) element of the communication process.
2. The Uttarakhand Open University's claims of providing the most up-to-date study content to its students is an example of use of ________ appeal in the message content.
3. Low-budget movie producers, who can't spend on advertisement blitzkrieg, organise free screenings just before the release of their movies. The expectation is that the audience would like the movies and recommend them to others. This is use of _______ channels.
4. _______ is one method of fixing the promotion budget that can't be used by a firm in its first year of inception.

## 18.5 PROMOTION MIX

Now, let's discuss the five elements that constitute the promotion mix.

### 18.5.1 ADVERTISING

It is a paid form (the marketer has to pay to place ads in a media vehicle) of non-personal (no face-to-face interaction between the message-source and target audience) presentation and promotion of goods, services, ideas etc. by an identified sponsor (target audience knows the identity of the marketer).

Advertising provides the opportunity to the marketer to amplify the impact on the target audience through creative use of colour, sound etc. It also makes it possible for the marketer to repeat the message frequently for a faster comprehension by the target audience. Though it may seem expensive in absolute terms, the cost per exposure (to target audience) is much less.

Advertising cannot be used selectively to reach only the target audience. Moreover, owing to its non-personal nature, the audience doesn't feel obliged to pay attention or respond. With so many marketers relying on advertising, the advertisement clutter has grown manifold leading to audience apathy. This calls for creative advertising to grab customer eyeballs (audience attention).

Advertising is used to build & reinforce long term image. Sahara India Pariwar's '*Ham Hain Sahara'* campaign is a good example. It is also used to inform the customer about a new launch or an impending sale, remind the customers to purchase a product and compare marketer's offerings with those of the rivals.

Print & broadcast ads, packaging, brochures, posters, leaflets, billboards, displays signs, point of purchase displays (those which are seen at the retail counters from where customers purchase the product), symbols and logos are the various constituents of the advertising mix.

### 18.5.2 SALES PROMOTION

Sales promotion refers to the short term incentives tools offered to the end-customers (consumer promotion) or intermediaries (trade promotion) with the objective of stimulating quicker or greater purchase by the end-customers.

They are used to induce customer trials, boost sales and trigger quicker customer response. Discounts, free gifts and lucky draws are examples of sales promotion tools. We shall be discussing this element of the promotion mix in detail in the ensuing units.

### 18.5.3 PUBLIC RELATIONS & PUBLICITY

'Public' is any group which may impact a firm's current or future ability to meet its objectives. Hence, the need for the marketers to carefully nurture the relationship with various such groups. Such groups include suppliers, distribution partners, market rivals, shareholders & promoters, governments and regulatory bodies, general public etc. apart from the target markets. PR refers to the variety of programmes designed to protect & promote the image of a firm or its offerings among such groups.

Such programmes include company publications (magazines, newsletters), press briefings, news conferences, seminars, speeches & interviews by senior management executives, trade shows, product launches, customer meets, organisation-anniversary celebrations, identity media (firm’s logo, stationery, buildings, uniforms etc.), lobbying (convincing legislators for favourable laws & policies) etc.

The biggest advantage of PR lies in its high credibility among the target audience. In this sense, they score over advertising. PR also catches the target audience off-guard as it exposes the audience to a marketer’s offerings where it least expects them.

A related promotion tool is publicity. Its uniqueness lies in it being non-paid. This is one element which is used by the Bollywood movies with élan. Have you wondered why stories of romantic affair between the hero & heroine appear in news & social media just when their movie is due for release? The audience gets to know about the impending release without the producer having to spend a dime. Some insiders say that such stories are selectively leaked to media to get this publicity!

## 18.5.4 PERSONAL SELLING

Personal Selling is the use of sales force to interact directly with the target audience with the aim of persuading it to buy a product or service.

The advantage is that, owing to there being a face-to-face interaction, the target audience feels obligated to respond to personal selling messages. Moreover, the salesperson can modify his message based on the response of the target audience.

However, it is a time, cost and labour intensive activity and therefore is advisable only for promoting and selling high unit value products. This is why it is most frequently used in business markets where high value transactions are commonplace. We shall be studying about personal selling in detail in the subsequent units.

## 18.5.5 DIRECT MARKETING

It refers to reaching and delivering goods and services directly to the end-customer without using any intermediary.

Marketers may choose one of these- mails, catalogues, tele-calling, websites, kiosks or face-to-face selling to reach the customer directly. ‘Myntra.com’ sends mailers informing the target audience about the new design launches. Book publishers send their catalogues to colleges and universities listing the titles available with them. ‘Naaptol.com’ prominently displays phone numbers in its ads for its customers to order on phone. Most firms selling smartphones now allow the customer to order and buy directly from their website without having to visit a dealer. ‘Eureka Forbes’ used to send its salespersons door-to-door to sell vacuum cleaners.

Direct Marketing allows marketers to customise their message to every single member of the target audience. With the aid of technology, this can now easily be done. You must have experienced telecom service providers like ‘Idea’ making different offers to different customers based on their daily usage. Magazines like ‘Kalyan’ and ‘Reader’s Digest’ can be directly ordered online. At times, they offer lower subscription prices to older customers.

Also since there is direct interaction between the marketer and the target audience, the marketer can modify his message according to the response of the target audience in direct marketing.

## 18.6 DETERMINANTS OF PROMOTION MIX

Now let’s take a looks at the various factors which need to be considered before deciding the exact mix of promotion elements in a marketplace.

### 18.6.1 BUYER-READINESS STAGE

In a market, some buyers may not even be aware of the marketer’s offering while others may be aware but have only limited knowledge about its attributes and utility. Some may not have the conviction to buy while the others may have already placed the order.

Advertising and PR are most effective in building awareness. Advertising and personal selling are used to build customer comprehension of the marketer’s offerings. Personal selling plays a key role in strengthening customer conviction in the marketer’s offering. Sales promotion can be used to lure the customer into placing the order. Direct marketing can be used to pitch new offers to the existing customers to obtain a repurchase from them.

### 18.6.2 STAGE IN PRODUCT LIFE CYCLE

You already know about the stages- introduction, growth, maturity & decline- commonly witnessed in a product’s life cycle. Advertising and PR are heavily used in the introduction stage. In business markets, personal selling is the promotion element of choice in the introduction stage. Sales promotion is often used in this stage to spur product- trials but withdrawn once the sales pick momentum and hit the growth stage.

Advertising and PR continue during the growth stage though their intensity might be reduced a little. Sales promotion again assumes importance in the maturity and decline stages while advertising and PR expenditure is reduced during the latter. Direct marketing can be used cleverly in maturity & decline stages to make customised offers to loyal customers.

### 18.6.3 TYPE OF PRODUCT MARKET

Marketers tend to spend on sales promotion, advertising & PR, in that order, in consumer markets. In business markets, personal selling & sales promotion are more commonly used followed by advertising & PR.

Personal selling may also be used in consumer markets to sell expensive and complex goods. Sometimes, personal selling in consumer markets is directed towards the dealers to ensure sufficient stocks and the best display space at the dealership for the marketer's offerings.

### 18.6.4 MARKETER'S RELATIVE POSITION

Market leaders and established firms spend more on advertising. New entrants, smaller firms and market challengers have to spend heavily on sales promotion to obtain product-trial by the target audience. Smaller resource-constrained firms have now found direct-marketing to be a much less expensive tool to attract customers and grow their brand.

***Check Your Progress- B***

**Q1. Read the following scenarios & find out the promotion-mix element alluded to.**

1. 'Buy one, get one' offer on a brand of toothpaste selling in a retail store.
   ..................................................
2. Door-to-door canvassing by a political party to win over the voters before the elections.
   ......................................................
3. The government informing the electorate about various government schemes & programmes through mygov.in website.
   ...............................................................
4. People thronging to the Taj, Mumbai when it opened for the first time after being struck by a terrorist attack.
   ......................................................

## 18.7 SUMMARY

In the current unit, we understood that promotion is akin to a conversation between the marketer and his target audience. We studied the steps involved in formulation of promotion strategy in detail. We also read about the various elements which constitute the promotion-mix. We did an analysis of these promotion-mix elements to make an assessment of their comparative strengths and weaknesses. We also discussed the factors that determine the usefulness of a particular promotion mix element and govern its use in different marketing situations.

The subsequent units shall deal with sales promotion & personal selling in greater detail

## 18.8 GLOSSARY

**Promotion-** An element of marketing mix through which the target markets are informed about the marketer's offerings and persuaded to try them.

**Advertising-** It is a paid form of non-personal presentation and promotion of goods, services, ideas etc. by an identified sponsor.

**Sales Promotion-** Short term incentives offered to the end-customers or intermediaries with the objective of inducing customer trials or boosting sales by stimulating quicker or greater purchase by the end-customers.

**Consumer Promotion-** Sales promotion efforts (free gifts, discounts etc.) targeted at the end-customers.

**Trade Promotion-** Sales promotion incentives (discounts on bulk purchases, contests for dealers etc.) offered to the intermediaries like the dealers and distributors.

**Public-** Any group which may impact a firm's current or future ability to meet its objectives.

**Public Relations-** Programmes designed to protect & promote the image of a firm or its offerings among 'public'.

**Publicity-** The only non-paid element of the promotion-mix used creatively to inform & persuade the target market about the marketer's offerings.

**Personal Selling-** Face-to-face selling in which a seller attempts to persuade a prospective buyer to make a purchase.

**Direct Marketing-** Reaching and delivering goods and services directly to the end-customer without using any intermediary (distributor, dealer etc.)

**Integrated Marketing Communication-** Approach to promotion-strategy planning which utilises all the promotion elements in a coordinated fashion with the goal of achieving consistency in the message delivered to the target audience at every touch point.

## 18.9 ANSWERS TO CHECK YOUR PROGRESS

**Check Your Progress –A**

1. Noise
2. Rational
3. Social (Personal)

4. Historical Record Method

**Check Your Progress –B**

1. Sales Promotion
2. Personal Selling
3. Direct Marketing
4. Publicity

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## 18.12TERMINAL & MODEL QUESTIONS

Q1. ‘Promotion is communication between a marketer and his target audience.’ Elaborate.

Q2. Enumerate the steps involved in promotion strategy planning.

Q3. What is promotion-mix? Appraise its role as an important marketing mix element.

Q4. What is Integrated Marketing Communication? Give an example of synchronised use of various elements of promotion-mix by a firm to achieve its marketing objectives.

Q5.What are the different elements of promotion-mix? Compare their relative merits & demerits.

Q6. What factors determine the use of different promotion mix elements in marketing?

Q7. Develop a promotion strategy for the Uttarakhand Open University using a judicious mix of different elements of promotion mix.

# UNIT 19 SALES PROMOTION

**19.1 Introduction**
**19.2 Objectives**
**19.3 Sales Promotion: What's The Need?**
**19.4 Sales Promotion Tools**
**19.5 Planning The Sales Promotion Campaign**
**19.6 Pitfalls Of Sales Promotion**
**19.7 Summary**
**19.8 Glossary**
**19.9 Answers To Check Your Progress**
**19.10 References/ Bibliography**
**19.11 Suggested Readings**
**19.12 Terminal & Model Questions**

## 19.1 INTRODUCTION

In the preceding units, we discussed the role and significance of promotion as a marketing tool. We understood it as the process through which the marketers communicate with their target audience with the objective of gaining a favourable response to their offerings. We studied the various steps involved in the planning of promotion strategy. We further discussed the various constituents of promotion mix and their unique features. It was followed by a comparative analysis of the relative strengths and weaknesses of these constituents of promotion mix. Finally, we discussed the suitability of each of these promotion mix elements to different marketing situations.

Sales Promotion ranks among the most widely used elements of the promotion mix. You know that sales promotion is diverse collection of short term incentives offered to the end-customers or intermediaries with the goal of inducing customer trials, boosting sales and stimulating quicker or greater purchase by the end-customers. In this unit, we shall consider sales promotion in detail.

We shall first discuss the particular factors which necessitate the use of sales promotion to gain an advantage in the market place. This would be followed by a discussion on the different types of sales promotion tools that are prominently used by the marketers in the modern times. We shall briefly look into the process of designing the sales promotion campaigns. Towards the end, we shall also discuss the pitfalls of over-reliance on sales promotion as a promotional tool. As always, we shall supplement the discussion with real life corporate examples and case studies to aid your comprehension.

## 19.2 OBJECTIVES

After reading this unit, you will be able to:

- Appreciate the role & importance of sales promotion in the overall promotion mix
- Differentiate between various sales promotion tools
- List the various stages in the formulation of a sales promotion campaign
- Appraise the strengths and weaknesses of sales promotion as a marketing tool
- Quote corporate examples of use of sales promotion by marketers

## 19.3 SALES PROMOTION: WHAT'S THE NEED?

We already know that sales promotion is used as a short term tool by the marketers to increase their sales. Sales promotion is the inducement offered by the marketer to the end-customers or intermediaries to make them purchase his offerings more frequently or in larger quantities. Thus, sales promotion helps the marketer literally shove his offering down the customer's throat! This is 'push' strategy at work. Do you know what a push strategy is?

**Push Strategy versus Pull Strategy: The Promotion Dilemma!**

Push strategy lays great faith on pushing the marketer's offerings onto the customers. How, as a marketer, do you do that?

You make the dealers and retailers push your products to the customers in place of those of your rivals. You make them allot the best display space to your products. And why would the dealers & retailers co-operate? Because you would incentivise them for showing favours to your products- by offering a greater margin, deeper discounts or free merchandise.

You may, instead, choose to organise a contest for your sales-force or tie up their bonus to their sales performance. They, in turn, shall push your offerings down the distribution channel.

Alternatively, you may seduce the end-customer himself by offering him discounts or free gifts. And he shall purchase your product in anticipation of that free gift.

A dominant role of sales promotion in a marketer's overall promotion mix is an evidence of 'push' strategy being employed by him.

Then there is another bunch of marketers who criticise the limited scope of this 'push' strategy and lobby for a diametrically opposite approach. They believe in building so much conviction and liking for the brand that may lead to the target audience asking for it spontaneously without being lured into such an action by the goodies offered by the marketer. In other words, they advocate use of those marketing tactics which make the target audience voluntarily pull the marketer's offering from the retailer's shelf. They call it the 'pull' strategy.

As a marketer, how can you generate this ‘pull’ among the customers? You will need to create attractive advertising campaigns that may catch the customer’s eye. These may also be supplemented by creative use of public relations to create a favourable impression on the customers. All this will result into the first drove of customers thronging to the market demanding your product.

But would they return for a repurchase if your product doesn’t have the attributes to satisfy them? Most likely, no. So, you will have to exert an equal, if not greater, effort to provide them a product which matches, or even beats, their expectations. If you do this successfully and consistently, the customers would not only patronise your offerings for all times to come, but also convince their friends, relatives and acquaintances to try them out- spreading a good ‘word of mouth’ for you.

As more and more customers demand your product, you don’t need to seek favours from the wholesalers, retailers & dealers as would have been obligatory had you been a ‘push’ strategist. Rather, these intermediaries themselves would hanker you for your product. Why so? As not having your product on their shelf would have the effect of driving away their customers. In fact, these retailers may even offer to forgo a part of the intermediary commission that they charge you. Thus a ‘pull’ strategy also shifts the manufacturer (marketer)-intermediary balance of power in favour of the former.

Does that mean that ‘pull’ strategy is superior to the ‘push’ strategy? Not in all marketing situations.

Consider a new market-entrant, with a superior offering, pitted against the well established brands that dominate the market. This new firm would not have the resources to invest in advertising blitzkrieg. Even if they somehow manage funds for a comprehensive advertising campaign, there is every likelihood that the existing firms would retaliate with all their might to retain their market share.

The only option for this newcomer is to wean away the customers using sales promotion incentives. The newcomer would hope that these incentives would make the customers try his offerings. Once they find his offerings giving them a better value, they would continue repurchasing it even after he withdraws the sales promotion incentives offered to them.

In today’s markets, sales promotion is extensively used. It has a lion’s share in the total promotion budget of many a firms.

This phenomena is also a result of emerging market dynamics. With the gradual lifting up of trade barriers and growth in world trade in the recent past, the number of marketers selling their wares to the customers has proliferated. This has led to the target audience being bombarded with a daily dose of advertisements (advertisement clutter). It is almost impossible for the target audience to attend to all these advertising messages, let alone remember them while making purchases. Let’s introspect! Do you remember the number of ads that were telecasted on television during the movie break last night? How many of these ads are you able to recall easily? In how many cases do you remember the brand that was being promoted? You may not be able to recall since you might have switched channels during the advertisement break! With this growing realisation that the effectiveness of advertising as a promotion tool is declining gradually, the marketers are resorting to sales promotion.

This is also due to the fact that advertising is also an expensive exercise requiring the marketers to have a deep pocket. Consider, for example that, the cost of a single 10-second advertisement spot on Star-Sports during the 2017 Champions Trophy (cricket) final between India and Pakistan was around Rupees 3.5 lakhs!

In some product categories, legal restrictions bar the marketer from advertising his offerings. Take example of ban on advertisements promoting alcoholic beverages & tobacco products in India. In such a scenario, the marketer has to resort to some other means to promote his products.

Many of the customers, especially in India, are bargain hunters. Incentivising them is necessary to be able to obtain their patronage thus necessitating use of sales promotion.

The intermediaries are also growing more assertive in demanding more incentives from the manufacturers/marketers. This makes the marketer design sales promotion strategies for the distribution intermediaries also.

Many types of products don’t offer the marketers the scope to introduce an enduring differentiation in their offerings. After all, how many & which all unique features can you introduce in a pencil, a biscuit or a washing detergent to distinguish these offerings of yours from those of the rival marketers? Even if the marketer is creative enough to somehow think of a differentiating feature, what guarantee is there that the competitors won’t copy it and nullify the marketer’s competitive advantage? In such situations, where there is no significant difference between the offerings of the marketer and his rivals, sales promotion offer him the opportunity to wean away the customers from them.

Lastly, when the financial year is nearing its end and the sales target are yet not met, the only focus of the sales manager is to somehow stimulate faster sales. Otherwise, he and his team may have to face the ignominy of being branded as ‘underperformers’ and losing out on the bonus and a possible pay hike! Nothing, but sales promotion, can come to their rescue.

## 19.4 SALES PROMOTION TOOLS

Now that we have discussed why sales promotion is needed, let’s now discuss the different types of sales promotion tools used by the marketers. Sales promotion tools are categorised depending on whom they are meant for- whether the end-customers, the intermediaries or the firm’s own sales-force. Consumer-Promotion tools are the incentives targeted at the end-customers. Trade-Promotion is the collective term for the incentives offered to the distribution intermediaries including the wholesaler, distributor, retailer, dealer etc. Sales-Force Promotion includes the incentives offered to one’s own salespersons to make them exert greater sales efforts. Do you not want to discuss each one of them in greater detail?

## 19.4.1 CONSUMER-PROMOTION TOOLS

Following are the creative consumer-promotion tools used to induce the end-customers into making purchases.

### 19.4.1.1 Samples

Sample refers to the product or service offered to the customers for free. Samples are useful in inducing customer trial of the marketer's offerings. Free product samples can be delivered to prospective customers door-to-door, by attaching them with another product or through mails. Do you know how Karsanbhai Patel, the founder of Nirma Group, started his business? Having developed his own formula for manufacturing detergent powder, he would go door-to-door and offer free samples of this product to the housewives in the bid to make them try it. The vegetable vendor requesting you to taste a few grapes when you visit his shop so as to induce you into buying them is using this very consumer-promotion tool. Car dealers are using this very tool while inviting the customers for a free test ride.

### 19.4.1.2 Coupons

Coupons are certificates- sent to the customer by mail, offered with another product or inserted in advertisements in newspapers and magazines- which entitle the bearer to stated savings on making particular purchases. They are required to be redeemed at the point of retail within a specified duration. You must have seen newspaper ads promising you some saving on purchase of particular products if you carry along the coupons appearing in those ads to the retailer.

The 'promo code' that you receive on your phone, quoting which can save you some money on your next online purchase, is a variant of these coupons only.

### 19.4.1.3 Rebates (Cash Refunds)

Rebates are the cash refunds made to the customers on presenting a proof of purchase. Rebates are, thus, price reductions which are provided after- and not at the time of- purchase.

### 19.4.1.4 Price Packs

In contrast to rebates, price packs offer price reductions to the customers at the time of making purchase. They may be in the form of a Reduced-Price Pack in which the customer is offered some saving off the regular price of a product. Note that the 'Surf Excel' pack shown below is offering a saving of Rs.50. Likewise, four 'Godrej No. 1' bath soaps are available in the price of three.


**Figure 19.1: Reduced-Price Packs**

Alternatively, the marketer may offer a Banded-Price Pack, clubbing together two related products and selling them at the price of one. Dabur's 'Babool' toothpaste pack, sold at regular price, also contains a toothbrush.

### 19.4.1.5 Gifts (Premiums)

Marketers sometimes also lure customers into buying a product by offering some merchandise for free or at a reduced price. The merchandise is generally on or inside the package. Please note that the free merchandise may not be related to the main product unlike in banded price-packs. For instance spoons are offered as gifts with packaged tea. Chewing gum packs have a washable tattoo inside.

### 19.4.1.6 Frequency (Loyalty) Programmes

These consumer-promotion tools are offered by the marketers to reward the loyal customers for frequent purchases of their products and services. Airlines have 'frequent flyer programmes' which award points to air-passengers every time their services are used by these customers. The customers can redeem these points for air travel and other rewards. For instance, Jet Airways' 'Jet Privilege' programme (see below) provides benefits like priority check-in/check-out, priority boarding, excess baggage allowance, lounge access etc. based on the passenger miles clocked by a flyer.


**Figure 19.2: Frequency (Loyalty) Programmes**

### 19.4.1.7 Prizes

Customers may also be offered the opportunity to win prizes on their purchases. Prizes might be in the form of cash, gift or an all-expenses-paid trip for the winning customers. It is for the marketer to decide the criteria to win these prizes.

He may organise a 'contest' which requires the customers to display some skills to win the prizes. Nestle 'Maggi' invites the customers to share their favourite 'Maggi' moments. The best entries are then featured on the product packaging. 'Pepsi' once organised a selfie-contest in which the participants were required to submit their selfies in order to win prizes.

**Contests: More Than Just A Promotion Gimmick!**

You would be surprised to know that the contests offer an added advantage to the marketers apart from bringing about a spurt in sales.

Let's take example of a contest requiring the participants to submit one-liners describing their reasons for liking (I like Perfetti's 'Central Fruit' because…….) the sponsor brand, Perfetti Van Melle.

For one, the one-liners submitted by the contestants would give Perfetti a fair idea about the 'Central Fruit' attributes which are most valued by the customers.

Secondly, it gives an insight into the slangs & jargons commonly used by the targets customers. This becomes an input for the marketer while designing the advertisement campaign. The marketer may choose to use the same phrases and jargons in his ads to ensure a better message comprehension by the customers. Remember the '*kaisi jeebh laplapayee*' ads?

Marketer may also offer sweepstakes- lucky draws- which only require the participants to submit their names. During the 2016 demonetisation drive, the Indian government came up with an innovative idea to encourage digital transactions. Prizes were given away on the basis of lucky draws organised for those doing digital payments.

Marketers may use a hybrid of the two- contests and sweepstakes. For instance, '*Kaun Banega Crorepati*' a popular quiz show, unveiled a consumer-promotion contest in which the participants were asked a question. Subsequently, a lucky draw was organised to choose the winners from among the correct entries. The prizes included free gifts & a fully paid holiday trip to America.

#### 19.4.1.8 Product Warranty & Guarantee

Warranty and guarantee are assurances given to the customers that the products purchased by them would perform as specified.

Warranty is the marketer's promise to fix the product if its performance does not match his claims. Technical products are often covered by warranties for a limited period. You may take the examples of televisions or smartphones.

Guarantee is the marketer's promise to altogether replace the underperforming product by a new one. However, guarantee is used much less frequently than warrantee as a consumer-promotion tool.

Please note that the consumer-promotion tools discussed above are known as 'manufacturer promotions' if they are used by the manufacturer. In the event of their being used by retailers, may be to clear their unsold stocks or to develop store loyalty among customers etc., they would be called 'retailer promotions'.

### 19.4.2 TRADE-PROMOTION TOOLS

Apart from the end-customers, the manufacturer/marketer may incentivise the distribution intermediaries also. You know that this strategy of providing inducements to distribution intermediaries like the wholesaler, distributor, retailer, dealer etc. is known as trade-promotion. The idea is that the trade-promotion tools would make them place larger & more frequent orders.

Let's understand how trade-promotion actually works with a very simple example. Suppose a manufacturer decides to offer bulk discounts to the wholesalers. The manufacturer's purpose is solved as the wholesalers place larger orders with him to obtain discounts. On the other hand, the wholesaler also benefits from significant cost savings. But what will the wholesaler do with the larger-than-regular stock available with him now? He would naturally want all of this stock to get sold. So, he will pass on some of his savings to offer discounts to the retailers, who are the next link in the distribution chain. Drawn by the discount, the retailers would also place larger-than-regular orders with him. And in turn, to sell their larger-than-normal stocks, they would offer their own incentives to the end-customers.

The various commonly used trade-promotion tools have been listed below.

#### 19.4.2.1 Quantity (Bulk) Discounts

Depending on their purchase quantity, the intermediaries are offered steep discounts on the list price by the manufacturer/marketer. We have discussed the application of this trade-promotion tool in the preceding paragraph.

#### 19.4.2.2 Free Goods

Many times, the manufacturer/marketer provides free goods to the intermediaries placing large orders. Have you seen the glass-door refrigerators in which the retailers stock cold drinks? Many times, they are provided by the marketers.

#### 19.4.2.3 Allowances

Allowance is the consideration paid to the intermediaries to reward them for their assistance in the sales-effort. Let's discuss two most prominent allowances used as trade-promotion tools.

Display allowances are paid to the retailers so that the marketer's brands may get the best display space at the retail store. How and where the products are displayed in a retail outlet has been found to have great bearing on the sales volume. This is especially true for impulse purchases like juices, biscuits, chocolates etc. For instance, the brands displayed at the eyesight levels- a height of around 5 feet from the floor- have a greater chance of purchase by the customer than those stocked a little higher or lower. Offering a handsome display allowance to the retailer, thus, helps the marketer obtain the best display space for his products and increase chances of sales materialising.

Advertising allowances are paid by the marketer to the retailers to compensate them for the expenses incurred by them in promoting the marketer's brands. Consider a brand like 'LG' which sells through dealership-franchises. You must be having at least one such LG dealership in your district. LG spends a considerable amount in advertising campaigns promoting its products across the country. Very often, its efforts are supplemented by the dealerships who run their own advertising campaigns within their territories. This local level advertising helps the dealer get more customer visits & enquiries. Since, this would also boost the sales prospects of LG's offerings, it would encourage such initiatives by the dealerships by offering them advertising allowance.

#### 19.4.2.4 Point of Purchase Displays

Point of Purchase (POP) display is the advertising placed near the merchandise it is promoting. POP displays are often placed near the billing/check-out area with the objective of gaining customer attention and resultant purchase. They are most effective for impulse purchase products like Lehar '*Kurkure*'.


**Figure 19.3: Point of Purchase Displays**

#### 19.4.2.5 Terms of Trade

Many times, the marketers offer credit sales to the intermediaries. Credit sales mean that the intermediaries need not pay at the time of purchase and have the option of making full or partial payment later. Marketers may also promise the intermediaries to take back the stock, which remains unsold, to obtain their co-operation.

### 19.4.3 SALES-FORCE PROMOTION TOOLS

Marketers also incentivise their own sales-force to motivate it to exert greater efforts to bring in sales.

#### 19.4.3.1 Sales Contests

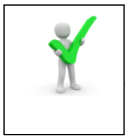
Sales contests are meant to reward those salespersons who achieve the highest sales volumes in a given duration. This spurs competition among the salespersons motivating them to make their best efforts in a bid to outdo others and win the contest. The rewards for those winning the contest may range from monetary awards like cash prizes, gifts, souvenirs, paid holiday trips to non-monetary awards like recognition from the top management and mention in the firm's newsletter.

#### 19.4.3.2 Trade Shows & Conventions

Marketers also send the top performers among the sales-persons for participation in the trade shows, seminars, conferences etc. at the firm's expense. These events are attended by the top industrialists and marketing *gurus* and provide a great learning opportunity to the participants. Participating sales-persons also get to meet prospective customers and present their products to them and in some cases, strike a deal.

#### 19.4.3.3 Speciality Advertising

Marketers provide speciality advertising to their sales-persons. Speciality advertising includes low-cost but useful items engraved with the marketer's name and logo. Examples include pens, diaries, key-chains, bags etc. The sales-persons can use them as gifts to their loyal customers and to those placing large orders. Don’t your neighbourhood retailers & your bank print their own calendars and gift it to customers like you in the New Year? These calendars are an example of speciality advertising only.



*Check Your Progress-A*

**Identify the specific sales promotion tool alluded to in the following instances.**

1. Neighbourhood retailer allowing the customers to taste some *namkeen* before buying it.
2. ‘Buy one- get one’ offer on a ten kilogram sac of rice.
3. A giant *samosa* at the entrance of a roadside *dhaba* kept there to entice the customers.
4. ‘Intex’ offering to bear half of the expenses incurred by its smartphone dealers in erecting billboards on busy intersections.

# 19.5 PLANNING THE SALES PROMOTION CAMPAIGN

Meticulous planning is the prerequisite for any marketing strategy to be successful. Sales promotion is no exception. So, it is important for us to understand how to plan the sales promotion campaign.

## 19.5.1 ESTABLISHING THE SALES PROMOTION OBJECTIVES

The sales promotion objectives flow from the promotion strategy, which in turn, is anchored in the overall marketing plan of a firm. Sales promotion may help the marketer in realising one or more of the following goals.

### 19.5.1.1 End-Customer Specific Objectives

Marketers often use sales (consumer) promotion tools to make the end-customers buy in larger quantities. This is especially true when they are saddled with large unsold stocks. That is why you see steep discounts being offered on coats, jackets, shawls, gloves and other winter-wear at the fag- end of the winter season. Sometimes, marketers explicitly promote it as a ‘stock-clearing’ sale to attract the bargain-hunter customers. Thus, sales (consumer) promotion help realise the objective of smoothening the supply-demand imbalances.

Some marketers use sales (consumer) promotion while introducing a novel technology in the market, to give the end-customers a reason to try it out. The expectation is that this would kick-start the gradual process of adoption of this new-technology by the larger market.

New entrants in the market have to wean away the customers from more established brands. They have to provide the customers an incentive to try out their offerings which necessitates use of sales promotion tools. Google used this strategy when it unveiled its digital payment app ‘*Tej*’ in the already crowded Indian market.

On the other hand, established marketers wish to hold on to their customers in face of challenges posed by the other market-rivals. So, they also rely on sales (consumer) promotion tools like frequency/loyalty bonus to customers. Paytm awards ‘loyalty points’ to its users on all their transactions in the bid to retain the ‘switchers’ and reward the ‘loyalists’.

Many times, the ‘non-user’ customer segment also provides an attractive opportunity to the marketer due to total absence of rival promotion messages. Such non-users can be converted to users through sales (consumer) promotion tools like free sample.

### 19.5.1.2 Intermediary Specific Objectives

Marketers in most of the product categories want customers to have easy access to their products. This is even truer for marketers dealing in low cost and frequently bought items. Why? Since, the customer would not hesitate to switch to a rival brand if his original preference is not available. How often does it happen that you don’t buy any other soft-drink or soap when your preferred brand is not available? Almost never.

This has a few implications for the marketer. Firstly, his products should be widely available, i.e. at as many retail points (stores from where the customers make purchases) as possible. Secondly, his customer should never have to switch to some other brand owing to his product being out-of-stock.

Sales (trade) promotion tools may, therefore, be used by the marketer to attain two objectives. One, to expand his retail presence by gaining entry into as many retail outlets as possible. Second, to ensure that the retailers carry his products in sufficient volume to avoid the possibility of having to force the customer to turn away or to switch to rival brands.

We have already discussed how the display space allotted to a product at the point of retail can impact its sales-volumes. Marketers also use sales (trade) promotion with the objective of reserving the best display space for their products.

Sales (trade) promotion also helps the marketer to offset the impact of competitive promotions on his distribution partners and enjoy their unhindered co-operation and loyalty.

Sales (trade) promotion is also handy if the marketer’s objective is to convince the intermediaries to carry his newly launched brands or to supplement his promotional efforts at the local level. It also incentivises the intermediaries to ‘push’ the marketer’s products to the customers.

### 19.5.1.3 Sales-Force Specific Objectives

Sales (sales-force) promotion also helps create excitement in the sales-force and spurs them to work harder. When marketers add new brands to their product portfolio, these fledgling brands warrant a greater sales effort than their already established counterparts. Equally difficult is to sell a product during off-season. Similar is the case during a recessionary phase in the economy when the customers prefer to save and are less inclined to spend. In all such situations, the goal of the marketer is to obtain co-operation and untiring efforts from the sales-force to ensure success in the market. This is sought to be achieved through sales (sales-force) promotion.

## 19.5.2 SELECTING THE TOOLS

In the light of the objectives sought to be achieved through sales promotion, specific sales promotion tools have to be determined. We know that marketers have different sales promotion tools available at their disposal depending on whom they want to target - end-customers, the intermediaries or their own sales-force.

While marketers may choose from this multitude of sales promotion tools, they would do well to carefully pick only those which also help them build and reinforce customer-preference for their brands. They should not offer premiums entirely unrelated to their products. For instance, it would make sense for the marketer to offer one of his own brands as premium while using sales promotion to pitch a particular brand. Many newspaper publications do this. They may offer a magazine from their own stable as premium to increase the sales of their newspaper.

The marketer should also insert advertising messages along with their sales promotion offers. Likewise, timing the sales promotion tools to coincide with the organisation's anniversary or launch of a new brand is much better than unveiling them randomly.

## 19.5.3 DESIGNING CONTOURS OF THE SALES PROMOTION CAMPAIGN

Once the specific sales promotion tools to be used have been determined, the next step is to finalise the contours of the sales promotion campaign. This requires decisions to be taken with regard to the aspects enumerated below.

Firstly, the size of the incentives to be offered in the sales promotion campaign has to be determined. The size should not be too large as it might cause the sales promotion costs to balloon. At the same time, it should be large enough to attract the customer attention. Marketers often use the concept of 'Just Noticeable Difference' (JND) to determine the appropriate incentive size.

**JND: Making You Notice the Difference!**

Let's do an activity to understand JND. You have to keep your eyes closed for the whole length of this activity. Hold this book in your hands. Feel the weight. Now ask a friend to randomly stack pens one by one on the book without telling you. As the number of pens stacked on the book increase, you would be able to perceive an increase in the weight. But do you perceive the increase in the weight right away, when the very first pen is kept on the book? May be not. You might perceive the weight for the first time when six pens have already been stacked. If this is the case, we may say that the weight of six pens was the 'just noticeable difference' for you. What this means is that you would start 'noticing' the 'difference' in weight 'just' when six pens have been stacked, and not till there are only five pens on the book. So, if somebody keeps three pens on your book, you would not be able to perceive any increase in the weight with your eyes closed.

If you are having a cup of tea with one tablespoon of sugar, the number of sugar-particles which need to be added to your cup before you notice a change in taste is again an example of JND.

It is sufficient for you to understand that one notices a difference in some quantity only if this difference is above the JND threshold. Conversely, if the difference is below this threshold, one would not perceive any change at all. Do you perceive any change when a fly sits on your head? No, because the fly's weight is much below your JND threshold.

What are the implications for a marketer? Let's talk about pricing. Suppose, the marketer has to increase the price of his offering. But, he doesn't want the customers to perceive/notice a change in prices. He should find the JND and keep the hike in prices below the JND threshold. But if he is planning to reduce the prices, the reduction should be above the JND threshold to make the customers notice it.

Likewise, in a sales promotion campaign offering some saving for the customer, the savings accruing to the customer should be above the JND to make him perceive it.

Secondly, the marketer has to determine the eligibility criteria for the customers to benefit from the sales promotion offer. Would everybody be given a discount? Or would it be offered to only those purchasing above a particular quantity? For example, 'Paytm' has been offering Rs.10 cashback (refund) on a recharge of Rs.50 only and not for that of a smaller amount. 'Pizza Bite' offers a price-pack (two pizzas at the price of one) only to those who buy on Tuesdays and Fridays.

Thirdly, the marketer has to choose a distribution vehicle for his promotional offer. If he is offering a premium, would it be distributed in the packaging itself or be distributed by the billing clerk in the retail store. Or whether a coupon would be distributed through mail or inserted in a newspaper or as a code sent through sms.

Fourthly, the marketer has to decide the duration for which the sales promotion campaign would continue. Nationalised banks in India offer low-interest rates housing loans to borrowers during the festive season stretching from *Navratra* to Christmas.

A connected aspect would be the timing of the introduction of the sales promotion campaign. Consider the examples of banks above. Would the campaign be successful if it is unveiled before *Navratra*, during the *Pitra-Paksh*, which is not considered an auspicious time to start new construction in Hindu religion?

Finally, the marketer has to budget the sales promotion expenses. These expenses would include the cost of incentive itself (cost of premiums or cost of bulk discounts etc.) as well as the administrative costs (cost of promoting the offer, cost of printing the coupons, cost of processing refunds etc.) The marketer should have a reasonable estimate of number of customers expected to utilise the incentive-offer to prepare this budget.

## 19.5.4 PRETESTING THE SALES PROMOTION CAMPAIGN

The sales promotion campaign should be tested with few customers before its full-fledged introduction. This would help the marketer ensure that the incentive size is optimal and the mix of promotion tools appropriate. Also, the marketer gets to know the efficacy of the promotional vehicle used to inform the target audience about his sales promotion campaign.

## 19.5.5 Implementation

The marketer must have a clear estimate of the lead time- the time required to prepare and launch the programme. It includes the time spent in planning & designing the sales promotion campaign, preparing the advertisements to inform the target audience, notifying the retailer points where the campaign would be run, printing the sales promotion material (coupons etc.), producing/procuring the merchandise meant to be given as premium and all other peripheral activities.

The lead time calculations give marketers an idea about how early to begin the preparations for an impending launch. For instance, if the lead time for a sales promotion campaign has been estimated to be two months, the preparations for a launch planned during the *Navratra* (October) should start latest by August.

## 19.5.6 EVALUATION

The effectiveness of sales promotion campaigns can be evaluated using the methods discussed below.

### 19.5.6.1 Sales Data

The simplest way for the marketers to evaluate the sales promotion campaign is to find out the impact on sales volume and market share-whether sales volume and market share increased for those products on which sales promotion was offered? More importantly, whether it was a temporary spike during the length of the sales promotion campaign or the sales momentum was sustained even after the campaign ended? Marketer would want the latter- the sales promotion campaign should ideally end up in a permanent increase in his market share.

The marketer may also use the sales data to prepare a profile of those customers who utilised the offer. He may track them to find out if there was a permanent change in their brand preferences or they switched back to the earlier brand after the sales promotion campaign ended.

### 19.5.6.2 Customer Surveys

Marketer may also conduct surveys among the customers to find out the brands they used to purchase before the sales promotion campaign. He can find out whether there has been a permanent change in their buying behaviour and analyse their overall impression of the sales promotion campaign.

### 19.5.6.3 Experiments

Experiments provide a useful tool to the marketers to assess the effectiveness of their sales promotion campaigns. Marketer may decide to unveil two different sales promotion tools in two geographically separated markets which are otherwise similar in most other aspects. The more effective sales promotion tool would be the one resulting in greater sales volume during and after the campaign.

Likewise, the marketer may compare a market in which sales promotion was offered to the one in which it was not. If his sales volume & market share in the former was significantly higher than those in the latter for the entire duration of the sales promotion campaign, he can conclude that the sales promotion campaign was effective.

## 19.6 PITFALLS OF SALES PROMOTION

Sales promotion is indeed a very effective tool often utilised by the marketers. But, please don't think that it is the remedy for all kind of marketing woes. In fact, sales promotion has its own drawbacks which make the marketers wary of over-reliance on it.

We have already discussed how advertising (pull strategy) scores over sales promotion (push strategy) in building customer conviction and gaining ascendancy over the distribution partners.

We also know that there is no guarantee that the pick-up in sales, witnessed for the duration of a sales promotion campaign, would continue even after the campaign is withdrawn. Thus, sales promotion may not translate into a permanent gain in sales volume and market share.

Frequent resort to sales promotion may rather have a long-term detrimental impact on the marketer's sales. The customers may delay their purchases in anticipation of yet another sales promotion offer. Likewise, the intermediaries may also decide to wait for the marketer to offer bulk discounts before placing the order. They both- customers & intermediaries- may start timing their purchases to coincide with marketer's sales promotion campaigns. All this may badly impact their long term loyalty towards the marketer's products.

Marketer's sales promotion campaigns can also be gamed by the unscrupulous intermediaries. The intermediaries tend to source goods from those regions where the marketer's sales promotion campaign is running and ship them back to sell in their own region.

These are the reasons why established brands use sales promotion only sparingly. Thus, the marketers would do well not to over-rely on sales promotion. They should also coordinate their use of sales promotion with that of other elements in the promotion mix to obtain the best results.

***Check Your Progress- B***

**Q1. Visit any retail store in your neighbourhood and do as directed below.**

1. Spot any one brand offering sales promotion incentives to the customers.
2. Guess the type of sales promotion tool that this incentive most closely resembles.
3. Find out the firm sponsoring this sales promotion campaign.
4. Also find out the allowances (if any) paid to the retailer to promote this sales promotion campaign.

## 19.7 SUMMARY

We started this unit with a discussion about the role and importance of sales promotion as an element of promotion mix. Next, we learnt to distinguish between the various sales promotion tools generally used by the marketers. Some of the real life corporate examples of these tools were also taken up for discussion. We also touched upon the process of formulating an effective sales promotion campaign. We ended the discussion with an appraisal of sales promotion as a marketing strategy in light of the downsides inherent in it.

## 19.8 GLOSSARY

**Distribution Intermediaries-** Links in the distribution network between manufacturer and the end-customer. Examples include distributors, stockists, dealers, retailers etc.
**Differentiation-** Process of adding meaningful and valued differences to distinguish one's offerings from those of the competitors in the market.
**Trade-Promotion-** It is the collective term for the sales promotion incentives offered to the distribution intermediaries including the wholesaler, distributor, retailer, dealer etc.
**Samples-** Product or services given for free to induce customer trials.
**Coupons-** They are certificates entitling customers to a stated saving on purchase of particular products and generally redeemed by them at retail stores.

**Rebates-** Price reductions offered to the customer by way of partial refund of the price paid by him to purchase a product or service.

**Price Packs-** Consumer-promotion tool which offers customers savings on the regular price.

**Contests-** Consumer-promotion tool requiring the customers to display some specified skill in order to win prizes.

**Sweepstakes-** Consumer-promotion tool in which the prizes are decided on the basis of a lucky draw for the participating customers.

**Warranty-** Marketer's assurance to the customer to fix the product purchased by him if it breaks down within a specific time period after purchase.

**Guarantee-** Marketer's undertaking to replace a product if it breaks down within a specified time period after purchase.

**Manufacturer Promotions-** The term used to describe application of consumer-promotion tools by the manufacturer.

**Retailer Promotions-** Those consumer-promotion campaigns which are designed, financed and implemented by the retailers to nurture store loyalty or sell excess stocks.

**Display Allowance-** Consideration paid by the marketer to retailers as a reward for prominently displaying his products in their store.

**Advertising Allowance-** Consideration paid to the retailers for the expenses incurred by them in promoting the marketer's products locally within their territory.

**Dealership Franchisees-** Dealerships which are allowed to use the manufacturer's brand name and trade mark, apart from selling its products, in lieu of some consideration (franchise fee) paid by them to the manufacturer.

**Point of Purchase Displays-** Advertising displayed prominently near the billing/check-out space to induce the customer to make impulse purchases.

**Impulse Purchases-** Low-risk purchases, which neither cost much nor present any reputational risk to the buyer, and hence purchased on impulse and without any elaborate planning.

**Credit Sales-** Practice of selling goods or services on credit and allowing the buyer to make payment at a later date.

**Speciality Advertising-** These are low cost but useful items, prominently identifying the marketer. Marketers provide them to their sales-persons so that they may gift them to their prospects and customers and bring more orders.

## 19.9 ANSWERS TO CHECK YOUR PROGRESS

**Check Your Progress –A**

1. Sample
2. Price Pack
3. Point of Purchase Display

4. Advertising Allowance

## 19.10REFERENCES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## 19.11SUGGESTED READINGS


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3. Mc Daniel, Lamb & Hair, Introduction to Marketing, Thomson/ South-Western
4. Stanton, Fundamentals of Marketing, Mc-Graw Hill
5. Subhash C Jain, Marketing: Planning & Strategy, Thomson/South-Western
6. Armstrong & Kotler, Marketing: An Introduction, Pearson Education
7. Philip Kotler, Marketing Management: Analysis, Planning & Control, Prentice-Hall


## 19.12TERMINAL & MODEL QUESTIONS

Q1. Throw light on the importance of sales promotion as an element in the promotion mix.

Q2. How are the sales promotion tools categorised based on their target clientele?

Q3. List the different types of consumer- promotion tools. Also quote real life corporate examples to show their use by marketers.

Q4. Differentiate between sales-force promotion and trade-promotion.

Q5. Describe the various steps involved in designing a sales promotion campaign.

Q6. ‘Sales Promotion is a double-edged sword.’ Do you agree? Why or why not?

Q7. Design a sales promotion campaign for the Uttarakhand Open University with the objective of increasing the student admissions in the upcoming academic year.

# UNIT 20 SALES FORECASTING

**20.1 Introduction**
**20.2 Objectives**
**20.3 Sales Forecasting: Role & Importance**
**20.4 Sales Forecasts: What To Measure?**
**20.5 Sales Forecasting Techniques**
**20.6 Handling The Forecasting Errors**
**20.7 Summary**
**20.8 Glossary**
**20.9 Answers To Check Your Progress**
**20.10 References/ Bibliography**
**20.11 Suggested Readings**
**20.12 Terminal & Model Questions**

## 20.1 INTRODUCTION

In the preceding units, we have discussed the role and importance of promotion in the overall marketing mix. We discussed the various steps involved in formulation of the overall promotion strategy. The concept of promotion-mix was taken up for detailed discussion and the comparative strengths and weaknesses of the various elements comprising the promotion-mix were analysed. We also discussed the relevance of each of these promotional elements in different marketing situations. One of these elements, sales promotion, was studied in greater detail. We studied about the various sales promotion tools and their use by the marketers.

Before we move on to another prominent element in the promotion mix- personal selling- we shall take up Sales Forecasting for discussion. It is the process of making an estimation of future sales. This helps the marketer predict the demand for its products and services and scramble the various resources to produce and deliver them to the customers in a timely fashion. Sales forecast is also an input for deciding sales targets for the sales department and subsequently for individual sales-persons. Therefore, it shall be timely for us to understand sales forecasting before delving any deeper into sales force management and personal selling.

This unit shall begin with a discussion on the need and importance of sales forecasting as a marketing tool. Different dimensions, along which sales forecasting is usually done, would then be explained. We shall follow this up with a detailed deliberation on the various sales forecasting techniques popular among the marketers. Lastly, we shall have a brief look at the tactics which the marketers may resort to in the event of their sales forecasts going awry.

## 20.2 OBJECTIVES

After reading this unit, you will be able to:

- Appreciate the importance of sales forecasting for marketers
- Comprehend the impact of inaccurate sales forecasting on a business firm's viability
- Explain the various dimensions along which sales forecasting is done
- Describe the commonly used sales forecasting techniques
- Assess the relative strengths & weaknesses of various sales forecasting techniques
- List the options available to marketers to deal with erroneous sales forecasts

## 20.3 SALES FORECASTING: ROLE & IMPORTANCE

You must be wondering as to why we are halting our deliberations on the promotion-mix midway to discuss the seemingly incongruent concept of sales forecasting. We shall need a detailed explanation to be able to better appreciate the need for this diversion.

Corporate firms begin by segmenting the market and selecting one or more segments as their target. They research the needs & preferences of their target market and accordingly design their offerings. But they need to clearly project their future sales in the market before kicking off the production process. This estimate would determine the production volumes and the amount of raw material to be procured for use in the production process. The production volumes, in turn, would help fix the workforce strength. All these aspects shall also have a bearing on the quantum of investments required by the firm and what proportion of it, if any at all, would have to be borrowed from outside.

Thus, it is very much clear that demand forecast assumes great significance if one considers the bigger picture.

Let's take an example. Suppose that the authors of this study material (target market) are planning to have lunch at your home on a Sunday and enjoy your hospitality? You know their food preferences. But, would this information be sufficient for you to organise a lavish lunch for them as a *guru-dakshina*? Would you not want to know the expected number of guests-how many (sales forecast) of the authors are expected to turn up for the lunch? Definitely yes!

Because you have to wake up at the right time in the morning so that there is no delay in preparing the meal (production scheduling). You also have to ascertain whether the ingredients (raw material) needed to prepare various dishes (production) are available in the house. In case, some of these ingredients are not to be found in the house, you will have to buy (procurement) them from the neighbourhood *parchoon* shop. You will have to arrange for a spare in case the cylinder runs out of gas all of a sudden while you are busy cooking. You also need to have a rough estimate of the expenses that this shall entail (investment) and have sufficient money available with you for making the purchases. Not only this, you need to decide whether you and your sister can handle everything alone or you will have to ask your parents or friends to help you out (workforce strength). Would all of this possible without a clear estimate of the number of guests expected? No!

### 20.3.1 SALES FORECASTING: THE BASIS FOR OTHER BUSINESS DECISIONS

Sales forecasting is indeed an important fundamental task for a marketer and forms the basis for a multitude of business decisions.

First, the sales forecast helps a firm decide the production volumes. The firm has to assess whether its current production capacity is geared to produce in such volumes as warranted by the forecast. If it is not, the firm has the option of running multiple shifts and making the workers work overtime to augment its production volumes temporarily. Alternatively, the firm may decide to set up another production unit to augment its production capacity. The firm may have to purchase another land parcel for this. When Maruti Suzuki's sales forecasts in the early 2000s pointed to a sustained long term increase in the demand for their passenger cars, they realised that their Gurugram (erstwhile Gurgaon) plant would not be able to cater to this spike in demand and decided to expand their capacity by setting up another production unit in Manesar (Haryana). They have now founded another unit in Gujarat also.

There is also a possibility of sales forecasts predicting a downward slump. Such slumps are generally witnessed during the recessionary phase in the economy when the customers delay their purchases or reduce the purchase quantity. In such a case, the firm has to reduce the production volumes by doing away with overtime and multiple shifts.

The production volume, in turn, determines the firm's procurement plan. The firm has to determine the raw material requirement based on the production target - how much raw materials to procure and how frequently to place orders.

The production volume targets- how much is to be produced and by when- coupled with an accurate idea of the time taken by the production run, help fix the production schedule. It is the production scheduling which ensures that the production run starts well in time to produce the output in desired quantity to cater to the demand when it is forecasted to surface.

The sales forecasts also have a bearing on the workforce strength of a firm. If sales forecast point to a sustained increase warranting a ramp up in production, the firm may have to recruit additional manpower. On the other hand, if the increase in sales is expected to be short-lived and not endure for a long time, the firm would rather want to employ contract workers for some time. Their contract employment would continue only for the duration for which the future sales are forecasted to remain high. What if the forecasts point to a slump in sales rather than an increase? The firm may decide to terminate the services of some of the workers and thus rationalise its workforce strength.

A firm's distribution and customer-service capacity also hinges on the sales forecast. For instance, the forecasts of an uptick in sales would require the firm to also ramp up its distribution and service capacity by having more distribution intermediaries and employing more customer service personnel. A pessimistic sales forecast, on the other hand, would warrant limited distribution and customer service requirements.

All these aforementioned business decisions- production volume determination, capacity expansion, production scheduling, procurement, manpower planning, distribution & customer service capacity planning – have a cost implication for the firm. The firm will have to assess these expenditures and decide whether it has sufficient resources of its own to finance them or it will need to borrow from outside. The firm's revenue projections also depend on the sales estimates.

## 20.3.2 INACCURATE SALES FORECASTS: HOW THEY HURT?

What might happen if a firm fails to forecast its future sales accurately? If the sales forecast are too optimistic, the firm would order more raw-material, recruit more manpower & arrange more finances than it requires and produce much more than what it can sell in the market. Thus, it will have to bear the cost of unsold goods inventory, unexploited production capacity and unused manpower. It may have to resort to frequent use of sales promotion tools to get rid of the unsold stocks.

It would indeed be no exaggeration to say that inaccurate sales forecasts can be catastrophic for a firm. Consider, for example, what happened with quite a few corporate firms operating in India. Around 2006-07, the Indian economy was in the pink of health and most of the forecasts commissioned by the corporate firms indicated a sustained sales growth. This led to many corporate firms borrowing large sums from the banks to expand their capacity in anticipation of an increase in sales. But, as a severe economic downturn in 2009 hit the economy & the forecasts didn't materialise into actual sales, these firms suffered steep losses and were unable to even repay the bank loans. Some firms became bankrupt while some others got sold. Those which somehow managed to sustain themselves were left battered by humungous losses.

It is not as if pessimistic forecasts- which underestimate the future sales volume- don't hurt. They may equally ruin the fortunes of a corporate firm. They trick the firm into producing at a lower volume than what is warranted by the demand in the market. The firm is unable to cater to all the customers in the market. Some customers are turned away while others are asked to wait. Quite a few customers in both the groups switch their purchase to buy from the other firms.

Suppose that you want to replace your damaged smartphone and the dealer selling your preferred brand requests you to postpone your purchase by two months citing insufficient supply from the manufacturer firm. What would you do? Would you wait or purchase some other- though less preferred- brand from some other dealer? You may decide in favour of the latter course of action.

This would be a double whammy for the smartphone manufacturer. He first invested substantial resources to design and assemble smartphones which could satisfy the customers & become their preferred choice. Then he spent considerable amount to promote his offering among the prospective customers. And when his efforts bore fruit, it was his sworn market rival who plucked them! This happened only because his sales forecast were inaccurate.

The experience of Maruti Suzuki is very instructive in this regard. The company launched two new brands ‘Baleno’ & ‘Vitara Brezza’ in 2015 and 2016 respectively. Both the launches were a big success. So much so that their demand far exceeded the Maruti Suzuki’s most optimistic sales forecasts. The company’s twin production plants at Gurugram and Manesar came under stress owing to multiple shifts being run to tackle the long waiting period on the two cars. The customers had to be requested to wait. Very soon, Maruti Suzuki realised that not all the customers would be willing to wait for months to purchase a car and might rather switch to its rivals.

This spurred the parent firm, Suzuki Motor Corporation, to set up another production plant near the Mundra Port in Gujarat in 2017. Unfortunately by that time, many of the customers had already been lost to the rival firms. (Some industry experts, however, believe it to be a well thought out Maruti Suzuki strategy to create artificial scarcity of some of its brands to project them as hugely successful in the market!)

## 20.4 SALES FORECASTS: WHAT TO MEASURE?

Now that you have understood the criticality of sales forecasting for a business firm, we need to understand what exactly sales forecasting entails. You know that sales forecasting is the estimation of ‘future sales’.

### 20.4.1 TEMPORAL DIMENSION

Here, ‘future’ may correspond to both immediate future as well as distant future. We may forecast sales for the next one year (short term forecast), for the intermediate range of 1-5 years (medium term forecast) and for a time much ahead in future (long term forecast.) While most of the smaller firms generally rely on short & medium term forecasts to prepare their business plans, the best among them also keep an eye on the distant future and base their business plans on the long term forecasts also.

### 20.4.2 SPATIAL DIMENSION

The forecasts also have a spatial dimension. A firm may forecast sales at the district level (Nainital district), state level (Uttarakhand), regional level (North India), country level (India) and at the global level depending on its area of operations and its specific requirements.

Let’s consider a small firm operating in Uttarakhand only. It may wish to have district-wise sales forecasts for all the thirteen districts which can then be consolidated into a single sales forecast figure for the whole Uttarakhand state. Alternatively, it may forecast sales for the Uttarakhand state as a whole; but in this case, it would not have any insight into inter-district variations within the state. What kind of forecasts would have greater use for such a firm? District-wise sales forecasts, indeed. A pan-Indian firm, on the other hand, would have no use for this level of detail and would be satisfied with state-wise sales forecasts for all the states they are operating in.

What about a multi-national company selling in several countries across the globe? It may commission country-wise sales forecasts. At times, it may forecast sales for even bigger geographical units. What use would it be to have separate country-wise forecasts for India and its neighbours like Bhutan, Nepal, Sri Lanka & Maldives? It may be more prudent to have single forecast for the whole South Asian Region comprising Indian & all these countries in such a case. Many large firms operating at a global level, therefore, divide the world into whole regions- South East Asia, East Asia, West Asia & Africa, Latin America, USA/Canada/West Europe, East & Central Europe as well as Australia/New Zealand- and then forecast sales for them .

Some large companies operating across many countries and offering standardised products and services may even want to forecast sales at the global level. On the other end of the spectrum are the firms operating in business markets, which may forecast sales at the level of a single customer. Aircraft manufacturers like 'Boeing' & 'Airbus' must be forecasting aircraft sales for every single air-carrier customer of theirs. It makes sense for 'Lockheed Martin', which sells defence equipments to national governments, to forecast sales for each one of their major government customers.

## 20.4.3 SCOPE DIMENSION

We have seen that there are many business decisions that hinge on the sales forecast. So, firms would be interested in forecasting their individual (company) sales. Individual company sales are, however, difficult to predict as they are prone to the impact of the competitive moves of market rivals. On the other hand, industry level sales can be more accurately predicted. You may take the example of mobile handset (feature phones, smartphones etc.) industry in India. Mobile handset sales are growing almost as per the forecasts but the market share of different players within the industry has fluctuated widely in the last few years. 'Micromax', which earlier gave a close competition to Samsung and ranked among the major players in the industry witnessed a gradual decline in its market share later on.

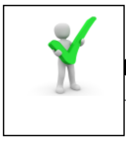
So, many a times, firms make sales forecasts for the whole industry (industry forecasts). Depending on their current market share as well as their expectations of the future market share, firms arrive at reasonable forecasts of their own sales.

On the other hand, some firms which have more than one brand in their portfolio may forecast sales for each of their major brands.

If the brands are too many, than the firm may decide to forecast sales for product lines and not for all individual brands. So, 'HUL' which sells a variety of brands like Lux, Rexona, Hamam, Lifebuoy, Rin, Surf Excel, Close-up and Axe might not forecast sales for each of these brands. It might rather commission forecasts for whole product lines- personal wash (includes all bathing soap brands), laundry (washing powders and detergents) and oral care (toothpaste and mouthwashes) – for practical reasons.

To give an example, Maruti Suzuki may forecast its company sales in 2020. Alternatively, it may forecast sales for each of its brands and add the individual brand forecasts to obtain a consolidated sales forecast figure. Maruti Suzuki may also forecast the passenger vehicles industry sales in 2020 to be in the range of 40 lakh and then assuming a 50% market share, arrive at a figure of 20 lakhs for its own sales.

Thus, a business firm can prepare a variety of sales forecasts using the three dimensions discussed above. Sales forecasts can be made for company sales in Uttarakhand for the medium term or for short-term industry sales at the global level. The exact combination of the three dimensions shall depend on their relevance for the firm.



***Check Your Progress-A***

**Answer the following questions.**

1. **A new telecom service provider firm plans to enter the Indian market around 2020. The firm has recently chanced upon a report, commissioned by the telecom industry association, predicting addition of 10 crore new subscribers every year, to the total customer base in near future. The firm is targeting a 10% share of this market. Suggest this new firm a simple method to forecast its sales.**

2. **Forecast the sales for this new entrant in 2020 using the method suggested by you.**

# 20.5 SALES FORECASTING TECHNIQUES

Now, let’s discuss the sales forecasting techniques prominently used by the marketers. Marketers should take care to not rely on just one of these techniques. It would, rather, be a good idea to cross-check the forecasts obtained by one technique with those obtained by some other technique also.

## 20.5.1 PURCHASE INTENTION SURVEYS

Purchase intention refers to a prospective customer’s plan to buy some product or service in future. The purchase intention survey seeks to find out two things from a prospective customer (respondent). First, he is enquired about the likelihood of his buying a particular product in near future- whether it is certain, highly likely, likely, unlikely or absolutely unlikely that he will purchase it. Second, those responding in affirmative to the first question are asked to mention their likely quantity of purchase. This survey is conducted with a small sample of customers in the target market and the results are extrapolated to forecast future sales for the whole target population.

Purchase intention surveys are useful for forecasting sales for those products which are purchased after extensive planning owing to their being expensive (bike, car, refrigerator, house etc.) or deemed by the customer as important to his image and reputation (designer suits, ornamental watches etc.) Hence, they are mostly used for forecasting sales of consumer durables and goods sold in business markets (industrial generator etc.)

Evidently, this technique has no use for forecasting sales for impulse purchase products like chocolates, hair-bands and ice-creams as they are generally purchased instinctively and without much planning.

This technique can only be used to predict sales for the short term. One more drawback of this technique is that the prospective customers may not have clear intentions to buy or may be unwilling to disclose their intentions. They may also not follow up on their intentions causing the sales-forecasts to go haywire.

## 20.5.2 SALES FORCE OPINION SURVEYS

It is the sales-person who, owing to his frequent interaction with the customers, knows the customers most intimately. Sales-persons have deep insights into the customer preferences and can predict their response to marketer's offerings. They also are best placed to detect emerging trends and alert their firm to bring products to benefit from them. No surprise, therefore, that their sales predictions often come true.

Many firms, therefore, base their sales forecast on the opinions expressed by their sales force. Every sales-person is asked to furnish his individual forecast regarding how much, of the firm's different offerings, his current and prospective customers are likely to buy. All these forecasts are then coalesced into a composite sales forecast for the firm.

One spin-off advantage of using this forecasting technique is that the sales-persons have greater confidence in their ability to attain the sales targets assigned to them as these targets, after all, are founded on their own forecasts.

However, firms should be cautious while relying on this sales forecasting technique. Why? Since the sales forecast form the basis for assigning sales targets to the sales force, the sales-persons are more likely to deliberately underestimate the demand. This would mean lower sales targets for them making their life easier. Sales persons may be too optimistic or too pessimistic in their disposition which would reflect in their overestimation or underestimation of likely sales. They may be too hard-pressed for time to exert careful efforts to prepare the forecasts. Salespersons may be either unaware or unable to comprehend the impact of the macro-economic developments (inflation, credit availability etc.), firm's own marketing plans and competitor behaviour on the future sales.

Therefore, such information must be provided to the sales-persons before asking them to prepare their forecast to improve the forecast accuracy. Additionally, they may be supplied with a comparison of their previous forecasts and actual sales in the previous years. Lastly, the sales-persons should be asked to furnish reasons for the particular forecast figures quoted by them.

## 20.5.3 EXPERT OPINION

Firms may also consult experts to obtain reliable sales estimates for future.

A firm may consult trade associations and management advisory and consultancy firms. These entities are well equipped to prepare such forecasts as they have substantial data and an in-depth knowledge about a particular industry crystallised from years of close observation & painstaking researches. They also possess considerable forecasting expertise.

Some marketing research firms also gather periodic data required to prepare such sales forecasts and sell it to interested parties at a consideration.

A firm may also choose to consult dealers/distributors (of firm's products) and suppliers/vendors (supplying raw material and machinery to the firm) who can predict sales with reasonable accuracy owing to their years of experience in a particular industry. However, their forecasts may suffer from the same limitations as those of the sales force. Their forecasts may be too optimistic or pessimistic and may be prepared without due consideration to those extraneous factors which may impact future sales. The dealers & distributors might have a tacit interest in underestimating the future sales. Why? Because a rosier sales forecast might result into the firm pressurising them to stock its products in higher-than-usual quantities. Suppliers, on the other hand, would be more inclined to overestimate future sales so that the firm may be coaxed into buying more raw material supplies from them.

A firm may, at times, decide not to rely on any one of the above and rather opt for a group of experts for preparing the sales forecasts. Such groups are constituted to have experts from diverse backgrounds- suppliers, dealers, business journalists, industry experts, consultants etc. They bring diverse perspectives to the discussion table which lends solidity to the sales forecasts. Following is a description of some popular methods of obtaining sales forecasts from a group of experts.

### 20.5.3.1 Group Discussion Method

This method entails a frank and comprehensive exchange of views among the experts gathered at one place. To start with, all the experts present their individual forecasts and also the basis for the same. The ensuing discussion is expected to result into a group estimate of future sales.

This method is quite useful as tendency of some participants to deliberately overestimate or underestimate future sales is kept in check by fellow experts with a differing point of view.

The group discussion method suffers from one deficiency- the more assertive members dominate the discussion while the hesitant ones struggle to put forth their views. This might skew the group forecast.

#### 20.5.3.2 Pooling of Individual Estimates Method

One way to make up for the aforementioned shortcoming of the group discussion method is to let the experts supply their own estimates individually without having to sit together and discuss with fellow experts. All these individual estimates are collated and adjusted by an analyst to arrive at a single sales forecast figure.

However, the drawback of this method is that the experts don't have the advantage of revising their individual forecasts in light of the arguments presented by the fellow experts.

#### 20.5.3.3 Delphi Method

This method combines the strengths of the above two methods and does way with their deficiencies. Here, all the experts present their individual forecasts separately which are then collated. All the experts are then briefed about the forecasts made by other members in the group. Each of the experts is then asked to modify his original forecast in the light of this new information.

This process of estimation and revision is repeated till all the individual forecasts presented by the group members separately are in close proximity of one another.

This method is also called the 'Nominal Group' method which implies that though the members have access to and benefit from the knowledge of the forecasts made by their fellow group-mates (as happens in a group), they never interact directly with one another (thus, the group exists only in name).

### 20.5.4 PAST SALES ANALYSIS

Data regarding past sales can be a good basis for forecasting future sales especially if the macro-environment hasn't changed significantly. Different statistical tools can be utilised for such analysis. We shall discuss only two such tools here.

#### 20.5.4.1 Exponential Smoothing

Exponential Smoothing is a statistical technique, which estimates future sales by calculating the 'weighted' average of the past sales data- the average is calculated by assigning progressively more weightage to the newer sales data and progressively lesser weight to older sales data. You can think of 'weight' as a mathematical equivalent of importance. Thus, exponential smoothing attaches more importance to recent sales data than to sales recorded in distant past while calculating the average to forecast future sales.

#### 20.5.4.2 Statistical Demand Analysis

Statistical Demand Analysis is another sales forecasting method in which the past sales records are used to identify those factors which impact sales. These causal factors may include the macro-economic variables (inflation and income levels), micro-economic variables (firm's own marketing expenditure & product pricing policies) as well as factors like the number of rival brands selling in the market. Once all such causal factors are identified, the quantum of individual impact of all the factors- one at a time- is assessed. All this information is used to develop a single comprehensive equation expressing the relationship between sales and all these causal factors. Once this equation has been determined, the expected future values of the causal factors are put to obtain an estimate of future sales.

Sales forecasting through statistical analysis of past sales is more objective than the other techniques discussed earlier. But, it requires careful (past sales) data collection as inaccurate data may greatly skew the sales forecasts. Considerable expertise is also required for the proper application of these techniques as well as to draw valid conclusions from their use. Lastly, past may not always be a good predictor of the future. Consider, for example, the Indian telecom service firms like 'Airtel' & 'Idea' who were optimistic about their future outlook when their 2014-15 sales forecasts indicated a sustained growth in number of subscribers in near future. But, all these predictions went haywire with the entry of 'Jio' in the market.

## 20.5.5 MARKET TESTING

In one of the sales forecasting techniques discussed above, prospective customers were enquired about their intention to purchase a product in future. However, there are many mediating factors which determine whether purchase intention results into actual purchase action or not. You intended to purchase a bike but before you could follow up on your intention, some friend of yours fell sick and had to be hospitalised. Since you paid for his hospitalisation expenses, you had to postpone your planned purchase of a bike because of paucity of funds. This is a limitation of the purchase intention surveys- they only assess purchase intentions and do not definitively predict purchase actions.

Now, let's assume that you are asked to forecast sales for a new product or a breakthrough technology being launched in the market for the first time. Obviously, you don't have any past sales data to rely on. Dealers, suppliers and your own sales force would also be largely clueless owing to having no prior experience of selling this new product/technology.

In such cases, especially in the latter, when a firm needs to forecast sales for a new product/technology about to be introduced, market testing can serve the purpose. Let's discuss one of the several ways in which market testing can be done.

For market testing, a firm places its product in a few retail stores (test markets). It also puts up point-of-purchase displays in these stores. Promotion campaign is carried out in the nearby areas to draw the customers in. The customers visiting the store are observed- how they react to the product, whether they try it, how many of them purchase it again (repurchase ratio). The customers may also be interviewed later on to understand their perception of the product quality. All this data can be extrapolated to the larger target market to prepare sales forecasts.

This techniques is superior to others as it forecasts sales based on the customer's actual purchase action. However, the drawback of this technique is that it is time and cost intensive. Moreover, if used to forecast sales of a new product/technology, it also exposes the new product to scrutiny by market rivals giving them sufficient time to plan their own pre-emptive or counterattacking moves.

## 20.6 HANDLING THE FORECASTING ERRORS

Now that we have discussed the various sales forecasting techniques, a word of caution would be timely. There is no guarantee that the sales predictions made using these techniques would always come true. There may be a shift in the macro-economic environment, competitive intensity may increase and the forecasting techniques themselves may be applied inaccurately. So, a marketer should always draw up contingency plans and be ready for fire-fighting!

### 20.6.1 HANDLING OVERESTIMATION ERRORS

What can a firm saddled with excess stocks, owing to an overoptimistic sales forecast, do? Do you recall having read about a prominent tool available to marketers to get rid of excess stock? Sales promotion indeed. The firm may bring 'reduced-price packs' for end customers and provide 'bulk discounts' to the intermediaries.

Firms manufacturing goods of non-perishable nature can store them till demand surfaces. They can use their own warehouses or rent them for this purpose. Non-perishable goods lying unsold with the intermediaries can be recalled and supplied back to them after changing the labels.

If a firm is not too sure about the sales forecast, if feasible, it can choose not to process the raw material fully into end-product. It should rather keep the raw-material at the semi-processed stage to utilise it to manufacture different end products as and when the customer demand surfaces. This is what a '*dhaba-wala*' does. He keeps the dough ready. Depending on the specific customer demand, this dough can be used to produce *roti*, *poori* or *paratha*.

Firms, lacking confidence in the sales forecasts, also employ contract workers in greater numbers. If the sales are indeed lower than the projections, the services of some of these contract workers can be terminated.

### 20.6.2 HANDLING UNDERESTIMATION ERRORS

Too pessimistic a sales forecast leaves a firm unable to cater fully to the market demand. To avoid having to turn away the customers, a firm may design a system in which customers deposit a small amount to book the product in advance. This booking amount should not be too large to scare the customer but large enough to deter him from switching to competitor brands. Maruti Suzuki uses this tactics when its production lags the customer demand for its various brands.

Firms can also announce rewards- discounts, premiums or extra services- for those customers who agree to delay their purchases.

Contract workers can be hired and some manufacturing processes can be outsourced to other firms to speed up the production to cater to the high customer demand.

***Check Your Progress- B***

1. **Which sales forecasting technique is of no use for a new market entrant?**

2. **Which technique- purchase intention surveys or expert opinion- would be more feasible for forecasting chocolate sales?**

3. **Which type of forecasting error shall cause the firms to over-borrow?**

4. **A firm is incentivising the customers to delay their purchases. What kind of forecasting error must have necessitated this?**

## 20.7 SUMMARY

We started this unit with an appraisal of the importance of sales forecasting as a marketing tool. We also understood that sales forecasting can be done along different temporal, spatial and scope dimensions. This was followed by a detailed discussion about the various sales forecasting techniques popular among the marketers and an assessment of their comparative strengths and weaknesses. Since the forecasts may also go wrong, we discussed the contingency measures that can be resorted to by the marketers in the event of their sales forecasts going awry.

## 20.8 GLOSSARY

**Sales Forecasting-** Estimating future market demand for a firm's offerings so that the production process may be geared to effectively satisfy this demand.

**Procurement-** Business function which purchases raw material supplies for use by the firm in the production process.

**Purchase Intention Surveys-** Technique of forecasting sales of a product by enquiring the prospective customers about their intentions to purchase it in near future.

**Sales Force Opinion Surveys-** Estimating future sales on the basis of the opinions expressed by the salespersons.

**Macro-Economic Developments-** Those developments in the environment which impact all the business firms and are beyond their control.

**Expert Opinion-** Consulting experts (suppliers, dealers, consultants etc.) to obtain sales estimations for a future time-period.

**Delphi Technique-** Technique of sales forecasting in which members of an expert group- which never interacts directly- are made to repeatedly revise their individual predictions in the light of predictions made by others in the group, till all of them arrive at a unanimous forecast figure.

**Exponential Smoothing-** Averaging past sales, by assigning progressively greater weightage to relatively more recent sales data, to obtain sales forecasts for future.

**Statistical Demand Analysis-** Analysing historical data, to identify & measure the impact of various causal factors on sales, and using this information to predict future sales.

**Market Testing-** Forecasting sales of a product by introducing it in some retail-stores and extrapolating the observed customer-trial and repurchase rates to the larger target market.

## 20.9 ANSWERS TO CHECK YOUR PROGRESS

**Check Your Progress –A**

1. The firm can multiply annual industry sales (10 crores) in 2020 with its target market share (10%) to forecast its own sales in the said year.
2. 1 crore units.

**Check Your Progress –B**

1. Past Sales Analysis
2. Expert Opinion
3. Error of Overestimation
4. Error of Underestimation

## 20.10 REFERENCES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## 20.11 SUGGESTED READINGS


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3. Mc Daniel, Lamb & Hair, Introduction to Marketing, Thomson/ South-Western
4. Stanton, Fundamentals of Marketing, Mc-Graw Hill
5. Subhash C Jain, Marketing: Planning & Strategy, Thomson/South-Western
6. Armstrong & Kotler, Marketing: An Introduction, Pearson Education
7. Philip Kotler, Marketing Management: Analysis, Planning & Control, Prentice-Hall


## 20.12 TERMINAL & MODEL QUESTIONS

Q1. What is Sales Forecasting? How is it important for a business firm?

Q2.'Inaccurate sales forecasts impact the fortunes of most other departments in an organisation.' Elucidate with examples.

Q3.Briefly describe the various sales forecasting techniques used by business firms.

Q4.Uttarakhand Open University wants to forecast student-admissions in the approaching academic year. Suggest a forecasting technique which suits its requirement. Also draw a detailed plan to guide the university in using this forecasting technique.

Q5.What practical remedies are available to a firm if its sales forecast is found to have underestimated or overestimated the demand by a wide margin?

# UNIT 21 SALES FORCE MANAGEMENT

**21.1 Introduction**

**21.2 Objectives**

**21.3 Sales Force Recruitment and Selection**

**21.4Training the Sales Force**

**21.5 Sales Force Compensation Management**

**21.6 Motivating the Sales Force**

**21.7 Evaluating Sales Force Performance**

**21.8 Summary**

**21.9 Glossary**

**21.10Answers to Check Your Progress**

**21.11References/ Bibliography**

**21.12Suggested Readings**

**21.13Terminal & Model Questions**

## 21.1 INTRODUCTION

In the current block, we have been discussing the fourth P of the marketing mix- promotion. We came to know about the various elements- advertising, sales promotion, direct marketing, personal selling, public relations and publicity- that constitute the promotion mix and their comparative strengths and weaknesses. We also understood that use of each of these elements is contingent on the marketing situation. There, we also referred to personal selling as a promotional element prominently used in business markets.

In the last unit, we took a break from our discussion on promotion mix to discuss the concept of sales forecasting. This deviation was necessitated by the fact that it is the sales forecast which forms the basis for assigning targets to the sale-force. We began the last unit with an appraisal of the role and importance of sales forecasting for a business firm. Different dimensions, along which sales forecasting is usually done, were then explained. This was followed up with a detailed deliberation on the various sales forecasting techniques popular among the marketers. The unit concluded with a brief look at the tactics employed by the marketers to handle the situation if the actual sales don't materialise as forecasted.

Now that we have a substantial knowledge about sales forecasting, which informs the process of assigning targets to the sales force, it is the right time for us to discuss personal selling in greater depth. Before that, however, we need to know how firms organise and manage their sales force. In this unit, we shall be discussing this very aspect- sales force management.

We shall start with how salespersons are recruited and trained. The various types of compensation plans that are used for sales force salary administration would then be taken up for discussion. This would be followed by a brief description of various motivational tools used by supervisors to inspire the salespersons to perform to the best of their capability. We will touch upon the criteria used for evaluation of salesperson’s performance in the end of this unit. The subsequent unit shall take up the process of personal selling in detail.

## 21.2 OBJECTIVES

After reading this unit, you will be able to:

- Describe the process of sales force recruitment.
- Distinguish between various sales force selection tools.
- Understand the sales force training process.
- Comment on the relative merits of different training techniques.
- Compare the different compensation plans used for sales force salary administration .
- List various motivational tools available with managers to drive sales force performance.
- Quote the criteria used for evaluating the performance of salespersons.

## 21.3 SALES FORCE RECRUITMENT & SELECTION

Any firm has to carefully build its sales force. Salespersons don’t only bring sales revenues but also capture the customer- response to the firm’s offerings and relay it back to the firm. It is the sales force which, owing to its intimate knowledge of the customer needs, is best placed to supply the firm with new product ideas. The quality of interaction with the salesperson significantly impacts the customer’s perception of the firm and its offerings. Therefore, recruiting and selecting the salespersons (sales representatives) and training them adequately has great bearing on a firm’s market success.

Please note that before kicking off the plans to build a sales force, a firm must calculate the particular sales force size (number of salespersons) that shall suit its requirements. You would remember our discussion in the last unit about how workforce strength is determined by the sales forecasts. The same is true for the sales force size also- higher the sales forecasts, greater the number of salespersons required. Thus, depending on the sales forecasts, the firm determines the ‘optimum’ sales force size for itself.

Now, to the extent that the firm’s current sales force size lags behind this ‘optimal’ sales force size, the firm would need to hire additional salespersons to make up for the shortfall. Thus is determined the number of salespersons to be hired. However, this alone is not sufficient. We also have to determine the specific duties and responsibilities supposed to be assigned to them (job description) as well as the knowledge, skills, experience, physical and psychological traits (job specification) required by them for successful discharge of these duties. The three aforementioned aspects- number of salespersons to be hired, job description and job specification- shall inform the subsequent steps of recruitment and selection.

You must be wondering as to why recruitment and selection are being discussed as separate topics. Please note that, though a layman may use ‘recruitment’ and ‘selection’ interchangeably, they have different meanings for a management graduate. Before moving any further, we need to first understand the difference between the two.

| Recruitment | Selection |
|---|---|
| It is the process of searching for and obtaining a pool of candidates with sufficient knowledge, skills and experience to fill up the organisational vacancies. | It is the process of identifying the best candidates, to fill up the organisational vacancies, from the candidate pool created by recruitment. |
| It is a positive process since it aims to attract the maximum possible number of qualified candidates. | It is considered a ‘negative’ process since it seeks to eliminate the less suitable candidates. |
| It precedes selection. | It follows recruitment. |

*Table 21.1: Difference between Recruitment & Selection*

## 21.3.1 SALES FORCE RECRUITMENT

Recruitment, as discussed above, refers to the process of attracting qualified applicants for the positions vacant in a firm, in as many numbers as possible. Why? Because, more candidates would mean a larger candidate-pool to select from.

Following are the sources which can be tapped to obtain a pool of candidates against the sales force vacancies.

### 21.3.1.1 Job Advertisements


**Figure 21.1: Job Advertisement**

Have you ever come across such job-advertisements inviting applications from interested candidates for various vacant positions in an organisation? This job-advertisement informs the interested candidates about the sales force vacancies in the online real estate brokerage firm ‘Magic Bricks.’

It seems that the firm has worked out its requirement of salespersons. It needs 50 sales trainees (the vacancies have been marked by a circle for your understanding.) Plus, it also has clearly spelt out the eligibility criteria (job specification) for the advertised jobs. For instance, the job specification for Account Manager-Sales (marked by an arrow) requires the incumbent to be at least a graduate with a minimum experience of one year. This is an example of how job specification sets the contours of the recruitment process.

These job advertisements aim to obtain response from maximum number of eligible candidates. Note that the advertisement also mentions the e-mail address to which the candidates have to send their applications.

It may so happen that a firm may be in urgent need of salespersons and want the vacancies to be filled fast. In that case, they organise ‘Walk-ins’ in which the interested candidates simply walk in with their bio-data.

### 21.3.1.2 Campus Recruitment

Firms like Infosys, Maruti Suzuki, HUL, Asian Paints often visit various premier technical (Indian Institute of Technology, Regional Engineering College etc.) and management institutes (Indian Institute of Management etc.) and hire graduate and post graduate students from there. Most of the students in these institutes don’t have any prior work-experience though a small percentage may have worked in industries for some time.

### 21.3.1.3 Placement Agencies

Placement agencies act as intermediaries between job-seekers and the firms looking for new hires to fill up their vacancies. These agencies have a database of job-seekers which they share for a fee with the firms looking to hire additional manpower. Recruiter firms may also advertise their vacancies on the websites of these placement agencies after paying some consideration. Sometimes, these placement agencies may also charge those candidates who get selected.

Placement agencies can be a good option for firms looking to hire candidates with work experience- lateral hiring. Monster.com and naukri.com are some of the famous placement agencies.

### 21.3.1.4 Employment Exchanges

In India, the unemployed youth get themselves registered with the local government run employment-exchanges. A firm may use their databases as a recruitment source.

### 21.3.1.5 Internal Job Postings

Some-times a firm may wish to fill up its sales force vacancies with its own employees currently working with other departments. In such a case, the firm would advertise the vacancies only internally, among its existing employees.

But why would a firm rely on internal job postings? Because, an existing employee already knows the company culture, rules and procedures and hence requires much less training and handholding than some newcomer. Alternatively, some functions/departments may have more manpower than they require making it a good idea to shift some of the willing employees to the sales function rather than terminating their services.

In many firms, it is mandatory for employees to have worked with more than one function/ department, to get promoted to senior management positions. Hence, ambitious employees in such firms keenly seek internal job postings.

### 21.3.1.6 Competitors' Employees

A firm may also 'poach' the employees of its competitor firms. Such a recruiting strategy has many advantages. Firstly, the firm gains access to an experienced pool of candidates who don't require much training. Secondly, these candidates know about the various flaws in the competitor's offerings which can be exploited by the firm to gain market advantage. Thirdly, such candidates have a rich database of customers with whom they have dealt for years. On the strength of this long term relationship, they can convince these customers to switch the purchases in favour of their new employers.

No surprise that this employee poaching (alternatively employee raiding or talent poaching) is a widespread practice in the corporate world specially adopted by the smaller firms trying to get a foothold in a market dominated by a large rival. Many of the employees manning the sales function in 'Hyundai' today are ex-employees of 'Maruti Suzuki.'

## 21.3.2 SALES FORCE SELECTION

Once a firm has access to sufficient number of candidates for its vacancies, the next task is to identify the best candidates to fill up the sales force vacancies.

A word of caution is warranted here. A firm should endeavour to identify the 'best fits' (and not just the 'best') for itself from among the applicants. 'Best-fits' are those candidates who best suit the firm's specific requirements (though they may not be the best!)

Take for example, a candidate who has studied from a premier management institute and has many academic honours to his name, but abhors dining out. This candidate may not be a good-fit for the firm if its nature of business is such that most of the deals with the customers are struck over informal parties, lunches and get-togethers. Moreover, the 'best' candidates are also more likely to quit the firm in search of greener pastures elsewhere.

One can learn from the example of 'Infosys', which ranks among India's topmost IT companies. It is rumoured to have a policy of discarding the brightest candidates during the selection process. It has an ‘upper cut-off’ in its selection tests and discards those scoring above it.

Let’s have a brief look at the selection tools commonly used by the firms to identify the ‘best-fits’ among the candidates and eliminate the others.

### 21.3.2.1 Application Blank

Rather than having the candidates submit their job applications in whatever way they want, many firms use a standardised application format, called the application blank. This format has various sections (personal details, educational qualifications, work experience & income details, contact information etc.) seeking information from the applicants. Often such application blanks are available on the firm’s website or appear along the job-advertisements.

Once, the duly filled up application blanks are received, they are carefully scrutinised by the firm to select the best candidate. An objective way of this would be to assign weightage to the various factors. For instance, the candidates having a first division at the graduation level may be awarded 5 points, those with second division awarded 3 points and so on. In the end, all the points secured by a candidate are totalled to obtain his cumulative score. The candidates with the highest cumulative scores are selected.

Alternatively, the candidates obtaining a cumulative score beyond a particular cut-off may be called for further assessment through in-depth interviews. This is an example of how the application blanks may also be used in conjunction with other selection devices.

### 21.3.2.2 Interviews

Interviews are face to face interactions with the applicant conducted with the objective of assessing his overall personality. Interviews may be structured or unstructured.

Structured interviews are those in which all the interviewees are asked the same questions in the same sequence. They are considered more reliable as the difficulty level is the same for all the applicants. However, they are not used much because of leakage risks- the candidates interviewed later may have the advantage of prior knowledge of questions being asked.

Unstructured interviews are, therefore, a more common sight. These type of interviews may head in any direction as the interviewers tend to frame their questions depending on the response of the candidate.

### 21.3.2.3 Written Tests

Most banks and public sector (government-owned) enterprises rely on written tests as a selection tool. Some type of written tests check the candidate’s proficiency in some subject or skill after sufficient training has been imparted to him (achievement tests). Others predict his ability to learn a skill and benefit from it if adequately trained (aptitude tests). Let’s take some examples to understand this better.

Clerical Aptitude Test is conducted by public sector banks for filling the position of clerks in their branches. This test scores the candidates on their ability to learn the skills required by a clerk if adequate training is provided to them. Now consider a written test for the post of a sales-manager, aiming to check your knowledge of Marketing Management, which has already been taught to you. Such a test is an achievement test.

Still other types of tests are called psychological tests. They strive to measure various psychological attributes like attitude and interests. They may help a firm determine whether a candidate has a co-operative nature & can work well in a team, which is an important personality aspect since organisations are all about team work. These tests also help a firm distinguish between extroverts (outgoing nature and preference for interaction with others) and introverts (reserved and preference for spending time alone) and choose the former for a sales job.

Situation tests present various hypothetical scenarios to the candidates and ask them to choose from a range of possible responses.

### 21.3.2.4 Role Plays

In role plays, candidates are put into an imaginary situation and asked to respond to it. For instance, a candidate may be asked to imagine trying to persuade an unwilling customer to buy a product. A member of the selection panel may assume the role of this customer, whom the candidate will have to convince exactly as he would do as a salesperson.

Role plays are a good tool to assess creativity and spontaneity which are essential attributes of a salesperson.

### 21.3.2.5 Group Discussions

This is a selection tool used by the firms for quickly sifting through a large number of candidates. Candidates are divided into groups of 8-10 members. Each group is given a topic for the members to discuss and present their views on. The candidates are assessed on their leadership abilities, interpersonal skills, communication proficiency, conflict management and overall behaviour in the group. It is popular as a preliminary selection tool among the firms visiting educational campuses. The candidates found suitable in the group discussion are then interviewed for purpose of final selection.

### 21.3.2.6 Physical Examination

Firms often also use physical examination in conjunction with other selection tools. Selling may be a stressful jobs especially when the deadline is fast approaching and the targets are yet not achieved. It entails a lot of travelling as well. Firms, therefore, need to be sure that a candidate is physically and mentally fit to handle such situations.

Unfit candidates, if selected, are frequently absent from work. Additionally, the terms of employment may require the employer firm to reimburse the medical expenses incurred by its employees. Lastly, the employee may demand compensation claiming that he was fit to begin with and caught a disease owing to the strenuous nature of his job. Physical examination takes care of all these issues.

Can you answer an important question before we conclude our discussion on recruitment and selection- who, do you think, steers these two processes in an organisation? Human Resource function, indeed; but with active co-operation from the sales function, of which the manpower requirements are being fulfilled.

Once the firm has identified the best candidates to fill up the sales-vacancies using the aforementioned techniques, it presents them an 'offer letter' informing them of their selection. This document also mentions the date by which the selected candidates are expected to present themselves for formally joining the firm.

### 21.3.3 Placement

Once the successful candidates have joined, the process of placement follows in which these new employees are assigned specific selling duties and sales-territories.

## 21.4 TRAINING THE SALES FORCE

Salespersons, how-so-ever skilled, require appropriate training. They need to thoroughly know about the company history. Knowing the attributes of one's own products alone won't be sufficient. Salespersons should rather also have an in-depth knowledge of the rival products in the market to be able to effectively highlight the superiority of their own offerings. Proficiency in making presentations would make their sales pitch more impactful. Salespersons should have sufficient interpersonal skills to understand the reasons underlying the customer's resistance to making a purchase decision and overcome it. He should be able to convince the customers by addressing their queries effectively.

### 21.4.1 SALES FORCE TRAINING PROCESS

Training is imparted to a salesperson with the objective of improving his job performance by bringing about a measurable change in his knowledge (knowledge of own and competitor's offerings etc.), skill (negotiation skills etc.) or attitude (customer orientation etc.)

The sales force training process includes a series of interconnected steps.

First of all, the training needs of a salesperson are identified. Sales supervisors are asked to suggest training requirements for the salesperson working under them. Now-a-days, colleagues and customers are also consulted for such inputs. Many-a-times, the salesperson himself may feel the need for some particular training and voice his concern. Performance evaluation exercises undertaken by the organisation can also unearth those aspects which are causing the salesperson to underperform and hence need to be polished through training. Whether or not a salesperson needs training can also be assessed by testing his current knowledge about the firm's products and about those of the rivals. The launch of a new product or introduction of a new technology by the firm also calls for training the salespersons.

After identifying the training needs, the training programme is planned. This includes deciding the training location (within the firm's premises or outside), training duration (single day, week or fortnight etc.) as well as the trainer (an in-house expert from the firm itself or a professional trainer from outside) etc. One major decision would be to choose the type of training (discussed in detail in the following section) in accordance with the specific training needs identified in the previous stage. Also, a method to be used for assessing the effectiveness of training is also earmarked.

Implementation of this training plan would follow next. Salespersons are intimated in advance. Seating and refreshment arrangements are made for them. Training equipments (projectors) are installed, training aids (chalks, markers, flipcharts) made available in sufficient numbers and training is conducted.

Once the training has been imparted, a comprehensive assessment of its effectiveness is carried out. The trainee-salesperson may himself give a feedback about the usefulness of the training programme. Alternatively, sales-supervisors are asked to observe whether the training has resulted into an improved performance by their sub-ordinates. Many-a-times, the colleagues and customers of the salesperson are asked to report the changes observed in him after having undergone the training. Another assessment technique is to give him tests after the training and compare the scores with pre-training scores. A significant improvement in test scores can be understood to mean that the training has been effective. Effectiveness of the training programme would also reflect in the salesperson getting a higher performance rating whenever his performance evaluation is carried out subsequently. Better performance by the sales function is also another yardstick to assess the effectiveness of a firm's training programmes.

## 21.4.2 TYPES OF TRAINING

The various types of training have been discussed below.

### 21.4.2.1 Induction / Orientation Training

Induction/orientation training is provided to the salesperson at the time of joining to impart him adequate knowledge about the firm's history, organisation structure and its core business. It is also an opportunity to expose him to the organisational culture. He is also briefed about the firm's various offerings in the market and how they compare with the rival offerings.

### 21.4.2.2 Refresher Training

Salesperson is provided periodic refresher trainings to brush up his knowledge about the firm's products as well as their newly introduced features. The salesperson is also briefed about the new rival products introduced in the market.

### 21.4.2.3 Job Training

Job training aims to impart job specific knowledge (customer-psychology etc.) & skills (negotiation & presentation skills etc.) to bring about an improvement in the salesperson's performance.

#### 21.4.2.4 Promotional Training

This type of training is provided to those who have recently been promoted or due for promotion in near future so that they may have the knowledge and skills to be effective in their new roles.

Successful salespersons often get promoted to supervisory positions where they have to lead a team of other salespersons. However, supervising entails task-allocation and performance monitoring skills. Promotional training aims to impart this entirely different skill-set to the promoted salespersons.

### 21.4.3 TRAINING TECHNIQUES

Depending on whether the training is provided at the workplace or a separate location, we have the following two categories.

#### 21.4.3.1 Off-the-Job Training

Off-the-job training requires the salespersons to take a break from their work and gather at a separate location where the training is to be provided. Classroom lectures and outdoor training are examples of off-the-job training techniques. Sometimes, the salesperson are sent to attend sales-conferences and seminars in which successful sales professionals and industry experts share their knowledge for the benefit of participants. Now-a-days, salespersons are also made to participate in simulation games. These games make use of various technological devices to mimic the real-market conditions and train the salespersons to emit the most appropriate responses.

#### 21.4.3.2 On-the-Job Training

On-the-job training is provided at the workplace itself without the salesperson having to take any break from regular work. Mentoring- providing performance feedback and advice- by seniors is an example. Role modelling is another commonly used on-the-job training technique. It requires a salesperson to first closely observe his seniors during their interaction with the customers and then to practice the same mannerisms while delivering his own sales talk.

## 21.5 SALES FORCE COMPENSATION MANAGEMENT

Sales force compensation typically has the following components.

The fixed component provides income stability to the salesperson and paid to him irrespective of his own performance or that of the firm's.

Variable component, on the other hand, depends on both these aspects. It includes the commission that the employee is paid on the sales revenue generated by him. Such commissions spur the salespersons to exert greater efforts. Firms also tend to share a part of profit made by them with their employees – a practice called 'gain-sharing'. This practice encourages the employees to prioritise broader organisational goals over their individual goals.

Expense Allowances are meant to reimburse the salespersons for the expenses incurred by them during the course of their work. For instance, the salespersons spend money in travel and lodging which has to be reimbursed. Many-a-deals, with the customers, are struck on a dinner or during a round of golf. Needless to say that it is for the salesperson to pay the bills on such occasions. So, they need to be reimbursed for such customer-entertainment expenses also.

Benefits- accident benefits, pensions, life and health insurance- may also be provided to the salespersons to enhance their sense of security.

Perks like company vehicle, personal chamber etc. also form part of the sales force compensation.

Generally, fixed and variable components constitute the largest part of the sales force compensation. Depending on the relative proportion of these two components, the compensation plans fall under one of the following three categories.

## 21.5.1 STRAIGHT SALARY COMPENSATION PLANS

Such plans provide for a fixed income for the salespersons, i.e. there is no variable component in such plans. Such plans breed a sense of security among the salespersons and reduce attrition (the tendency of salespersons to leave the current employer for a job in some other firm.) Straight salary plans also make the salespersons devote sufficient time and energy to those non-selling activities (cultivating relationship with the customers, gathering competitive intelligence etc.) which are also important for the firm. These plans are also easy for the firms to administer.

However, such plans may induce the salespersons into not trying hard enough to bring sales as they are not tied to commissions. Hence, these plans require a closer supervision of the sale force by the firms.

Such plans have been found to be preferred by middle-aged salespersons saddled with family responsibilities.

## 21.5.2 STRAIGHT COMMISSION COMPENSATION PLANS

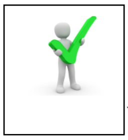
Straight commission plans have no fixed component and the salesperson's salary depends only on his sales performance. Such plans attract high performers with a go-getter attitude. The firm may earn handsome sales revenue without having to supervise the sales force closely.

But such plans make the salespersons concentrate solely on the selling task to the neglect of other important activities (like relaying customer feedback to the firm.) They may also prompt unethical practices like overstocking the customer beyond his actual requirement. All these would be detrimental for the firm in the long run.

### 21.5.3 COMBINATION SALARY & COMMISSION COMPENSATION PLANS

The combination compensation plans combine the strengths of both the straight salary and straight commission plans while substantially doing away with their shortcomings. This is the reason why they are most prevalent in the world of marketing.

Such combination plans may also be designed to make at least some proportion of the salesperson's compensation contingent on the overall performance of the firm. This would breed cooperation among the salespersons as well as between the sales department and other functions in the organisation.



***Check Your Progress-A***

1. **Which recruitment source would never be resorted to by a firm looking to hire new blood with fresh ideas from outside?**
   ----------------------------------------------------------------------------------------------------
   ----------------------------------------------------------------------------------------------------
   ----------------------------------------------------------------------------------------------

2. **Which selection tool is best suited to assess the soft skills like customer orientation and customer query handling?**
   ----------------------------------------------------------------------------------------------------
   ----------------------------------------------------------------------------------------------------
   ----------------------------------------------------------------------------------------------

3. **Mr Cyrus Mistry was made to work closely with the outgoing chairman Mr Ratan Tata before being handed over the reins of the Tata Group. What type of training was this**?
   ----------------------------------------------------------------------------------------------------
   ----------------------------------------------------------------------------------------------------
   ----------------------------------------------------------------------------------------------

4. **Which kind of compensation plan would be preferred by a salesperson who abhors hard work?**
   ----------------------------------------------------------------------------------------------------
   ----------------------------------------------------------------------------------------------------
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## 21.6 MOTIVATING THE SALES FORCE

Selling is a rewarding job for those who are ambitious, like challenges and driven by the urge to outcompete others.

But, this may not be the case with everybody. Many salespersons find their job stressful especially when they are struggling to achieve the targets and the deadlines are fast approaching them. Salespersons also have to travel a lot and their work is not confined to normal working hours as is the case with the employees in other departments. They have to be watchful against the rival salespersons trying to poach their customers. Even the customers are always pestering them for more discounts.

This is the reason why salespersons need to be motivated constantly.

### 21.6.1 MONETARY & NON-MONETARY REWARDS

Firms may use monetary (salary hikes, bonus, cash prizes, gifts etc.) and non-monetary rewards (awards, recognition letters, invitation to dinner with the top management etc.) towards this end. Pay hikes, promotion, opportunity for personal growth (firm sponsoring the salesperson's participation in seminars & skill development workshops etc.) and sense of accomplishment ('salesman of the month' title etc.) were found to be the most popular among salespersons.

However, perceived value of a reward depends on the salesperson's own preferences. These preferences are determined by factors like salesperson's age, marital status and family size. For instance, the younger, unmarried salespersons prefer non-monetary rewards. On the other hand, the older, married salespersons with families to support attach greater value to monetary awards. A firm should, therefore, try to customise its rewards to the salesperson's preferences.

### 21.6.2 SALES MEETINGS AND CONTESTS

Salespersons generally work alone and mostly away from the company premises. They hardly get any opportunity to socialise with their peers. Firms, therefore, organise periodic sales meeting for the salespersons to catch up with one another. The top management uses these meetings as a forum for interacting with the sales force and addressing its concerns. The salespersons are also briefed about the firm's progress and future plans. Often, such sales meetings are organised in informal settings and combine work with fun activities. Being a welcome break from the routine, these meetings act as motivators for the sales force.

Firms may also sponsor sales contests once in a while. These contests spur the sales force to exert considerable efforts as there are many exciting prizes (fully paid vacation trip, cash awards, medals and trophies etc.) at stake. Most often the sales revenue earned is the criteria used for picking the winners in these sales contests.

## 21.7 EVALUATING SALES FORCE PERFORMANCE

Performance evaluation is the process of periodic assessment of the performance of a salesperson by his supervisor. Bonus, a variable component of the sales force compensation, is tied to the performance evaluation. The results of the performance evaluation exercise are also taken into account to promote the best performing salespersons. Let's discuss some of the criteria used for the sales force performance evaluation.

### 21.7.1 KNOWLEDGE & PERSONAL CHARACTERISTICS

Salesperson can be assessed on his knowledge of the firm and its products as well as that of the rival firms and their products. He may also be assessed for how well he knows his customers. His awareness of his own responsibilities can also be a criteria for assessment. To the extent that salesperson's knowledge can be objectively assessed- by giving him tests- it seems to be a fair basis for performance evaluation.

Salesperson's general manner and appearance can also be used as assessment criteria. His temperament- how cheerfully and patiently he handles customer queries and complaints- can also be assessed. His compliance with the rules and regulations is also often assessed. It is important, however, to avoid making such assessments subjective in nature. Subjective assessments are those in which the assessment results are influenced by the assessor's taste, opinions and biases. A sales supervisor may assess a salesperson with slow and measured speech as lacking in confidence, while the salesperson might be intentionally talking in that manner for the customers to comprehend his speech easily! In such cases, the assessment depends more on the assessor than the assesse himself. However, this shortcoming can be made up for by obtaining similar assessments from the salesperson's colleagues and customers also and checking whether their assessments correspond with that of the supervisor's.

Lastly, while assessing knowledge and personal characteristics may be an easy task, they may not have any direct bearing on the salesperson's selling performance. Which firm would want a salesperson who consistently gets high ratings for being punctual and attractive but fails to bring in enough sales?

### 21.7.2 SELLING PERFORMANCE

It, therefore, seems more advisable for the firm to assess its salespersons on the basis of their selling performance.

You would recall our discussion in the last unit that the sales forecasts form the basis for setting sales targets (henceforth 'sales quota', as per the marketing lingo) for the sales force. Firms divide their sales forecast among the sales force to determine the sales quota for every salesperson. These sales quota, however, are intentionally set somewhat higher than the sales forecast. Why? So that the firm may reach its sales forecast even if the salespersons fail their quotas by small margins.

Whether and to which extent a salesperson achieves his sales quota, thus, becomes a prominent performance evaluation criteria. Such performance evaluation criteria is not only more objective but also aligns the firm's performance evaluation system with its sales objectives and revenue targets.

However, this manner of assessing sales force performance has its own shortcomings.

Firstly, should all the salespersons be assigned the same sales quota (uniform quota system) or should their selling abilities also be taken into account to assign them different quotas (variable quota system)? The latter would definitely discourage the highly-skilled salespersons as they shall have to work harder than their lesser-skilled counterparts. On the other hand, the firm opting for the former- the uniform quota system- would also have to worry about not utilising the potential of its brightest salespersons to the maximum extent.

Secondly, using sales quotas as the sole criteria for performance evaluation would be problematic if they ultimately turn out to be wide off the mark. If the forecasts underestimate the sales potential, most of the salespersons would achieve their individual sales quotas and the firm will have to overspend on commissions. And if the forecasts overestimate the sales potential, most of the salespersons would be unable to meet their quotas and be dejected.

Thirdly, firms generally sell a wide assortment of products, necessitating the need to fix quotas separately for each of its offerings. This makes the performance evaluation a complicated exercise. For instance, even minor aspects- like awarding performance rating to a salesperson, who has overachieved his sales quota in some products while being unable to meet it in few others- may consume a lot of time and energy and require deep deliberations.

Finally, too much emphasis on sales quotas tempts the salesperson into neglecting some important non-selling activities like cultivating relationship with the customer and gathering & relaying market intelligence. He may overstock the existing customers beyond their requirements.

### 21.7.3 QUALITATIVE ASPECTS OF SELLING

To prevent an overemphasis on selling to the neglect of the other important activities, many firms assign weightages to both selling and non-selling activities (suggestions and feedbacks provided, time spent with old customers etc.) while evaluating the sales force performance. The firms don't only consider the quantitative aspects (sales volume) while assessing the performance but also take into consideration the following qualitative aspects -

- Sales made to new customers ( indicates whether the salesperson is exerting efforts to expand the market by contacting and convincing new customers)
- Repeat sales to existing customers (is a proxy for the satisfaction level of salesperson's existing customers)
- Number of lost customers (an indicator of unsatisfactory resolution of customer complaints)
- Sales expense to total sales ratio ( helps determine whether the salesperson is utilising the allowances judiciously)
- Customers acquired to customers approached ratio (shows whether the salesperson wisely chooses those prospects who are highly likely to place orders )
- New product sales to total sales ratio (assessment of salesperson's efforts to build market for new products launched by the firm)
- Suggestions and feedbacks ( indicates salesperson's efforts to collect market intelligence)

Salespersons are asked to maintain a daily record of their activities in a prescribed format. This record can then be used to access the data required to assess his performance on these aspects. Combining this with the sales revenue earned by him enables a more comprehensive evaluation of the salesperson's performance and hence used widely.

One last word. Performance evaluation, discussed in the preceding paragraphs, has now been discarded in favour of performance management. Performance management is a broader term where the performance targets are mutually decided by the salesperson and his supervisor. The supervisor also constantly monitors the salesperson's performance and provides him his valuable feedback- if the salesperson's performance is on track, he is appreciated while if a dip is witnessed, he nudges the salesperson to take timely corrective action.

***Check Your Progress- B***

1The following table compares the performance of a salesperson on four different parameters in two consecutive years. Based on your understanding of the table, answer the questions that follow.

| Performance Indicators | Financial Year 2015-16 | Financial Year 2016-17 |
|---|---|---|
| Sales Volume | 90 units | 135 units |
| Percentage of Sales Made To New Customers | 25 % | 5 % |
| Expense To Sales Ratio | 2:10 | 1:10 |
| Suggestions Forwarded | 5 | 3 |

1. **Which of the performance indicators given in the table correspond to the qualitative aspects of selling activities?**
2. **How do you assess salesperson's performance on these qualitative aspects of selling?**
3. **Which performance indicators given in the table correspond to non-selling activities?**
4. **As a sales supervisor, how would you appraise the salesperson's performance in 2016-17?**

## 21.8 SUMMARY

In this unit, we studied about the different sources from where firms recruit sales force manpower. This was followed by a discussion about the various selection tools available for the managers to identify the best candidates and offer them employment with the firm. The process of sales force training was discussed along with the variety of trainings that may be imparted to the salespersons. We also discussed the merits and demerits of some prominent sales force compensation plans currently in vogue. We briefly touched upon the motivational tools used by the managers to draw out the best efforts from the salespersons. The unit closed with a detailed discussion on the various criteria which form the basis for assessing the performance of the salespersons.

## 21.9 GLOSSARY

**Recruitment-** Process of attracting qualified applicants for the positions vacant in a firm.

**Selection-** Identifying the best candidates to fill up the organisational vacancies.

**Internal Job Postings-** Information about vacant positions circulated within the organisation to enable the existing employees to apply for them.

**Training Need Identification-** Process designed to identify deficiencies in employee knowledge, skills or attitude with the aim to make appropriate training interventions.

**Training Effectiveness Appraisal-** An assessment of whether a training programme has successfully imparted that knowledge or skill to the employees which it was organised for.

**Induction Training-** Training imparted to new employees to make them aware of organisation’s history, core business and culture.

**On-The-Job Training & Off-The-Job Training-** Distinction based on whether the training is provided at the workplace & during the course of routine work or separately at some other location.

**Sales Force Compensation-** It is the management discipline which deals with the process of fixing the sales force salary and its various components.

**Straight Salary Plans-** Compensation plans which pay the salesperson a fixed salary irrespective of his performance.

**Straight Commission Plans-** Compensation plans in which the salesperson’s salary is entirely contingent on his sales performance.

**Performance Evaluation-** An assessment of the performance of salespersons which informs the reward (pay hikes, bonus, promotion etc.) and punishment (warning, demotion, termination etc.) decisions.

**Sales Quotas-** These are the sales targets assigned to salespersons and form the basis for their performance evaluation.

## 21.10 ANSWERS TO CHECK YOUR PROGRESS

**Check Your Progress –A**

1. Internal Job Postings
2. Role Plays
3. Mentoring (On-The-Job Training)
4. Straight Salary Compensation Plans

**Check Your Progress –B**

1. Sales Made To New Customers, Expense to Sales Ratio & Suggestions forwarded.
2. Sales made to new customers as a percentage of total sales has decreased. If it is because of the salesperson's inability or unwillingness to identify new customers, it would harm the firm's prospects in the long run. The expense to sales ratio has also decreased which is a positive development in itself. But if it is due to the salesperson not spending time in identifying and obtaining business from new customers, it shall also be a cause for worry.
3. Suggestion Forwarded.
4. Not satisfactory. Though the sales person has sold significantly more number of units, he has only been able to do this by selling more to the existing customers rather than by identifying and selling to new customers. This can be gauged from the fact that only 5% of the sales have been made to new customers in 2016-17 compared to 25% in the preceding year. This also seems to be the reason for a decrease in expenses to sales ratio- selling to new customers entails making multiple sales call resulting in greater travel outlay as well as higher entertainment expenditure.

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## 21.12 SUGGESTED READINGS

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3. Mc Daniel, Lamb & Hair, Introduction to Marketing, Thomson/ South-Western
4. Stanton, Fundamentals of Marketing, Mc-Graw Hill
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7. Philip Kotler, Marketing Management: Analysis, Planning & Control, Prentice-Hall

## 21.13 TERMINAL & MODEL QUESTIONS

Q1. What is sales force management? What are its various components?

Q2. What are the various sources scouted by the firms to fulfill their sales-manpower needs?

Q3. Compare and contrast the different techniques used by firms for selecting salespersons.

Q4. ‘Training is an elaborately planned process.’ Comment.

Q5. ‘Each type of training is relevant to a particular context.’ Elucidate with examples.

Q6. List the various training techniques. Which ones do you find most relevant for training the salespersons?

Q7. Shed light on the relative merits and demerits of the different types of compensation plans.

Q8. Which tools can be used by a sales manager to motivate his employees?

Q9. Quote the criteria which form the basis for assessing the sales force performance.

Q10. The Uttarakhand Open University has decided to have its own sales force to visit students in senior secondary schools and convince them to pursue higher education from there. Since the university is clueless about managing this sales force, they have contacted you. Advice them on all the aspects of sales force management.

# UNIT 22 SALESMANSHIP


**22.1 Introduction**

**22.2 Objectives**

**22.3 Tasks Performed by a Salesman**

**22.4 Attributes of an Ideal Salesman**

**22.5 Steps in Effective Selling**

**22.6 Negotiation Tactics**

**22.7 Summary**

**22.8 Glossary**

**22.9 Answers to Check Your Progress**

**22.10 References/ Bibliography**

**22.11Suggested Readings**

**22.12Terminal and Model Questions**


## 22.1 INTRODUCTION

In the preceding units, you were introduced to personal selling as an important constituent of promotion mix. The last unit took up the various aspects of sales force organisation and management in closer detail. We studied about the various sources which are scouted by the marketing firms to recruit salespersons. We also came to know about the prominent selection tools available to the managers to identify the best candidates for the sales job. The process of sales force training was discussed along with the variety of trainings that may be imparted to the salespersons. Different types of sales force compensation plans were taken up for a comparative analysis. Various motivational tools, used to draw out the best efforts from the salespersons, were also touched upon. We also looked into the criteria which form the basis for evaluation of the performance of the salespersons by their sales supervisors.

This unit shall take this discussion forward by conducting a thorough enquiry into the art of selling- Salesmanship. Salesmanship is the technique of persuading customers to buy a product or service. It aims to cultivate a long term and mutually beneficial relationship with the customers by finding and satisfying their needs in a fair and sincere manner.

We shall begin with a close look at the portfolio of diverse tasks that are performed by a salesman. This shall help us figure out those skills and personal attributes that have a significant bearing on the performance of a salesman and, therefore, considered crucial to salesmanship. We would then discuss the sequence of steps through which a personal selling task progresses. The unit shall conclude with a purview of the various negotiation tactics that are handy for a salesman and, hence, a necessary ingredient of salesmanship.

## 22.2 OBJECTIVES

After reading this unit, you will be able to:

- List the various selling-related tasks performed by a salesman
- Enumerate the skills and personality characteristics that are key to salesmanship
- Describe the steps involved in personal selling
- Learn prominent negotiation tactics used during the selling process

## 22.3 TASKS PERFORMED BY A SALESMAN

A salesman makes sales. He also has to perform a variety of tasks which are incidental to selling. Let's take a look at the different tasks performed by a salesman.

**Selling**

Selling includes a series of inter-related steps: approaching the customers, making sales presentations, responding to customer objections and finally getting the customers to book their orders. We shall be discussing all of these in greater detail in subsequent sections.

**Prospecting**

Among the most important tasks performed by a salesman is prospecting. A prospect is somebody who is highly likely to buy a product or service. Prospecting is the technique used to identifying such prospects. Personal selling is time and cost intensive exercise as it involves multiple sales calls. So, it makes sense to carefully screen the market to focus the selling efforts on only those most likely to place orders. Thus, prospecting is key to salesmanship.

Please note that serving the existing customers is always easier than acquiring new customers. So, the salesman has to be in constant touch with the existing customers and promptly cater to their requirements. This will help him retain their business. However, acquiring new customers is fundamental to growing the business. So, the salesman has to wisely divide his time between looking for new customers- prospecting- and catering to the existing ones from whom he obtains repeat business.

**Communicating**

A salesman also has to spend significant time in communicating- informing the prospects, existing customers as well as the broader market about his company's products and services.

### Servicing

The salesman also has to provide various services to the customers. Servicing includes arranging financing for customer-purchases, ensuring timely delivery of customer-orders & making arrangements for customer training. Customers sometimes also expect the salesman to provide them his expert advice.

The salesman may have to arrange financing for the customer's purchase. For instance, many firms have tie-ups with banks that provide loans to fund their customers' purchases. In such cases, it is the salesman who helps the customers completes all the formalities to avail the credit facilities offered by the banks.

Once the customer order has been bagged, the salesman also has to ensure that it is delivered on time. At times, he may have to expedite the delivery if the customer has an immediate requirement.

Likewise, if the salesman is selling some machinery- like an industrial generator or a computer system- he has to ensure its proper installation at the customer location. Not only this, he has to make arrangements for the customers to be trained on handling products like these which are technically complex.

Customers often consult the salesman on various technical aspects. They want the salesman to understand their specific requirements and then suggest the best product in view of those. The salesman is expected to be a 'solution-provider' and not just a product-vendor.

### Information Gathering

Salesman also has to perform the crucial task of information gathering. Having direct exposure to the end-customers, he is best placed to understand their needs and convey them to his superiors. This helps the firm in designing relevant offerings for the customers.

The salesman is also the best person to capture the customer-response to the firm's offerings. This information can be used as an input to reliably predict the success of a newly launched product. It is this information which a firm relies on while effecting changes in its offerings to make them more suitable to the customer palate.

The salesman also has to be vigilant and alert his superiors to competitive plans of the market-rivals well in time so that they may be pre-empted.

Do you remember our discussion on sales forecasting? You would recall that one method of forecasting-sales force opinion surveys- relies solely on the opinion of the sales force.

### Miscellaneous Tasks

The salesman has to undertake travel on a regular basis for the purpose of visiting customers and making sales presentations. He has to plan his travel-route in such a way that he may cover most number of customers in the least possible time and in a cost-effective manner. He also has to report back to his supervisors periodically. He may also have to turn in various reports and submit expenditure-sheets as required by his employers.

At times, the plethora of tasks to be performed by a salesman may overwhelm & distract him from the core job of selling. Many firms, therefore, turn over the tasks such as prospecting, order fulfilment and customer training to subsidiary sales force leaving the salesmen to focus exclusively on the selling task.

For instance, many firms hire tele-callers to call up the prospective customers and ascertain their likelihood of making the purchase on the basis of this telephonic interaction. The prospects so identified are then contacted by the salesman for an in-depth sales presentation. Once the order is placed by the customer, a dedicated team takes over the responsibility of order fulfilment, installation and customer training relieving the salesman from these tasks.

## 22.4 ATTRIBUTES OF AN IDEAL SALESMAN

Now that we have a clear understanding of the various tasks assigned to a salesman, it would be timely for us to discuss the skills and personality characteristics that are crucial to the satisfactory performance of these tasks.

### 22.4.1 PERSONALITY TRAITS

A salesman has to be in constant touch with his customers. He may have to take them out for entertainment as many deals are finalised over dinners or a round of golf. An extrovert personality is, therefore, more suitable for the job of a salesman.

Salesman may have to contact several prospects before finally getting a few of them to place the order with him. It is important that he doesn’t get bogged down by rejections. Facing customers who haggle him for small discounts or turn up late for scheduled meetings is a part of his job. Customers may vent their anger on him if the product malfunctions. A salesman has to have the patience and maturity to be able to deal with such situations. He should persevere in his efforts to win over the customers.

A salesman has to be physically and mentally tough to withstand various pressures. Salesmen, often, have stiff targets to meet and work under strict supervision of their superiors. They have to work at odd hours- meeting the prospects over a drink late in the evening, for instance. Constant travel keeps them away from their families for long stretches of time and doesn’t let them enjoy the luxury of home-cooked food. An optimistic and cheerful disposition is, therefore, a must for a salesman.

A salesman should have a high level of intelligence. This would enable him to understand the customer needs- both stated & unstated- and accordingly customise his sales presentation. He should also be wise enough to approach the customer at the most opportune time and turn the customer-objections into the very reasons for buying a product. When prospective customers raise valid objections regarding small size of a car, the intelligent salesmen respond that the small size of the car makes its temperature control (AC) system work better!

A salesman needs to be creative also. He has to think of novel ways to capture the customer attention amid competing sales pitches by market-rivals. He has to be imaginative enough to make the prospective customer try his product. Many salesmen selling water-purifiers erect canopies on busy streets to display their water-filters and induce customer trials. However, only a few salesmen are creative enough to install these canopies near some *aloo-tikki* vendor! Even fewer would ask the *aloo-tikki* vendor to deliberately make his preparation spicier! Because, the spicier the food, the more thirsty would the customers feel after having it and greater would be their likelihood of trying out the water from the filter.

A salesman should be a thorough professional. Professionalism entails honesty, punctuality, courteousness, following up on one's commitments and being ethical in one's conduct. Attractive appearance, impressive voice and a natural charm in demeanour only adds to a salesman's personality.

## 22.4.2 CUSTOMER ORIENTATION

In earlier days, it was thought that if left to their own devices, the customers are unlikely to make purchases. So, the salesmen were trained to apply high pressure techniques to somehow induce the customer into placing the order. This 'selling' orientation, many times, left the customers with products which don't exactly suit their requirements. More worryingly, this orientation, though seemingly beneficial for the sponsor firm in the short term, only marred its market prospects in the long run: why would a customer transact again with a salesman/firm who/which has stocked him with goods which are of no use to him and which don't satisfy his needs fully?

It was this realisation which has now led to marketing firms according greater value to first identifying customer needs and then endeavouring to satisfy them- the 'customer' orientation. This approach results into highly satisfied customers and thereby paves way for a long lasting and mutually beneficial relationship between them and the firm.

It is advisable for the salesman to have this customer orientation while transacting with the customers. He should first understand the needs of his customers. This requires him to be a good listener. Sometimes, the customer may not be able to articulate his requirements. The salesman should be skilled in asking probing questions to go beyond what the customer is saying and unearth what the customer really wants.

Once the salesman has gained considerable insight into the customer requirements, he should suggest the best product in his portfolio to satisfy those even if it does not earn the salesman the highest commission. And if the salesman doesn't have any product to match the customer requirements, he should simply terminate the sales call. Thus, for the salesman, customer satisfaction should matter the most. The salesman should assume the role of a consultant and suggest his customers the best solutions to satisfy their particular needs.

This also makes sense as a satisfied customer is likelier to give the salesman repeat business in future. The automobile industry in India exemplifies this.

**Raising the Bar: Customer Satisfaction to Customer Delight!**

Automobile marketers in India commissioned a research to estimate the customer lifetime value of an average car-buyer. Customer Lifetime Value (CLV) is the anticipated value of business obtained from all the purchases made by the customer over his entire lifetime. It was found out that a first-time car buyer in the 30-35 age group is likely to buy four to five cars in his entire lifetime. Thus, a car-buyer presents a business opportunity worth almost twenty lakh rupees (approximate price of four cars) over his entire life time. No surprise, therefore, that these automobile firms train their sales force to make every possible effort to 'delight'- and not just satisfy- their customers.

Thus, rather than succumbing to the temptation of seeing the customers as just a means to achieve his sales target, the salesman should aim at laying a strong foundation for a long term relationship with them. He should forego the opportunity to make one-time gain to become the customer's preferred vendor for life.

The customer may need more of his products in future. The product purchased by him would wear out or become technologically obsolete with passage of time and shall require replacement. He can afford to buy additional units as his disposable income increases with time. Not only this, he may suggest other prospects planning similar purchases to place order with the salesman.

This makes it incumbent on the salesman to also remain in continuous touch with the customers. Birthdays, anniversaries and festivals provide an opportunity to the salesman to renew his relationship with the customers through personal visits or phone calls. Such occasions can be utilised to assess the customer's satisfaction with the last purchase and suggest him replacement products as per his emerging requirements. The idea behind this 'relationship marketing' is to occupy the topmost position in the customer's consideration set so as to be the 'first port of call' for him whenever he feels the need to make another purchase.

## 22.4.3 NEGOTIATION SKILLS

The salesman also has to be a good negotiator. Negotiation is the process through which the seller and buyer finalise the various terms of sale- unit price, quality, purchase volume, delivery deadlines, warranty terms, responsibility for arranging credit for the customer's purchase etc. Being a skilled negotiator, however, does not mean duping the customer. This would obviously not be to the customer's liking and ruin the salesman's relationship with him. Often, transactions between the seller and buyer are seen as a 'zero-sum game'- a situation in which one party can only gain at the cost of the other. The salesman should rather try to negotiate a 'win-win' agreement with the customer which is beneficial to both the parties and creates an incentive for them to remain in a long term relationship.

Skilled salesmen finalise their negotiation strategy before entering into negotiations with the customers. Various inputs- how urgent the customer requirement is, what is the worst possible offer which would still be acceptable to him, what terms are being offered by the competitors -help formulate the negotiation strategy. However, such information is not easy to obtain. Having a negotiation strategy also means that a salesman should have a clear idea of the maximum extent to which he can yield to the customer's demands. Some salesmen determine their BATNA- 'best alternative to a negotiated settlement'- and agree only to those contract terms which are better than this.

We shall be discussing a few negotiation tactics towards the end of this unit.

***Check Your Progress-A***

Consider the case of Abram who had to move to Haldwani to pursue two-year Post Graduate Diploma in Management. He purchases goods worth Rupees 3000 per month from his neighbourhood retailer in Haldwani.

1. **Estimate the total worth of business that the neighbourhood retailer may obtain from Abram if he keeps him satisfied with his services.**
2. **Which marketing term describes the total worth of business that can be obtained from a satisfied customer over his lifetime?**

## 22.5 STEPS IN EFFECTIVE SELLING

Now, let us discuss the major steps involved in effective selling.

### 22.5.1 PROSPECTING/ LEAD GENERATION

We now know that prospect is somebody likely to make a purchase in near future. Prospecting- or lead generation- is the process of identifying such prospects. In marketing lingo, 'lead' refers to a prospective customer. Hence, this process can also be called lead generation. Many creative ways have been devised for identifying prospects.

For instance, many salesmen request their existing customers to suggest the names of prospects. It is reasonable to think that the existing customers would know about their friends, relatives and colleagues planning to make similar purchases. Some firms even reward their existing customers if the sales to prospects suggested by them finally materialises. 'Reader's Digest', a USA-based magazine also sold in India, asks its subscribers to suggest ten prospects to win free gifts.

Salesmen may also cultivate other referral sources like suppliers, bankers and non-competing sales representatives. Salesmen selling construction material can request banks to share information about housing-loan applicants. A salesman selling inverters can ask a fellow salesman selling computer devices to share his customer data because somebody buying a computer might also need an inverter to run his device without any interruption during power outages.

Many publically available data sources can also be used for identifying prospects. For instance, drugs and medical equipment vendors use the patient data available with the hospitals to identify prospects for their products. Uttarakhand Open University may also obtain the student-enrolment record available with the school education department of the state to identify prospects for graduate courses offered by it. Some agencies also collect such data and sell it at a consideration to interested parties. Sometimes, such data is available within the organisation itself. Car dealers mine their own database to identify those existing customers who might be interested in replacing their old car or upgrading to a higher model.

Many firms attend trade shows and collect contact information from those who visit their counters. These drop-by visitors can be good prospects as their visit to the counter is an indicator of their interest. Likewise, many firms erect canopies in public places, shopping malls and markets. Those who drop-in and make enquiries are deemed to be good prospects.

Cold canvassing- visiting unannounced and leaving behind catalogues and brochures- is another way in which prospecting can be done. Those interested would themselves call back on the number mentioned for this purpose on the brochure. Tele-calling is another way through which audience interest in an offer can be assessed and prospects identified.

The growth in internet usage has given another prospecting avenue to the firms. The browsing habits of a customer offer rich insights into his needs and purchase plans. This data can be used to identify the best prospects for a market offering.

Do you have a 'Facebook' account? Don't you receive unsolicited advertisements on your Facebook page? Actually, Facebook uses sophisticated software to analyse the browsing habits of its users and predict their needs and purchase plans. This data is then used by various marketers to stream relevant advertisements to different users on their 'page'. So, if you have been sharing or 'liking' photographs and news items related to bikes, you may start receiving advertisements sponsored by different motorbike manufacturers.

Do you now understand how Facebook provides its services free of cost to more than a billion users? It makes its earnings by identifying the best prospects for different marketers, sharing this data with them and charging them for it.

### 22.5.2 QUALIFYING PROSPECTS/LEADS

Not all prospects are alike. Some may only be interested in acquiring product information out of curiosity (cold prospects) while others may be keen to make the purchase as soon as possible (hot prospects). Still others may be somewhere in between (warm prospects), undecided but ready to grab a really good offer. So, once the prospects/leads have been identified, the next task is to qualify them into hot, warm or cold based on an assessment of their likelihood of placing the order. Such assessments can be made through mails or phone calls which help determine the prospect's interest in the offer and his financial capability to make the purchase.

What purpose does qualifying serve? Personal selling efforts can be expected to be most successful with hot prospects. Hence, the hot prospects are to be targeted first followed by the warm ones.

### 22.5.3 PRE-APPROACH

Once the hot prospects have been spotted, the next step is to obtain as much information about them as possible. The salesman has to find out their needs and how they make their purchase decisions. Business customers, for example, generally have a buying committee to make purchase decisions. In such a case, it is important for the salesman to know about each member of this committee as well as the modality of decision making- whether by majority or unanimously- by the committee. If the decision is made by majority, for instance, the salesman need not exert too much effort to convince the fussiest members in the committee.

Customers may not always behave rationally while making the purchase. Sometimes, they may place the order just because the salesman dresses up like them or has the same hobby or because he talks in a particular manner. It, therefore, helps to be aware of such behavioural idiosyncrasies in a prospect before approaching him for the sales presentation. A smart salesman can bag an order despite talking more about Amir Khan than about this own product if he finds out that the prospect is a huge Amir Khan fan!

The salesman should also determine the best time to visit the prospects. Visiting a prospect when he is already burdened with other important tasks is not going to be fruitful as he would not be able to attend fully to the sales presentation. The salesman may have to keep waiting or return without being granted an audience, which would not only be a waste of time but also cost his firm in form of higher travel expenses.

The salesman also needs to decide where to visit the prospect- at his home, in his office, in a restaurant or coffee shop or on the golf course- depending on the prospect's preferences.

These two decisions- when and where to approach the prospect- require a lot of common sense. Think of a salesman selling tractors in rural markets during summer season. For him, the best time to visit the prospect may be early in the morning or late in the evening. Why? Because this is the time when the prospect would be in his fields tending to his crops, and therefore can also be given a product-demonstration. But for a salesman selling a household generator set, the best time would be to approach the prospect during noon when he is resting in his home to avoid the oppressive summer heat.

The salesman needs to use all his ingenuity to obtain information in the pre-approach stage. He may scout the prospect firm's website to know about its purchase policies and browse the social media (Facebook, LinkedIn etc.) profiles of the prospects to learn about their likes and dislikes. He may cultivate his own sources- prospect's neighbours or security guards at the prospect firm- to decide the best time to pay a sales visit. The salesman may also base such decisions on his own observation and past selling experiences.

## 22.5.4 APPROACH

Once the salesman has a treasure trove of information about the prospect, the next task is to actually approach him. Here, the salesman has to create an initial rapport with the prospect so that he may then proceed with the sales task.

He begins by greeting the prospect warmly and introducing himself. Salesman may carry his visiting card along and present it to the prospect. This is followed by explaining the purpose of the visit and requesting the prospect to grant him an audience. It would be appropriate to ask the prospect whether he is at leisure to have a discussion with the salesman. The salesman should then encourage the prospect to talk about his requirements and listen to him attentively. The salesman should know the art of asking probing questions also. This would help him pick the best product from his portfolio depending on the prospect's specific requirements and to customise his sales presentation to the prospect's needs.

## 22.5.5 PRESENTATION & DEMONSTRATION

Now the time is ripe for the salesman to make his sales pitch.

### 22.5.5.1 Sales Presentation

The salesman can make his sales presentation in a variety of ways.

He can use a canned approach in which a standard sales presentation prepared beforehand is made to all the prospects. You would understand what a canned approach is if you have observed roving salesmen selling toothpastes or books in buses and trains. You would notice that they use the same sales script every time. So much so that even the pauses and inflections in their presentation appear at the same point every time they make their sales pitch.

Salesman can instead use a need-satisfaction approach also. In this approach, he first hears out the concerns of the prospect to understand his needs. He, then, assumes the role of a consultant and suggests the prospect the best product to suit his particular needs. This approach results into greater customer satisfaction and hence lays the foundation for a long lasting relationship.

While making the presentation, salesmen often commit the mistake of devoting too much time to the product attributes. It is advisable for them to rather focus more on explaining the benefits of these product attributes and hence their utility for the prospect. For instance, beyond just telling the prospect that a computer device also offers 'cloud' storage, the salesman should tell the prospect that the important documents on his device would be safe even if the device malfunctions or gets damaged.

### 22.5.5.2 Presentation Aids

Salesmen may use a variety of aids- flipcharts, booklets, brochures, visual aids- to make their presentations more effective. Booklets and brochures are often left behind with the prospects as a reference material for them. Samples can be used to induce instant product trial by the prospects. Computer animation can be used to explain the inner workings of technical products to the prospects. Microsoft Power Point is a prominent tool used now-a-days to make presentations to business customers.

#### 22.5.5.3 Demonstration

While selling technical products- machinery, electronic appliances- the salesman may have to demonstrate their working also. Many a times, demonstration is more efficient than a mere presentation in building conviction among the prospects about the usefulness of a product. What would influence you more- the salesman's brilliant sales pitch about the quality of the vacuum-cleaner being sold by him or seeing the vacuum-cleaner actually sucking up every single speck of dust live in front of your eyes?

Demonstration may also be necessary when the prospect is illiterate and hence can't be expected to read up the brochure all by himself. In such a case, the salesman will have to demonstrate the important product attributes to the prospect.

### 22.5.6 Overcoming Objections

Many a times, the prospect may seem convinced with the presentation but may raise objections when asked to place the order. Objections may be logical- related to price, product attributes, terms of contract etc. Objections may also point to the prospect's psychological resistance to making the purchase. The prospect may be averse to change and hence against switching from one supplier to the other despite getting a better offer. He may have an inherent dislike for making a decision. At times, the prospect may not place the order just because some aspect of the salesman's personality is not to his liking!

The salesman needs to handle all such objections with a positive approach and a calm demeanour. He can ask the prospect to clarify his objections. He can rephrase the prospect's objections in his own language to ascertain that he has understood the objections accurately. He can, then, proceed to answer the objections. One option is to altogether deny the validity of the objection. But, this may be construed by the prospect as an evasive response. A really sharp salesman would rather turn the objection into reasons for buying the product. Some salesmen are ingenious enough to question the prospect in a way that he answers his own objections.

### 22.5.7 Closing the Sales

Having made the sales presentation and answered the prospect's objections, the salesman has to now terminate the sales call. Sometimes, it is the prospect himself who emanates closing signs- he may rise up from his seat, stare at his watch repeatedly or express satisfaction with the salesman's response to his queries. Salesman should be able to read these signs.

On other occasions, the salesman may have to himself indicate to the prospect that he is nearing the end of his sales call. And how to do this? Recapitulating the main points made during the sales presentation signals to the prospect that the sales call is about to terminate and that it is time for him to place his order. The salesman can also directly ask the prospect for the order. Or he may be more oblique and ask for the prospect's size and colour preferences. Offering help to the prospect to write the order is another closing technique. Alternatively, the salesman may induce the prospect to place the order by offering a discount or a token gift on early purchase.

One more thing- human beings have a natural tendency to avoid taking risks. Purchasing a product, especially for the first time, is akin to taking a risk- the product may not perform as promised by the salesman. So a prospect left alone is likely to defer his purchase endlessly. It is, therefore, advisable for the salesman to end the sales call with a confirmed customer order.

### 22.5.8 Follow-Up & Maintenance

Following-up with the customer after bagging the order is very vital for customer satisfaction. Once the order has been bagged, the salesman has to ensure product delivery and installation at the customer site within due time. He has to make arrangements for proper customer training as well. Even if the organisational procedures require him to turn over the customer order to some other department tasked with delivering, installation and customer training, he should remain in contact with the customer and ensure that there are no delays. Not only this, he should also assess the customer’s satisfaction with the product performance and resolve whatever complaints the customer may have in a timely manner. This would cast away any doubts lurking in the customer’s mind about the product quality and guarantee repeat orders from him.

However to obtain these repeat sales, the salesman will have to maintain intimate contact with the customers. We have discussed how birthdays, anniversaries and festive occasions provide opportunity to the salesman to renew his contact with the customers. Such interactions may be used to sell product replacements and upgrades to the existing customers and to obtain prospects/ leads from them. Ideally, the salesman should have a plan in place to grow the customer account- by selling progressively larger and more valuable assortment of products- gradually over time.

## 22.6 NEGOTIATION TACTICS

Following is a brief introduction to some negotiation tactics that may prove handy in personal selling situations.

**Foot in the Door**

Asking for small concessions- which are easy for the customer to grant- in the beginning and then seeking progressively larger concessions from him.

**Door in Your Face**

The salesman demands large concessions in the very first instant which the customer has no option but to refuse. This makes the customer feel guilty. The salesman exploits this situation by then asking for smaller concessions which the guilt-stricken customer feels obliged to grant

.

**Trial Balloon**

The salesman leaks details about a contemplated offer to the customer. It is made to appear as if the customer has accidently chanced upon this information. The customer's response can thus be gauged and accordingly decision regarding the actual offer to be made to him is taken.

**The Dry Well**

Making an offer to the customer and telling him that there is no room for any concessions. The customer gets the impression that it shall be futile to bargain and might agree to the offer.

**Limited Authority**

Expressing inability to grant concessions to the customer citing the lack of authority to do so.

**Auction**

The salesman lets the customer know that he is simultaneously negotiating with other customers also. The objective is to create an impression that the salesman has nothing to lose even if he does not strike a deal with the customer as he has several other customers to sell to.

**Divide & Conquer**

While selling to business customers, the salesman wins over a few members of the purchase committee first who then help him convince the other members.

**Poker Face**

Giving no verbal or emotional response to the customer's counter-offer and not giving in to his pressurising tactics.

**Stalling**

Taking a break from the negotiations. This gives the salesman an opportunity to consider the customer's terms and modify his negotiation strategy, if so needed.

**Prestigious Ally**

Having a well-known and prestigious ally- person or firm– to get the customer to accept the offer without haggling for concessions.

***Check Your Progress- B***

Assume that your firm sells HINGLISH brand of dictionaries (Hindi to English) in Uttarakhand. These dictionaries are targeted at the segment which speaks Hindi but needs to use English in workplace-bank officials, teaching professionals etc. Consider the following actions & find out which step in the selling process do they most closely correspond to.

1. Collecting the phone-number of teachers (who may buy your dictionaries) in the secondary & higher secondary schools in Uttarakhand from the office of State Education Officer.
2. Calling up the teachers using this list to find out whether they are interested in buying a dictionary.
3. Telling the prospect that if he places an early order, he will get a surprise free gift also.
4. Contacting the customer to know whether there was any misprinting in the dictionary sold to him.
5. Finding out that teachers are free on Saturdays as schools close down at 1 PM.
6. Greeting the prospect on reaching his house for purpose of selling the dictionary.
7. Telling the prospect that your dictionary has some special features not available in the other dictionaries sold in the market.
8. Telling the prospect that his objections, to buying the dictionary, are not valid.

## 22.7 SUMMARY

This unit started with an introduction to the variety of tasks- incidental to the core activity of selling- performed by a salesman. We also looked at the range of skills and personal attributes that go into the making of an ideal salesman. This helped us understand how customer orientation paves the way for a mutually beneficial long term relationship with the customer. Next followed an exhaustive deliberation on the various steps involved in effective selling. We concluded the unit with a brief purview of various tactics that are handy for a salesman while negotiating with the customers.

## 22.8 GLOSSARY

**Salesmanship-** Art of persuading customers to buy a product or service.

**Prospect-** Individual or entity highly likely to make a purchase in near future.

**Customer Orientation-** Marketing philosophy which prioritises customer needs and satisfaction in all business activities. This orientation results in product designs based on customer preferences and prompt resolution of customer complaints.

**Customer Satisfaction-** Customer's feeling of pleasure when the performance of the product purchased by him exceeds his expectations.

**Customer Lifetime Value-** The estimated value of all the business that can be obtained from a satisfied customer over his life time.

**Relationship Marketing-** Strategy of profiting from customer loyalty and long-term customer engagement rather than from one-time sales to customers.

**Negotiation Skills-** Dialogue between the salesman and the customer to finalise pricing, delivery time, risk ownership and other terms of sales.

**Prospecting-** Process of identifying prospects so that selling efforts may be directed to them.

**Pre-Approach-** A step in the selling process in which the salesman plans his approach to the prospective customer by collecting crucial information about him.

**Sales Pitch-** Talk delivered by a salesman to convince a prospect to place an order.

**Sales Script-** Standardised set of talking points that are used by a salesman while making his sales presentation. Such scripts are commonly used by telemarketers.

## 22.9 ANSWERS TO CHECK YOUR PROGRESS

**Check Your Progress –A**

1. Rupees 3000 per month X 12 months per year X 2 years = Rupees 72000
2. Customer Lifetime Value

**Check Your Progress –B**

1. Prospecting/ Lead Generation
2. Qualifying Prospects
3. Closing the Sales
4. Follow-Up
5. Pre-Approach
6. Approach
7. Presentation
8. Overcoming Objections

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## 22.12 TERMINAL & MODEL QUESTIONS

1. Enumerate the various tasks performed by a salesman. How are these tasks important to the salesman's core task of selling?
2. Describe the personality attributes of an ideal salesman.
3. 'Customer orientation and negotiation skills are central to salesmanship.' Explain how.
4. What is customer lifetime value? How can it be realised by a salesman?
5. List the sequence of steps that constitute the selling process. Give a detailed account of each of these steps.
6. Briefly explain various tactics available for use by a salesman while negotiating a deal.
7. Assume yourself to be representing a firm aiming to sell computer devices to the Uttarakhand Open University. Explain the various tasks which you shall perform to obtain the customer's order.

**Marketing Management**
**MS 107**


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