BBA-302

PRINCIPLES OF MARKETING

DIRECTORATE OF DISTANCE EDUCATION

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SUBHARTI UNIVERSITY

Meerut (National Capital Region Delhi)

Contents

Syllabus

BBA 2nd Year Semester 3rd Semester

Principles of Marketing

Course Code: BBA-302		
Course Credit: 04	**Lecture: 04**	**Tutorial: 1**
Course Type:	**Core Course**	
Lectures delivered:	**30 L + 10 T**	

End Semester Examination System

Maximum Marks Allotted	**Minimum Pass Marks**	**Time Allowed**
70	**28**	**3 hrs**

Continuous Comprehensive Assessment (CCA) Pattern

Minor Tests(marks)	**Assignment/ Tutorial/ Presentation**	**Attendance**	**Total**
15	**5**	**10**	**30**

Course Objective:

1. This course aims to familiarize students with the marketing function in organizations.
2. It will equip the students with understanding of the Marketing Mix elements and sensitize them to certain emerging issues in Marketing.
3. The course will use and focus on Indian experiences, approaches and cases

UNIT	Content	Hours
I	**Introduction:** Nature, Scope and Importance of Marketing, Evolution of Marketing; Core marketing concepts Marketing Environment: Demographic, economic, political, legal, socio cultural, technological environment (Indian context); Portfolio approach– Boston Consultative Group	10
	(BCG) matrix	
II	**Segmentation, Targeting and Positioning:** Levels of Market Segmentation, Basis for Segmenting Consumer Markets, Difference between Segmentation, Targeting and Positioning:	10
III	**Product & Pricing Decisions:** Concept of Product Life Cycle (PLC), Product Classification, Product Line Decision, Product Mix Decision, Branding Decisions, Packaging & Labelling, New Product Development. Pricing Decisions: Determinants of Price, Pricing Methods (Non-mathematical treatment), Adapting Price (Geographical Pricing, Promotional Pricing and Differential Pricing).	10
IV	**Promotion Mix:** Factors determining promotion mix, Promotional Tools – basics of Advertisement, Sales Promotion, Public Relations & Publicity and Personal Selling; Place (Marketing Channels): Channel functions, Channel Levels, Types of Intermediaries: Types of Retailers, Types of Wholesalers.	12
V	**Marketing of Services** - Unique Characteristics of Services, Marketing strategies for service firms – 7Ps; Digital Marketing; Rural Marketing	8

Course Outcomes:

After studying this course the student should be able to

1. Understand the concepts of marketing and their application in real world.
2. Describe the contribution of marketing function to overall success and growth of a company.
3. Analyze and compare the quality of marketing programs being run in various types of organizations.
4. Assess the interlinking of marketing function with other functions of the organization.
5. Compare the various marketing tools, their interrelationship and strategic importance

Text Books: (02)

1. Ramaswamy, V.S. &Namakumari, S.: Marketing Management: Global Perspective-Indian Context, Macmillan Publishers India Limited.
2. Kotler, P., Armstrong, G., Agnihotri, P. Y., & Ul Haq, E.: Principles of Marketing: A South Asian Perspective, Pearson.

Reference Books:

1. Zikmund, W.G. & D Amico, M.: Marketing, Ohio: South-Western College Publishing
2. John Frain. Marketing Management .McGraw Hill Education
3. Koirala, K.D. Principles of Marketing: Kathmandu: Buddha Academic Publications.

Weblinks

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https://www.powershow.com/view/cee4-MjQ5M/Principles_of_Marketing_powerpoint_ppt_presentation
http://www.studymode.com/course-notes/Principles-Of-Marketing-Exam-Notes-1264162.html

UNIT

I

MARKETING: NATURE, SCOPE, IMPORTANCE AND ENVIRONMENT

STRUCTURE

1.1 INTRODUCTION

Marketing management is a broad scope of the study of marketing focusing on the practical application of the techniques and marketing activities of a certain company or business. This business discipline encompasses marketing planning and strategy, orientations, and processes needed in attaining company goals by providing values to clients. Since it has a wide coverage involving all factors required to satisfy customers, marketing management must be all-pervasive and a part of every employee's scope of work, from subordinates to those in the higher management.

If we look at this definition in more detail, Marketing is a management responsibility and should not be solely left to junior members of staff. Marketing requires co-ordination, planning, implementation of campaigns and a competent manager(s) with the appropriate skills to ensure success.

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Marketing objectives, goals and targets have to be monitored and met, competitor strategies analyzed, anticipated and exceeded. Through effective use of market and marketing research an organization should be able to identify the needs and wants of the customer and try to deliver benefits that will enhance or add to the customers lifestyle, while at the same time ensuring that the satisfaction of these needs results in a healthy turnover for the organization.

Within this exchange transaction customers will only exchange what they value (money) if they feel that their needs are being fully satisfied; clearly the greater the benefit provided the higher transactional value an organization can charge.

1.2 EVOLUTION OF MARKETING

There are following different stages in the development of marketing:

1. **State of Self-Sufficiency:** In this stage small families as production units aimed at self-sufficiency and they met all their needs for food, clothing and shelter.
2. **Stage of Primitive Communism:** In this stage the custom was that one who had more than others was to share his surplus with all others till every one had equal quantity. In a few societies, the person had no personal right to his acquisition. It had to be divided among the people in his village.

   In the above-mentioned two stages there was no exchange and hence, no marketing.
3. **Bartering Stage:** In this stage a family or village could not meet all its needs and therefore, had to take the surplus of what it produced in excess of its needs and entered into a bartering relationship with others. Thus, trade commenced due to the production of surplus. This necessitated a search of such people who had surpluses and who desired to exchange them for what the "searchers" had and then negotiations between the two parties started.
4. **Money Economy Stage:** The emergence of money, a common medium of exchange, quickened the pace of trade. It gave a durable base for operation of local markets. In this stage, every product is being valued in terms of money.
5. **Stage of Capitalism:** In the stage of early capitalism where production began not only for meeting their own and family needs but also for making profit. This paved the way for production centres and employment of people to facilitate the distribution of goods produced. The knowledge of marketing helps in understanding consumer needs, optimum utilization of all resources, providing the most suitable product to consumer leading to better standard of living and economic growth.
6. **Mass Production Stage:** It was a result of development in population and improvement in transportation and communication. Large cities get formed, there is increased use of capital equipment in jobs, availability

and flow of funds through banks and a professional management, which encourages the growth of large-scale enterprises.

7. **Affluent Society Stage:** In this stage some sections of people have surpluses of money over their basic needs. Goods and services, which meet their psychological, cultural, social desires and wants, are needed. A study has to be made about these wants of different segments of people. This makes it necessary to collect market information and conduct market research, so that the goods produced will meet the requirements of the consumers. Marketing included earlier searching and negotiation in the stages of barter and local markets. Later at the stage of early capitalism, it included distribution to centres of consumption in other towns or areas. Mass production stage saw the growing importance of branding, packaging and advertising. In an affluent society steps are taken to interpret a consumer's desires and producing goods that will satisfy these desires.

The marketing functions increase according to the stages of development through which a country passes. The orientation of trade, which is traditional in the beginning, becomes international when the economy becomes fully commercial. Thus, marketing has been growing to include a number of marketers, processes or practices.

1.3 MEANING AND DEFINITION OF MARKETING

The term 'marketing' has changed and evolved over a period of time. Today marketing is based around providing continual benefits to the customer, these benefits will be provided and a transactional exchange will take place.

Marketing has been viewed traditionally as a business activity. Business organizations exist to satisfy human needs, especially material needs. Consequently, one way to define marketing is from the business perspective. For instance, marketing has been defined as the "delivery of a higher standard of living."

Marketing mix has 4-Ps:

1. **Product** which is made by producer must be made on the basis of quality.
2. **Price** is fixed by market but marketer should take low price than market for increasing sale.
3. **Promotion** is done by advertising; it must be used at proper time for target audience.
4. **Place** is related to distribution activities; marketer should reach by proper channel of distribution.

Therefore, marketing:

(*a*) is an exchange process.

(*b*) covers a variety of functions to be carried out in an integrated manner.

(*c*) is directed to satisfy the needs/desires/wants of the consumer.

1.4 FEATURES OF MARKETING

The objective of marketing is not the maximization of profitable sales volume, but profits through the satisfaction of customers. Marketing has the following features:

1. **Consumers:** Consumers are the kings of market and all salesmen who want to sell goods to consumers, should create good relationship with consumers and also solve their problems for enhancing the product branding in market.
2. **Organizational Capability:** Before marketing, it is very necessary that a company should see its organizational capability which is available to fulfill the order of sale. If not, then create the limit of marketing.
3. **Competitors:** It is also the nature of marketing that you will see competitors in the market. Never ignore them and create advance strategy to fight and defeat your competitors. Sometimes, new competitors may be your friends for increasing sale because every new competitor is helpful to make a physical market for you where consumer can come and buy.
4. **Co-ordination:** It is also the nature of marketing that it is connected with other activities. It is the duty of the marketing manager to do co-ordination with other departments.
5. **Performance:** Marketing should be based on performance. We have to pay for all costs on the basis of past selling. If any branch's sale value is high, we should promote that branch by increasing the salary of that branch's salesmen and advertising cost.

1.5 THE MARKETING CONCEPT

In the 1950s the marketing concept emerged. As a business philosophy, the marketing concept is aimed at orienting a firm completely towards its customers. As such, a customer focus should permeate every department from production to finance to human resources. All major decisions should be based on the relevant market considerations. This does not, of course, mean that other activities in the organization must be completely subordinate to marketing. What it means is that managers should not make important decisions in any area without taking marketing implications into account.

The objective of marketing is not the maximization of profitable sales volume, but profits through the satisfaction of customers. The consumer is the pivot point and all marketing activities operate around this central point. It is, therefore, essential that the entrepreneurs identify the customers, establish a rapport with them, identify their needs and deliver the goods and services that would meet their requirements. The components of marketing concept are as under:

1. **Satisfaction of Customers:** In the modern era, the customer is the focus of the organization. The organization should aim at producing those goods and services, which will lead to satisfaction of customers.

2. **Integrated Marketing:** The functions of production, finance and marketing should be integrated to satisfy the needs and expectations of customers.
3. **Profitable Sales Volume:** Marketing is successful only when it is capable of maximizing profitable sales and achieves long-run customer satisfaction.

Table 1.1: Selling vs. Marketing Concept

Concepts	*Starting point*	*Focus*	*Means*	*End*
Selling Concept	Factory	Products	Selling and Promoting	Profit through Sales Volume
Marketing Concept	Market	Customer Needs and Wants	Coordinated Marketing	Profit through Customer Satisfaction

Source Philip Kotler

1.5.1 The Concept Benefits the Organization

The practice of the concept brings substantial benefits to the organization that practices it. For example, the concept enables the organization to keep abreast of changes. An organization practicing the concept keeps feeling the pulse of the market through continuous marketing audit, market research and consumer testing. It is quick to respond to changes in buyer behaviour, it rectifies any drawback in its products; it gives great importance to planning, research and innovation and its decisions are no longer based on hunch, but on reliable data relating to the consumers. It does not necessarily stick to one product line; it may diversify and come out with new and improved products or enter totally new areas of business. All these responses, in the long-run, prove extremely beneficial to the firm. The base of consumer satisfaction guarantees long-term financial success.

1.5.2 The Concept Benefits the Consumer

The consumer is infact the major beneficiary of the marketing concept. The attempts of various competing firms to satisfy the consumer put him in an enviable position. The concept prompts the producers to constantly improve their products and to launch totally new products as often as possible; it also prompts them to go in for changes in their business practices. All this results in solid benefits to the consumer—low price, better quality, improved new products and ready stocks at convenient locations. The consumer can choose, he can bargain, he can complain and his complaint will always be attended to. He can buy on credit, cash or on installments. He can even return the goods if not satisfied with it. When corporations take to the marketing concept, their business practices change in favour of the consumer.

1.5.3 The Concept Benefits the Society

When more and more corporations resort to the marketing concept, the society benefits. The concept guarantees that only products that are required by the consumers are produced and thereby it ensures that the society's economic resources are channelised in the right direction. It also makes economic planning more meaningful and more relevant to the life of the people.

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1.6 DIFFERENCE BETWEEN MARKETING AND SELLING

The terms 'marketing' and 'selling' are related but not synonymous.

Marketing has long-term perspective of winning over consumer loyalty to the product by providing him maximum satisfaction. However, selling has short-term perspective of only increasing the sales volume.

The difference between selling and marketing may be as follows.

Table 1.2: Marketing vs. Selling

S. No.	*Marketing*	*Selling*
1.	Marketing focuses on the needs of the buyer.	Selling focuses on the needs of the seller.
2.	Converting customer's needs into product.	Converting product into cash.
3.	Importance is given to the customer.	Importance is given to the product.
4.	It focuses on customer satisfaction.	It focuses on corporate objectives.
5.	It aims at long-term objective as it has philosophical and strategic implications.	It aims at short-term objectives, as it is only a tactical and routine activity.
6.	Integrated approach to marketing is practiced.	Fragmented approach to selling is practiced.
7.	It forecasts the customer needs to undertake the production activity.	It aims at selling the goods which are already produced through intensive promotion at a profit.
8.	It gives top priority to profitable volume at fair and reasonable prices.	It gives priority to sales volume and maximization of profits through sales volume.
9.	The principle of caveat vendor (let the seller beware) is followed.	The principle of caveat emptor (let the buyer beware) is followed.
10.	Stresses on needs of the buyer.	Stresses on needs of the seller.

1.7 MARKETING MYOPIA

When a firm changes its marketing focus from customer to its product or the company itself, it is also called myopia.

Myopia literally means short-sightedness. Marketing Myopia is the inefficiency of the Top Management to broadly define its business and meet customer needs resulting to the decline of the product. Examples from the real world:

- Daewoo Motors
- Hindustan Motors

- Kinetic Honda
- Pager Industry

1.8 SCOPE/FUNCTIONS OF MARKETING

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Marketing deals with identifying and meeting human and social needs or it can be defined as "meeting needs profitably".

In order for the marketing bridge to work correctly providing consumers with opportunities to purchase the products and services they need, the marketing process must accomplish nine important functions. The functions are:

1. **Buying:** People have the opportunity to buy products that they want.
2. **Selling:** Producers function within a free market to sell products to consumers.
3. **Financing:** Banks and other financial institutions provide money for the production and marketing of products.
4. **Storage:** Products must be stored and protected/preserved until they are needed. This function is especially important for perishable products such as fruits and vegetables.
5. **Transportation:** Products must be physically relocated to the locations where consumers can buy them. This is a very important function. Transportation includes rail road, ship, airplane, truck, and telecommunications for non-tangible products such as market information.
6. **Processing:** Processing involves turning a raw product, like wheat, into something the consumer can use—for example, bread.
7. **Risk Taking:** Insurance companies provide coverage to protect producers and marketers from loss due to fire, theft, or natural disasters.
8. **Market Information:** Information from around the world about market conditions, weather, price movements, and political changes, can affect the marketing process. Market information is provided by all forms of telecommunication, such as television, the internet, and phone.

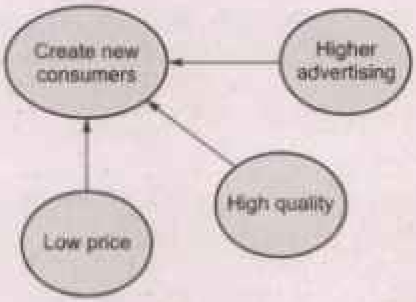

Fig. 1.1. Marketing in a new company.

9. **Grading and Standardizing:** Many products are graded in order to conform to previously determined standards of quality. For example,

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when you purchase potatoes, you know you are buying the best potatoes in the market.

10. **Marketing in New Company:** Building a new customer base for your products and services takes time, money and planning. Begin by getting facts about your industry, local market, customers and competitors. With the right information, the next step is to develop a strategy like High Advertising Frequency, High Quality Product and Low Price that identifies the steps you adopt with your target market and convert prospects into customers.
11. **Marketing in an Old Company:** It is also the part of scope of marketing. In an old company, we see that there are already large number of consumers buying goods. There is no need to invest high amount on advertising but company can find its scope for improving the quality of product which will be sold to existing consumers. An old company should concentrate its mind for maintaining the stable level in market by providing quality products, continuing researching and decreasing the cost.

1.9 TYPES OF MARKETING

Some important types of marketing are mentioned below:

1. **Internet Marketing and Offline Marketing:** Internet marketing is any marketing strategy that takes place online. Also referred to as online marketing, it encompasses a variety of marketing forms like video advertisements, search engine marketing and e-mail marketing. Offline marketing, the opposite of online marketing, includes all forms of marketing that are not done on the Internet. Examples of offline marketing are local advertising in newspapers and on television.
2. **Direct Marketing:** Direct marketing's main goal is to send a message directly to consumers, without having to use any third party outlets. Examples of direct marketing include mail marketing, telemarketing, mobile marketing and direct selling.
3. **One-to-one Marketing:** It is an approach that concentrates on providing services or products to one customer at a time by identifying and then meeting their individual needs. It then aims to repeat this many times with each customer, such that powerful lifelong relationships are forged. As such it differentiates customers rather than just products.
4. **Niche Marketing:** When a product or service is not being readily supplied to a certain portion of a market, a company can its efforts on that niche to address a need that is not currently being addressed. This targeted marketing is successful because the marketer has identified a need that is not being resolved by mainstream providers. Sometimes it is beneficial for a company to focus on a niche instead of trying to compete in a larger market.
5. **Mass Marketing:** Mass marketing is a market coverage strategy in which a firm decides to ignore market segment differences and appeal

the whole market with one offer or one strategy. A mass marketing approach aims at a large, broad consumer market through one basic marketing plan.

6. **Trade Show Marketing:** Companies that want to reach a large number of potential customers can participate in public or private trade shows. Trade shows and other forms of event marketing are often a large investment to participate in, but trade shows allow companies to demonstrate new products and examine what is going on in the industry.

1.10 IMPORTANCE OF MARKETING

The contribution of marketing in a socio-economic system can be summarized as follows:

1. **National Income:** The nation's money is composed not of money, but of the goods and services which money can buy. Any increase in efficiency of the marketing process results in lower costs of distribution and lower prices to consumers. This brings an increase in the national income.
2. **Distribution Cost:** Marketing aims at reducing the cost of distribution to the extent possible, to make it available to the consumers at reasonable price. It increases the consumption and profits of the firm. Hence, the shareholders may also get better share in profits. A part of the profit may also be utilized for further research work, for labour saving devices or for innovating new manufacturing techniques. Thus, the society is benefited in the long-run.
3. **Production and Consumption:** Marketing process links the production and consumption. It brings new varieties, quality and beneficial goods to consumers from the manufacturing centres. A wealth of merchandise can be purchased at retail stores which were not available previously. It, thus, provides the connecting link between production and consumption and avoids the scarcity of goods.
4. **Business Slumps:** Scientific marketing has a stabilizing effect on the price level. Producers produce what consumers want and consumers have a wide choice of products, there are no frequent ups and downs in prices. A sound marketing system gives protection against business slump by discovering new markets, reducing cost of distribution, making it consumer-oriented, diversifying and improving the product, extending after-sales service etc.
5. **Transmutation:** The existence of a market and the specialists engaged in performing marketing functions are helpful in creating from utility to the hidden resources to suit the requirements of consumers. Thus, the consumer needs can be satisfied by the marketer.
6. **Productive Efficiency:** The information about the use of machinery and freely after-sales services makes the farmers aware of the latest developments and helps them in improving their productive efficiency.
7. **Imbalance in Supplies:** Scientific marketing remedies the imbalance in the supply by making available the surplus stocks at deficit areas.

Through better provision of transport facilities and storage, market develops the trade in perishable goods, most of which at present are wasted.

8. **Value of Goods:** Place utility is created when a product is made readily accessible to the potential consumer. Time utility is created when a product is available to customers when they want it. Possession utility is created when a customer buys the product *i.e.*, the ownership title is transferred to the buyer.
9. **Value of Service:** Marketing adds value to the services *e.g.*, business, medical, entertainment and educational services by performing the services involved.
10. **Patterns of Consumption:** Patterns of consumption are determined by the structure of marketing system, which is set up to carry the flow of goods and services from producer to consumers. The value added to the goods and services through performance of marketing activities also explains the pattern of consumption.
11. **Employment Opportunities:** Marketing is essential for full employment. In order to have continuous production, there must be continuous marketing and high level of business activity. The continuous marketing activity is required for performing various marketing functions such as buying, selling, transportation, warehousing, financing, risk bearing, etc. Each function has countless job openings. It is a continuous source of employment and provides livelihood to a number of unemployed persons.
12. **Living Standards:** Marketing helps in increasing the standard of living of the people. It is logical that a reduction in the per unit cost of distribution of goods and services to the society would result in a higher standard of living.
13. **Expansion of Home Market:** Marketing can serve to expand the home market and thus provide a more secure base for export. When a country is self sufficient and is in a position to go for exports, it results in favourable balance of trade. It is an indicator of economic development of a country.

1.11 MARKETING ENVIRONMENT

Marketing environment refers to the forces or variables of the outer and inner environment of a firm that affects the marketing management's ability to build and maintain successful relationships with the customer. The marketing environment framework consists of macro-environment and micro-environment.

Micro-environment variables are close to the firm and include the suppliers, marketing intermediaries, customer markets, competition & publics. Micro-environment also refers to the internal environment of the company and affects not only marketing but also all the departments such as management, finance, research and development, human resources, purchasing, operations and accounting.

Macro-environment deals with the demographic, economic, technological, natural, socio-cultural and politico-legal environment of the markets. The following Fig. 1.2 shows the environmental framework.

1. **Customers:** Customers are the core of the marketing environment. There are different types of customers such as end consumers, business customers, government customers, international customers and retail customers.
2. **Suppliers:** The slightest delay in receiving the supplies may result in dissatisfaction of the customers. The marketers have to watch the supply availability and other trends related to the suppliers.

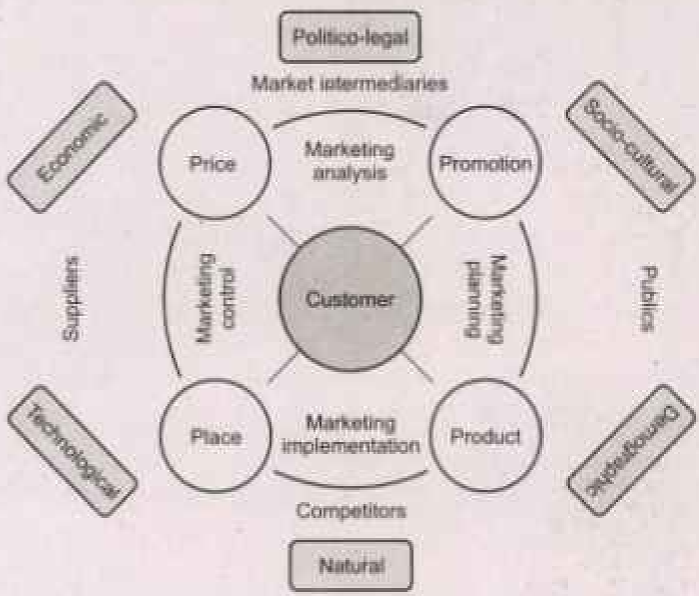

Fig. 1.2. Environmental framework.

3. **Marketing Intermediaries:** The resellers, physical distribution firms, marketing services agencies, and financial intermediaries all make marketing intermediaries. They help in promotion of the company and sales and distribution of the company's products. Stores and warehouses are the physical distribution firms that store and transport the company's product from its origin to its destination. Other intermediaries are marketing services agencies, which are responsible for conducting marketing research, advertising, and consulting. Financial intermediaries are institutions such as banks, credit companies and insurance companies.
4. **Publics:** Publics is any group that has interest or impact on a firm's ability to meet its goals. This includes the financial publics, media publics, government, publics, local publics such as NGO and citizen action organizations. While the financial publics can hinder a company's ability to obtain funds affecting the level of credit in a company, the media publics can publish articles of interest regarding the company and editorials that may influence customers' opinions. Similarly, government publics is capable of affecting the company by passing legislation and laws that put restrictions on the company's actions

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and citizen-action publics (*e.g.*, environmental groups and minority groups) can question the actions of a company and put them in the public spotlight.

5. **Competitors:** Competitors are the companies with similar offerings for goods and services. To remain competitive a company must consider who their biggest competitors are while considering its own size and position in the industry. The company should develop a strategic advantage over their competitors.
6. **Political-legal Factors:** Political factors include how and to what degree a government intervenes in the economy. This includes monetary and tax policies of the government, labour laws, environmental laws, various trade restrictions and tariffs. Political stability is one of the main factors. This also includes the merit goods and demerit goods as per the provisions of the local government. Legal factors deal with discrimination law, consumer law, antitrust law, employment law and health and safety law.
7. **Economic Factors:** Economic factors are general economic growth, interest rates, exchange rates, balance of payments, monetary policies, inflation rate etc. These factors play a very important role in business operations. These factors have the capability to alter the cost of operations, cost of capital and returns ultimately. There is a major impact of the exchange rates on exports and imports of the country.
8. **Social Factors:** Social factors are the social and cultural aspects, which include health consciousness, population growth rate, age distribution, career attitudes and emphasis on safety. They have a major impact on demand of a firm's products and services.
9. **Technological Factors:** Technological factors include the research and development, automation, expansion of internet and other communication technologies, technology incentives and technological barriers. They affect the efficiency of the production. Outsourcing decisions mainly depend upon technological environments.
10. **Natural Environment Factors:** These factors include weather, climate, and climate change, availability of water, availability of raw products etc.

1.12 ENVIRONMENTAL SCANNING

This is the process of gathering, analyzing and forecasting of external environments' information to identify opportunity and threats that company faces the need for environmental scanning. It helps in:

1.12.1 Analyzing the Organization's Micro-environment

Marketing department alone cannot satisfy all the needs of a customer. Therefore, it is essential to integrate the functions of suppliers, publics, company departments and intermediaries in creating the value to the customer. These forces are known as organization's micro-environment forces. Micro-environment forces which are very close to a company and have impact on value creation and customer service are shown in Fig. 1.3.

1. **The Company:** Deducing a strategic plan into a specific marketing plan requires co-ordination of other functions like finance, human resource, production and research and development.
2. **Intermediaries:** Marketing intermediaries are the firms which distribute and sell the goods of the company to the consumer.

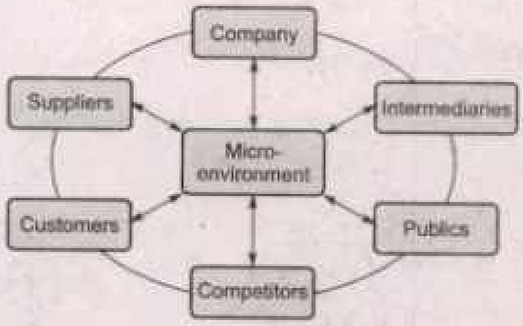

Fig. 1.3. Micro-environment forces.

3. **Publics:** These are micro-environment groups, which help a company to generate the financial resources, creating the image, examining the companies' policy and developing the attitude towards the product. We can identify six types of publics.
4. **Competitors:** A company should monitor its immediate competitor. The product should be positioned differently and able to provide better services.
5. **Suppliers:** Suppliers are the first link in the entire supply chain of the company. Hence, any problem or cost escalation in this stage will have direct effect on the company. Many companies adopted supplier relation management system to manage them well.
6. **Customers:** A company may sell their products directly to the customer or use marketing intermediaries to reach them. Direct or indirect marketing depends on what type of markets the company serves. Generally we can divide the markets into five different categories. They are:
   (*a*) Consumer market.
   (*b*) Business market
   (*c*) Reseller market
   (*d*) Government market and
   (*e*) International market.

1.12.2 Analyzing the Organization's Macro-environment

1. **Demographic Environment:** The study of population characteristics like size, density, location, gender composition, age structure, occupation and religion. Demography statistics helps companies to develop their products in a better way. These statistics are also used in developing

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proper supply chain, communicating product information and changing the product attributes. Demographic environment is analyzed on the basis of the following factors.

(*i*) Age structure of the population
(*ii*) Marital status of the population
(*iii*) Geographic distribution of the population
(*iv*) Education level
(*v*) Migration
(*vi*) Occupation.

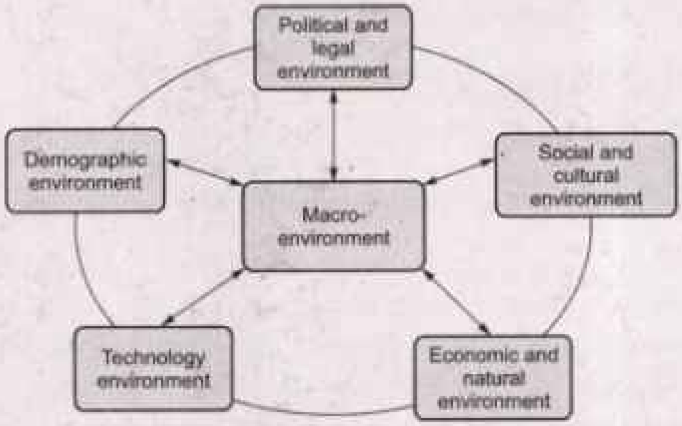

Fig. 1.4. Macro-environment of a firm.

2. **Political and Legal Environment:** Government policies, legislations, regulations and stability will directly affect the business. Therefore, it is inevitable for the firm to closely monitor this environment. The political and legal forces are grouped into the following four categories.
   (*i*) **Monetary and fiscal policies:** These policies regulate government spending, money supply and tax legislations.
   (*ii*) **Social legislations and regulations:** Environmental protection act which specifies the emission level.
   (*iii*) **Government relationships with industries:** Government subsidies and change in tariff rate will have direct impact on the particular company.
   (*iv*) **Legislations related to marketing:** There are a list of legislations which affect marketing activities of a company.
3. **Economic and Natural Environment:** Economic environment includes the following:
   (*a*) **Interest rate:** When interest rates are high, consumers tend not to make long-term purchase like housing. If the interest rate is low people put their money in alternative financial options where they get better return.
   (*b*) **Inflation:** The higher the inflation rate, the lesser will be the purchasing power of the consumer. Hence, government always tries to control the inflation within the limit.

(c) **Changes in income:** The rise in the salaries of the employees, improved performance of stock market and better industrial growth led to the change in the income pattern in India. Many Indians became millionaires and billionaires. Percentage of below poverty line is decreasing, but the concern is rich and poor divide is growing.

Natural environment concerns are growing over the years. Governments increased regulations to manage the natural resources. Marketers should be aware of such trends in the natural environment. Some of the factors which organizations should keep a vigil on are:

- Inadequate raw materials
- Global warming and pollution levels
- Regulatory world.

We are depending excessively on Middle East countries for petroleum products. Automobile companies are improving their technologies and are also planning to come out with hybrid cars which use alternative fuels. Global warming is a big issue today. The Indian government through Environmental Protection Act, has made stringent rules on emission and environment standards. Companies, particularly in automobiles should adhere to those norms, which are expensive and time consuming.

4. Social and Cultural Environment:

(i) **Working women and rise of metrosexual man:** The number of women who are working in India is increasing. This segment is looking towards products, which help them in bringing better work-life balance. MTR, a fast food giant in south India, started offering ready-to-eat products to this segment. These products are instant in nature where a woman dips a product in the hot water for minutes and serves.

(ii) **People hard pressed for time:** This segment involves people who work long hours and have less personal time. These people are looking for products which satisfy them quickly and conveniently. For example, Easy bill, from Hero group offers one stop solution to consumers to pay their utility bills and do other financial transactions.

5. Technology Environment:

(i) **Growth of information technology and bio-technology industries:** Information technology has revolutionized the lives of the people. It brought dramatic changes in the way organizations operate. It helped in cost reduction, automation, better communication and efficiency in the organizations. Indian banks which few years ago used to take a lot of time to process the customer requests reduced it to few hours because of information technology.

(ii) **Nano technology:** The technology is waiting, which is expected to reduce the size and cost of the materials.

1.13 MARKETING MIX

In the general way, marketing mix means mixing of various marketing policies to achieve success in marketing. But in the broad sense, marketing mix means mixing of various sales policies by manufacturers/producers such as product, brand and trademark packaging, price distribution-medium, sales power, advertisement, sales promotion, physical distribution of products and marketing research etc., in such a way that in certain time and situation maximum profit can be earned by buyer's satisfaction.

"The marketing mix is the set of marketing tools the firm uses to pursue its marketing objectives in the target market". **Philip Kotler**

"Marketing mix is the term used to describe the combination of four inputs which constitute the core of a company's marketing system—the product, the promotional activities and the distribution system". **Stanton**

1.14 COMPONENTS OF MARKETING MIX

The marketing mix is one of the most famous marketing terms. The marketing mix is the tactical or operational part of a marketing plan. The marketing mix is also called the 4Ps and the 7Ps. The 4Ps are price, place, product and promotion. The services marketing mix is also called the 7Ps and includes the addition of process, people and physical evidence.

According to Philip Kotler "Marketing mix is the set of controllable variables that the firm can use to influence the buyer's response". The controllable variables in this context refer to the 4P's [product, price, place (distribution channel) and promotion]. Each firm strives to build up such a composition of 4P's, which can create the highest level of consumer satisfaction and at the same time meet its organizational objectives. Thus, this mix is assembled keeping in mind the needs of target customers, and it varies from one organization to another depending upon its available resources and marketing objectives.

Let us now have a brief idea about the four components of marketing mix. Figure 1.5 displays the components of mixing.

Fig. 1.5. Components of market mixing: The 4Ps.

(*a*) **Product:** Product refers to a physical product or a service or an idea which a consumer needs and for which he is ready to pay. Physical products include tangible goods like grocery items, garments etc.

Services are intangible products which are offered and purchased by consumers. Services may involve also an innovative idea on any aspect of operation. Products are the key element of any marketing mix. The decisions concerning product may relate to:

(*i*) Product attributes

(*ii*) Branding

(*iii*) Packaging and labeling

(*iv*) Product support service

(*v*) Product mix.

Product attributes: Product attributes refer to the quality, features and design of the product. A product should serve the purpose for which it is made, in terms of utility and quality. In a competitive market, products are differentiated on the basis of certain features or design. For example, in the Whirlpool washing machine 'Agitate wash' is the distinctive feature.

> *"Product means the goods-and-services combination the company offers to the target market".* **Kotler and Armstrong (2010)**

Product can also take the form of a service like an air travel, telecommunication, etc. Thus, the term 'product' refers to goods and services offered by the organization for sale.

(*b*) **Price:** Price is the amount charged for a product or service. It is the second most important element in the marketing mix. Fixing the price of the product is a tricky job.

> *"Price is the amount the consumer must exchange to receive the offering".* **Solomon et. al (2009)**

Many factors like demand for a product, cost involved, consumer's ability to pay, prices charged by competitors for similar products, government restrictions etc., have to be kept in mind while fixing the price. In fact, pricing is a very crucial decision area as it has its effect on demand for the product and also on the profitability of the firm.

(*c*) **Place:** Goods are produced to be sold to the consumers. They must be made available to the consumers at a place where they can conveniently make the purchase. Woollens are manufactured on a large-scale in Ludhiana and you purchase them at a store from the nearby market in your town. So, it is necessary that the product is available at shops in your town. This involves a chain of individuals and institutions like distributors, wholesalers and retailers who constitute a firm's distribution network (also called a channel of distribution).

> *"Place includes company activities that make the product available to target consumers".* **Kotler and Armstrong (2010)**

The organization has to decide whether to sell directly to the retailer or through the distributors/wholesaler etc. It can even plan to sell it directly to consumers.

(*d*) **Promotion:** If the product is manufactured keeping the consumer needs in mind, is rightly priced and made available at outlets convenient

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to them but the consumer is not made aware of its price, features, availability etc., its marketing effort may not be successful.

"Promotion includes all of the activities marketers undertake to inform consumers about their products and to encourage potential customers to buy these products". **Solomon et. al (2009)**

Therefore, promotion is an important ingredient of marketing mix as it refers to a process of informing, persuading and influencing a consumer to make choice of the product to be bought. Promotion is done through means of personal selling, advertising, publicity and sales promotion. It is done mainly with a view to provide information to prospective consumers about the availability, characteristics and uses of a product. It arouses a potential consumer's interest in the product, compare it with competitors' product and make his choice. The proliferation of print and electronic media has immensely helped the process of promotion.

1.15 4Cs OF MARKETING MIX

The 4Cs marketing mix definition seeks to turn traditional marketing thinking on its head by looking at sales and marketing in a customer-centric way as shown in Fig. 1.6. Instead of looking at how each aspect of marketing is seen by the business, you look at these from the customer's perspective.

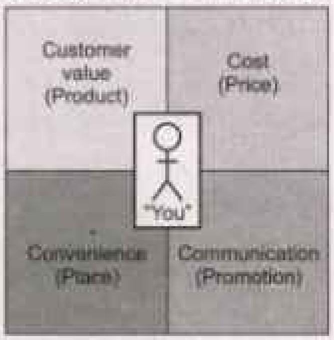

Fig. 1.6. 4Cs of marketing mix.

The point in using "4Cs" instead of "4Ps" is not an exercise in semantics. Rather, key into the thinking behind the exercise which is to get you to see things from your customers' point of view.

1. **Customer Value (Not Product):** A product is something you make which people come and buy. However, today, you can no longer succeed by making what you want and must instead find out what customers want.

   Focusing on customer value allows you to reset your perceptions around what it is you are creating and bringing to the market, be it a product, service or some other value. Everything begins and ends with your customer and you exist to serve his/her needs. Value is what your customer is concerned about, not you, your fabulous product or anything else you do. Value is how you define marketing mix "products" and what you should seek to engage your customer with. It is the value you provide that defines you in the marketplace.

2. **Cost (Not Price):** Instead of thinking of price as something you charge, think of cost as something customers pay. This simple adjustment once again opens up a whole new way of thinking about sales and marketing.

   When you define marketing mix cost you tune into the customer dilemma of deciding how to spend limited money to satisfy unlimited wants. Are you providing enough capital to compete effectively? Your motivation in going to market should not be to maximize your gain but to maximize customer value. Therefore, you should ask how you can provide more for the same cost to the customer instead of asking to make more profit from a product.

3. **Convenience (Not Place):** The day is not far off when the majority of shopping will not take place in shops or through the traditional distribution channels of business. Your customers today are governed by purchase when, where and how it is convenient to them.

   Thinking about convenience not only allows you to open up to newer ways of connecting with customers and distributing products, but helps you shift into the mindset of providing an optimum overall experience for customers. To define marketing mix in terms of convenience reminds you that customers today are very busy and have many choices. It is no longer your right as a business owner but a privilege when customers choose you. Make it as easy as possible for them to do so.

4. **Communication (Not Promotion):** The final new market mix definition replaces the traditional notion of "promotion" with communication. This final concept of how you define marketing mix from the customer's perspective ties into creating interactive marketing communication. "Promotion" takes you back to the days of mass marketing which does not work anymore. Just like you cannot simply build a "good product" and expect people to buy it, so customers no longer believe everything you say at face value. Instead of virtuous pronouncement about how good your product or service is, customers today seek to be engaged and have meaningful interactions with you. You must therefore strive for two-way communication and building relationships.

SUMMARY

- Marketing management is a broad scope of the study of marketing focusing on the practical application of the techniques and marketing activities of a certain company or business.

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- The term 'marketing' has changed and evolved over a period of time. Today marketing is based around providing continual benefits to the customer, these benefits will be provided and a transactional exchange will take place.
- The objective of marketing is not the maximization of profitable sales volume, but profits through the satisfaction of customers.
- The consumer is infact the major beneficiary of the marketing concept. The attempts of various competing firms to satisfy the consumer put him in an enviable position.
- Marketing has long-term perspective of winning over consumer loyalty to the product by providing him maximum satisfaction.
- When a firm changes its marketing focus from customer to its product or the company itself, it is also called myopia.
- Marketing environment refers to the forces or variables of the outer and inner environment of a firm that affects the marketing management's ability to build and maintain successful relationships with the customer.
- Macro-environment deals with the demographic, economic, technological, natural, socio-cultural and politico-legal environment of the markets.
- The study of population characteristics like size, density, location, gender composition, age structure, occupation and religion. Demography statistics helps companies to develop their products in a better way.
- Government policies, legislations, regulations and stability will directly affect the business. Therefore, it is inevitable for the firm to closely monitor this environment.
- In the general way, marketing mix means mixing of various marketing policies to achieve success in marketing.
- The marketing mix is the tactical or operational part of a marketing plan. The marketing mix is also called the 4Ps and the 7Ps. The 4Ps are price, place, product and promotion. The services marketing mix is also called the 7Ps and includes the addition of process, people and physical evidence.

REVIEW QUESTIONS

1. Define marketing. State its features.
2. State the importance of marketing.
3. Differentiate between selling and marketing.
4. How, "marketing occupies a critical role in respect of the development of developing nations"?
5. Explain the nature and scope of marketing.
6. Briefly explain the evolution of marketing.

7. Explain the need of environment scanning.
8. Bring out the difference between macro-environment and micro-environment.
9. Write a note on demographic environment in India.
10. Environment scanning is necessary to understand opportunities and threats faced by the company.
11. Micro-environment factors like marketing intermediaries, suppliers, competitors, publics and customers influence a company's strategies.
12. Technology is helping companies to reduce cost, increase efficiency and save time. Explain.
13. Discuss the importance of political and legal environment study with examples.
14. Explain the meaning and definition of market mix.
15. What are the main features of market mix?
16. Describe the different components of marketing mix.
17. Explain the 4Cs of marketing mix.

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UNIT

II

MARKET SEGMENTATION, TARGETING AND POSITIONING

STRUCTURE

2.1 INTRODUCTION

A market consists of large number of individual customers who differ in terms of their needs, preferences and buying capacity. Therefore, it becomes necessary to divide the total market into different segments or homogeneous customer groups. Such division is called market segmentation. They may have uniformity in employment patterns, educational qualifications, socio-economic status, preferences, etc. Market segmentation enables the entrepreneur to match his marketing efforts to the requirements of the target market. Instead of wasting his efforts in trying to sell to all types of customers, a small-scale unit can focus its efforts on the segment most appropriate to its market.

2.2 MEANING AND DEFINITION OF MARKET SEGMENTATION

Market segmentation is the technique used to enable a business to better target its products at the right customers. It is about identifying the specific needs and wants of customer groups and then using those insights into providing products and services which meet customer needs.

"Market segmentation is the process whereby producers organize their knowledge of customer groups and select for particular attention, those whose needs and wants they are best able to supply with their products".
Victor T.C. Middleton

"Market segmentation is the process of dividing a total market into market groups consisting of people who have relatively similar product needs, tastes, and preferences. The purpose is to design a marketing mix strategy that more precisely matches the needs of individuals in a selected market segment(s)".

Market segmentation is a method of dividing a large market into smaller groupings of consumers each having common needs or behaviour. We have two types of markets:

(*i*) **Homogeneous market:** A market in which people or organization has similar characteristics.

(*ii*) **Heterogeneous market:** A market in which people or organizations have different characteristics.

Segments are usually measured in terms of sales value or volume. As shown in Fig. 2.1 segment B is twice the size of segment C.

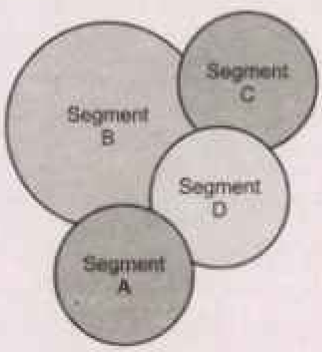

Fig. 2.1. Market segmentation.

Why do businesses need to segment their markets? Because customers differ in the:

- Benefits they want.
- Amount they are able to or willing to pay.
- Media (*e.g.*, television, newspapers, and magazines) they see.
- Quantities they buy.
- Time and place that they buy.

2.3 MARKET SEGMENTATION OBJECTIVES

In general, segmentation has the main objective to improve the competitive position of businesses. It provides better service to consumers. In addition to these main objectives are—boost sales, improve market share, to communicate, better promotion, and strengthening the image. At least there are five advantages to be gained by doing market segmentation, namely:

1. **Designing Products that are More Responsive to Market Needs:** The company puts the customer in the first place, and adjusts products to satisfy them and achieve customer satisfaction at a profit.
2. **Analyze Market:** Segmentation market is helping executives to detect anyone who attacked its product market.
3. **Assess Opportunities:** After analyzing the market, companies that master the concept of segmentation will be on the lookout for the idea to find opportunities. This opportunity is not always something that big, but in its time would be great.
4. **Mastering the Position of Superior and Competitive:** A company that controls segments well is generally well aware of their customers. Companies understand the shifts that occurred in the segment.
5. **Determining Effective Communication Strategies:** After learning about the targeted segment, the company will determine how to communicate effectively with the targeted segments.

2.4 BASES OF MARKET SEGMENTATION

There are various methods (or "bases") a business can use to segment a market. Some of the most popular are summarized in Fig. 2.2.

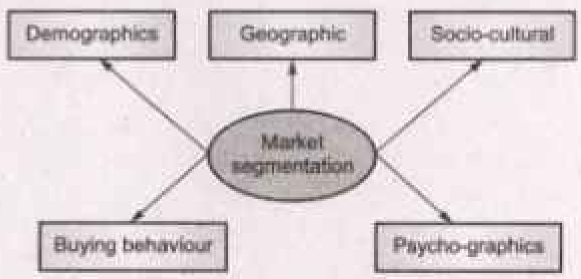

Fig. 2.2. Bases of segmentation.

The brief description of these bases are as follows:

1. **Geographic Segmentation:** Geographic segmentation calls for dividing the market into different geographical units such as nations, regions, countries, cities or neighbourhood. One of the major geographic segmentation in India is the division of rural and urban areas. The need to segment the market geographically becomes clearer when we look at some of the characteristics of the market. In India, there are more than 5,000 towns and over 6,37,000 villages. Nearly 88% of these villages have a population of less than 2,000 people. This variation in population is important for the marketer while formulating marketing strategy and plans.

   In addition to this products penetration, income levels and availability of infrastructure like roads and electricity make the task of geographic segmentation important.

   For most products, penetration levels in rural areas are lower than in urban areas. Income and lifestyle issues influence the penetration rate of products and services, for example, *haats and mandis* serve important roles in the exchange of goods and services in rural areas.

2. **Demographic Segmentation:** In demographic segmentation, the market is divided into groups on the basis of variables such as age, family size, family life cycle, gender, income, occupation, education, religion, race, generation, nationality and social class.
   (*i*) **Age and life cycle stage:** Consumer wants and abilities change with age, *e.g.*, Hindustan Unilever introduced Pears soap in pink colour especially for children. Johnson and Johnson Baby Powder and Talcum Powder are classic examples of products for infants and children. Television channels in India indicate the segmentation based on age and life cycle. There are channels like Aastha and Sanskaar which target the old generation, cartoon network, Disney are channels for children etc.
   (*ii*) **Gender:** Men and women have different behavioural orientation. Gender differentiation has been long applied to product categories such as clothing, cosmetics and magazines, *e.g.*, Axe deodorant is positioned as a masculine product. Park Avenue from Raymond is positioned as a masculine brand. Bajaj wave is a brand specifically designed for women in the scooter segment.
   (*iii*) **Income:** Income segmentation is a long standing practice in a variety of products and services and is a basic segmentation variable, *e.g.*, Nirma Washing Powder was launched as the lowest priced detergent in India primarily targeted at the middle income group. Markets for many consumers' products in India are showing rapid growth due to low unit price packaging.
   (*iv*) **Generation:** Each generation is profoundly influenced by the time in which it grows—music, movies, and politics.
   (*v*) **Social class:** Social class has a strong influence on preference in cars, clothing, home, furnishings, leisure activities, reading habits, retailers etc.
3. **Psychographic Segmentation:** In psychographic segmentation, elements like personality traits, attitudes, lifestyle and value system form the base. The strict norms that consumers follow with respect to good habits or dress codes are representative examples, *e.g.*, McDonald's changed their menu in India to adapt to consumer preference. The market for wrist watches provides example of segmentation. Titan watches have a wide range of sub-brands such as Raga, Fast Track, Edge etc. Instant noodle marks, include fast to cook food brands such as Maggi, Top Ramen. Femina, a women's magazine is targeted at modern women.
4. **Behavioural Segmentation:** Markets can be segmented on the basis of buyer behaviour as well. The primary idea in buyer behaviour is that different customer groups expect different benefits from the same product and accordingly they will be different in their motives in owning it. In buyer behaviour based segmentation also, several sub-factors form the basis, *e.g.*, purchase occasion can be one base, buyers can be segmented on the basis of whether they are regular buyers or special occasion buyers. Degree of use can be another base, they can be segmented on the basis of whether they are light, medium or heavy

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users of the product or whether they are enthusiastic or indifferent or negative towards the product.

5. **Volume Segmentation:** The division of a market into segments on the basis of the varying volume of demand for the product by individuals, groups or types of customers, typically, the segment is ranked to denote heavy usage, medium usage or light usage.

2.5 LEVELS OF MARKET SEGMENTATION

There are four levels of segments:

1. **Segment Marketing:** A market segment consists of a large identifiable group within a market, with similar wants, purchasing power, geographical location, buying attitudes, or buying habits. For example, an automaker may identify four broad segments in the car market: buyers who are primarily seeking (1) basic transportation, (2) high performance, (3) luxury, or (4) safety.

   Because the needs, preferences, and behaviour of segment members are similar but not identical, Anderson and Narus urge marketers to present flexible market offerings instead of one standard offering to all members of a segment. A flexible market offering consists of the product and service elements that all segment members value, plus options (for an additional charge) that some segment members value. For example, Delta Airlines offers all economy passengers a seat, food, and soft drinks, but it charges extra for alcoholic beverages and earphones.

   Segment marketing allows a firm to create a more fine-tuned product or service offering and price it appropriately for the target audience. The choice of distribution channels and communications channels becomes much easier, and the firm may find it faces fewer competitors in certain segments.

2. **Niche Marketing:** A niche is a more narrowly defined group (typically a small market whose needs are not being well served). Marketers usually identify niches by dividing a segment into sub-segments or by defining a group seeking a distinctive mix of benefits. For example, a tobacco company might identify two sub-segments of heavy smokers: those who are trying to stop smoking, and those who don't care.

   In an attractive niche, customers have a distinct set of needs; they will pay a premium to the firm that best satisfies their needs; the niche is not likely to attract other competitors; the niche gains certain economies through specialization; and the niche has size, profit, and growth potential. Whereas segments are fairly large and normally attract several competitors, niches are fairly small and may attract only one or two rivals. Still, giants such as IBM can and do lose pieces of their market to niches.

3. **Local Marketing:** Target marketing is leading to some marketing programs that are tailored to the needs and wants of local customer groups (trading areas, neighbourhoods, even individual stores).

Citibank, for instance, adjusts its banking services in each branch depending on neighbourhood demographics; Kraft helps supermarket chains identify the cheese assortment and shelf positioning that will optimize cheese sales in low-income, middle-income, and high-income stores and in different ethnic neighbourhoods.

Those favouring local marketing see national advertising as wasteful because it fails to address local needs. On the other hand, opponents argue that local marketing drives up manufacturing and marketing costs by reducing economies of scale. Moreover, logistical problems become magnified when companies try to meet varying local requirements, and a brand's overall image might be diluted if the product and message differ in different localities.

4. **Individual Marketing:** The ultimate level of segmentation leads to "segments of one," "customized marketing," or "one-to-one marketing". For centuries, consumers were served as individuals: The tailor made the suit and the cobbler designed shoes for the individual. Much business-to-business marketing today is customized, in that a manufacturer will customize the offer, logistics, communications, and financial terms for each major account.

2.6 IMPORTANCE OF MARKET SEGMENTATION

A market is the aggregate of consumers of a given product and consumers vary in their characteristics buying behaviour. It is feasible to disaggregate the consumers into segments in such a manner that in needs characteristics and buying behaviour, the members vary significantly among segments. Segmentation benefits the marketer as:

1. **Proper Choice of Target Market:** Segmentation helps in distinguishing one customer group from another and thereby allows him to decide which segment should form his target market.
2. **Taping of the Market, Adopting the Offer to the Target:** Segmentation also enables the marketer to crystallize the needs of the target buyers. It also helps him to generate an accurate prediction of the likely responses from each segment of the target buyers, *e.g.*, Ford Strategy. Through segmentation car manufacturers have gained useful insights on the product features to be provided to different segments of car buyers.
3. **Marketing Effort More Efficient and Economic:** Segmentation makes the marketing effort more efficient and economic. It ensures that, the marketing effort is concentrated on well defined and carefully chosen segments. After all, the resources of any firm are limited and no firm can normally afford to attack and tap the entire market.
4. **Benefits the Customer as Well:** It helps to achieve the specialization required in product, distribution, promotion and pricing for matching the customer group and developing marketing offers. Therefore, to compete more effectively, many companies go for target marketing which can establish and communicate the distinctive benefits of the company's market offering. This process is called market segmentation,

e.g., Global Marketing has identified 40 different customer needs and 40 different market segments in which it would be present with its vehicle.

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2.7 MARKET TARGETING

Target marketing refers to a concept in marketing which helps the marketers to divide a market into small units comprising like minded people. Such segmentation helps the marketers to design specific strategies and techniques to promote a product amongst its target market. A target market refers to a group of individuals who are inclined towards similar products and respond to similar marketing techniques and promotional schemes.

Targeting is defined as a group of people or organizations for which an organization designs, implements and maintains the marketing mix. Once the bases for segmentation are selected, you have to identify the people or organization to which the product is meant for.

> *"Market targeting is made up of evaluation of market segment and selection of market segment / segments to be in".*

Target marketing refers to a concept in marketing which helps the marketers to divide the market into small units comprising like minded people. Such segmentation helps the marketers to design specific strategies and techniques to promote a product amongst its target market. A target market refers to a group of individuals who are inclined towards similar products and respond to similar marketing techniques and promotional schemes.

2.7.1 Evaluating Market Segments

The market segments may be evaluated on the basis of the following:

1. **Segment Size and Growth:** The company must collect and analyze data on current Rupee sales, projected sales-growth, and expected profit margins for each market segment.
2. **Segment Structural Attractiveness:** Long-run attractiveness includes an assessment of current and potential competitors, the threats of substitutes, and the power of buyers and suppliers.
3. **Company Objectives and Resources:** The company's resources and core business strengths should also fit well with the market segment opportunities.

2.7.2 Selecting Market Segment(s)

1. **Undifferentiated Marketing:** This strategy uses the same marketing mix for the entire market.
2. **Differentiated Marketing:** This strategy targets several market segments and designs separate marketing mixes for each of them.
3. **Concentrated Marketing:** This strategy commits a company to pursue a large share of one or more sub-markets.
4. **Choosing a Market-coverage Strategy:** Which strategy works best depends upon the company's resources, the degree of product

variability, stage in the product life cycle, market variability and the competitors' marketing strategies.

The attractiveness of target marketing is that it makes the promotion, pricing and distribution of your products and/or services easier and more cost-effective. Target marketing provides a focus to all of your marketing activities.

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2.8 SELECTION OF TARGET SEGMENTS

After evaluating different segments, a company must decide which/how many segments to service/target. A company may consider any pattern(s) of target market selection. Depending upon the emerging patterns of market segmentation, homogeneous preference as in case of soft drinks sale by Pepsi and Coca-Cola, diffused preference and clustered preference, a company chooses its market segmentation strategy.

2.9 POSITIONING

Positioning is the last stage in the segmentation targeting positioning cycle. Once the organization decides on its target market, it strives hard to create an image of its product in the minds of the consumers. The marketers create a first impression of the product in the minds of consumers through positioning.

> *"The process of creating an image of a product in the minds of the consumers is called positioning. Positioning helps to create first impression of brands in the minds of target audience".*

In simpler words positioning helps in creating a perception of a product or service amongst the consumers. Example: The brand "Bisleri" stands for purity. The brand "Ceat Tyre" stands for better grip.

As the companies increase the number of claims for their brand, they risk disbelief and a loss of clear positioning. In general, a company must avoid four major positioning errors.

1. **Under Positioning:** Some companies discover that buyers have only a vague idea of the brand. The brand is seen as just another entry in a crowded marketplace.
2. **Overpositioning:** Buyers may have too narrow image of the brand.
3. **Confused Positioning:** Buyers might have a confused image of the brand resulting from the company's making too many claims or changing the brand's positioning too frequently.
4. **Doubtful Positioning:** Buyers may find it hard to believe the brand claims in view of the product's features, price or manufacturer.

2.10 STEPS TO PRODUCT POSITIONING

Marketers with the positioning process try to create a unique identity of a product amongst the customers:

1. **Know your Target Audience Well:** It is important to identify the target audience and then understand their needs and preferences. The

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products must fulfill the demands of the individuals. Every individual has different interests, needs and preferences. No two individuals can think on the same lines.

2. **Identify the Product Features:** The marketers themselves must be well aware of the features and benefits of the products. A marketer selling Samsung phones should himself also use a Samsung handset for the customers to believe him.
3. **Unique Selling Propositions:** The marketers must themselves know what best their product can do. Every product should have unique selling propositions, at least some features which are unique. Find out how the products can be useful to the end-users? For example, why do people use "Anti-dandruff shampoo?"

   Anti-dandruff shampoos are meant to get rid of dandruff. This is how the product is positioned in the minds of the individuals. Unique Selling Propositions (USPs) of a Nokia Handset—Better battery backup.
4. **Know your Competitors:** A marketer must be aware of the competitor's offerings. Let the individuals know how your product is better than the competitors. Let the target audience know how your product is better than others.
5. **Never Compromise on Quality:** Do not drastically reduce the price of your products. A Rado watch would lose its charm if its price is equal to a Sonata or a Maxima Watch.

SUMMARY

- A market consists of large number of individual customers who differ in terms of their needs, preferences and buying capacity. Therefore, it becomes necessary to divide the total market into different segments or homogeneous customer groups. Such division is called market segmentation.
- Market segmentation is the technique used to enable a business to better target its products at the right customers.
- Market segmentation is a method of dividing a large market into smaller groupings of consumers each having common needs or behaviour.
- In general, segmentation has the main objective to improve the competitive position of businesses. It provides better service to consumers.
- Geographic segmentation calls for dividing the market into different geographical units such as nations, regions, countries, cities or neighbourhood.
- In demographic segmentation, the market is divided into groups on the basis of variables such as age, family size, family life cycle, gender, income, occupation, education, religion, race, generation, nationality and social class.
- Target marketing refers to a concept in marketing which helps the marketers to divide a market into small units comprising like minded people. Such segmentation helps the marketers to design specific

strategies and techniques to promote a product amongst its target market.

- Positioning is the last stage in the segmentation targeting positioning cycle.
- The process of creating an image of a product in the minds of the consumers is called positioning.

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REVIEW QUESTIONS

1. Explain the meaning and definition of market segmentation.
2. What are the major market segmentation objectives?
3. Describe the bases of segmentation marketing.
4. What do you mean by geographic segmentation and demographic segmentation?
5. Explain the different levels of market segmentation.
6. Explain the importance of market segmentation.
7. What is the meaning and concept of positioning?
8. Explain the different steps to product positioning.

UNIT

III

PRODUCT AND PRICING DECISIONS

STRUCTURE

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3.1 INTRODUCTION

Many entrepreneurs start their businesses because they have an idea for a product that is unique and they think people will buy it. The two considerations are based on interest in the product in the marketplace, called marketability, and the product not being available elsewhere.

Unfortunately, a unique idea is not always a business opportunity. The product development process helps to weed out ideas that are unique but not likely to sell in the marketplace. It also perfects an idea so that it can be profitable. The product development process translates a good idea into a product that:

- Can be produced in volume
- Has a quality level that will sell
- Will make a profit for you.

Product development takes an idea and prepares it for the marketplace, or commercializes it.

3.2 MEANING AND DEFINITION OF PRODUCT

The product concept proposes that consumers will prefer products that have better quality, performance and features as opposed to a normal product. The concept is truly applicable in some niches such as electronics and mobile handsets.

> *"A product is any thing that can be offered to a market to satisfy a want or a need. Product that is marketed includes physical goods, services, experiences, events, persons, places, properties, organization, information and ideas".*
>
> **Philip Kotler**

> *"A product is a complex of tangible and intangible attribute, including packaging, colour, price, manufacturer's prestige and retailers prestige and manufacturer's and retailer's services which the buyer may accept as offering satisfaction of wants and needs".* **William J. Stanton**

Thus, in marketing, a product means those goods or services which are visible or invisible, any size, quality/character or quantity, which consumers use for the satisfaction of their needs.

3.3 PRODUCT CLASSIFICATION

Product is the first of the four Ps of marketing. Product has a very special position as it constitutes the most substantive element in any marketing offer. Product can be broadly classified on the basis of (1) use, (2) durability, and (3) tangibility as shown in Fig. 3.1.

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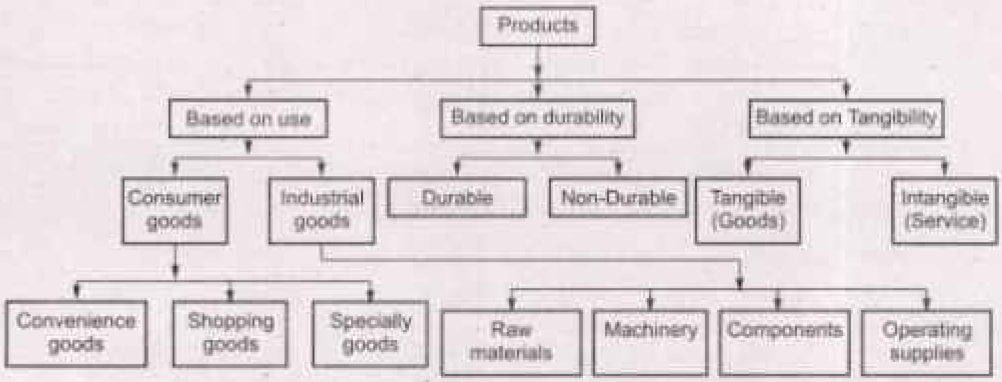

Fig. 3.1. Classification of product.

1. Based on Use: On the basis of use products can be classified as: consumer goods and industrial goods.

(A) Consumer Goods

Edward and Richard (1971) identified three classes of consumer goods namely convenience goods, shopping goods and specialty goods.

(*i*) ***Convenience goods:*** These refer to items that the consumer buys with minimum shopping effort. Essentially these are goods that are habitual with the consumers. They are bought frequently but not in large quantities because they are non-durable goods. In other words they are 'used up" goods. The buying decision of the consumers for convenience goods is ignited by habit and he knows all the retail outlets. Under this category are biscuits, newspaper, toilet soap, cigarettes etc. Consumers want to minimize the time and effort devoted to buy convenience goods, therefore the consumers are not interested in comparing the prices and quality of convenience goods with other related products in the market place. This is because the gain of such exercise is not high enough to justify the cost involved in the exercise. But in case, the price of a convenience good like bread is abnormally higher than competing brands, consumers tend to change their buying decision on the product.

(*ii*) ***Shopping goods:*** These sets of products are selected by consumers based on certain yardsticks such as suitability, quality, price and style. All products that involve shopping comparison before selection fall into this category. Such goods are, furniture, rugs, dresses, computers, shoes and household appliances. Before a consumer makes up his mind to buy shopping goods, a lot of exercise must have been carried out to know the different prices of the various stores that sell the product. Shopping goods are more durable than the convenience goods. This is why a lot of parameters must be considered before procurement. The rate of the 'use up' of shopping goods is quite slow compared to convenience goods. Shopping products are products that a consumer feels are worth the time and effort to compare with competing products.

(*iii*) ***Specialty goods:*** These refer to goods for which consumers are habitually willing to make a special purchasing effort. These categories of goods possess unique characteristics or high degree of brand identification. Examples include specific brands and types of fast foods, cars, stereo components, photographic equipment and suits. Specialty goods do not involve buyer in making comparisons. Buyers invest time only to reach the dealers of the specialty goods.

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(*iv*) ***Unsought goods:*** These are goods that the consumer does not know about or know about but does not normally think of buying. Examples are insurance, cemetery plots, coffin and encyclopaedia. For consumers to be attracted to these products substantial marketing effort is required in the form of advertising and personal selling.

(B) Industrial Goods:

This classification is based on relationship of the goods to the organization's production process and cost structure. These are meant for non-personal and commercial use and include (*i*) raw materials, (*ii*) machinery, (*iii*) components, and (*iv*) operating supplies (such as lubricants, stationery etc). Industrial goods are intermediate goods and can be classified into the following three categories:

(*i*) ***Foundation goods:*** These are manufacturing machines upon which production is dependent. They are not used up in the production process but over a course of years during which a part is charged off as depreciation. Foundation goods are long-term investment.

(*ii*) ***Entering goods:*** These refer to ingredients or components of a product. These are the parts that go into the product itself.

(*iii*) ***Facilitating goods:*** These are operating supplies that are used up in the operation of the firm but do not become part of the product. They are usually budgeted as expenses and have short life. The purpose of such goods is to keep the foundation goods functioning properly and to help in the handling and supply of the entering goods. Examples are lubricating oil, saw blades, cider forms and labels.

2. Based on Durability: The products can be classified as: durable goods and non-durable goods.

(*i*) **Durable goods:** These are tangible goods that normally survive many uses. Goods that fall under this category include, furniture, refrigerator, clothing, rugs etc. They are not frequently purchased as non-durable goods because they are used up slowly.

(*ii*) **Non-durable goods:** Non-durable goods are tangible goods that are normally consumed in one or few uses. Examples are beer, toothpaste, sugar, soap, edible oil, salt etc. These goods are consumed fast and purchased frequently by the consumers. Many fast foods fall into this category.

3. Based on Tangibility: The products can be classified as: tangible goods and intangible goods.

(*a*) **Tangible goods:** Most goods, whether these are consumer goods or industrial goods and whether these are durable or non-durable, fall in this category as they have a physical form, that can be touched and seen. Thus, all items like groceries, cars, raw-materials, machinery etc., fall in the category of tangible goods.

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(*b*) **Intangible goods:** Intangible goods refer to services provided to the individual consumers or to the organizational buyers (industrial, commercial, institutional, government etc.). Services are essentially intangible activities which provide want or need satisfaction. Medical treatment, postal, banking and insurance services and even electronic goods etc., all fall in this category.

3.4 PRODUCT MIX

Marketing involves a number of activities. To begin with, an organization may decide on its target group of customers to be served. Once the target group is decided, the product is to be placed in the market by providing the appropriate product, price, distribution and promotional efforts. These are to be combined or mixed in an appropriate proportion so as to achieve the marketing goal. Such mix of product, price, distribution and promotional efforts is known as 'marketing mix'.

For example, a cement plant may sell just one type of cement. Other companies, such as a large chain of retail stores may contain tens or even hundreds of thousands of products in its product mix.

A company product mix has four important dimensions (*i*) width (*ii*) length (*iii*) depth and (*iv*) consistency.

(*i*) **Width:** Product mix width refers to the number of different product lines the company carries. For example, Procter & Gamble consist of many product lines, paper, food items, household, cleaning, medicinal, cosmetics and personal care products.

(*ii*) **Length:** Product mix length refers to the total number of items the Company carries within its product lines, for example, HUL soaps:

- Lifebuoy
- Lux
- Liril
- Pears
- Dove

(*iii*) **Depth:** Product mix depth refers to the number of versions/variants, offered of each product in the line. Example: Lux: 3 steps / 2 formulations. Hence depth = 6, average depth for product mix/ product line can be calculated.

(*iv*) **Consistency:** Consistency of product mix refers to how closely related the various product lines are in end use, production requirements, distribution channels, or some other way: Example: Reliance, LG electronics.

3.4.1 Marketing Mix Variables/4Ps of Marketing

1. Product Variables

(*a*) Product mix and product line

(*b*) Design, quality, features, models, style, appearance, size and warranty of products

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(c) Packaging, type, materials, size, appearance and label

(d) Branding and trade mark

(e) Merchandising

(f) Service, pre-sale and after-sale

(g) New products

2. Place Variables

(a) Channels of distribution, types of intermediaries, channel design, location of outlets, channel remuneration and dealer—principal relations.

(b) Physical distribution, transportation, warehousing, inventory levels, order processing etc.

3. Price Variables

(a) Pricing policies, levels of prices, levels of margins, discounts and rebates

(b) Terms of delivery, payment terms, credit terms and installment facilities

(c) Resale price maintenance.

4. Promotion Variables

(a) Personal selling: objectives, level of effort, quality of sales force, cost level, level of motivation

(b) Advertising: media mix, budgets, allocations and programmes

(c) Sales promotional efforts, display, contests, trade promotions

(d) Publicity and public relations.

Assembling and managing the marketing mix is the main part of the marketing task. However, no marketing man is free to assemble and operate his marketing mix in a setting of his creation; he has to necessarily operate it in the marketing environment in which he markets his products; he has to reckon the set of variables that make up the environment.

3.5 PRODUCT LINE

All the products sold by a multi-product company at times can be classified in broad categories which are called product lines. The most common example is the different product lines that are usually sold by large retail companies like Wal-Mart. Typical descriptions of product lines used in retail industry include apparel, green grocery, dry grocery, household appliances, personal care items, and so on. A company may have just one product line in its product mix. Alternatively, it can also have multiple product lines. For example, we have retailers that specialize in only one line such as watches and white goods. We also have stores that sell from the same retail outlet both these lines of product, plus many more lines.

3.5.1 Product Line Extension

Product line is a relative term. It refers to addition of items to a product line beyond the previously sold items in the line. For example, a company selling cosmetic products selling just one variety of cold cream, may decide to extend

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the cosmetic product line by adding two new varieties of cold cream that are meant to be used by people with extra dry and extra oily skin.

3.5.2 Product Line Analysis

It is based on:

1. **Sales and profit:** A company can classify its products based on the margins.
2. **Core products:** Basic products that have a high sales volume but with low margins as they are essentially undifferentiated commodities. For example, basic computers.
3. **Staples:** Lower sales volume, higher margins, no promotions. For example, faster CPU.
4. **Specialties:** Lower sales volume and highly promoted. For example, installation, delivery.
5. **Convenience items:** Peripherals selling in high volumes with less promotion.
6. **Market profile:** Product line managers must review how the line is positioned against competitor's lines.

3.6 BCG MODEL

A chart of four celled matrix (2 × 2 matrix) had been created by **Bruce Henderson** for the **Boston Consulting Group (BCG),** USA in 1968 to help corporations with analyzing their business units or product lines. It is the most renowned corporate portfolio analysis tool. It provides a graphic representation for an organization to examine different businesses in its portfolio on the basis of their related market share and industry growth rates. It is a two-dimensional analysis on management of Strategic Business Units (SBUs).

BCG matrix has four cells, with the horizontal axis representing relative market share and the vertical axis denoting market growth rate. The midpoint of relative market share is set at 1.0, if all the SBUs are in same industry, the average growth rate of the industry is used. While, if all the SBUs are located in different industries, then the mid-point is set at the growth rate for the economy.

Resources are allocated to the business units according to their situation on the grid. The four cells of this matrix are called stars, cash cows, question marks and dogs. Each of these cells represents a particular type of business. We had a simple and peaceful 2 × 2 matrix as shown in Fig. 3.2.

Each quadrant of the matrix describes the status of the value chain against its competitors and suggests its potential for competitiveness:

1. **Stars:** Stars represent business units having large market share in a fast growing industry. They may generate cash but because of a fast growing market, stars require huge investments to maintain their lead. Net cash flow is usually modest. SBUs located in this cell are attractive as they are located in a robust industry and these business units are highly competitive in the industry. If successful, a star will become a cash cow when the industry matures.

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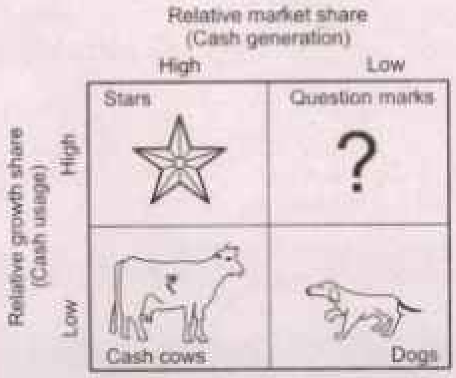

Fig. 3.2. The Boston consulting group matrix.

2. **Cash cows:** Cash cows represent business units having a large market share in a mature, slow growing industry. Cash cows require little investment and generate cash that can be utilized for investment in other business units. These SBUs are the corporation's key source of cash, and are specifically the core business. They are the base of an organization. These businesses usually follow stability strategies. When cash cows loose their appeal and move towards deterioration, a retrenchment policy may be pursued.
3. **Question marks:** Question marks represent business units having low relative market share and located in a high growth industry. They require huge amount of cash to maintain or gain market share. They require attention to determine if the venture can be viable. Question marks are generally new goods and services which have a good commercial prospective. There is no specific strategy which can be adopted. If the firm thinks it has dominant market share, it can adopt an expansion strategy, else retrenchment strategy can be adopted. Most businesses start as question marks as the company tries to enter a high growth market in which there is already a market-share. If ignored, question marks may become dogs, while if huge investment is made, they have the potential of becoming stars.
4. **Dogs:** Dogs represent businesses having weak market shares in low growth markets. They neither generate cash nor require huge amount of cash. Due to low market share, these business units face cost disadvantages. Generally retrenchment strategies are adopted because these firms can gain market share only at the expense of competitor's/ rival's firms. These business firms have weak market share because of high costs, poor quality, ineffective marketing, etc. Unless a dog has some other strategic aim, it should be liquidated if there are fewer prospects for it to gain market share. Number of dogs should be avoided and minimized in an organization.

3.6.1 Limitations of BCG Matrix

The BCG matrix produces a framework for allocating resources among different business units and makes it possible to compare many business units at a glance. But BCG matrix is not free from limitations, such as:

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1. BCG matrix classifies businesses as low and high, but generally businesses can be medium also. Thus, the true nature of business may not be reflected.
2. Market is not clearly defined in this model.
3. High market share does not always lead to high profits. High costs are also involved with high market share.
4. Growth rate and relative market share are not the only indicators of profitability. This model ignores and overlooks other indicators of profitability.
5. At times, dogs may help other businesses in gaining competitive advantage. They can earn even more than cash cows sometimes.
6. This four-celled approach is considered to be too simplistic.

3.7 PRODUCT LIFE CYCLE CONCEPT AND MEANING

All products and services have certain life cycles. The life cycle refers to the period from the product's first launch into the market until its final withdrawal and it is split up in phases.

The understanding of a product's life cycle, can help a company to understand and realize when it is time to introduce and withdraw a product from a market, its position in the market compared to competitors, and the product's success or failure.

For a company to fully understand the above and successfully manage a product's life cycle, it needs to develop strategies and methodologies, some of which are discussed later on.

> *"Life cycle of market offering-stages of market acceptance through which a market offering passes in market offering's life cycle are market introduction, market growth, market saturation, market decline and market death".*
>
> **Lipson and Darling**

Thus product life cycle means the various situations by which goods move. It may be that, life cycle of different goods may differ because few goods are perishable whereas others may be stable, *e.g.*—Fashionable clothes, which suddenly becomes outdated because of change in fashion. As against this machine, telephone, fan and other industrial products continue their life cycle for decades. In addition these are few products which take years only in completion of their introduction stage, whereas there are few which complete their introductory stage in few weeks.

3.8 STAGES OF PRODUCT LIFE CYCLE

A product passes through distinct stages during its life and is called product life cycle (PLC). The product's life cycle period usually consists of four major steps or phases:

> *"Every product has a life cycle that is a period of time during which it appeals to the consumer".*

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- Introduction
- Growth
- Maturity and
- Decline

These phases can be split up into smaller ones depending on the product and must be considered when a new product is to be introduced into a market since they dictate the product's sales performance. The following Fig. 3.3 shows the life cycle of a product.

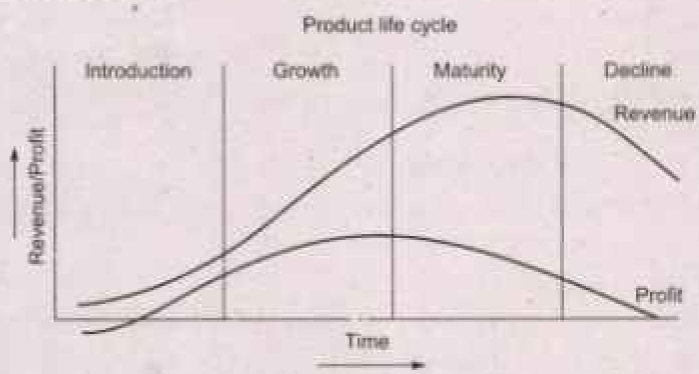

Fig. 3.3. Product life cycle.

1. **Introduction Stage:** The product is in introductory stage. At this stage, there may not be a ready market for the product. Sales are low. Profit seems a remote possibility, demand has to be created and developed and consumers have to be prompted to try out the product. One of the crucial decisions to be taken in this stage is the pricing strategy to be adopted—either market skimming or market penetration. Skimming strategy involves high price, taking advantage of early entry and the novelty of the product. Penetration pricing involves low prices with a view to having good market coverage as shown in Fig. 3.4. It also aims at keeping the competition out.

Price		Promotion: High	Promotion: Low
Price	High	Rapid skimming	Slow skimming
	Low	Rapid penetration	Slow penetration

Fig. 3.4. Market skinning and penetration.

The characteristics of introductory stage of product life cycle are as follows:

1. Higher investment, lesser profits
2. Minimal competition
3. Company tries to induce acceptance and gain initial distribution

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4. Company needs promotions targeted towards **customers** to increase awareness and demand for product
5. Company needs promotions targeted towards **channel** to increase confidence in the product.

2. **Growth Stage:** The product is becoming more widely known and consumed. Marketing is used to try to establish or strengthen the brand and develop an image for the product. During the market growth stage, demand for the product increases and size of market grows. The sales and profits also go up. But by the time the marketer settles down with his product, competitors may enter the scene with similar or slightly improved versions. The marketer has to stay ahead of his competitor and has to reconsider his pricing strategy. He follows competition-oriented pricing, because the total market is being shared among many firms. Marketing and distribution efficiency becomes the decisive factor at this stage. The characteristics of growth stage of product life cycle are:
   1. Product is successfully launched
   2. Demand increases
   3. Distribution increases
   4. Competition intensifies
   5. Company might introduce secondary products or support services
   6. Better revenue generation and ROI.
3. **Maturity Stage:** The product range may be extended, by adding both width and depth. Competition will increase and this has to be responded to. In the maturity stage, the demand tends to reach a saturation point and there is enough supply from competitive sources. Price competition becomes intense and exploits the brand loyalty. The marketer tries out product and packaging modification, and promotional deals and makes special offers to new market segments so that his sales volume does not shrink. Long-term and short-term marketing plans are implemented to profitably prolong the maturity stage. The characteristics of maturity stage of product life cycle are as follows:
   1. Competition is high
   2. Product is established and promotion expenditures are less
   3. Little growth potential for the product
   4. Penetration pricing, and lower profit margins
   5. The major focus is towards extending the life cycle and maintaining market share
   6. Converting customer's product to your own is a major challenge in maturity stage.
4. **Decline Stage:** In the decline stage, sales begin to fall and as a result the range sold is likely to be reduced, with the firm concentrating on core products. Advertising costs will be reduced, and attempts will be made to mop-up what is left of the potential market. Each product sold could be quite profitable as development costs have been paid back at an earlier stage in the life cycle. But overall, total profits will fall. Price is also likely to fall, but by concentrating on remaining market niches

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there should be some price stability. The characteristics of decline stage of product life cycle are as follows:

1. Market is saturated
2. Sales and profits decline
3. Company becomes cost conscious
4. A lot of resources are blocked in rejuvenating the dead product
5. There are only three options left with the company
6. Repositioning or rebranding of the product to extend product life cycle
7. Maintain the product as it is and reduce costs to get maximum profits till the product can produce profits
8. Take the product off the market.

Thus, PLC concept helps and is used as a tool in formulating and implementing marketing strategy.

- It facilitates pre-planning the product launch
- It facilitates prolonging the profitable phase
- It facilitates investment decisions on products
- It facilitates choice of appropriate entry strategy
- It facilitates choice of the right time to exit
- It provides useful clues for managing customers.

3.9 OBJECTIVES/NEED/IMPORTANCE OF NEW PRODUCT

New product development objectives for a new product includes:

1. Schedule of release
2. Safety and testing guidelines
3. List of features
4. Features for future release and upgrade path.

Financial and Budgetary objectives (new product development objectives) for an existing product includes:

1. Making the product better or safer
2. Making the product cheaper for the end-user
3. Making the product easier to sell
4. Upgrading the product to be state-of-the-art
5. Adding more features to the product.

3.10 PRODUCT DEVELOPMENT

Product development means addition of new goods in the product chain of company or enterprise or making changes or improvement in the goods being produced in its design, colour, shape, size and change in utility and also improvement in their packing.

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"Product development is that progressive strategy of an institution in which new or transformed products are introduced in existing marketing segments". **Kotler and Armstrong**

"Product development is that process which involves adding, dropping and modification of item specification in the product line for a given period of time, usually one year". **Lipson and Darling**

"The essence of product development is transforming product concept into actual product. It is that process which combines the technical and marketing capacities and introduces new or transformed products as a replacement of decline-oriented products". **William Lazor**

3.11 STEPS INVOLVED IN NEW PRODUCT DEVELOPMENT (NPD) PROCESS

To develop a new product the following steps must be realized as shown in Fig. 3.5:

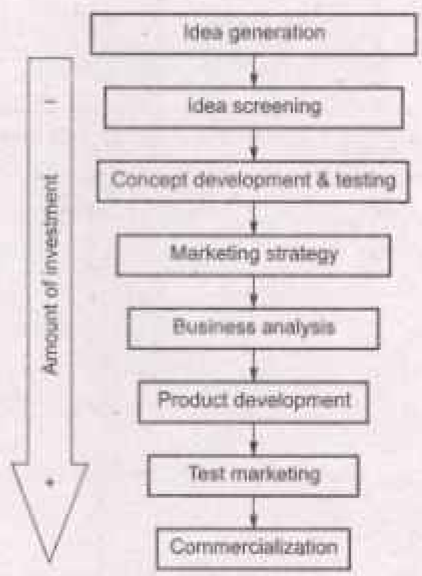

Fig. 3.5. Steps of developing a new product.

1. Idea Generation,
2. Idea Screening,
3. Concept Development and Testing,
4. Market Strategy,
5. Business Analysis,
6. Product Development,
7. Test Marketing, and
8. Commercialization.

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1. **Idea Generation:** Every product starts as an idea. But all new product aides do not equal merit or potential for economic or commercial success. Some estimates indicate that as many as 60–70 ideas are necessary to yield one successful product.

   Idea generation is often called the "fuzzy front end" of the New Product Development process. Ideas for new products can be obtained from basic research using a SWOT analysis (Strengths, Weaknesses, Opportunities and Threats), market and consumer trends, company's Research and Development department, competitors, focus groups, employees, salespeople, corporate spies, trade shows, or ethnographic discovery methods (searching for user patterns and habits) may also be used to get an insight into new product lines or product features. Lots of ideas are being generated about the new product. Out of these ideas many ideas are being implemented. The ideas are used to generate many forms and their generating places are also various. Many reasons are responsible for the generation of an idea.

   

   Idea generation or brainstorming of new product, service, or store concepts—idea generation techniques can begin when we have done our opportunity analysis to support our ideas in the idea screening phase.

2. **Idea Screening:** The primary function of the idea screening process is two-fold: first, to eliminate ideas for new products that could not be profitably marketed by the firm and second, to expand viable ideas into full product concepts. New product ideas may be eliminated either because they are outside the fields of the firm's interest or because the firm does not have the necessary resources or technology to produce the product at a profit. The organization has to consider three categories of risk in the idea screening phase prior to reaching a decision. These three risk categories are:

   (*i*) **Strategic risk:** Strategic risk involves the risk of not matching the role or purpose of a new product with a specific strategic need or issue of the organization.

   (*ii*) **Market risk:** Market risk is the risk that a new product would not meet a market need as products are being developed, customer requirements change and new technologies evolve.

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(iii) **Internal risk:** Internal risk is the risk that a new product won't be developed within the desired time and budget.

3. **Concept Development and Testing:** Develop the marketing and engineering details.
   1. Investigate intellectual property issues and search patent data bases.
   2. Who is the target market and who is the decision maker in the purchasing process?
   3. What product features must the product incorporate?
   4. What benefits will the product provide?
   5. How will consumers react to the product?
   6. How will the product be produced most cost effectively?
   7. Prove feasibility through virtual computer aided rendering, and rapid prototyping.
   8. What will it cost to produce the product?

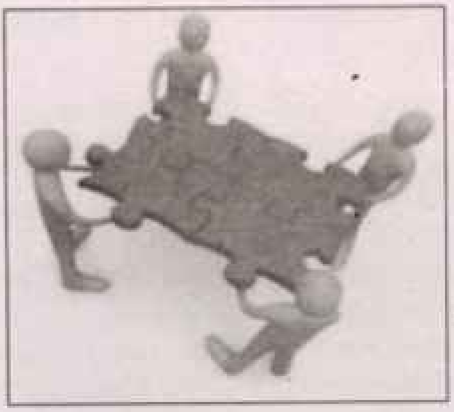
   Testing the concept by asking a sample of prospective customers what they think of the idea, usually via choice modelling.
4. **Marketing Strategy:** The marketing strategy development involves three parts.

   (*a*) The first part focuses on **target market, sales, market share and profit goals**. For example, Tata's initial business plan consisted sales of 2 lakh cars per annum.

   (*b*) The second part involves **product price, distribution and marketing budget strategies.** For example, Tata's fixed ₹ 1 lakh as the car price, and finding a self-employed person who works like an agent to distribute the cars.

   (*c*) The final part contains **marketing mix strategy and profit goals.**
5. **Business Analysis (Also Called Feasibility Analysis):** It is the analysis of sales, costs and profit estimated for a new product to find out whether these align with company mission and objectives. This study involves the following:
   - Estimate likely selling price based upon competition and customer feedback
   - Estimate sales volume based upon size of market
   - Estimate profitability and break-even point.
6. **Product Development:** At this stage, the product idea has been evaluated from the standpoint of engineering, manufacturing, finance and marketing. If it has met all expectations, it is considered physical development and testing. A development report to management is prepared that spells out in fine detail:
   - Results of the studies
   - Required plan design
   - Production facilities design
   - Tooling requirements
   - Marketing test plan

- Financial programme survey
- Estimated release data.



7. **Test Marketing:** At this stage, the product has been a company secret. Now management goes outside the company and submits the physical product for customers' approval. Test marketing is a controlled experiment in a limited geographic area to test the new product or in some cases certain aspects of the marketing strategy, such as packaging or advertising.

   The main goal of a test market is to evaluate and adjust the general marketing strategy to be used and the appropriate marketing mix. Throughout the test market process, findings are being analyzed and forecasts of volume developed. This test involves the following:
   - The product is introduced into the realistic market.
   - The 4Ps of marketing are tested.
   - The cost of test marketing varies with the type of product.

   Upon completion of a successful test market phase, the marketing plan can be finalized and the product prepared for launch.
8. **Commercialization:** This is the launching step in which the firm commits to introduce the product into the marketplace. During this stage, heavy emphasis is placed on the organization structure and management talent needed to implement the marketing strategy. Emphasis is also given to following up on such things as bugs in the design, production costs, quality control, and inventory requirements.

3.12 BRANDING

"The name of the game in branding is to make money".

A brand is a name, symbol, term, sign, design, or combination of each of these things, the purpose of which is to identify goods and services of one seller or of a group of sellers and differentiate them from competitors. A brand is also the sum of all characteristics that make a product offering unique. A company can copy a product, but it cannot replicate the brand. In a sense, the brand is the

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"personality" of the product, what the product means to the customer and the set of emotions evoked when the brand is encountered or used by the customer.

> *"The brand name is concerned with that part of the 'brand' that can be vocalized."*
> **Lipson and Darling**

> *"A brand is a name, term, symbol or design or a combination of them which is intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors".*
> **American Marketing Association**

Brand name: It is that part which can be vocalized—the utterable examples: Samsung, Surf, Dalda, Xerox.

Brand mark: The brand mark is a design element, such as a symbol (*e.g.*, Nike swoosh-athletic shoes), logo (*e.g.*, Yahoo! graphic), a character (*e.g.*, Keebler elves) or even a sound (*e.g.*, Intel inside sound), that provides visual or auditory recognition for the product.

3.13 TRADEMARK

When a letter or a name, symbol, mark, design, picture and their combination, is registered under law then it's called trademark.

> *"It is a brand which is given legal protection because under the law it has been appropriated exclusively by on seller".* **American Marketing Association**

> *"All trademarks are brands and thus include the words, letters of numbers which may be propounded; they may also include a pictorial design".*
> **William J. Stanton**

3.14 OBJECTIVES OF BRANDING

1. **Brand Management begins with Having a Thorough Knowledge of the Term "Brand":** It includes developing a promise, making that promise and maintaining it. It means defining the brand, positioning the brand, and delivering the brand. Brand management is nothing but an art of creating and sustaining the brand. Branding makes customers committed to your business. A strong brand differentiates your products from the competitors. It gives a quality image to your business.
2. **Brand Management Includes Managing the Tangible and Intangible Characteristics of Brand:** In case of product brands, the tangibles include the product itself, price, packaging, etc. While in case of service brands, the tangibles include the customers' experience. The intangibles include emotional connections with the product/service.
3. **Branding is Assembling of Various Marketing Mix Medium into a Whole so as to Give you an Identity:** It is nothing but capturing your customers' mind with your brand name. It gives an image of an experienced, huge and reliable business.

It is all about capturing the niche market for your product/service and about creating a confidence in the current and prospective customers' minds that you are the unique solution to their problem. The aim of branding is to convey:

(*a*) Brand message vividly,

(*b*) Create customer loyalty,

(*c*) Persuade the buyer for the product, and

(*d*) Establish an emotional connectivity with the customers.

Branding forms customer perceptions about the product. It should raise customer expectations about the product. The primary aim of branding is to create differentiation.

Strong brands reduce customers' perceived monetary, social and safety risks in buying goods/services. The customers can better imagine the intangible goods with the help of brand name. Strong brand organizations have a high market share. The brand should be given good support so that it can sustain itself in the long-run. It is essential to manage all brands and build brand equity over a period of time. Here comes importance and usefulness of brand management. Brand management helps in building a corporate image. A brand manager has to oversee overall brand performance. A successful brand can only be created if the brand management system is competent.

3.15 ESSENTIALS OF GOOD BRAND

Brand attributes portray a company's brand characteristics. They signify the basic nature of brand. Brand attributes are a bundle of features that highlight the physical and personality aspects of the brand. Attributes are developed through images, actions, or presumptions. Brand attributes help in creating brand identity. A strong brand must have the following attributes:

1. **Relevancy:** A strong brand must be relevant. It must meet people's expectations and should perform the way they want it to. A good job must be done to persuade consumers to buy the product; else in spite of your product being unique, customers will not buy it. Example: Encyclopaedias.
2. **Consistency:** A consistent brand signifies what the brand stands for and builds customers trust in brand. A consistent brand is where the company communicates messages in a way that does not deviate from the core brand proposition.

   Proper positioning—A strong brand should be positioned so that it makes a place for itself amongst the target audience and they prefer it to other brands. Examples of consistent brands are Tata and Reliance.
3. **Sustainable:** A strong brand makes a business competitive. A sustainable brand drives an organization towards innovation and success. Examples of sustainable brands are Maruti Suzuki and Bajaj.
4. **Credibility:** A strong brand should do what it promises. The way you communicate your brand to the audience/customers should be realistic. It should not fail to deliver what it promises. Do not exaggerate as customers want to believe in the promises you make to them. An example of a credible brand is LIC.

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5. **Inspirational:** A strong brand should transcend inspire the category it is famous for. For example, Nike transcendent Jersey Polo Shirt.
6. **Uniqueness:** A strong brand should be different and unique. It should set you apart from other competitors in market. Example: Close-up tooth paste which contains mouth freshener.
7. **Appealing:** A strong brand should be attractive. Customers should be attracted by the promise you make and by the value you deliver. Example of an appealing brand could be State Bank of India.

3.16 BRAND POSITIONING

Brand positioning is a strategic approach to establish a sustainable competitive advantage. Competitive advantage is defined as "the strategic advantage one business entity has over its rival entities within its competitive industry. Achieving competitive advantage strengthens and positions a business better within the business environment".

There are different ways of improving a business competitive advantage. It is important to understand that the objective of brand positioning is not to bring your competitors down, but to outshine them by performing better and more efficiently to cater to the needs of the industry's customers.

There are five generic competitive branding strategies useful in brand positioning. These generic competitive strategies are:

1. **A Low-cost Leadership Strategy:** It entails the process of appealing to the broad spectrum of potential buyers by being able to offer an overall low cost product or service. Examples: Bharti Wal-mart, Nokia mobiles.
2. **A Broad Differentiation Strategy:** This strategy is one in which a business seeks to differentiate its products or services from their competitors in ways that attract the broadest spectrum of customers in an established industry. Examples: Mercedes cars, Hitachi air conditioner.
3. **A Best Cost Provider Strategy:** It offers customers more value for the buck, with a lot of emphasis on the low cost of the product or service in comparison to its high quality. Great example is Maruti Suzuki cars.
4. **A Focused Strategy is on Lower Costs:** It is a brand positioning strategy that concentrates on out competing rivals, by offering customized products or services at a lower cost to a smaller portion of the established buyers. Example: Deccan Airline or many small retailers offering their own label or discounted line of products.
5. **A Focused Strategy Based on Differentiation:** Here the focus is on a narrow segment of buyers who are offered a product or service that has been customized to meet their exact tastes and demands and supersedes what competitors are offering, *i.e.*, ***"Standing out of the crowd"***. Example: A company offering cholesterol free edible oil to cardiac patients or sugar-free ice-creams to diabetic patients.

Each of these branding strategies focuses on achieving different types of market positions and demands different tactics of competition and business

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operation. A business' brand position should aspire to mount offensive strategies that can effectively neutralize and overcome the strengths and capabilities of established competitors. The best competitive advantage a business can attain from its brand positioning is one in which competitors find hard to compete.

The ideal brand positioning strategy will differ for each business. However, there are ways of achieving a competitive advantage by focusing brand positioning strategies on the competitor's weaknesses. Pay special attention to the portion of buyers that rivals ignore or are ill-prepared to serve. Go after the customers of competitors whose product lacks in quality. Make special sales pitches to customers of existing competitors. Try to focus on competitors with weak advertising and weak brand recognition. These offensive brand position strategies can be implemented on an individual basis or used together for a major competitive offensive strategy.

3.17 PACKAGING

Packaging means to pack or cover goods, so that it can remain safe and can be easily taken from one place to another. In other words, packaging refers to the use of container or returnable material, which includes labeling and decoration, so that it remains safe, can be sold easily and is convenient for consumer's use.

"Packaging may be defined as, the general group of activities in product planning which involve designing and producing the container or wrapper for a product". **William J. Stanton**

3.18 LEVELS/CLASSIFICATION OF PACKAGING

There are different levels of packaging that a consumer may be exposed to. Usually, the customer is handling the product in its primary packaging. This is the packaging that the product is seen in as it sits on the store shelf.

The primary packaging is exposed to the consumer and so will have the attributes conveying important information to the consumer. However, the overall packaging can also be sub-divided into other levels of packaging.

1. **First Level of Packaging (Primary Package):** The first level of packaging is the package that the product is contained in. This level of packaging may be the one that the consumer sees, but depending on the product, the first level package may be as simple as a clear plastic bag. For example, in a cereal box, the box is displayed to the consumer; however the actual cereal is contained within a sealed plastic bag. The bag is the first level of packaging.
2. **Second Level of Packaging (Secondary Package):** A second level or secondary wrapping will occur. This happens when the packaged product is bundled in some way with several other units of the same product or the packaged product is put into a box. This secondary packaging is sometimes added to products because they need security or tamper-resistant packaging. In this, the example would be the cereal box itself. In this case, the first level of packaging provides some

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protection to the food item and conveys no information to the consumer. The cereal box however, acting as the second level, provides additional protection, but it also provides information to the consumer, as well as a way for the cereal to be displayed, *i.e.*, a box will fit better on a shelf than a plastic bag full of cereal.

3. **Third Level of Packaging (Tertiary/Transportation/Transit Package):** A product may even have a third level package. Products that are sold in bulk items can often have a third level. The same cereal box sold in a bulk store may be sold in a larger box which contains two or three smaller boxes, which contains a plastic bag. Every level of packaging is very important and every aspect of it should be closely considered to convey not only its protective value to the product but as a way to communicate to the consumer.

3.19 OBJECTIVES OF PACKAGING

The function of packaging is not simply only physical protection but also marketing, barrier protection, security, information, convenience and portion control. With the advent of modern technology, the packaging machinery such as candy wrapping machines and form fill seal machines have achieved a level of perfection.

India has become a hub for the packaging industry. Packaging machines in India are of world-class level, and we can definitely say that packaging is of international standard. The main objectives of packaging are:

1. **Physical Protection:** Packaging of objects ensures that they are protected against vibration, temperature, shock, compression, etc., among other things.
2. **Barrier Protection:** Keeping the objects in the packages fresh, clean and safe for shelf life is the primary function of packaging. Packaged objects need protection from water vapour, oxygen, dust, etc. Permeability is an important factor in practice designing. Many packages contain oxygen absorbers to increase the shelf life. Sometimes, controlled atmosphere is also maintained in food packaging.
3. **Marketing:** Packaging plays an important role in marketing. Good packaging and attractive labeling is used by sellers to promote potential buyers. In package designing graphic designs are used on the surface of the package to make it attractive.
4. **Containment:** Small articles are generally grouped together in packages for the purpose of efficiency. For example, a single box of thousand pens needs less space than thousand single pens. Liquid items and flowing items need containment.
5. **Security:** Packaging plays a significant function in cutting down the security risks during shipping and transportation. Improved packaging techniques are used to discourage tampering. It helps reduce the risks of pilferage. Modern packaging techniques include anti-theft devices such as Radio Frequency Identification tags, dye-packs, and also electronic article surveillance tags that can be detected by gadgets.

6. **Impact of Information:** Packaging and labeling also tells use, transportation instructions, recycling, or disposing of the package. In some specialized fields such as medical, pharmaceutical, and chemical products, some special type of information is required by law.
7. **Convenience:** Packaging also adds to the convenience in handling, display, opening, distribution, sale, use and reuse.
8. **Portion Control:** In the medicinal and pharmaceutical field, the precise amount of contents is needed to control usage. Medicine tablets can be divided into packages that are of a more suitable size for individual use. It also helps in the control of inventory.

3.20 MEANING OF PRICE

'Pricing' is the function of determining the value of a product or service in monetary terms by its marketer before it is offered to the target consumers or customers for sale. While making the pricing decision, the management of a company has to establish the pricing objectives, identify the factors governing the price and ascertain their relative importance, determine the product/service value in monetary terms and formulate pricing policies and strategies with a view to effectively employ price as a strategic instrument in marketing the products/services of the company.

"Price is the exchange value of goods or services in terms of money".

"Price of a product or service is what the seller feels it is worth, in terms of money, to the buyer".

3.21 OBJECTIVES OF PRICING

Pricing decisions are usually considered a part of the general strategy for achieving a broadly defined goal. Before determining the price itself, the management should decide the objectives. While setting the price, the firm may aim at one or more of the following objectives.

1. **Profit Maximization:** Since the primary motive of business is to earn maximum profit, pricing always aims at maximization of profit through maximization of sales. When a short-run policy is adopted for maximizing the profit, it will exploit the customers. The customers have a feeling of monopoly and high price. But a long-run policy to maximize the profit has no drawbacks. A short-run policy will attract competitors, who produce similar goods at low cost. As a result, price control and government regulations will be introduced.
2. **Market Share:** For maximizing market share a firm may lower its price in relation to the competitors' product.
3. **Prevent Competition:** The pricing objective may be to meet or prevent competition. While fixing the price, the price of similar products, produced by other firms, will have to be considered.

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4. **Target Return in Investment:** The firm should fix the price for the product in such a way that it will satisfy expected returns for the investment.

   When a businessman invests capital in a business, he calculates the probable return on his investment. A certain rate of return on investment is aimed. Then, the price is fixed accordingly. The price includes the predetermined average return. This is seller-oriented policy. Many well-established firms adopt the objective of pricing in terms of "return on investment." Firms want to secure a certain percentage of return on their investment or on sales.

5. **Price Stabilization:** Another objective of pricing is to stabilize the product prices over a considerable period of time. It also prevents price war amongst the competitors. When the price changes often, there arises no confidence on the product.
6. **Resource Mobilization:** A company may fix its prices in such a way that sufficient resources are made available for the firm's expansion, developmental investment etc.
7. **Speed up Cash Collection:** Some firms try to set a price which will enable rapid cash recovery as they may be financially tight or may regard future is too uncertain to justify patient cash recovery.
8. **Survival and Growth:** An important objective of pricing is survival and achieving the expected rate of growth. Profit is less important than survival.

   According to Peter Drucker, avoidance of loss and ensuring survival are more important than maximization of profit.

9. **Prestige and Goodwill:** Pricing also aims at maintaining the prestige and enhancing the goodwill of the firm.
10. **Achieving Product-quality Leadership:** Some companies aim at establishing product-quality leadership through premium price.

3.22 FACTORS AFFECTING PRICING

Factors governing prices may be divided into external factors and internal factors.

A. Internal Factors

B. External Factors

3.22.1 Internal Factors

These are the factors which are within the control of the organization. Various internal factors are as follows.

1. **Organizational factors:** Pricing decisions occur on two levels in the organization. Overall price strategy is dealt with by top executives. They determine the basic ranges that the product falls into in terms of market segments. The actual mechanics of pricing are dealt with at lower levels in the firm and focus on individual product strategies. Usually, some combination of production and marketing specialists are involved in choosing the price.

2. **Cost:** The price must cover the cost of production including materials, labour, overhead, administrative and selling expenses and a reasonable profit. The most important factor is the cost of production. In deciding to market a product, a firm may try to decide what prices are realistic, considering current demand and competition in the market.
3. **Marketing mix:** Other elements of marketing mix, product, place, promotion, pace and politics are influencing factors for pricing. Since these are interconnected, change in one element will influence the other.

   Marketing experts view price as only one of the many important elements of the marketing mix. A shift in any one of the elements has an immediate effect on the other three—production, promotion and distribution.
4. **Product differentiation:** The price of the product also depends upon the characteristics of the product. In order to attract the customers, different characteristics are added to the product, such as quality, size, colour, attractive package, alternative uses etc. Generally, customers pay more price for the product which is of the new style, fashion, better package etc.
5. **Objectives:** While fixing the price, the firm's objectives are to be taken into consideration. Objectives may be maximum sales, targeted rate of return, stability in prices, increased market share, meeting or preventing competition, projecting image etc.
6. **Product life cycle:** At various stages in the product life cycle, various strategic pricing decisions are to be adopted, *e.g.*, in the introduction stage, usually a firm charges lower price and in the growth stage it charges maximum price.
7. **Characteristics of product:** Nature of product, durability, availability of substitute etc., will also influence the pricing.

3.22.2 External Factors

External factors are those factors which are beyond the control of an organization. The following external factors would affect the pricing decisions:

1. **Demand:** The nature and condition of demand should be considered while fixing the price. Composition of the market, the nature of buyers, their psychology, purchasing power, standard of living, taste, preferences and customs have a large influence on the demand. Therefore, the management has to weigh these factors thoroughly. If the demand for a product is inelastic, it is better to fix a higher price for it. On the other hand, if demand is elastic, a lower price may be fixed.
2. **Competition:** Number of substitutes available in the market and the extent of competition and the price of competition etc., are to be considered while fixing a firm price.
3. **Distribution channels:** Distribution channels also sometimes affect the price. The consumer knows only the retail price. But there is a middleman working in the channel of distribution, he charges his profit.

Thus, when the articles reach the hands of consumers, the price becomes higher. It sometimes happens that the consumers reject a product.

4. **General economic conditions:** Price is affected by the general economic conditions such as inflation, deflation, trade cycle etc. In the inflationary period the management is forced to fix higher price. In recession period, the prices are reduced to maintain the level of turnover. In boom period, prices are increased to cover the increasing cost of production and distribution.
5. **Government policy:** While taking pricing decision, a firm has to take into consideration the taxation policy, trade policies etc., of the Government.
6. **Reaction of consumers:** If a firm fixes the price of its product unreasonably high, the consumer may boycott the product.

3.23 METHODS OF PRICING

There are four types of basic pricing. They are:

1. Cost-based pricing
2. Demand-based pricing
3. Competition-based pricing
4. Value-based pricing.

3.23.1 Cost-based Pricing

The policy of setting price essentially on the basis of the total cost per unit is known as cost-oriented pricing policy.

(*i*) **Cost plus pricing:** This is the most common method used for price. Under this method, the price is fixed to cover all costs and a predetermined percentage of profit *i.e.*, the price is computed by adding a certain percentage to the cost of the product per unit. This method is also known as margin pricing or average cost pricing or full cost pricing or mark up pricing. The theory of full cost pricing has been developed by Hall and Mitch. According to them, business firms under the conditions of oligopoly and monopolistic competitive markets do not determine price and output with the help of the principle of MC (Marginal Cost) = MR (Marginal Revenue). They determine price on the basis of full average cost of production AVC (Average Variable Cost) + AFC (Average Fixed Cost) margin of normal profit.

(*ii*) **Target pricing:** This is a variant of full cost pricing. Under this method, the cost is added with the predetermined target rate of return on capital invested. In this case the company estimates future sales, future cost and calculates a targeted rate of return on capital invested. This is also called rate of return pricing.

(*iii*) **Marginal cost pricing:** Under both full cost pricing and rate of return pricing, the prices are set on the basis of total cost (variable cost + fixed cost). In this method, fixed costs are totally excluded.

(iv) **Break-even analysis and target profit pricing:** Another cost-oriented pricing approach is break-even pricing, or a variation called target profit pricing. The firm tries to determine the price at which it will break-even or make the target profit it is seeking. Such pricing is used by General Motors, which prices its automobiles to achieve a 15 to 20 per cent profit on its investment. This pricing method is also used by public utilities, which are constrained to make a fair return on their investment.

Target pricing used the concept of a break-even chart, which shows the total cost and total revenue expected at different sales volume levels. Figure 3.6 shows a break-even chart for the toaster manufacturer discussed here. Fixed costs are 300,000 regardless of sales volume. The total revenue curve starts at zero and rises with each unit sold. The slope of the total revenue curve reflects the price of 20 per unit.

The total revenue and total cost curves cross at 30,000 units. This is the break-even volume. At $20, the company must sell at least 30,000 units to break-even; that is, for total revenue to cover total cost.

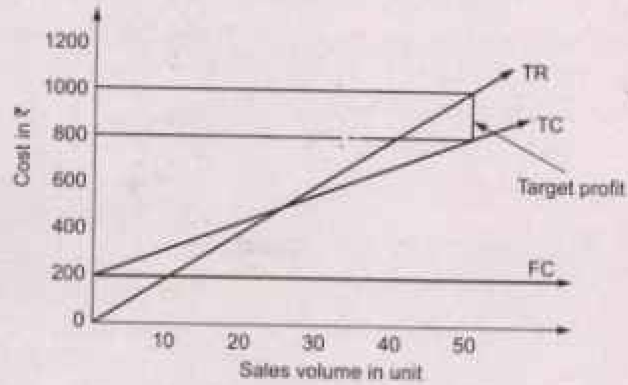

Fig. 3.6. Break-even for target pricing.

Advantages and Disadvantages of Cost-based Pricing

Advantages:

1. It is easy to apply because it's based on cost data.
2. Mark-ups can be based on industry standards, individual expert opinions, or widely accepted rules of thumb.
3. Cost-plus pricing almost guarantees that you will not sell at a loss, so a cost-plus figure generally provides a basis for the lowest price acceptable.
4. You are not required to follow the ups and downs of prices in the market.

Disadvantages:

1. Businesses that cannot identify their costs accurately may set prices at a level that does not recover actual costs.
2. Cost-plus pricing takes into account the cost and profit side of buying and selling, but it neglects demand.
3. Cost figures are generally based on an assumption of sales/production numbers.

3.23.2 Demand-based Pricing

Under this pricing policy, demand is the basic factor. Price is fixed simply adjusting it to the market conditions.

(*i*) **Differential pricing:** Under this method, the same product is sold at different prices to different customers, in different places, and at different periods. This method is called discriminatory pricing or price discrimination. Examples, Cinema, theatre, telephone bills etc.

(*ii*) **Modified break-even analysis:** This is a combination of cost-based and demand-based pricing techniques. This method reveals price-quantity mix that maximizes total profit. In other words, under this method, prices are fixed to achieve highest profit over the Break-Even Point (BEP) in consideration of the amount demanded at alternative prices.

(*iii*) **Neutral pricing:** It means offering extra value or benefits with the brand cost or price remaining competitive. Cadbury is offering 30 per cent more chocolate in its 5 Star bar at same price.

Advantages and Disadvantages of Demand-based Pricing

Advantages:

1. It is based on supply and demand. It means that public (buyers) is getting the best deal.
2. Potential for higher profits.
3. It also promotes innovation.

Disadvantages:

1. Management must be able to estimate demand at different price levels, which may be difficult to do accurately.
2. Segments must be separate enough so that those that buy at lower prices cannot sell to those who buy at higher prices.

3.23.3 Competition-based Pricing

It is the policy of fixing the prices mainly on the basis of prices fixed by competitors. This policy does not necessarily mean setting of same price. With a competition-oriented pricing policy, the firm may keep its price higher or lower than that of competitors.

(*i*) **Going rate pricing (prevailing price or follow the crowd):** Under this method, prices are maintained at par with the average level of prices in the industry, *i.e.*, under this method a firm charges the prices according to what competitors are charging. Firms accept the price prevailing in the industry in order to avoid price war. This method is also called acceptance pricing or parity pricing. This is most common with products that do not vary much from one supplier to another, like steel or toilet soap.

(*ii*) **Customary pricing:** In the case of some commodities the prices get fixed because they have prevailed over a long period of time. Examples, the price of cup of tea or coffee. In short the prices are fixed by custom. The price will change only when the cost changes significantly. It is also called conventional pricing.

(*iii*) **Sealed bid pricing:** In all business lines when the firms bid for jobs, competition-based pricing is followed. Costs and demand are not considered at all. The firm fixes its prices on how the competitors price their products.

It means that if the firm is to win a contract or job, it should quote less than the competitors. A bid price is the highest price that a buyer (*i.e.*, bidder) is willing to pay for any goods. It is usually referred to simply as the bid. In bid and ask, the bid price stands in contrast to the ask price or offer, and the difference between the two is called the bid/ask spread.

Advantages and Disadvantages of Competition-based Pricing

Advantages:

1. Pricing to gain market share and attract and hold as many customers as possible.
2. Base prices on competition, if product is comparable to competitor's product.
3. Larger firms price product the same, smaller firms follow the lead of large firms.
4. Penetration pricing: price set lower than competition to lure customers away.

Disadvantages:

1. Less attention to product cost or demand risk ignoring own production costs if you focus too closely on the prices set by competitors.
2. Must constantly update market research, greater time commitment.
3. Easy for competition to mimic your pricing strategies.

3.23.4 Value-based Pricing

Under this policy the price is based on value to the customer. The following are the pricing methods based on customer value.

(*i*) **Perceived value pricing:** Another method is judging demand on the basis of value perceived by the consumers in the product. Thus perceived value pricing is concerned with setting the price on the basis of value perceived by the buyer of the product rather than the seller's cost.

(*ii*) **Value for money pricing:** This is now seen as more than a pricing method. Under this method price is based on the value which the consumers get from the product they buy. It is used as a complete marketing strategy. Videocon did it when they launched their 63 cm flat screen Bazooka when BPL's HR and Onida's KY Series models were dominating the flat sit-in TV segment. Bazooka's perceived value was ₹ 25,000/-. But driven by value for money strategy, Videocon priced Bazooka at ₹ 21,000/- only.

Advantages and Disadvantages of Value-based Pricing

Advantages:

1. It takes into account industry structure, segmentation, competitor pricing practices, and substitutes and alternatives, all of which can make pricing more coherent and complex.
2. Value-based pricing can be the only way to price new products or "breakthrough" products.
3. Pricing can be based on several customer-focused methods: expert opinion, customer surveys, price experiments (for example by using

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conjoint-analysis theories and techniques), and analysis of past, present and expected market data and conditions.

Disadvantages:

1. It requires more data gathering and analysis than market-based or cost-plus approaches.
2. The process for determining price is more complex than other approaches because it uses soft market data in addition to "hard" market data.
3. Most methods used to gather data for this type of pricing are relatively specialized and require expertise to convert raw data to information to knowledge (*i.e.*, needing adequate level of resources and systematic business intelligence and customer insight process in place). Thus, for small and mid-size companies it is difficult to do so (outsourcing is always a possibility).

3.24 NEW PRODUCT PRICING METHODS AND STRATEGY

Pricing policy means a policy determined for normal conditions of the market. Pricing strategy is a policy determined to face a specific situation and is of temporary nature. Simply pricing policies provide guidelines to carry out the pricing strategy.

Pricing is one of the four elements of the marketing mix, along with product, place and promotion. Pricing strategy is important for companies who wish to achieve success by finding the price point where they can maximize sales and profits. Companies may use a variety of pricing strategies, depending on their own unique marketing goals and objectives. Following are the important pricing strategies.

1. **Skimming Price Strategy:** This is done with a basic idea of gaining a premium from those buyers who are always ready to pay a much higher price than others. Accordingly a product is priced at a very high level due to incurring large promotional expenses in the early stages. Thus, skimming price refers to the high initial price charged when a new product is introduced in the market. Reasons for charging this price are:
   (*a*) When the demand of new product is relatively inelastic.
   (*b*) When there is no close substitute.
   (*c*) Elasticity of demand is not known.
   (*d*) When the buyers are not able to compare the value and utility.
   (*e*) To attract the high income customers.
   (*f*) To recover early the R&D and promotional expenses.
   (*g*) When the product has distinctive qualities, luxuries etc.
2. **Penetration Price Strategy:** This is the practice of charging a low price right from the beginning to stimulate the growth of the market and to capture large share of it. Since the price is lower, the product quickly penetrates the market, and consumers with low income are able to purchase it. Reasons for adopting this policy are:

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(a) Product has high price elasticity in the initial stage.

(b) The product is accepted by large number of customers.

(c) Economies of large scale production available to firm.

(d) Potential market for the product is large.

(e) Cost of production is low.

(f) To introduce product into the market.

(g) To discourage new competitors.

(h) Most of the prospective consumers are in low income class.

3. **Premium Pricing:** Premium pricing strategy establishes a price higher than the competitors. It's a strategy that can be effectively used when there is something unique about the product or when the product is first to market and the business has a distinct competitive advantage. Premium pricing can be a good strategy for companies entering the market and hoping to maximize revenue during the early stages of the product life cycle.

4. **Penetration Pricing:** A penetration pricing strategy is designed to capture market share by entering the market with a low price relative to the competition to attract buyers. The idea is that the business will be able to raise awareness and get people to try the product. Even though penetration pricing may initially create a loss for the company, the hope is that it will help to generate word-of-mouth information and create awareness amid a crowded market category.

5. **Economy Pricing:** Economy pricing is a familiar pricing strategy for organizations that include Wal-Mart, whose brand is based on this strategy. Companies take a very basic, low-cost approach to marketing nothing fancy, just the bare minimum to keep prices low and attract a specific segment of the market that is very price sensitive.

6. **Every Day Low Pricing (EDLP):** It is a pricing strategy that promises consumers the lowest available price without coupon clipping, waiting for discount promotions, or comparison shopping. It is also called value pricing. EDLP saves retailers the time and expense of periodic price markdowns, saves manufacturers the cost of distributing and processing coupons, and is believed to generate shopper loyalty. A manufacturer's successful EDLP wholesale pricing strategy may reduce volatility in production and shipping quantities and decrease the number of time-degraded product units that consumers receive. EDLP has been championed by Wal-Mart and Procter & Gamble. In recent years, other marketers have dropped EDLP in favour of more traditional strategies, believing that consumers are more motivated by temporary markdowns and coupon savings. To be successful, EDLP requires every day low costs in line with the pricing.

7. **Psychclogical Pricing:** Here manufacturers fix their prices of a product in the manner that it may create an impression in the mind of consumers that the prices are low. For example, prices of Bata shoes as ₹ 99.99. This is also called odd pricing.

8. **Administered Pricing:** Here the pricing is done on the basis of managerial decisions and not on the basis of cost, demand, competition etc.

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9. **Monopoly Pricing:** Monopolistic conditions exist where a product is sold exclusively by one producer or a seller. When a new product moves to the market, its price is monopoly price. There is no problem as there is no competition or no substitute. Monopoly price will maximize the profits, as there is no pricing problem.
10. **Geographical Pricing:** The distance between the seller and the buyer is considering geographic pricing.
    (*i*) **Free on Board or Freight on Board(FOB) pricing:** In FOB (original) pricing, the buyer will have to incur the cost of transit and in FOB (destination) the price influences the cost of transit charges.
    (*ii*) **Zone pricing:** Under this, the company divides the market into zones and quotes uniform prices to all buyers who buy within a zone. The prices are not uniform all over India. The price in one zone varies from that of another one. The price is quoted by adding the transport cost.
    (*iii*) **Base point pricing:** Base point policy is characterized by partial absorption of transport cost by the company. One or more cities are selected as points from which all shipping charges are calculated.
11. **Time Based Pricing:** Time-based pricing refers to a type offer or contract by a provider of a service or supplier of a commodity, in which the price depends on the time when the service is provided or the commodity is delivered. The rational background of time-based pricing is expected or observed change of the supply and demand balance during time. Time-based pricing includes fixed time of use rates for electricity and public transport. Time-based pricing is the standard method of pricing in the tourist industry. Higher prices are charged during the peak season, or during special-event periods. In the off-season, hotels may charge only the operating costs of the establishment, whereas investments and any profit are gained during the peak season.

SUMMARY

- The product concept proposes that consumers will prefer products that have better quality, performance and features as opposed to a normal product.
- Product is the first of the four Ps of marketing. Product has a very special position as it constitutes the most substantive element in any marketing offer.
- A company product mix has four important dimensions (*i*) width (*ii*) length (*iii*) depth and (*iv*) consistency.
- All the products sold by a multi-product company at times can be classified in broad categories which are called product lines.
- Product line is a relative term. It refers to addition of items to a product line beyond the previously sold items in the line.
- A chart of four celled matrix (2 × 2 matrix) had been created by **Bruce Henderson** for the **Boston Consulting Group (BCG),** USA in 1968 to help corporations with analyzing their business units or product lines. It is the most renowned corporate portfolio analysis tool.

- BCG matrix has four cells, with the horizontal axis representing relative market share and the vertical axis denoting market growth rate.
- The BCG matrix produces a framework for allocating resources among different business units and makes it possible to compare many business units at a glance.
- All products and services have certain life cycles. The life cycle refers to the period from the product's first launch into the market until its final withdrawal and it is split up in phases.
- The product's life cycle period usually consists of four major steps or phases:
  - Introduction
  - Growth
  - Maturity and
  - Decline
- Every product starts as an idea. But all new product aides do not equal merit or potential for economic or commercial success.
- The primary function of the idea screening process is two-fold: first, to eliminate ideas for new products that could not be profitably marketed by the firm and second, to expand viable ideas into full product concepts.
- A brand is a name, symbol, term, sign, design, or combination of each of these things, the purpose of which is to identify goods and services of one seller or of a group of sellers and differentiate them from competitors.
- When a letter or a name, symbol, mark, design, picture and their combination, is registered under law then it's called trademark.
- Brand attributes portray a company's brand characteristics. They signify the basic nature of brand.
- Brand positioning is a strategic approach to establish a sustainable competitive advantage. Competitive advantage is defined as "the strategic advantage one business entity has over its rival entities within its competitive industry.
- There are different levels of packaging that a consumer may be exposed to. Usually, the customer is handling the product in its primary packaging.
- The function of packaging is not simply only physical protection but also marketing, barrier protection, security, information, convenience and portion control.
- 'Pricing' is the function of determining the value of a product or service in monetary terms by its marketer before it is offered to the target consumers or customers for sale.
- Pricing decisions are usually considered a part of the general strategy for achieving a broadly defined goal.
- Factors governing prices may be divided into external factors and internal factors.
  - (a) Internal Factors
  - (b) External Factors

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- There are four types of basic pricing. They are:
  1. Cost-based pricing
  2. Demand-based pricing
  3. Competition-based pricing
  4. Value-based pricing.
- Pricing policy means a policy determined for normal conditions of the market. Pricing strategy is a policy determined to face a specific situation and is of temporary nature.
- Pricing is one of the four elements of the marketing mix, along with product, place and promotion.

REVIEW QUESTIONS

1. What is product? Also, classify different types of product.
2. Define product mix. Explain the marketing mix variable/four Ps of marketing.
3. Explain the product line extension and product line analysis.
4. What is BCG model? Explain the limitations of BCG matrix.
5. What is product life cycle concept and meaning? Explain the characteristics of product life cycle.
6. Explain the different stages of product life cycle.
7. What is the meaning of product development? Explain the objectives of a new product.
8. Explain the steps involved in new product development process.
9. Explain the concepts of product identification.
10. What is brand and trademark? Distinguish between brand and trademark.
11. Explain the objectives of branding.
12. Describe the essentials of a good brand.
13. What is brand positioning and packaging?
14. Discuss the different levels/classifications of packaging.
15. What are the major objectives of packaging?
16. What is pricing and cost plus pricing policy?
17. What is marginal and price discrimination?
18. Explain the various methods of pricing.
19. What are the objectives of pricing policy?
20. What is the role of cost and demand factors in price determination?
21. Explain the pricing strategies of new products.
22. What is the role of consumer psychology in pricing?
23. Define pricing policy. What are the factors to be considered while making a pricing decision?

UNIT

IV
PROMOTION MIX

NOTES

STRUCTURE

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4.1 INTRODUCTION

Promotion refers to using methods of communication with two objectives: (*i*) to inform the existing and potential consumers about a product, and (*ii*) to persuade consumers to buy the product. It is an important element of marketing mix. In the absence of communication, consumers may not be aware of the product and its potential to satisfy their needs and desires. Various tools of communication form part of promotion mix. Companies must decide which tools should be used for larger sales and in what proportion. The promotional tools should be used in combination. These decisions are known as promotion mix decisions. There are five components of promotion mix, *i.e.*, advertising, sales promotion, personal selling, publicity and public relations.

4.2 MEANING AND DEFINITION

When a business organization gives information to its consumers and motivates them to buy the products through various promotion techniques like advertising, personal selling, sale promotion, communication, public relations, branding and packaging etc., it is called promotion mix.

> *"Promotion mix is that tactical combination of advertisements, personal selling and other promotional tools, which helps in reaching to the goals of sales program".* **William J. Stanton**

> *"Promotional mix is a specific combination of advertisement, personal selling, sales promotion and public-relations through which an organization fulfills its objectives of advertisements and marketing".* **Kotler and Armstrong**

In this way, promotion mix means tactical combination of those techniques or tools of promotion which help in giving information of products to the consumers, so that they can be motivated to purchase the commodity. It is thus a persuasive communication and also serves as a reminder.

4.3 COMPONENTS OF PROMOTION MIX

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A firm uses different tools for its promotional activities which are as follows:

1. Advertising
2. Sales promotion
3. Personal selling
4. Publicity
5. Public relations.

These are also termed as five elements of a promotion mix as shown in Fig. 4.1. Let us have a brief idea about these promotion tools.

Fig. 4.1. Components of promotional mix.

4.3.1 Advertising

Advertising is the most commonly used tool for informing the present and prospective consumers about the product, its quality, features, availability, etc. It is a paid form of non-personal communication through different media about a product, idea, a service or an organization by an identified sponsor.

> *"Any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor".* **American Marketing Association**

It can be done through print media like newspaper, magazines, billboards and through electronic media like radio, television, internet etc. It is a very flexible and comparatively low cost tool of promotion.

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4.3.2 Sales Promotion

Sales promotion is one level or type of marketing aimed either at the consumer or at the distribution channel (in the form of sales-incentives). It is used to introduce a new product, and clear out inventories.

> *"Media and non-media marketing pressure applied for a predetermined, limited period of time in order to stimulate trial, increase consumer demand, or improve product availability".* **American Marketing Association**

The tool includes contests, games, gifts, trade shows, discounts, etc. Sales promotional activities are often carried out at retail levels.

4.3.3 Personal Selling

The person who sells goods to customers in this way is called 'salesman' and the technique of selling is known as 'personal selling' or 'salesmanship'. Thus, personal selling refers to the presentation of goods before the potential buyers and persuading them to purchase it. It involves face-to-face interaction and physical verification of the goods to be purchased. The objective is not only just to sell the product to a person but also to make him/her a permanent customer.

> *"Personal selling is face-to-face interaction with one or more perspective purchasers for the purpose of making presentations, answering questions, and procuring orders".* **American Marketing Association**

We can also find personal selling in some shops where salesmen are employed by the shopkeeper to use this technique. For example, you can find such salesmen in Jewellery stores, consumer goods stores, saree houses, etc. In case of some services, we also find personal selling used in shops. For example, we find people going to the same barber shop to cut their hair and get a massage from a specific barber. This shows that in case of personal selling the seller usually comes to know about the tasters and preferences of the customer and thus attracts him to buy the goods or services.

4.3.4 Publicity

This is a non-paid process of generating a wide range of communication to contribute a favourable attitude towards the product and the organization. You may have seen articles in newspapers about an organization, its products and policies. The other tools of publicity are press conferences, publications and news in the electronic media etc. It is published or broadcasted without charging any money from the firm.

> *"Impersonal and unpaid sponsor stimulates demand for goods, service or business organizational unit through the dissemination of commercially sensitive information in printed media or benign presentation on radio, television or from the scene".* **American Marketing Association**

Marketers often spend a lot of time and effort in getting news items placed in the media for creation of a favourable image of the company and its products.

4.3.5 Public Relations

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Public relations is about reputation—the result of what you do, what you say and what others say about you. Public relations is the discipline which looks after reputation, with the aim of earning understanding and support and influencing opinion and behaviour. It is the planned and sustained effort to establish and maintain goodwill and mutual understanding between an organization and its publics.

> *"Public Relations is the art and social science of analyzing trends, predicting their consequences. Counselling organization leaders and implementing planned programmes of action which will serve both the organization's and the public interest".* **World Assembly of Public Relations Associations**

Public relations takes many forms in different organizations and comes under many titles, including public information, investor relations, public affairs, corporate communication, marketing or customer relations. To add to all the confusion, not all of these titles always relate accurately to public relations, but all of them cover at least part of what public relations is.

At its best, public relations not only tells an organization's story to its public, it also helps to shape the organization and the way it works. Through research, feedback communication and evaluation, the practitioner needs to find out the concerns and expectations of a company's public and explain them to its management.

4.4 FACTORS GOVERNING PROMOTION MIX

Each of the above components of the promotional mix has strengths and weaknesses. There are several factors that should be taken into account in deciding which, and how much of each tool to use in a promotional marketing campaign:

1. **Nature of Product:** Different types of products require different promotion mix. In case of consumer goods, advertisement is considered to be the most important because the goods are non-technical and produced on a large scale. But for industrial goods personal selling is regarded as the most important tool because the products are technical in nature, costly and persuasion is considered essential for their sale.
2. **Type of the Market:** If the number of customers is quite large and they are spread over a vast area, advertisement is more helpful because it can reach people everywhere. However, if number of customers is not very large and they are concentrated geographically, personal selling and sales promotion may be more effective.
3. **Market Size and Concentration:** If a market size is small and the number of potential buyers is small, then personal selling may be the most cost-effective promotional tool. A good example of this would be businesses selling software systems designed for supermarket retailers. On the other hand, where markets are geographically disperse or, where there are substantial numbers of potential customers, advertising is usually the most effective.

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4. **Stage of the Product Life Cycle (PLC):** The promotional mix depends upon the stage of the product in product life cycle. During introduction, heavy expenditure is incurred on advertisement followed by personal selling and sales promotion. During the growth stage, customers are aware of the benefits of a product. Hence, advertisement along with personal selling will be more effective. At the maturity stage, competition is more intense. Sales promotion becomes the most important tool to boost sales.
5. **Budget:** Funds available for promotion also decide promotion mix, *e.g.*, advertisement is a costly tool. If sufficient funds are not available this tool may not be adopted. Personal selling involves continuous spending. Thus, budget is a deciding factor for promotion mix.
6. **Resource Availability and the Cost of Each Promotional Tool:** Advertising (particularly on television and in the national newspapers can be very expensive). The overall resource budget for the promotional campaign will often determine which tools the business can afford to use.
7. **Push vs. Pull Strategy:** When the firm pushes the product to the middlemen they in turn push it to the consumers, it is known as 'push' strategy. In this case, personal selling or display should be more effective.

Pull strategy refers to the policy of a company to strive to build up consumer demand without recourse to middlemen. Generally advertising is considered more important in case of pull strategy as shown in Fig. 4.2.

Fig. 4.2. Push and pull promotional strategy.

Thus, it may be said that all promotional tools are complementary and not competitive. The degree of emphasis on each tool will differ depending upon the influence of certain factors. A proper combination of promotional tools should be designed to attain better results.

4.5 ADVERTISING

Advertising is non-personal as it is not directed to any single individual. Secondly, the sponsor *i.e.*, the manufacturer or producer is identified as his name and address is always contained in an advertisement and he also bears all the cost involved in the process. Thirdly, the producer can also promote an idea regarding quality, design, packing and pricing, etc., of any product or service.

Thus, we can say, advertising consists of all activities involved in presenting a sponsored message regarding a product, service or an idea.

> *"Any paid form of non-personal presentation and promotion of ideas, goods and services by an identified sponsor".*
>
> **American Marketing Association**

> *"Advertising is any form of paid non-personal presentation of ideas, goods or services for the purpose of inducting people to buy".* **Wheeler**

The above definitions clearly reveal the nature of advertisement. This is a powerful element of the promotion mix. Essentially, advertising means spreading of information about the characteristics of a product to the prospective customers with a view to sell the product or increase the sale volume.

4.6 FEATURES OF ADVERTISING

Looking into the meaning and definition of advertising we can sum up the following features of advertising.

1. **Non-personal Presentation of Message:** In advertising there is no face-to-face or direct contact with the customers. It is directed to the prospective buyers in general.
2. **Paid Form of Communication:** In advertising the manufacturer communicates with prospective customers through different media like newspapers, hoardings, magazines, radio, television, etc. He has to pay certain amount for using some space or time in these media.
3. **Promotion of Product, Service or an Idea:** Advertisement contains any message regarding any particular product, service or even an idea. It makes people aware of the product and induces them to buy it.
4. **Sponsor is Always Identified:** The identity of the manufacturer, the trader or the service provider who issues an advertisement is always disclosed.
5. **Communicated through Some Media:** Advertisements are always communicated through use of certain media. It is not necessary that there will be just one medium. All the media may also be used like print or electronic media.

4.7 OBJECTIVES/FUNCTIONS OF ADVERTISING

The purpose of advertising is nothing but to sell something—a product, a service or an idea. The real objective of advertising is an effective communication between producers and consumers. The following are the main objectives of advertising: Informative, Persuasive and Reminder.

1. **Informative:** This is when advertising is carried out in an informative manner. The idea is to give the ad the look of an official article to give it more credibility. Also, informative ads tend to help generate a good reputation. In some circumstances a business might be required to run informative advertising as part of resolving a law suit. Tobacco

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companies are one of the more notable examples of this. The objectives of informative advertising include:

(*a*) To create awareness of the organization.

(*b*) To explain the characteristics of the organization.

(*c*) To correct false impressions about the organization.

(*d*) To reduce peoples' apprehensions or fears about visiting the organization.

(*e*) To build or enhance the organization's image or position.

2. **Persuasive:** Persuasive is the influence of beliefs, attitudes, intentions, motivations, or behaviours. Persuasion is a process aimed at changing a person's or a group's attitude or behaviour toward some event, idea, object, or other person(s), by using written or spoken words to convey information, feelings, or reasoning, or a combination of them. The objectives of persuasive advertising include:

(*a*) To increase customer preference for the organization's services.

(*b*) To increase customer loyalty to the organization.

(*c*) To encourage customers to switch from using a competitive organization.

(*d*) To convince customers to book at the organization now or in the future.

(*e*) To change customers' perceptions.

3. **Reminder:** A marketing strategy typically consisting of brief messages sent with the objective of reminding a target consumer group about a product or service or of introducing a new theme into an existing marketing programme. Reminder advertising might be used by a business that has already invested considerable resources in initially promoting their product or service and still wishes to maintain its competitiveness. The objectives of reminder advertising include:

(*a*) To remind customers about where they can book the organization's services.

(*b*) To remind customers about facilities or services that are unique to the sponsoring organization.

(*c*) To remind customers about when they should book or reserve the organization's services.

(*d*) To remind customers of the existence of the organization.

4. **Other Objectives:** Some of the other objectives of advertisement are as follows:

(*i*) **Preparing ground for new product:** New product needs introduction because potential customers have never used such product earlier and the advertisement prepares a ground for that new product.

(*ii*) **To educate customers:** Can you remember the advertisement of *Dandi Namak* on television? In this advertisement it is said that *Dandi Namak* is good for health as it contains iodine. This message educates you that iodine is good for health and *Dandi Namak* contains iodine.

(*iii*) **Creating demand for products:** Nowadays, goods are produced on a large scale in anticipation of future demand. It is therefore, important that sufficient demand is created for the product. Goods produced can be sold only if there exists sufficient demand for them.

(*iv*) **To retain existing customers:** You might remember that Nirma washing powder was a very popular detergent. But, after Wheel powder came to the market the sale of Nirma suddenly decreased. Then the manufacturers of Nirma improved the product and advertised about the same in different media. After knowing this, the customers who were earlier using Nirma did not switch over to Wheel and continued using Nirma. In this manner Nirma sustained its existing demand. Thus, advertising helps the manufacturers not only to create a demand for a new product but also to retain the existing customers.

(*v*) **Facing the competition:** Another important objective of an advertisement is to face the competition. Under competitive conditions, an advertisement helps to build up brand image and brand loyalty and when customers have developed brand loyalty, it becomes difficult for the middlemen to change it.

(*vi*) **To increase sales:** We have learnt that advertising creates demands for new products and sustains the demand of old ones. Thus, with increase in demand, the sale of the product also increases.

(*vii*) **Creating and enhancing goodwill of the firm:** This is another objective of advertising. Through advertising, a firm highlights the importance it attaches to consumer satisfaction. Achievements of the firm in these matters are also highlighted. This helps in creating a good image of the business in the minds of consumers, workers, investors, suppliers, government and other groups of people in society. Thus, business goodwill is created and enhanced.

(*viii*) **Informing the changes to the customers:** Whenever changes are made in the prices, channels of distribution or in the product by way of any improvement in quality, size, weight, brand, packing, etc., they must be informed to the public by the producer through advertisement.

(*ix*) **Neutralizing competitors advertising:** Advertising is unavoidable to compete with or neutralize competitors advertising. When competitors are adopting intensive advertising as their promotional strategy, it is reasonable to follow similar practices to neutralize their effects. In such cases, it is essential for the manufacturer to create a different image of his product.

(*x*) **To assist salesman:** In most advertisements the salient features of a product, its qualities and its uses are expressed in detail. This assists a salesman to sell the product quickly without spending time in explaining and convincing the customer. In short, advertising aims at benefiting the producer, educating the consumer and supplementing the salesmen. Above all it is a link between the producer and the consumers.

4.8 TYPES OF ADVERTISING

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Advertisements can be categorized according to theme or content. Broadly speaking, there are five types:

1. **Product Advertising:** Have you seen how small children want to drink the same soft drink as their favourite cricketer and film star? This is the impact of product advertising and is the most common type of advertising as it is most easily identified.

   A product is something produced in large numbers by human beings, machines or by a natural process. Products advertised therefore range from fruits and vegetables to pickles and jams and bikes and cars.

   The main focus of the ad in this case is the product and not the company or manufacturer. These ads usually have a playful approach. They are low on information about the product but are high on style. Ads of soft drinks, shoes, cars, cell phones and food products belong to this category.

2. **Service Advertising:** Here the focus is not on a factory manufactured item or product but a company providing a service. This could be a bank, insurance, the railways, a call centre or travel agency. The ads usually show the company as a leading service provider in its particular field.

   Let us consider the example of the Indian Railways. In order to keep the public interested in the Railways and familiarize them with their services, advertisements are issued from time to time. You may look for these advertisements in the newspapers and the websites of Indian Railways.

   Similarly, banks are found to advertise their saving schemes and loan facilities that they offer for buying homes and vehicles.

3. **Public Service Advertising:** This is also called social service advertising or development advertising. Here the focus is on issues that impact society on a larger scale, such as family planning, national integration, polio eradication, and pollution control. The main purpose is to create public awareness through hard-hitting direct messages. These ads do not sell products and services but ideas.

   Let us take the example of the polio eradication campaign. Advertisements are issued through various mass media such as newspapers, radio and television to create awareness on polio eradication. This was to motivate parents to take their children for immunization and enable them to be given polio drops.

4. **Institutional Advertising:** These ads are directed at creating a good public image of a company. The ads focus on the organization's work in areas of research, development and quality control. Often the ads concentrate on the social work done by the company by its sponsorship of educational, cultural and sports events. The purpose of these ads is to sell a positive image of the company rather than a product manufactured by the company.

   The TATA Steel ads in the 1980s with the tag line—'Ispat bhi hum banate hain' or 'we also make steel', is a good example of institutional advertising.

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5. **Surrogate Advertising:** In cases where advertising of a particular product is banned or made illegal, product companies come up with other products with the same brand name. Advertising the legal products with the same brand name reminds the audience of their legally banned products as well. Common examples include Hayward's and Kingfisher beer brands, McDowell's No. 01 and Bagpiper whisky which is often seen to promote their brand with the help of surrogate advertising. The intention behind such advertisement is to popularize the liquor products. Different things like—Soda, mineral water, mega cricket team clubs, friends clubs etc., are shown in such advertisements.

Fig. 4.3. Surrogate advertising—"censorship in India is an eyewash".

4.9 BENEFITS OR IMPORTANCE OF ADVERTISEMENT

Advertising broadens the knowledge of the consumers. With the aid of advertising, consumers find and buy necessary products without much waste of time. The main benefits of advertising may be narrated as follows:

4.9.1 Benefits to Manufacturers

Advertising helps in creating and sustaining demand for existing and new products. It builds brand image and goodwill of the firm.

1. It increases sales volume by creating attraction towards the product.
2. Retail price, maintenance is also possible by advertising where price appeal is the promotional strategy.
3. It helps to establish a direct contact between manufacturers and consumers.
4. It leads to smoothen the demand of the product. It saves the product from seasonal fluctuations by discovering new usage of the product.
5. It creates a highly responsive market and thereby quickens the turnover that results in lower inventory.
6. Selling cost per unit is reduced because of increased sale volume. Consequently, product overheads are also reduced due to mass production and sale
7. It helps easy introduction of new products into the markets by the same manufacturer.

8. It helps to create an image and reputation not only of the products but also of the producer or advertiser. In this way, it creates goodwill for the manufacturer.
9. Advertising gives the employees a feeling of pride in their jobs and to be in the service of such a concern of repute. It thus inspires the executives and workers to improve their efficiency.
10. Advertising is necessary to meet the competition in the market and to survive.

4.9.2 Benefits to Wholesalers and Retailers

1. Easy sale of the products is possible since consumers are aware of the product and its quality.
2. It increases the rate of the turnover of the stock because demand is already created by advertisement.
3. It ensures more economical selling because selling overheads are reduced.
4. It enables them to have product information.
5. It supplements the selling activities.
6. The reputation created is shared by the wholesalers and retailers alike because they need not spend anything for the advertising of a well advertised product.

4.9.3 Benefits to Consumers

1. Advertising helps in eliminating the middlemen by establishing direct contacts between producers and consumers. It results in cheaper goods.
2. It helps them to know where and when the products are available. This reduces their shopping time.
3. Advertising stresses on quality and very often prices. This forms an indirect guarantee to the consumers of the quality and price. Further large scale production assumed by advertising enables the seller to sell a product at a lower cost.
4. It provides an opportunity to the customers to compare the merits and demerits of various substitute products.
5. This is perhaps the only medium through which consumers could know the varied and new uses of the product.
6. Modern advertisements are highly informative.

4.9.4 Benefits to Salesmen

A salesman acts as a friend and guide to consumers. He informs them about the new products and new uses of existing products. He helps them in choosing products, which match their needs and incomes. A salesman guides the customers in buying products that will provide maximum satisfaction. Sales are benefited by the advertisement in following ways:

1. Introducing the product becomes quite easy and convenient because the manufacturer has already advertised the goods informing the consumers about the product and its quality.

2. Advertising prepares necessary ground for a salesman to begin his work effectively. Hence sales efforts are reduced.
3. The contact established with the customer by a salesman is made permanent through effective advertising because a customer is assured of the quality and price of the product.
4. The salesman can weigh the effectiveness of advertising when he makes direct contact with the consumers.

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4.9.5 Benefits to Community or Society

Advertising creates awareness among masses regarding their needs and the availability of goods to satisfy those needs. By repeated advertisement, a desire to possess the goods is aroused. Those people who do not have sufficient purchasing power, work extra hard to earn more income to purchase goods and services. Thus, advertising motivates people to earn more and buy more goods. This increases the standard of living of the people. Advertising also generates employment.

1. It helps artists by making available more job opportunities. It also supports the Press.
2. Advertising leads to a large-scale production creating more employment opportunities to the public in various jobs directly or indirectly.
3. It initiates a process of creating more wants and their satisfaction results in higher standard of living. For example, advertising has made more popular and universal the uses of such inventions as the automobiles, radios, and various household appliances.
4. Newspapers would not have become so popular and so cheap if there had been no advertisements. The cheap production of newspapers is possible only through the publication of advertisements in them. It sustains the Press.
5. It assures employment opportunities for the professional personnel and artists.
6. Advertising does provide a glimpse of a country's way of life. It is, in fact, a running commentary on the way of living and the behaviour of the people and is also an indicator of some of the future in this regard.

4.10 PUBLIC RELATIONS (PR)

Public relations includes promotional activities that work to create a strong public image of the company. Public relations activities include helping the public to understand the company and its products. Public relations if done right can reach a large audience without the expensive cost of traditional advertising and marketing.

Public relations started as publicity, but today its scope has enlarged to an extent that it is being defined as "helping an organization and its publics adapt mutually to each other." The focus in this management function is on mutual accommodation rather than a one-sided imposition of a view point. Perhaps, it is only because of this reason the scope of PR has become so wide. Further, the use of variety of terms as substitutes or euphemisms—such as corporate

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communication, corporate affairs, public affairs, has caused confusion about what PR is and what it is not. Here are some additional elements that are part of a contemporary understanding of public relations.

Public relations is a management function, part of the decision-making of an organization (corporate or non-profit), which is based on research, strategic planning and evaluation.

Public relations is built on two-way communication and exists in a mutual give-and-take relationship in which both an organization and its publics initiate and respond to messages. Public relations is performance-based, rooted more in what an organization does than what it says. Thus, it fosters accountability and exists in an open and transparent as well as competitive environment.

Public relations is rooted in high ethical standards of honesty, accuracy, decency, truth, public interest and mutual good. Ideally, public relations is proactive, taking the initiative in developing the relationship and communicating with its publics. In crisis situations, public relations may be forced into a more reactive and defensive situation.

4.11 OBJECTIVES OF PUBLIC RELATIONS

In business, many organizational objectives can be accomplished through professional public relations programmes. In fact, professionalism in public relations can help in achieving a number of objectives some of which are as follows:

- Education of the publics to the use of a product or service
- Education of the publics to a point of view
- Goodwill of customers or supporters
- Investigation of the attitude of various groups towards the company
- Formulation and guidance of policies
- Fostering the viability of the society in which the organization functions
- Prestige of "favourable image" and its benefits
- Promotion of products or services
- Detecting and dealing with its publics
- Determining the organization's posture in dealing with its publics
- Goodwill of the employees or members
- Prevention of and solution to labour problems
- Fostering the goodwill of communities in which the organization has units
- Goodwill of the stockholders or constituents
- Overcoming misconceptions and prejudices
- Forestalling attacks, goodwill of suppliers, government, industry and of dealers and attraction of other dealers.
- Ability to attract the best personnel.

4.12 COMPONENTS OF PUBLIC RELATIONS

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The following are various components of comprehensive public relations.

1. **Community Relations:** Interaction with a geographic or cultural community in order to enhance mutual understanding, goodwill and support.
2. **Consumer Relations:** Interaction with consumer groups and media for the purpose of generating consumer understanding and support. A sub-category, customer relations, also involves interaction with individual customers.
3. **Corporate Communications:** The production and dissemination of messages by an organization through both internal media such as brochures and websites as well as through external media such as news and advertising.
4. **Employee Communication:** Interaction with employees, volunteers, members, and other internal publics in order to enhance mutual understanding, goodwill and support.
5. **Government Affairs and Lobbying:** Interaction with legislators and regulatory agencies of government to generate support for an organization and its causes. Lobbying specifically refers to interaction with legislators and regulators for the purpose of influencing their votes and/or official decisions.
6. **Litigation Public Relations:** The engagement of the news media in a bid for public understanding and support within the context of lawsuits and litigation.
7. **Marketing Communication:** Interaction with consumer and trade media, particularly associated with the introduction of new products and services.
8. **Media Relations:** Interaction with the news media in order to gain publicity or editorial support or to respond to journalistic inquiries.

4.13 IMPORTANCE OF PUBLIC RELATIONS

Public relations is a powerful tool for creating image, building awareness and consumer preference, and establishing useful liaisons with influential groups. It contributes in the following ways:

1. PR is all about building relationships to advance, promote, and benefit your reputation, department and institution.
2. PR is about communicating your message to gain allies, advocates, supporters, etc., in the community and the institution.
3. It aids in marketing the department for recruitment purposes and can lead to improved quality of student applicants.
4. It demonstrates to funding agencies that you are making a difference and actually have results.
5. It can improve the reputation of an individual department.
6. It can also serve the greater physics community by convincing the publics that "quarks, quantum dots, and nanostructures are cool".

7. It can lead to strong community and industrial partnerships, and even financial support.

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4.14 DEVELOPING A MARKETING PUBLIC RELATIONS PLAN

A public relations campaign planned by marketing experts is often far more effective than advertising. Developing and creating the core of your public relations campaign involves six easy steps.

Step 1: Determine the objectives of PR: Define and write down your objectives for your publicity. How will you design the public relations campaign? Will it be designed to:

- Establish your expertise among your peers, the press, or your potential clients or customers.
- Build goodwill among your customers, suppliers, or your community.
- Create and reinforce your brand and professional corporate image.
- Inform and create good perceptions regarding your company and services.
- Assist you in introducing a new service or product to your market.
- Generate sales or leads.
- Mitigate the impact of negative publicity and/or corporate crisis.

Step 2: Define your goals in achieving this objective: It is important that your goals be specific, measurable, result-oriented and time-bound. These goals must be in-line with your overall business, marketing, and sales objectives.

Step 3: Target audience: Determine the target audience. This consists of:

- Who is it that we want to reach with this campaign?
- What do you want your key message to be?

Step 4: Scheduling: Develop a schedule for your public relations campaigns by coinciding your public relations plan with other marketing and sales efforts.

Step 5: Develop your plan of attack: What communication vehicles will you use to get your message to the public? Examples may include:

- Press releases
- Articles
- Customer success stories
- Letters to the editor
- Press conferences, interview, or media tours
- Radio, television, or press interviews
- Seminars or speaking engagements
- Event sponsorships.

Select from the list and begin researching and developing your approach.

Step 6: Review the results: Put measures in place to track the results of your PR campaign. After each campaign sit down and review the results on the following basis:

- Did you achieve the defined objectives and goals of this campaign?
- Should you consider modifying your original plan?
- If so, how and why?

4.15 PERSONAL SELLING

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Personal selling is the oldest and the most popular method of selling goods and services. It involves face-to-face communication between the seller and the potential buyer. It may be two types:

(*i*) **Across the Counter Selling:** In this case, the customer comes to the shop or store and the salesperson attends him. It primarily involves retail store selling. It also includes 'phone-in-orders'.

(*ii*) **Door-to-Door Selling:** In this case the salesperson goes to the residence or office of the customer. This is also known as field selling. These days salespersons also approach customers through telephone, fax and internet.

Personal selling is the process of achieving mutually profitable economic exchanges between buyer and seller, based on interpersonal contact between buyer and seller, and on the seller's persuasive communication of his product or service qualities and benefits to the buyer.

> *"Personal selling is the oral presentation in a conversation with one or more prospective purchasers for the purpose of making sales".* **Philip Kotler**

> *"Personal selling consists of contracting prospective buyers of products personally".* **Richard Buskrik**

4.16 CHARACTERISTICS OF PERSONAL SELLING

Personal selling occurs where an individual salesperson sells a product, service or solution to a client. Salespeople match the benefits of their offering to the specific needs of a client. Personal selling has the following features:

1. **Feedback:** As it is a face-to-face process the feedback from the clients are directly received by the sales personnel.
2. **Persuasion:** Clients or customers can be persuaded to buy the product or the salesman can convince them to buy the product.
3. **Flexibility:** The sales presentation can be adapted according to the situations or clients.
4. **Builds Relationships:** A bond is made between the company and the customer through personal selling. For example, marketing relationship is created between two persons.
5. **Efficient Communicative Interchange:** It is a two-fold communication where the message is conveyed and the reply is also received immediately.
6. **Process:** It is a set of activities and not a single activity. The process continues infinitely.
7. **Mutual Benefit:** It is a two-way process, both buyer and seller are benefited from this.
8. **Supply of Information:** The customers are made aware of the company's product. For example, valuable information is supplied to

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the customers about the availability of the product, special features, uses, prices, offers, etc.

9. **Promotes Sales:** The end objective is achieved through this, *i.e.*, promotion of sales is achieved.
10. **Expensive:** Recruiting, training, and development of the sales force is an expensive procedure as in personal selling this factor is very essential.

Distinguish between Advertising and Personal Selling

Advertising and personal selling are two most important methods of creating and increasing demand for goods and services. These are widely used throughout the world to introduce the products to the prospective buyers and pushing the sales. But the two are different from each other in many ways. The points of difference between the two are as follows:

Advertising	*Personal Selling*
Advertising is non-personal and is addressed to the customers in general.	Personal selling involves direct interaction of salesmen with individuals.
Advertisement is generally found to cover a large number of people.	Personal selling is confined to a particular area.
In advertisement there is a one-way communication. The targeted persons' reactions cannot be known immediately.	In personal selling there is a two-way communication. The salesman explains his viewpoint to the potential buyer and knows about his/her reaction.
Advertisement offers a wide choice of channels, audio such as radio and audiovisual such as television.	In personal selling there is only one channel of transmission of messages, *i.e.*, personal talk of the salesman with the potential buyers.

4.16.1 Objectives of Personal Selling

Personal selling is used for the following objectives of promotion in the following ways:

1. **Building Product Awareness:** A common task of salespeople, in particular while selling in business markets, is to educate customers on new product offerings. In fact, salespeople serve a major role at industry trades shows where they discuss products with show attendees. But building awareness using personal selling is also important in consumer markets. In word-of-mouth, marketing is leading to personal selling becoming a useful mechanism for introducing consumers to new products.
2. **Creating Interest:** The fact that personal selling involves person-to-person communication is a natural method. That helps in getting customers experience about the product for the first time. In fact, creating interest goes hand-in-hand with building product awareness as sales professionals can often accomplish both objectives during the first encounter with a potential customer.
3. **Providing Information:** When salespeople connect with customers a large part of the conversation focuses on product information. Marketing organizations provide their sales staff with large amounts of

sales support including brochures, research reports, computer programs and many other forms of informational material.

4. **Stimulating Demand:** By far, the most important objective of personal selling is to encourage customers to make a purchase.
5. **Reinforcing the Brand:** Most personal selling is intended to build long-term relationships with customers. A strong relationship can only be built overtime and requires regular communication with a customer. Meeting customers on a regular basis allows salespeople to repeatedly discuss their company's products and by doing so helps strengthen customers' knowledge of what the company has to offer.

4.16.2 Process of Personal Selling

A logical sequence of six steps of the personal selling process that are to be carried out by any salesman while interacting with a prospective buyer, is shown in Fig. 4.4.

Fig. 4.4. Personal selling process.

Step 1: Prospecting: Prospecting is all about finding prospects, or potential new customers. Prospects should be qualified, which means that they need to be assessed to see if there is business potential, otherwise you could be wasting your time. The various sources of collecting data of prospects may be: referrals, friends, family members, and centres of influence, directories and trade publications, trade shows and telemarketing, direct response advertising and sales letters, websites and computerized databases, organized sector, unorganized sector, etc. In order to qualify your prospects, one needs to:

- Plan a sales approach focused upon the needs of the customer.
- Determine which products or services best meet their needs.
- In order to save time, rank the prospects and leave out those that are least likely to buy.

Step 2: Making first contact: This is the preparation that a salesperson goes through before meeting the client, for example via e-mail, telephone or letter. Preparation will make a call more focused. Make sure that you are on time.

- Before meeting the client, set some objectives for the sales call. What is the purpose of the call? What outcome is desirable before you leave?

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- Make sure that you have done some homework before meeting your prospect. This will show that you are committed in the eyes of your customer.
- To save time, send some information before you visit. This will whet the prospect's appetite.
- Keep a set of samples at hand, and make sure that they are in a very good condition.
- Within the first minute or two, state the purpose of your call so that time with the client is maximized, and also to demonstrate to the client that you are not wasting his or her time.
- Humour is fine, but try to be sincere and friendly.

Step 3: The sales presentation (sales call): It is best to be enthusiastic about your product or service. If you are not excited about it, do not expect your prospect to be excited. Focus on the real benefits of the product or service to the specific needs of your client, rather than listing endless features.

- Try to be relaxed during the call, and put your client at ease.
- Let the client do at least 80% of the talking. This will give you invaluable information on your client's needs.
- Remember to ask plenty of questions. Use open questions and closed questions, *i.e.*, questions that will only give the answer 'yes' or 'no.' This way a salesperson can dictate the direction of the conversation.
- Never be too afraid to ask for the business straight away.

Step 4: Objection handling: The course of objection handling includes the prospective buyers holding, inspecting or testing the product directly. The product is demonstrated by the sales people by means of audio-visual presentations such as slide presentations or product videos. It should be the endeavour of the sales person to let the prospect do most of the talking during the presentation. Their responsibility should be restricted to address the needs of the organizational buyers as far as possible. They should have the ability to convince them by showing that they truly understand them and care about their problem(s).

Stage 5: Closing the sale: This is a very important stage. Often salespeople will leave without ever successfully closing a deal. Therefore, it is vital to learn the skills of closing.

- It makes sense to be direct and come straight to the point, that is, after the above steps; the salesperson should ask if now he/she can take an order.
- While communicating with the customer, the client's interest in buying (or disinterest) becomes apparent from the body language—for example enquiries about the discount, delivery, etc., indicate a heightened state of interest while silence, listlessness or attempts to wrap up the meeting convey disinterest. The salesperson should read these signals and act accordingly.
- By making a 'summary close', the salesperson summarizes everything that the client needs, based upon the discussions during the call, and asks for the order.

- Another way to close is the 'alternative close', in which the salesperson closes by giving the customer two options such as "Do you want product model ABC or the higher version?" Often, this can work with a dithering customer.

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Stage 6: Follow-up: The selling process does not end with the closing of a sale. A good salesperson follows up to ensure that the customer is satisfied. He checks to find out if the product was delivered on time, if it is working properly or if there are any problems. This can give the right signals to the customer that the salesperson cares about the customer and not just about selling his product. In the long run, this will increase the chances that a customer will return to the same salesperson or store to buy another product and even recommend the place to his friends and relatives. As customer satisfaction is an important part of marketing, follow-up is necessary to build a long-term relationship.

4.17 ADVANTAGES AND DISADVANTAGES OF PERSONAL SELLING

There are several advantages and disadvantages of personal selling. However, the benefits of personal selling can outshine the disadvantages in definite stages. This is predominantly correct when rivalry is strong and corporations are marketing extremely technological goods. Personal selling in addition functions principally well when there are numerous assessment makers occupied in the trade procedure. Whatsoever the situations, opponents in your business will probably be incurring the same benefits and disadvantages of personal selling. For that reason, use personal selling in the correct conditions.

Advantages of Personal Selling

1. **Convey more information:** You can express added information with personal selling when compared to any other types of promotion, such as advertising. Personal selling is predominantly beneficial while functioning with goods of high value. You will require influencing buyers more with supplementary luxurious stuff. Most enterprises use notebook presentation, exhibitions and extremely comprehensive product information while promoting goods like medical equipment, computers, and industrial goods.
2. **More impact:** Personal selling has a superior impact on consumers than direct mail or other forms of advertising. The buyers do not require to wait long to get responses to their queries. He can find out what he requires to be acquainted with instantly. You as a retailer also obtain an enhanced experience for what a consumer demands. You can recommend specific goods if you have a widespread merchandise line or adapt your services, like discussing, to the buyer's specific requirements.
3. **Customers get personal attention:** Personal selling is a one-to-one activity where customers get personal attention. This gives an opportunity to understand the customer needs better and make an effective sale. The marketing manager can customize the sales message accordingly depending upon the needs and types of customers.

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4. **Respond:** As there is a two-way communication process in personal selling, the sales team has a good opportunity to respond directly and promptly to any of the customer's queries and concerns.
5. **Educates the customers:** Personal selling helps in passing on large amounts of technical data or other complex product information to the customers. This indirectly educates the customers and updates them on latest happenings on the industry, company and new products.

Disadvantages of Personal Selling

1. **Limited reach:** One disadvantage is that your customer reach is limited through personal sales. As a result, it will require extended time period to create product awareness, particularly if you do not use other forms of advertising. Sales representatives have to cover up one region or place at a time. As a sales representative, you can only talk to twenty five potential buyers per day and put together 3–5 presentations. Contact can be principally partial in rural regions where fewer potential buyers are situated.
2. **Expensive:** Personal selling is in addition costly, particularly while bearing in mind the sales representative's salary, bonus, commission as well as travel time. Furthermore, it requires plenty of money to prepare your sales representatives, educating them on a range of goods and sales techniques. That is the reason it is paramount to study the advantages and disadvantages of personal selling against other forms of advertising.

4.18 INTRODUCTION OF SALES PROMOTION

Sales promotion is one of the most loosely used terms in the marketing vocabulary. We define sales promotion as demand. Stimulating devices designed supplement advertising and facilitate personal selling. In other words, sales promotion signifies all those activities that supplement, co-ordinate and make the efforts of personal selling and advertising more effective. It is non-recurrent in nature which means it cannot be used continuously.

4.19 MEANING AND DEFINITION OF SALES PROMOTION

Sales promotion is a key factor and strategy for marketers within the promotional mix. Sales promotion refers to many kinds of incentives and techniques directed towards consumers and traders with the intention to produce immediate or short term effects. Sales promotion helps in stimulating trial or purchase by final customers or others in the channel. A marketer can increase the value of its product by offering an extra incentive to purchase a product or brand.

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"Sales promotion is media and non-media marketing pressure applied for a predetermined, limited period of time in order to stimulate trial and impulse purchases, increase consumer demand or improve product quality".

American Marketing Association

"Sales promotion comprises that range of techniques used to attain sales/marketing objectives in a cost-effective manner adding value to a product or service either to intermediate or end users, normally but not exclusively within a definite time period". **Institute of Sales Promotion, U.K.**

4.20 CHARACTERISTICS OF SALES PROMOTION

Writing about sales promotion tools, Prof. Philip Kotler observes—"they have three distinctive characteristics".

1. **Communication:** They gain attention and usually provide information that may lead the customer to the product.
2. **Incentive:** They incorporate some concession, inducement, or contribution that gives value to the consumer.
3. **Invitation:** They include a distinct invitation to engage in the transaction now (offer valid till stocks last).

4.21 OBJECTIVES OF SALES PROMOTION

The idea of sales promotion is based on the well known **'AIDA model'** (Awareness/Attention→Interest→Desire→Action). On this basis the following objectives have been framed:

(*i*) **To Introduce New Products:** Many times you might have observed distribution of free samples. Companies distribute free samples while introducing new products. The consumers after using these free samples may develop a taste for it and buy the products later for regular consumption.

(*ii*) **To attract New Customers and Retain the Existing Ones:** Sales promotion measures help to attract or create new customers for the products. While moving in the market, customers are generally attracted towards the product that offers discount, gift, prize, etc., on buying. These are some of the tools used to encourage the customers to purchase the goods. Thus, it helps to retain the existing customers, and at the same time it also attracts some new customers to buy the product.

(*iii*) **To Maintain Sales of Seasonal Products:** There are some products like air conditioner, fan, refrigerator, cooler, woollen clothes, geyser, sunscreen lotion, moisturising soap, etc., which are used only in particular seasons. To maintain the sale of these types of products normally the manufacturers and dealers give off-season discount. For example, you can buy woollen clothes in summer at a reduced price. Similarly, you may get discount on air conditioner during winter.

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(*iv*) **To Meet the Challenge of Competition:** Today every business is facing competition all the time. A new product frequently comes to the market and within no time innovations with distinguished product features also take place, *i.e.*, substitute products also enter the market. Therefore, sales promotion measures have become essential to retain the market share of the seller or a firm in the product market.

4.22 TECHNIQUES OF SALES PROMOTION

Sales promotion techniques are known as promotion tools and the mode of their application is known as sales programme. These tools and programmes are divided under three heads as shown in Fig. 4.5:

Fig. 4.5. Techniques of sales promotion.

(A) Consumer Promotion Techniques: The consumer promotion campaign is a step by step procedure, the first step being to set the goals and objectives. The organizing of consumer schemes is discussed below:

(*i*) **Sample:** Usually called consumer sample, free samples are given to consumers for trial to introduce a new product or to expand the market. The consumers can try the product.

(*ii*) **Price-off offers:** In the price promotion method, products are offered at a price lower than the normal price. The price is reduced on the product package through special printing of price. The percentage of price-off differs from product to product or service to service and it is decided by the manufacturer or supplier. The reduction of the price does not cut into the retailers profit but is given from the manufacturer's profit. This ensures the co-operation of retailers. For example, 50% discount banners or sale banners at various shops and shopping malls, airlines giving different rates of discount for flying the same sector, etc.

(*iii*) **Demonstrations:** These are instructions given to educate the consumers about using the product. This method may be used in products like vacuum cleaner.

(*iv*) **Quantity-off offers:** Offering more quantity of product at no extra cost or nominal increase in the price of the larger quantity packs is known as quantity-off offer. Some examples are—three for the price of two, 25% extra, hotels offering 3 night stay at the rate/price of 2 night stay, etc.

(*v*) **Premium (gift) offers:** These are temporary price reductions, which appeal to bargain instinct, *e.g.*, instant coffee sold in carafe

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by one company was very successful. Towels, dinner ware, hair-brushes, key chains, artificial flowers, ball pens, toilet soaps, blades, were given as in pack premiums. Attractive reusable jars costing separately say ₹ 12/- may be given as at an extra charge of ₹ 4/- only. Liril gave a soap box almost free with two soap cakes or the offers like 'buy one get one free' in case of clothes.

(*vi*) **Exchange scheme:** This technique offers to exchange the old product with new in payment of a fixed amount which is less than the original price for example, exchange of old black & white television for colour television by paying ₹ 6,000/- only (original price is ₹ 8,000/-) was offered by a particular producer of colour TV sets.

(*vii*) **Trading stamps:** Trading or bonus stamps are issued by retailers to customers who buy goods from there. The number of stamps given to a buyer depends upon the amount of purchases made by him. For instance, in India Roman bonus stamps are issued at the rate of 2–1/2 per cent of the purchase amount. These stamps are given free of charge and the customers can redeem them to obtain products out of the specified list. This technique induces customers to buy their requirements from the retailers who offer such stamps. The purpose is to increase customer loyalty.

(*viii*) **Refunds:** Refund is an offer to return a portion of the purchase price back to the consumers, once they provide the proof of purchase, such as receipt, etc. The refund form usually has to be mailed to the organization with receipt to get the refund. Many of the companies now provide coupons instead of refund. This ensures and enhances the chance of the consumer buying the product again.

(*ix*) **Fairs and exhibitions:** Trade shows, fashion shows or parades, fairs and exhibitions are important techniques/tools of sales promotion. They provide a forum for the exhibitions or demonstration of products. Free literature can be distributed to introduce the firm and its products to the public. Fairs and exhibitions are organized usually by big firms or trade associations. At these fairs and exhibitions, business firms are allotted stalls where they display their products. Fairs and exhibitions have wide appeal as several people visit them. Customers can be attracted through gifts, special concessions and free demonstrations of technical and speciality products. Fairs and exhibitions provide an opportunity to the visitors to observe the competing products and help to promote sales.

(*x*) **Public relations activities:** These include greetings or thanks in newspapers, donating space for noble causes, offer of Privileged Citizen Card, etc. Their purpose is not to create immediate demand or to increase sales. They are designed to create a good image of the firm in the society.

(B) Middlemen Promotion Techniques: The middlemen promotion techniques are as follows:

(*i*) **Free display:** The retailers are provided with materials from the manufacturers to advertise in their store. These can be posters, or

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other related materials for display. This ensures that the customers are aware of the product and in the case of some self-servicing product retailers, point of purchase (POP) advertising helps. But the POP advertisement does not ensure the sale of product and the cost of providing the materials of display can be very high. There is provision of free display of material either at the POP or at the POS, depending on one's view point. Display reaches consumers when they are buying and actually spending their money.

(*ii*) **Retail demonstrations:** These are arranged by manufacturers preparing and distributing the products as a retail sample, example, Nescafe Instant Coffee was served to consumers trying the sample on the spot of demonstration regarding the method of using the product.

(*iii*) **Trade deals:** These are offered to encourage retailers to give additional selling support to the product, *e.g.*, toothpaste sold with 30% to 40% margin.

(*iv*) **Buying allowance:** Sellers give buying allowance of a certain amount of money for a product bought.

(*v*) **Free goods:** It is offered to encourage repurchase of a product immediately after another trade deal. Seller gives free goods, *e.g.*, one piece free with two, or two pieces free with 10, are common free deals.

(*vi*) **Advertising and display allowance:** These are also offered to retailers to popularize the product and brand name of the manufacturer.

(*vii*) **Dealer loader:** A gift for an order is a premium given to the retailer for buying certain quantities of goods or for special display done by the retailer.

(C) Sales Force Promotion Techniques: There are tools like sales meetings, sales manuals, sales contests, incentives and many more. It is better to have tools that are interactive in nature as they help enhancing proper sales force promotion.

(*i*) **Sales contests:** Sales contests are organized by the manufacturer. In this scheme rewards are provided to salesmen who have achieved exceptional targets.

(*ii*) **Sales manuals:** Training materials such as manuals, visual aids, flip charts, programme, learning books are most useful to sales people. Sales manual may be long or short depending upon the type of the products manufactured and sold by the company. The sales manuals usually contain product details, applications, manufacturing processes, prices, sales techniques, etc. Some companies also have house journals that report about the company programme, new products, research activities, new policies, awards, promotions, etc.

(*iii*) **Sales meetings:** Sales meetings are generally organized for sales people from one area, region or district more frequently, usually once a month, once in two months, or quarterly. These meetings bring together sales people from different territories of the nation and are considered a popular way of educating sales people. There is a varying mixture of business and pleasure.

(*iv*) **Training for salesmen:** Dealer and distributor training for salesmen, which may be provided to give them a better knowledge of a product and how to use it. Dealer sales promotion provides the selling devices. Sales promotion devices at the point of purchase inform, remind, and stimulate buyers to purchase products. People who see these devices are in a buying mood and thus they can be easily persuaded to buy those products.

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4.23 ADVANTAGES AND DISADVANTAGES OF SALES PROMOTION

Advantages of Sales Promotion: Sales promotions have a significant effect on the behaviour of consumers and trades people. Such promotions can bring in more profits for the manufacturers because they permit price discrimination.

1. **Price discrimination:** Producers can introduce price discrimination through the use of sales promotions. They can charge different prices to different consumers and trade segments depending on how sensitive each segment is to particular prices. Coupons, special sales events, clearance sales and discounts are examples to explain the phenomenon.
2. **It produces immediate results:** While advertising or public relation act as an investment producing sales in the long run, sales promotion works during a definite span of time. Most of the sales come during the sale promotions period itself. Very often, if the promotion is successful, one can get results within hours, days or weeks. Sales promotion produces result by stimulating people to act to try, to buy, to buy more, or to buy more often. It can lead to trial, generate excitement, encourage repeat purchase, attract switchers, etc. It is especially helpful in situations where there is extreme pressure to increase sales, *e.g.*, at the end of the year when there are shortfalls in budgeted sales.
3. **Effect on consumer behaviour:** As sales promotions are mostly announced for a short period, customers may feel a sense of urgency and stop comparing the alternatives. They are persuaded to act now rather than later.
4. **Support and involvement push the product:** Sales promotion techniques directed at channel members or sales force can gain channel support and involvement and help push the product. It helps in getting shelf space and merchandising benefits at the retail level, clearing off excess inventory, motivating sales people to find new contacts, etc.
5. **Effect on trade behaviour:** Short-term promotions present an opportunity and encourage dealers to forward buy. This forward buying ensures that retailers would not go out of stocks. As dealers have more than the normal stocks, they think it advisable to advertise in local media, arrange displays and offer attractive promotion deals to consumers.

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6. **Regional differences:** The South is generally characterized by greater degree of going out and people tend to drink outside the house. The Tamilian consumer in particular, is value-oriented, rational and looks up to film stars, while the Keralite is more international in his outlook. The Bangalorean is as cosmopolitan as his Mumbai or Delhi counterpart. Such factors have to be taken into consideration while providing incentives to the customers.

Disadvantages of Sales Promotion. While sales promotion is a powerful and effective method of producing immediate short-term positive results, it is not a cure for a bad product or bad advertising. In fact, a promotion on speed up the killing of a bad product.

1. **Increased price sensitivity:** Consumers wait for the promotion deals to be announced and then purchase the product. This is true even for brands where brand loyalty exists. Customers wait and time their purchases to coincide with promotional offers on their preferred brands.
2. **Used for short-term results:** Most sales promotion is used for short-term results. Any excessive use can shift the focus on short-term marketing planning that acts only at the behavioral level.
3. **Quality image may become tarnished:** If the promotions in a product category have been rare, the promotions could have a negative effect about its quality image. Consumers may start suspecting that perhaps the product has not been selling well, the quality of the product is true compared to the price or the product is likely to be discontinued because it has become outdated.
4. **Merchandising support from dealers is doubtful:** In many cases, the dealers do not cooperate in providing the merchandising support nor do they pass on any benefit to consumers. The retailer might not be willing to give support because he does not have the place, or the product does not sell much in his shop, or may be he thinks the effort required is more than the commission/benefit derived.
5. **Increasing sales promotion activities:** Increasing sales promotion activities has led to clutter, leading companies to cut each other and thus eroding the bottom line.

4.24 PUBLICITY

Publicity is one component of promotion which is non-personal stimulation of demand for a product, service or business unit by placing commercially significant news about it in a published medium or obtaining favourable presentation of it upon radio, television, or stage that is not paid for by the sponsor. The crucial aspect of publicity is that it should emanate from a neutral and impartial source such as editorial material and is not paid for by the sponsor. To achieve the aim of credibility it should not raise any doubts regarding interested sponsorship. Publicity and public relations have a lot in common. In fact, publicity is one of the tools of public relations.

The advantages of publicity are low cost, and credibility particularly if the publicity is aired in between news stories like on evening TV news casts. New technologies such as web-blogs, web cameras, web affiliates, and convergence (phone-camera posting of pictures and videos to websites) are changing the cost-structure. The disadvantages are lack of control over how your releases will be used, and frustration over the low percentage of releases that are taken up by the media.

4.25 ROLE OF PUBLICITY

Publicity which is essentially aimed at building position image, goodwill or favourable visibility, has acquired a sound footing to assist a company in its marketing efforts. Specifically, it has a vital role in:

- Disseminating information regarding new products
- Warranty terms
- Product replacement policies and customer service arrangements
- New research and findings
- Successful bids or contracts won
- Contributions made to the promotion of sports
- Culture and technology
- Employees
- Welfare
- Policies
- Dealer training and promotion activities
- Membership of top and senior employees in governmental and international bodies
- Community development programme
- Promotion of company
- Trademark and slogans and issues of public interest and welfare.

4.26 OBJECTIVES OF PUBLICITY

A publicity objective marks the level that we want to reach in a certain period and in a certain market, with a concrete marketing variable. The publicity objectives should therefore be:

1. **Specific:** There must be concrete objectives. The publicity objectives are specific objectives that should be co-ordinated and are compatible with the most general objective of our marketing plan and the strategic objectives should work in the long-term.
2. **Quantifying:** One of the objectives of the publicity is that the targets should be in numeric terms. It is not enough saying that we want to increase sales, but we have to say by how much we would like to increase sales, say 20%.
3. **Time Guidelines:** We need to fix time guidelines. For example, sell 100 cars in one year.
4. **Delimited to one Market:** We should specify the geographic area and even the audience or consumer group that we are trying to target.

5. **Motivation:** Motivating those in charge of reaching the company's objectives is imperative. Therefore, the objective should have an aim.

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4.27 PUBLICITY TECHNIQUES

The following sections list numerous means by which you can publicise events:

1. **Posters:** The essential purpose of a poster is the rapid telling of a single simple message using a limited number of elements. Posters are viewed more rapidly than other methods of advertisement. Their message must be strong, simple, and brief.
2. **Invitations:** A personal touch can be added to your publicity by distributing invitations for your programme. These can be placed in mailboxes or handed out or slipped under room doors.
3. **Calendars:** A large calendar of activities located on your bulletin board or distributed individually is a particularly effective technique. Students will have at least one consistently identifiable source for information and activities. The smaller calendars of activities can be copied and put into mailboxes or slid under doors.
4. **Balloons:** We can write a message on the balloon or put the message on a piece of paper inside the balloon. Balloons can be tied with string to door knobs, handed out at the entrance of the building or handed out in dining hall lines.
5. **Tickets:** We can purchase printed tickets or make our own tickets. Free tickets, and invitations, can be placed in mailboxes, handed out, or slipped under doors. A variation of the ticket concept is to distribute coupons. The coupon might entitle the person to a prize or free refreshment item. Coupons can be included on flyers or on printed schedules and this may prevent your advertisement from falling victim to the trash can.
6. **Banners:** A large extension of the poster, these can be hung outside the hall or in the mailroom or in a lobby. A bed sheet or old shower curtain will make a good size banner.
7. **Word of Mouth:** And of course, there is the time-honored word-of-mouth technique. This is perhaps the oldest, yet most effective way to get the word out. Its effectiveness should not be underestimated. Go door-to-door and personally inform people of the activity; and remind them frequently, so that they do not forget.
8. **Other Publicity Techniques:** Other publicity techniques may be:
   - Networking sites
   - Bookmarks
   - Footprints
   - Bathroom stalls
   - Mirror signs
   - Mass e-mails
   - Door hanger
   - Logos

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- Puzzle pieces
- Stickers
- T-shirts
- Lollipops with messages
- Post cards
- Bags
- Bumper stickers
- Door prizes
- Free tickets to events
- Painted windows
- Sidewalk chalk writing
- Visors.

4.28 IMPORTANCE OF PUBLICITY

Publicity draws on several key themes including birth, love, and death. These are of particular interest because they are themes in human lives which feature heavily throughout life. In television serials several couples have emerged during crucial ratings and important publicity times, as a way to make constant headlines. Also known as a publicity stunt, the pairings may or may not be according to the fact. The publicity is important in the following way:

1. **Increase the Knowledge of the Brand:** Buying a product depends on whether the consumer knows the brand or not. The knowledge of the brand is measured through surveys. Through carrying out a survey before a publicity campaign and one after, you can test the effect of the publicity and the knowledge of the brand.
2. **Improve the Knowledge of Certain Characteristics of the Product:** Sometimes it is essential that consumers learn how to use the product. Other times we want them to know certain advantages of the product compared to their competitors.
3. **Improving the Company's Image:** For example, a company that sells petrol is carrying out advertising campaigns to change the image of their company endangering the environment to that of a company worried about ecology. This is also measured through surveys.
4. **Favourable Feeling:** Achieve an attitude or more favourable feeling concerning the company or the product. The first stage in the sales process is usually a favourable attitude towards the brand.
5. **Increase Sales in the Short-term:** Many publicity campaigns are trying to improve sales in the days following the campaign. For example, the majority of books, CDs/DVDs, computer games and films increase their sales in the days after the launch of the campaign. The successful launch of many products requires an efficient campaign that sells in great quantities immediately after the start of the campaign.
6. **Support Other Marketing Actions:** Help the success of the promotion or support the company's sales team. For example, get the consumers to try the product or increase the sales visits or the sales per visit.

NOTES

4.29 CHANNELS OF DISTRIBUTION

The word 'channel' has its origin in the French word used for canal. Channels are routes avenues, pathways suggesting movement or flow. Distribution means to distribute, or spread about. When these words are related to marketing, channels of distribution have been defined in different ways.

> *"A channel of distribution for a product is the route taken by the title of the goods as they move from the producer to the ultimate consumer or industrial users".* **William J. Stanton**

> *"A channel of distribution is a set of independent organizations involved in the process of marketing a product or service available for use or consumption".* **Philip Kotler**

4.30 CHARACTERISTICS OF DISTRIBUTION CHANNEL

When a customer is considering buying a product he tries to access its value by looking at various factors which surround it. Factors like its delivery, availability, etc., which are directly influenced by channel members. The distribution channel has following features:

1. **Cost Saving:** The members of a distribution channel are specialized in what they do and perform at much lower costs than companies trying to run the entire distribution channel all by itself.
2. **Time Saving:** Along with costs, time of delivery is also reduced due to efficiency and experience of the channel members. For example, if a grocery store were to receive direct delivery of goods from every manufacturer the result would have been confusion. Everyday hundreds of trucks would line up outside the store to deliver products. The store may not have enough space for storing all their products and this would add to the confusion. If a grocery wholesaler is included in the distribution chain, the problem is almost solved.
3. **Customer Convenience:** Including members in the distribution chain provides customers with a lot of convenience in their shopping. If every manufacturer owned its own grocery store, customers would have to visit multiple grocery stores to complete their shopping list.
4. **Customers can Buy in Small Quantities:** Retailers buy in bulk quantities from the manufacturer or wholesaler. This is more cost-effective than buying in small quantities.
5. **Customers Receive Financial Support:** Re-sellers offer financial programmes to their customers which makes payment easier for the customer. Customers can buy on credit or buy using a payment plan, etc.
6. **Re-sellers Provide Valuable Information:** Manufacturers who include re-sellers for selling their products rely on them to provide information which will help in improving the product or in increasing its sale.

4.31 FUNCTIONS OF CHANNELS OF DISTRIBUTION

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The importance of distribution channels emanates from the functions performed by them. It is but natural that most business firms consider the channel as a very important component of the marketing mix. The functions performed by distribution channels are as follows:

1. Distribution channels facilitate the sales process by being physically close to customers.
2. They bridge the makers and users efficiently and economically.
3. Break the bulk and cater to the small size requirements of buyers.
4. Assemble and offer suitable assortments of products as required by buyers.
5. Help sub-distribution.
   (*a*) Selling to sub-distributors
   (*b*) Re-transport
   (*c*) Handling
   (*d*) Accounting.
6. Help stock holding.
   (*a*) Financing the stocks
   (*b*) Risk bearing
   (*c*) Storage of products
   (*d*) Making available warehouse space
   (*e*) Aiding the sales by transforming the static stock into operational stock.
7. Provide salesmanship.
8. Provide pre-sale and after-sale service.
9. Assist in sales promotion.
10. Assist in merchandising.
11. Aid the introduction of new products in the market.
12. Aid the price mechanism between the firm and the ultimate customers.
13. Assist in developing sales forecasts for the territory concerned.
14. Provide feedback and market intelligence.
15. Maintain records/registers.
16. Maintain liaison.
17. Extend credit to retailers as well as actual users.
18. Transfer technology to the users and act as "change agents".

4.32 TYPES OF CHANNEL

Normally goods and services pass through several hands before they come to the hands of the consumer for use. But in some cases producers sell goods and services directly to the consumers without involving any middlemen in between them, which can be called direct channel. So there are two types of channels, one, direct channel and the other, indirect channel.

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1. **Direct Channel (Producer → Consumer):** The producer sells the goods directly to the consumers without any marketing intermediary or middlemen as shown in Fig. 4.6. A producer may sell directly through his own retail stores, for example, Bata India Ltd., HPCL, Liberty Shoes Limited has their own retail shops to sell their products to consumers.

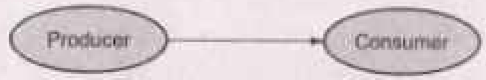

Fig. 4.6. Direct channel.

This is the simplest and the shortest channel. It is fast and economical. Small producers and producers of perishable commodities also sell directly to the local consumers. Big firms adopt direct selling in order to cut distribution cost and because they have sufficient facilities to sell directly to the consumers. The producer or the entrepreneur himself performs all the marketing activities.

For certain service organizations consumers avail the service directly. Banks, consultancy firms, telephone companies, passenger and freight transport services, etc., are examples of direct channel of distribution of service.

2. **Indirect Channel:** The manufacturer sells the goods to the consumers through middlemen. Since, it is not possible for producers to contact consumers directly, direct channels of distribution are not popular. Producers have started depending on the indirect channels to sell their goods. This has resulted in utilizing the services of middlemen. The different types of indirect channels of distribution are shown in Fig. 4.7.

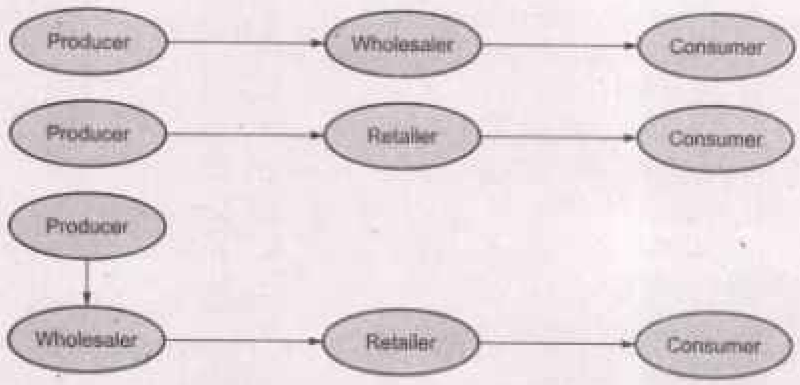

Fig. 4.7. Indirect channels of distribution.

4.33 VARIOUS CHANNELS FOR THE DISTRIBUTION OF CONSUMER GOODS AND INDUSTRIAL GOODS

Channel levels consist of consumer marketing channels or the industrial marketing channels. A factor common among both channel levels is that both include producer as well as end customer. Here are perfect representations for channel levels between consumer marketing channel and an industrial marketing channel as shown in Figs. 4.8 and 4.9.

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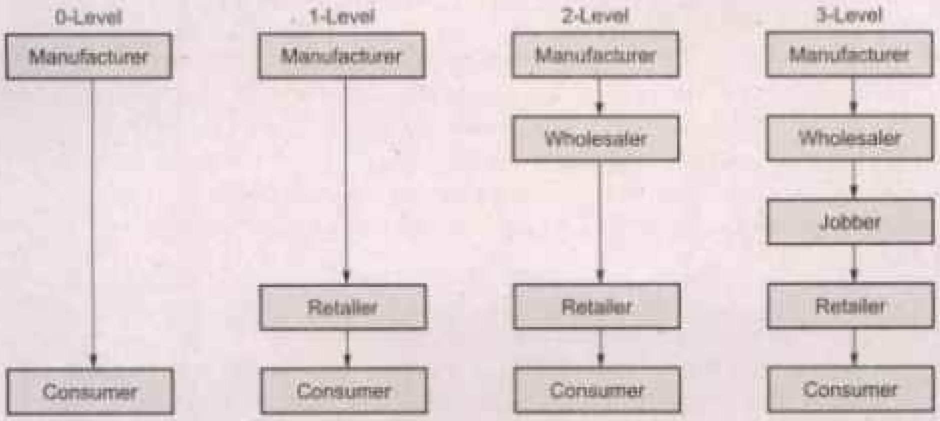

Fig. 4.8. Consumer marketing channel.

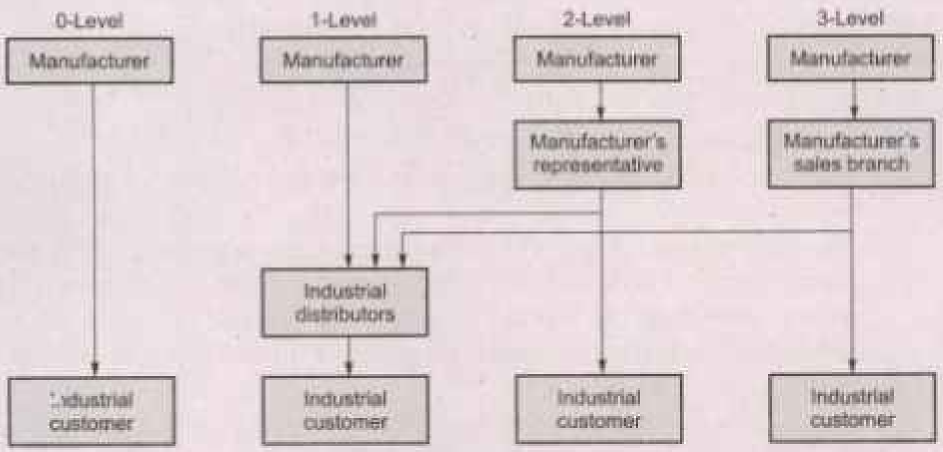

Fig. 4.9. Industrial marketing channel.

1. **Zero Level Channel:** This is also called direct marketing channel which consists of a manufacturer directly selling to the end consumer. This might mean door-to-door sales, direct mails or telemarketing. Dell online sales are a perfect example of zero level channel marketing.
2. **One Level Channel:** It has an intermediary in between producer and consumer. An example of this can be insurance in which there is an insurance agent between insurance company and customer.
3. **Two-Level Channel:** A widely used marketing channel especially in the FMCG and the consumer durables industry which consists of a wholesaler and a retailer.
4. **Three-Level Channel:** Again observed in both FMCG and consumer durables industry, the three level channel can combine the roles of a distributor on top of a dealer and a retailer. The distributor stocks the most and spreads it to dealers who in turn give it to retailers and then finally reaches to the customers.

4.34 WHOLESALERS

Wholesalers are one of the important middlemen in the channel of distribution who deal with the goods in bulk quantity. Wholesalers and retailers are important middlemen who generally facilitate flow of goods from the producers to the consumers. Wholesaler may be defined as "one who sells to other middlemen, institutions and industrial buyers, usually in fairly large quantities.

> *"A true wholesaler is himself neither a manufacturer nor a retailer but acts as a link between the two".* **Evelyn Thomas**

Wholesaler sells the goods to other middlemen but does not sell to the ultimate consumers.

4.35 CHARACTERISTICS OF WHOLESALERS

The followings are the characteristics of a wholesaler:

1. Wholesalers buy goods directly from producers or manufacturers.
2. Wholesalers buy goods in large quantities and sell in relatively smaller quantities.
3. They sell different varieties of a particular line of product. For example, a wholesaler who deals with paper is expected to keep all varieties of paper, cardboard, card, etc.
4. They may employ a number of agents or workers for distribution of products.
5. Wholesalers need large amount of capital to be invested in their business.
6. They generally provide credit facility to retailers.
7. They also provide financial assistance to the producers or manufacturers.
8. In a city or town they are normally seen to be located in one particular area of the market. For example, you can find cloth merchants in one area, book publishers and sellers in one area; furniture dealers in one area, etc.

4.36 TYPES OF WHOLESALERS

There are mainly four types of wholesalers as shown in Fig. 4.10.

Fig. 4.10. Types of wholesalers.

1. **Merchant Wholesaler:** Merchant wholesaler is one who buys goods in large quantities from the producer and sells them in small quantities to the retailers but not to the ultimate consumers.
2. **Agents and Brokers:** These are the persons who buy and sell goods for others on commission basis. It includes auction companies, agricultural commission merchants, manufacturing agents, food brokers, and import-export agents and brokers. They are organized by a product line and assist in negotiations with the buyers and sellers. They make their profit by commissions.
3. **Manufacturer Wholesaler:** Manufacturer wholesaler combines manufacturing with the wholesale business. He carries out the wholesale business through sales offices or sales branches.
4. **Retail Wholesaler:** Retail wholesaler is both a wholesaler and a retailer. He buys goods in large quantities from the manufacturer and sells them in small quantities to the ultimate consumers.

4.37 FUNCTIONS OF WHOLESALERS

The various functions performed by them are:

1. **Collection of Goods:** A wholesaler collects goods from manufacturers or producers in large quantities.
2. **Storage:** Wholesalers keep the goods assembled in their warehouses till they are sold to the retailers, as there is a gap between production consumption.
3. **Transportation:** Wholesaler carries goods from the place of production to his warehouse and he also carries goods to the retailers destination through his own fleet or through hired carrier on most economic lines.
4. **Financing:** The wholesaler provides financial support to producers and manufacturers by sending money in advance to them. He also sells goods to the retailer on credit. Thus, at both ends the wholesaler acts as a financier.
5. **Risk Taking:** The wholesaler buys finished goods from the producer and keeps them in the warehouses till they are sold. Therefore, he assumes the risks arising out of changes in demand, rise in price, spoilage or destruction of goods.
6. **Grading and Packing:** Grading is the process of sorting out the stock in terms of different sizes, quality, shapes etc. They divide the large lots into smaller lots and repack to suit the requirements of retailers.
7. **Market Information:** Wholesalers provide relevant and up-to-date information to the retailers and manufacturers by collecting information from retailers about changes in consumer tastes, fashions, habits, etc., and pass it on to the manufacturer. They also give information to the retailers about the competitors and new type of goods arrived into the market.
8. **Pricing:** Wholesaler undertakes the responsibility of fixing the price of a product as per market conditions and demand for products.

9. **Promotion:** Wholesaler performs advertising and sales promotion activities on behalf of the company to promote the sale of the products.
10. **Dispersion and Selling:** Wholesaler undertakes the responsibility of dispersion of goods when retailers buy from him. He has his own sales force to obtain the orders from retailers and deliver the goods to them.

4.38 RETAILERS

"Retailer" which means to "cut again".

Retail is the sale of goods and services from individuals or businesses to the end-user. Retailers are part of an integrated system called supply chain. A retailer purchases goods or products in large quantities from manufacturers or directly through a wholesaler, and then sells smaller quantities to the consumer for profit. Retailing can be done in either fixed locations or online. Retailing includes subordinated services, such as delivery. The term "retailer" is also applied where a service provider services the needs of a large number of individuals, such as a public utility, like electric power.

> *"Retailing includes all activities directly related to the sale of goods and services to the ultimate consumers for personal or non-business use".*
>
> **William J. Stanton**

"The success of retailer depends only upon—location, location and location".

Shops may be on residential streets, streets with few or no houses or in a shopping mall. Shopping streets may be for pedestrians only. Sometimes a shopping street has a partial or full roof to protect customers from precipitation. Online retailing, a type of electronic commerce used for business-to-consumer (B2C) transactions and mail order, are forms of non-shop retailing.

4.39 CHARACTERISTICS OF RETAILERS

The following are the characteristics of retailers:

(*i*) Retailers have a direct contact with consumers. They know the requirements of the consumers and keep goods accordingly in their shops.

(*ii*) Retailers sell goods not for resale, but for ultimate use by consumers. For example, you buy fruits, clothes, pen, pencil, etc., for your use, not for sale.

(*iii*) Retailers buy and sell goods in small quantities. So, customers can fulfill their requirement without storing much for the future.

(*iv*) Retailers require less capital to start and run the business as compared to wholesalers.

(*v*) Retailers generally deal with different varieties of products and they give a wide choice to the consumers to buy the goods.

4.40 FUNCTIONS OF RETAILERS

NOTES

Retailers perform a number of functions such as:

1. **Buying and Assembling of Goods:** Retailers buy and assemble varieties of goods from different wholesalers and manufacturers. They keep goods of those brands and variety which are liked by the customers and the quantity in which these are in demand.
2. **Storage of Goods:** To ensure ready supply of goods to the customer, retailers keep their goods in stores. Goods can be taken out of these stores and sold to the customers as and when required. This saves consumers from the botheration of buying goods in bulk and storing them.
3. **Selling:** The retailer is considered as a selling agent of manufacturer/ wholesaler and buying agent of consumers. He offers goods at a convenient location, displays them and offers choices to the consumers.
4. **Risk:** The risk of loss may arise due to fire, flood, cyclone, earthquake, spoilage, theft and deterioration due to changes in weather conditions, fashions, etc. Apart from this, he also undertakes the risk arising out of change in prices.
5. **Product Information:** The retailer advices and educates customers about different types of products, their values and uses and also gives information on new products and latest fashions.
6. **Grading and Packing:** The retailers undertake grading and packing of the goods in desired quantities to suit the requirements of the consumers.
7. **Credit Facility:** Although retailers mostly sell goods for cash, they also supply goods on credit to their regular customers. Credit facility is also provided to those customers who buy goods in large quantity.
8. **Convenience:** The retailers provide ready supply of goods at the places desired by the consumers. Consumers need not place order with several suppliers/producers and wait for delivery.
9. **Display of Goods:** Retailers display different types of goods in a very systematic and attractive manner. It helps to attract the attention of the customers and also facilitates quick delivery of goods.
10. **Wide Choice:** Retailers stock variety of products and thereby provide a wide choice to consumers.
11. **Supply of Information:** Retailers provide all information about the behaviour, tastes, fashions and demands of the customers to the producers through wholesalers. They become a very useful source of information for marketing research.

4.41 TYPES OF RETAILERS

NOTES

You may be under the impression that retailers are small shopkeepers trading in the nearby locality. However, you will be surprised to know that starting from hawkers and street traders, to super bazaars, departmental stores and multiple shops, all undertake retail-trading business in our country. The retailers can be classified as:

1. Small-scale Retailers
2. Large-scale Retailers

1. **Small-scale Retailers:** Small-scale retail trade is one where a limited variety and also limited quantity of goods are sold within a local area. It requires less capital and provides goods to a limited number of customers. The important small-scale retailers are:

   (*i*) **Hawkers:** Hawkers do not have any fixed place of business. They move from one place to another carrying their goods on hand cart or cycle and sell them door-to-door.

   (*ii*) **Cheap-jacks:** Cheap-Jack is a retailer who has fixed place of business in a locality and goes on changing his place of business to exploit the market opportunities. Therefore, the place of business is not rigid and they deal in cheap varieties of readymade garments, plastics, shoes, etc. The speed of change of place is not as fast as it is in hawkers and peddlars.

   (*iii*) **Market traders:** Market traders open their shops on fixed days or dates in the specific areas. The time interval may be a week or fortnight or a month. They join fairs and festivals which are normally organized in the villages or towns on specific dates.

   (*iv*) **Street traders:** Street traders are also called footpath traders. These traders display their stock on foot paths of busy cities and towns. The prominent places of business are bus stands, railway stations, parks and other busy centres.

   (*v*) **Unit stores:** Unit stores which deal with only one variety of product such as drugs, clothes, shoes, books, utensils, etc. Single line stores are also called speciality shops since they specialize in only one item.

   (*vi*) **Syndicate stores:** A syndicate store is an extension of the mail order business on a small-scale. The important characteristic of syndicate store is that it offers a wide variety of merchandise to customers but seldom sells known brands. These retailers buy most of the unbranded varieties and sell them under their own brand names.

2. **Large-scale Retailers:** In recent years the large-scale retail trade has expanded considerably since it brings several advantages such as greater buying capacity, financial economics, expert management and economics in bulk buying, benefits of mechanization and automation, maximum risk bearing capacity, intensive promotion, etc. It caters to the needs of a large number of customers. Super bazars, departmental stores and multiple shops are examples of large-scale retail trade organization. The different types of large-scale retailers are as follows:

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(*i*) **Departmental stores:** It is a large retail establishment having in the same building a number of departments each of which confine its activities to sell one particular product.

According to James Stephenson, "Departmental stores are a store engaged in the retail trade of the wide variety of articles under the same roof". A departmental store is essentially an urban-oriented outlet and generally located in the heart of the city.

(*ii*) **Multiple shops:** Multiple shops refer to an organization under which a large number of similar shops are opened at different places in one particular area or throughout the country under a centralized management and dealing in similar lines of goods. Multiple shops are popularly found in European countries and the USA. In the USA the multiple shops are called "Chain Stores".

(*iii*) **Mail order business:** Mail order refers to 'shopping by post'. It is a distinct form of retail business wherein the orders are accepted and goods delivered by post. It is a method of non-store, impersonal and direct selling that eliminates the middlemen. Thus, mail order business can be defined as an establishment that receives orders by mail and make its sales by mail, parcel, etc.

(*iv*) **Consumers' co-operative stores:** Consumers' co-operative stores is an association organized by consumers to obtain their requirements by purchasing in bulk and selling through the stores owned, managed and controlled by themselves. The basic aim of this store is to eliminate the middlemen and their profits.

(*v*) **Super markets:** Super markets are also to be called as super bazars and self-service stores. The first super market was started in the USA during the period of economic depression of 1930s. Philips and Duncan define a super market as "a departmentalized retail store usually handling a variety of merchants and in which the sale of food, much of which is on a self-service, plays a major role".

The *Dictionary of Business and Finance* describes super market as 'large retail stores selling wide variety of consumer goods, particularly food and small articles of household requirements'.

The super market retail organizations have started growing up in India also. In Andhra Pradesh, super markets are also called Janata bazars, Kalpalatha stores, Big Bazar, etc.

(*vi*) **Tele marketing:** Tele marketing is also called telephone selling. It is a new marketing discipline that utilizes tele communication technology to feature the use of personal selling using non face-to-face contacts. Hence, tele marketing refers to a sales person imitating contact with a shopper and closing a sale over the telephone. Tele marketing entails canvassing from the phone directory or it may depend on the prospects who have requested information from the company. It is highly suitable to such products that can be bought without being seen and are sold over telephone. For example, pest control services, magazine subscriptions, credit card membership and athletic club membership are best suited for telemarketing.

(*vii*) **E-commerce:** Trade and commerce between individuals is as old as the existence of mankind. The latest to join the list is Electronic Commerce, which is popularly known as e-commerce. Electronic commerce is defined as the actual buying and selling of goods or services electronically. Products are displayed in an online store and potential customers can read information about the products, see them on the website and have the option to purchase them online. Any product can be sold online and all the principles of business apply to this also.

SUMMARY

- Promotion refers to using methods of communication with two objectives: (*i*) to inform the existing and potential consumers about a product, and (*ii*) to persuade consumers to buy the product.
- When a business organization gives information to its consumers and motivates them to buy the products through various promotion techniques like advertising, personal selling, sale promotion, communication, public relations, branding and packaging etc., it is called promotion mix.
- A firm uses different tools for its promotional activities which are as follows:
  1. Advertising
  2. Sales promotion
  3. Personal selling
  4. Publicity
  5. Public relations.
- Advertising is the most commonly used tool for informing the present and prospective consumers about the product, its quality, features, availability, etc. It is a paid form of non-personal communication through different media about a product, idea, a service or an organization by an identified sponsor.
- Sales promotion is one level or type of marketing aimed either at the consumer or at the distribution channel (in the form of sales-incentives). It is used to introduce a new product, and clear out inventories.
- The person who sells goods to customers in this way is called 'salesman' and the technique of selling is known as 'personal selling' or 'salesmanship'.
- Public relations is about reputation—the result of what you do, what you say and what others say about you.
- Public relations takes many forms in different organizations and comes under many titles, including public information, investor relations, public affairs, corporate communication, marketing or customer relations.
- The purpose of advertising is nothing but to sell something—a product, a service or an idea.
- A salesman acts as a friend and guide to consumers. He informs them about the new products and new uses of existing products. He helps them in choosing products, which match their needs and incomes.

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- Advertising creates awareness among masses regarding their needs and the availability of goods to satisfy those needs.
- Public relations includes promotional activities that work to create a strong public image of the company.
- Public relations is a powerful tool for creating image, building awareness and consumer preference, and establishing useful liaisons with influential groups.
- A public relations campaign planned by marketing experts is often far more effective than advertising.
- Personal selling is the oldest and the most popular method of selling goods and services. It involves face-to-face communication between the seller and the potential buyer.
- Personal selling occurs where an individual salesperson sells a product, service or solution to a client. Salespeople match the benefits of their offering to the specific needs of a client.
- Sales promotion is one of the most loosely used terms in the marketing vocabulary.
- Sales promotion is a key factor and strategy for marketers within the promotional mix.
- Sales promotion techniques are known as promotion tools and the mode of their application is known as sales programme.
- Publicity draws on several key themes including birth, love, and death. These are of particular interest because they are themes in human lives which feature heavily throughout life.
- The word 'channel' has its origin in the French word used for canal. Channels are routes avenues, pathways suggesting movement or flow.
- Normally goods and services pass through several hands before they come to the hands of the consumer for use. But in some cases producers sell goods and services directly to the consumers without involving any middlemen in between them, which can be called direct channel.
- Channel levels consist of consumer marketing channels or the industrial marketing channels.
- Wholesalers are one of the important middlemen in the channel of distribution who deal with the goods in bulk quantity.
- Retail is the sale of goods and services from individuals or businesses to the end-user. Retailers are part of an integrated system called supply chain.

  The retailers can be classified as:

  1. Small-scale Retailers
  2. Large-scale Retailers

REVIEW QUESTIONS

1. Explain the concept of promotion mix.
2. Describe the meaning and definition of promotion mix. Explain the different components of promotion mix.

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3. What do you mean by advertising and sales promotion?
4. What is personal selling and publicity in promotion mix?
5. Explain public relations as a major tool of promotion mix.
6. Explain the different factors influencing promotion mix.
7. What is advertising? What purposes does advertising serve?
8. Explain briefly the term advertising and state its characteristics.
9. What are the main objectives of advertising? Explain in brief.
10. "Advertising plays an important role in business and society". Discuss.
11. Explain, in brief, the essentials of good advertising.
12. What are public relations? Explain the objectives of public relations.
13. Explain the different components of public relations.
14. Define the importance of public relations.
15. What is the meaning and definition of personal selling? Explain the major characteristics of personal selling.
16. What are the differences between personal selling and advertising?
17. Explain the different objectives of personal selling.
18. Discuss the different steps in the process of personal selling.
19. What are the advantages and disadvantages of personal selling?
20. Define the meaning and definition of sale promotion. Explain the characteristics of sales promotion.
21. Explain the different objectives of sales promotion.
22. Discuss the different techniques of sales promotion.
23. Explain the different consumer promotion techniques.
24. Explain the different middlemen promotion techniques.
25. What are the different types of sales force promotion technique?
26. Explain the advantages and disadvantages of sales promotion.
27. What is publicity? Explain the features of publicity.
28. Explain the objectives of publicity.
29. Explain the importance of publicity.
30. What do you mean by distribution channels? Explain the characteristics of distribution channel.
31. What are the different functions of channels of distribution channel management?
32. What are the different types of channel?
33. Define wholesalers. Explain the characteristics of wholesalers.
34. Explain the different types of wholesalers.
35. Describe the functions of wholesalers.
36. What do you mean by retailer? Explain the characteristics of retailers.
37. What are the different functions of retailers?
38. Explain various types of retailers.

NOTES

UNIT

V

MARKETING OF SERVICES

STRUCTURE

5.1 INTRODUCTION

Prior to the time of the Industrial Revolution, virtually all trade and exchange processes involved some personal contact between suppliers and their customers. This meant that individual producers could cater to the needs of their customers, and most trade was very local in nature. The increase in overseas trading and the advent of the industrial revolution indicated the start of new types of trading practice, and the introduction of some of the processes which are part of marketing today. Economists have divided all industrial and economic activities into three main groups: primary, secondary and tertiary. Primary activities include agriculture, fishing and forestry. Secondary activities cover manufacturing and construction, and tertiary activities refer to the services and distribution.

5.2 MEANING AND DEFINITION

The most comprehensive definition of service marketing is that it is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product. A service is any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything.

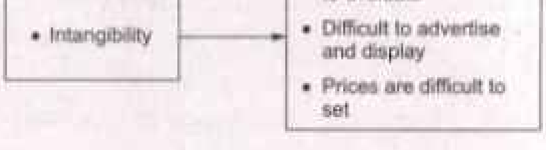
Marketing is the foundation of business operations for businesses and non-profit organizations. Understanding the various marketing services and their functions helps for profit or non-profit organization reach their goals. Marketing is the process of persuading potential consumers to buy the organization's product or service. Marketing services are the methods used in the overall marketing plan of production, pricing, promotion and distribution. The main marketing services consist of market research, advertising, promotion and public relations. Market research involves gathering statistical data to develop the organization's marketing strategy and plan.

> *"Activities, benefits and satisfaction which are offered for sale or are provided in connection with the sale of goods."*
>
> **American Marketing Association**

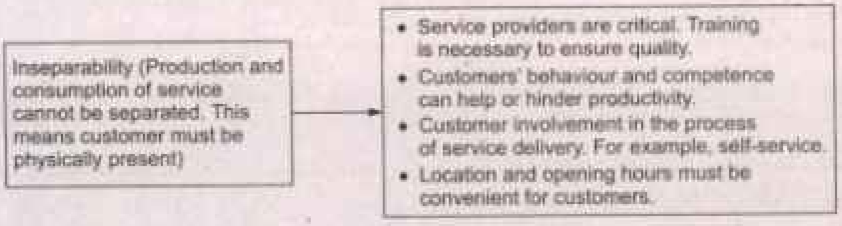
5.3 CHARACTERISTICS OF SERVICES

Services are said to have four key characteristics which impact on marketing programme. These are:

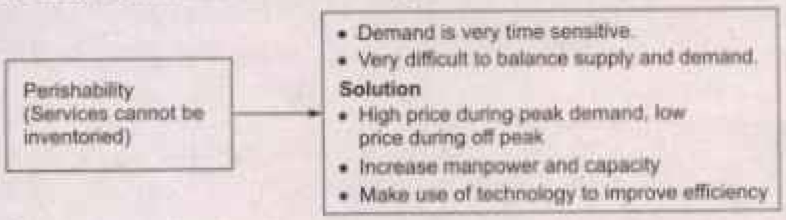
1. **Intangibility:** Services are intangible and do not have a physical existence. Hence, services cannot be touched, held, tasted or smelt. This is the most defining feature of a service and that which primarily differentiates it from a product. Also, it poses a unique challenge to those engaged in marketing a service as they need to attach tangible attributes to an otherwise intangible offering.



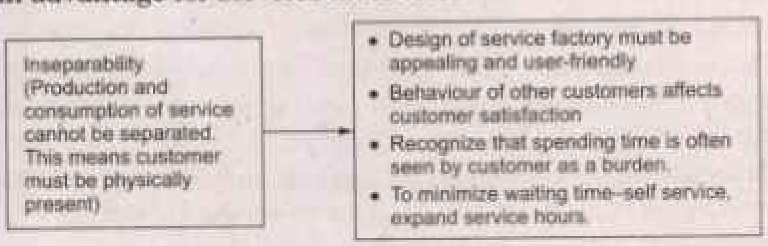
2. **Heterogeneity/Variability:** Given the very nature of services, each service offering is unique and cannot be exactly repeated even by the same service provider. While products can be mass produced and be homogeneous the same is not true of services. For example, all burgers of a particular flavour at McDonalds are almost identical. However, the same is not true of the service rendered by the same counter staff consecutively to two customers.



3. **Perishability:** Services cannot be stored, saved, returned or resold once they have been used. Once rendered to a customer the service is completely consumed and cannot be delivered to another customer. For example, a customer dissatisfied with the services of a barber cannot return the service of the haircut that was rendered to him. At the most he may decide not to visit that particular barber in future.



4. **Inseparability:** Services are produced and consumed at the same time, unlike goods which may be manufactured, then stored for later distribution. This means that the service provider becomes an integral part of the service itself. The waitress in the restaurant, or the cashier in the bank, is an inseparable part of the service offering. The client also participates to some extent in the service, and can affect the outcome of the service. People can be part of the service itself, and this can be an advantage for services marketers.



5.4 DIFFERENCE BETWEEN GOODS AND SERVICES

Given below are the fundamental differences between physical goods and services:

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Goods	Services
A physical commodity	A process or activity
Tangible	Intangible
Homogeneous	Heterogeneous
Production and distribution are separate from their consumption	Production, distribution and consumption are simultaneous processes
Can be stored	Cannot be stored
Transfer of ownership is possible.	Transfer of ownership is not possible.

5.5 SERVICE MARKETING MIX

Another way to begin addressing the challenges of services marketing is to think creatively about the marketing mix through an expanded marketing mix for services. The service marketing mix is also known as an extended marketing mix and is an integral part of a service outline design. The service marketing mix consists of 7Ps as compared to the 4Ps of a product marketing mix as shown in Fig. 5.1.

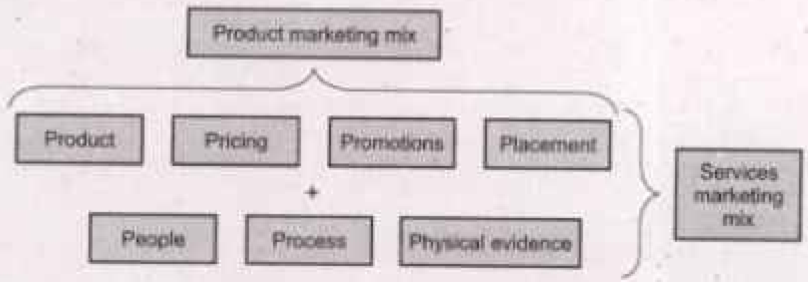

Fig. 5.1. Service marketing mix.

The product marketing mix consists of the 4Ps which are Product, Pricing, Promotions and Placement. The service marketing mix consists of 7Ps which are 4Ps of marketing mix + process, people and physical evidence.

1. **Product:** The product in service marketing mix is intangible in nature. Like physical products such as soap or a detergent, service products cannot be measured. Tourism industry can be an excellent example.
2. **Place:** Place in case of services determines where the service product is going to be located. The best place to open up a petrol pump is on the highway or in the city.
3. **Promotion:** Promotions have become a critical factor in the service marketing mix. Services are easy to be duplicated and hence it is generally the brand which sets a service apart from its counterpart. For example: Just Dial.
4. **Pricing:** Pricing in case of services is rather more difficult than in case of products. If you are a restaurant owner, you can price people only for the food you are serving.

5. **People:** People are one of the elements of service marketing mix. People define a service. If you have an IT company, your software engineers define you. If you have a restaurant, your chef and service staff define you.
6. **Process:** Service process is the way in which a service is delivered to the end customer. Let's take the example of two very good companies—McDonalds and Dominos. Both the companies thrive on their quick service and the reason they can do that is their confidence on their processes.
7. **Physical Evidence:** The last element in the service marketing mix is a very important element. As said before, services are intangible in nature. However, to create a better customer experience tangible elements are also delivered with the service. Take an example of a restaurant which has only chairs and tables and good food, or a restaurant which has ambient lighting, nice music along with good seating arrangement and this also serves good food.

5.6 BANK MARKETING

Banking industry is one of the most important service industries which touches the lives of millions of people. Its service is unique both in social and economic points of view of a nation. It was in the late 1950s that marketing in banking industry emerged in the west. Its emergence was in the form of advertising and promotion concept. At that time, personal setting could not get a significant place.

Gradually there was a change in the attitude of bankers, probably in time with the attitudinal change in customers. The idea of customers' satisfaction began in the late 1950s, flourished in 1960s and became an integral part of the banking services in the 1970s.

The first major step in the direction of marketing was initiated by the State Bank of India in 1972, when it recognized itself on the basis of major market segments, dividing the customers on the basis of activity and carved out four major market segments. The marketing comprehension that is performed by banks since 1970 can be shown as in following five stages:

1. Promotion-oriented marketing comprehension
2. Marketing comprehension based on having close relations for customers
3. Reformist marketing comprehension
4. Marketing comprehension that focused on specializing in certain areas
5. Research, planning and control-oriented marketing comprehension.

5.7 MARKETING INFORMATION SYSTEM

A Marketing Information System (MIS) is a set of procedures and methods designed to generate, analyze, disseminate, and store anticipated marketing decision information on a regular and continuous basis.

Each and every decision area of marketing needs the support of marketing information. The degree of marketing excellence achieved by a firm has a direct

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relationship with the marketing information system operated by it. Marketing excellence is the net outcome of correct marketing decisions, and the decisions can be correct only when they are information based. A Marketing Information System offers the following advantages:

1. Organized data collection.
2. A broad perspective.
3. The storage of important data.
4. An avoidance of crises.
5. Coordinated marketing plans.
6. Speed in obtaining sufficient information to make decisions.
7. Data amassed and kept over several time periods.
8. The ability to do a cost-benefit analysis.

A marketing information system can be used operationally, managerially, and strategically for several aspects of marketing.

5.8 TRANSPORT MARKETING

Transport refers to the activity that facilitates physical movement of goods as well as individuals from one place to another. In business, it is considered as an auxiliary to trade, that means, it supports trade and industry in carrying raw materials to the place of production and distributing finished products for consumption. Individuals or business firms that engage themselves in such activities are called transporters. Generally, transporters carry raw material, finished products, passengers, etc., from one place to another. So, it removes the distance barrier. Nowadays goods produced at one place are readily available at distant places. People move freely throughout the world because of transport. It is associated with every step of our life.

5.9 MARKETING IN INDIAN RAILWAYS

Railways are a service industry, hence the railway employees responsible for delivery of service are conspicuous to users and indeed are directly accountable to users for service quality. In this sense, they differ for example from manufacturing industries, where those responsible for creation of the product are usually not visible to consumers and where there is a clear distinction between production and marketing activities. For railways, as with most service industries, the production and marketing of the product are practically inseparable.

Indian Railways has been in the news recently because of the turnaround it has achieved in the last few years with profits in excess of ₹ 20,000 crore to show. On the face of it if someone were to propose it as an organization which is becoming more customer savvy, it would be difficult to accept.

The first is the e-ticketing facility that has been extended to travellers. Today the site, www.irctc.com does more than one lakh transactions per day and is the largest in south Asia with customer satisfaction levels of 99.99%. For a regular traveller this facility is a boon, the tickets can be booked sitting in his office without having to go and buy the tickets at the counters. The facility is being extended to ATMs and outside agents also.

Auto up-gradation is also a good initiative. It is a win-win situation for both railways as well as customers. Because by upgrading the consumers get to experience the higher priced next level of travel at no extra cost and the railways are able to accommodate more people and ensure that the train runs full. And the *Tatkal* facility has also been a hit among travellers.

The other initiatives include rail tourism wherein a traveller can use the site to book a complete travel package which would include his stay, sight seeing and travel from home to the station and so on. This is a good example of solution selling. The journey for Indian Railways to become a totally customer oriented organization has just started.

5.10 MARKETING IN ROAD TRANSPORT CORPORATION

Transport volumes in India remain much less than those in the developed countries. India has still to go a long way in strengthening its transportation network. The countries transportation network suffers from several inadequacies and, in particular it has little flexibility to deal with unforeseen demands.

Transportation, like all industries is largely influenced by information and communication technologies with the focus being on knowledge of customer needs and value-added services. Surface transport is provided by the Road and the Indian Railways (primarily for carrying low value bulk commodity, mostly for the government sector). Cargo Road Transport is entirely in the hands of the private sector. An estimated 1.2 million trucks (9 tons capacity) network in the country covering more than 80,000 kilometres of roads. In India road transportation is preferred for cargo movement, where flexibility of routing assumes importance. It facilitates door-to-door delivery, overcoming unnecessary delays which normally take place in the other modes of transportation. The road transport has following benefits:

(*a*) Easily connect any part of country unlike railways
(*b*) Complementary to railways, providing feeder service
(*c*) More flexible in comparison to other modes
(*d*) Provides door-to-door services
(*e*) Better means to deliver perishable goods to market places in time
(*f*) Does not require heavy capital for operation
(*g*) Mode is important in Defense Services of the country.

5.11 RISK AND INSURANCE MARKETING

One of the important functions of marketing management is risk bearing. In any marketing activity uncertainty is bound to exist. This uncertainty may result in the form of either loss or profit. The unpredictable natures of the consumers, changing fashions, increasing competition and increasing costs of production have led to the concept, "risk-bearing".

All these uncertainties have to be faced in the marketing activity by any producer or entrepreneur. Some of the risks may be avoided by taking insurance coverage.

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5.12 LIFE INSURANCE CORPORATION IN INDIA

The term 'Insurance Marketing' refers to the marketing of insurance services with the aim of creating customer and generating profit through customer satisfaction. The insurance marketing focuses on the formulation of an ideal mix for insurance business so that the insurance organization survives and thrives in the right perspective.

In India, the Life Insurance Corporation of India (LIC) and the General Insurance Corporation (GIC) are the two leading companies offering insurance services to the users. The Oriental Life Insurance Company, the first corporate entity in India offering life insurance coverage, was established in Calcutta in 1818 by Bipin Behari Dasgupta and others. Europeans in India were its primary target market, and it charged Indians heftier premiums. The Bombay Mutual Life Assurance Society, formed in 1870, was the first native insurance provider. Other insurance companies established in the pre-independence era included:

- Bharat Insurance Company (1896)
- United India (1906)
- National India (1906)
- National Insurance (1906)
- Co-operative Assurance (1906)
- Hindustan Co-operatives (1907)
- Indian Mercantile
- General Assurance
- Swadeshi Life (later Bombay Life)

Life Insurance Corporation of India (LIC) is the largest insurance group and investment company in India. It's state-owned where Government of India has 100% stake. LIC also funds close to 24.6% of the Indian Government's expenses. It has assets estimated of ₹ 13.25 trillion. It was founded in 1956 with the merger of 243 insurance companies and provident societies.

Apart from offering life insurance policies, they also offer underwriting and consulting services. When a person or an organization buys an insurance policy from the insurance company, he not only buys a policy, but along with it the assistance and advice of the agent, the prestige of the insurance company and the facilities of claims and compensation.

5.13 RURAL MARKETING

Rural marketing involves the process of developing, pricing, promoting, distributing rural specific product and a service leading to exchange between rural and urban market which satisfies consumer demand and also achieves organizational objectives. It is a two-way marketing process wherein the transactions can be:

1. **Urban to Rural:** It involves the selling of products and services by urban marketers in rural areas. These include: pesticides, FMCG products, consumer durables, etc.
2. **Rural to Urban:** Here, a rural producer (involved in agriculture) sells his produce in urban market. This may not be direct. There generally are middlemen, agencies, government co-operatives, etc., who sell fruits, vegetables, grains, pulses and others.
3. **Rural to Rural:** These include selling of agricultural tools, cattle, carts and others to another village in its proximity.

The rural market of India started showing its potential in the 1960s. The 1970s and 1980s witnessed its steady development and, there are clear indications that the 21st century is going to see its full blossoming.

5.14 MEANING AND DEFINITION

Rural marketing can be defined as a function which manages all those activities in asserting, stimulating and converting the purchasing power of rural people into an effective demand for specific products and services and thereby achieving the goals of the organization.

"Rural marketing can be seen as a function which manages all those activities involved in assessing, stimulating and converting the purchasing power into an effective demand for specific products and services, and moving them to the people in rural area to create satisfaction and a standard of living for them and thereby achieves the goals of the organization".

5.15 CHARACTERISTICS OF RURAL MARKETING

Rural marketing represents the emergent distinct activity of attracting and serving rural markets to fulfill the needs and wants of persons, households and occupations of rural people.

1. **Large, Diverse and Scattered Market:** Rural marketing in India is large, and scattered into a number of regions. There may be less number of shops available to market products.
2. **Major Income of Rural Consumers is from Agriculture:** Rural prosperity is tied with agricultural prosperity. In the event of crop failure, the incomes of masses are directly affected.
3. **Heterogeneity:** Rural markets comprise heterogeneous population. Various tiers are present depending on the incomes like big landlords, traders, small farmers, marginal farmers, labourers, artisans. State-wise variations exist in rural demographics like literacy (Kerala 90%, Bihar 44%), population below poverty line (Odisha 48%, Punjab 6%), etc.
4. **Standard of Living and Rising Disposable Income of the Rural Customers:** It is known that majority of the rural population lives below poverty line and has low literacy rate, low savings, etc. Today the rural customers spend money to get value and are aware of what's happening around them.

5. **Collective Decision-Making:** In rural markets decision-making process is collective. Purchase process-influencer, decider and buyer, one who pays can all be different. So marketers must address brand message at several levels. Rural youth brings brand knowledge to households.
6. **Diverse Socio-Economic Background:** Due to differences in geographical areas and uneven land fertility, rural people have different socio-economic background, which ultimately affects the rural markets.
7. **Infrastructure Facilities:** The infrastructure facilities like warehouses, communication systems and financial facilities are inadequate in rural areas. Physical distribution is a challenge to marketers who have found innovative ways to market their products.

5.16 SCOPE OF RURAL MARKETING

The liberalization and globalization of the Indian economy have given an added advantage to sophisticated production, proliferation and mass distribution of goods and services.

1. **Large Population:** According to 2011 census, rural population is 72% of total population and it is scattered over a wide range of geographic area.
2. **Rising Rural Prosperity:** Average income level has improved due to modern farming practices, contract farming industrialization, migration to urban areas, etc.
3. **Growth in Consumption:** There is a growth in purchasing power of rural consumers. The average per capita household expenditure is ₹ 382/-.
4. **Change in Lifestyle:** Lifestyle of rural consumer changed considerably.
5. **Market Growth Rate Higher than Urban:** The growth rate of fast moving consumer goods market and durable market is high in rural areas. The rural market share is more than 50% for products like cooking oil, hair oil, washing powder etc.
6. **Life Cycle Advantage:** The products which have attained the maturity stage in urban market are still in growth stage in rural market.
7. **Rural Marketing is not Expensive:** To promote consumer durable inside a state costs Rupees 1 crore while in urban areas it will costs in millions.

5.17 IMPORTANCE OF RURAL MARKETING

Today every sales executive would prefer to serve in rural markets. A number of factors have been recognized as responsible for the rural market boom. Some of them are:

1. **Large Market:** Increase in population, and hence increase in demand. Approximately 75% of India's population resides around 6,38,365 villages in rural areas. The Indian rural consumers live in 6,00,000 villages across the country and they account for over 70% of population

of the country. For several product categories, rural markets account for over 60% of the national demand.

2. **Socio-economic Changes in Rural India:** The socio-economic changes can be linked to an increase in productivity in the farm sector. Following agricultural revolutions, green or white, the yield per acre or animal increased substantially. This is largely due to the application of technology to the farm sector and modern farming methods. Cooperatives in India helped the farmer to increase farm productivity.
3. **Market Growth:** Urban markets are becoming competitive and even getting saturated. Consider the case of toiletries, packaged tea, dry cell batteries and even the electronic entertainment products. The demand has reached the saturation point. In such situation one has to find a strategy to find a new market for the existing products. Rural markets are the new markets which are opening up for most of these packaged goods.
4. **Higher Purchasing Capacity:** According to National Council for Applied Economic Research (NCAER) study, there are many middle income and above households in the rural areas, as there are in the urban areas. There are almost twice as many lower middle income households in rural areas as in the urban areas. Because of this purchasing power of rural people is on the rise.
5. **Changes in the Buying Behaviour:** Changes in the land tenure system are causing a structural change in the ownership pattern and consequent changes in the buying behaviour. The general rise in the level of prosperity appears to have resulted in two dominant shifts in the rural consumption of consumer durables by almost all segments of rural consumers, and the obvious preference for branded goods as compared to non-branded goods of rural consumers.

5.18 DISTINCTION BETWEEN RURAL AND URBAN MARKETING

There is significant difference between rural and urban marketing:

Basis	*Urban Marketing*	*Rural Marketing*
Infrastructure	The facilities like electricity, Internet, roads and rail transportation and buildings, educational institutions, financial institutions, communication, and organized market, other facilities get implemented soon and availability is also there.	In rural market everything takes a good amount of time.
Competition	In urban market brand plays a great role.	In rural markets it is always the channel partner and retailer who plays a vital role.

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Customers	In an urban market customers are more aware, standards of living are higher and customers are more comfort demanding.	On the other hand, customers are less aware in rural markets, standards of living are poor and customers are less demanding.
Philosophy	Marketing and relationship market.	Marketing and social concepts development marketing.
Advertising	Print, audio, visual media outdoors, exhibition, etc.	Radio, T.V. and print media.
Personal Selling	Door-to-door	Occasionally
Sales Promotion	Contest, gifts, price discount	Gift and price discount.
Demand	High	Low

5.19 PROBLEMS OF RURAL MARKETING

An efficient marketing system can provide better prices to producers and improve the availability of competitively priced produce to consumers. In some cases new markets or improvements to existing markets in rural areas can help overcome many of the marketing problems faced. However, before considering whether to carry out improvements to markets and what type of improvements to introduce, it is important to be sure that markets, or lack of them, represent the main problem. Other causes of inefficient marketing could be:

1. **Poor Infrastructural Facilities:** Infrastructural facilities like roads, warehouses, power etc., are inadequate in rural areas. Infrastructural costs are very high and impact adversely in the rural market activities. Transportation is an important aspect in the process of movement of products from urban production centres to remote villages. The transportation infrastructure is extremely poor in rural India. Due to this reason, most of the villages are not accessible to the marketing man.
2. **Under Developed Market:** Rural markets are not developing because of inadequate banking and credit facilities. Rural market needs banks to enable remittance, to transact on credit basis and to obtained credit support from the bank. At present every 48th village in India only has bank.
3. **Improper Communication Facilities:** Most villages even today largely depend on telegrams and phones for their communication needs, print media and visual media, etc. It has been estimated that all organized media in the country put together can reach only 30 per cent of the rural population of India. The print media covers only 18 per cent of the rural population.
4. **Villages are Small and Scattered:** In our country, the village structure itself causes many problems. Most of the villages are small and scattered. India is vast and is approximately 3,214 km from North to South and 2,933 km from East to West. Rural market consists of approximately 75 crore rural consumers spread across. The scattered

nature of the villages increases distribution costs, and their small size affects economic viability of establishing distribution points.

5. **Low Per Capita Income:** Most farmers have small lands and many villages are drought prone. This results in low per capita income. Low per capita income results in low consumption pattern as compared to the urban population. The marketers face challenges in rural marketing to decide about quantities, frequency of distributions, package size etc., due to the low per capita income of the rural people.
6. **Many Languages:** India is a country of many languages. The number of languages and dialects vary widely from state to state, region to region and probably from district to district. Language becomes a barrier in effective communication in the marketing efforts. The languages vary from state to state, place to place, district to district. There are now 18 scheduled languages.
7. **Seasonal Demand:** The main problem of rural marketing is seasonal demand in rural areas, because 75 per cent of rural income is also seasonal. For example, the demand for consumer goods will be high during the peak crop harvesting period, because this is the time at which the rural people have substantially high cash flow. Rural marketing depends upon the demand of rural people and demand depends upon income and consumer behaviour.

Besides, for the purpose of optimally exploiting the opportunities at hand in rural areas, the marketers have to cope up with various challenges before them like educating the rural consumers about the requirements and uses of the products. The marketers should also make the rural consumers understand how their product is different from similar products offered by competitors. This leads to better involvement on part of buyer and fosters long lasting relationship between consumer and company. Trust is another key factor which has to be properly dealt with. Thus, one of the biggest challenges to be met out is to create trust among the rural folks regarding the products.

5.20 STRATEGIES IN RURAL MARKETING

Considering the environment in which the rural market operates and other related problems, it is possible to evolve effective strategies for rural marketing. The strategies discussed here though not universally applicable depend upon product characteristics, the targeted segment of the rural market, the choice of the rural area and its economic condition. Rural markets and rural marketing involve a number of strategies, which include:

1. **Product Strategies:** Meaningful product strategies for rural market and rural consumers are discussed here.

   (*i*) **Small unit and low priced packing:** Larger pack sizes are out of reach for rural consumers because of their price and usage habits. This method has been tested by other products like shampoos, biscuits, pickles, washing powder, cosmetic items, etc. In the strategy of keeping the low priced packet the objective is to keep the price low so that the entire rural community can try. This may

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not be possible in all types of products, but wherever this can be resorted to, the market is bound to expand.

(*ii*) **New product designs:** A close observation of rural household items indicates the importance of redesigning or modifying the products. The manufacturing and marketing man can think in terms of new product designs specially meant for rural areas keeping their lifestyles in view.

(*iii*) **Sturdy products:** Sturdiness of a product either in terms of weight or appearance is an important fact for rural consumers. The product meant for rural areas should be sturdy enough to stand rough handling and storage. People in rural areas like bright flashy colours such as red, yellow, green etc., and feel that products with such colours are sturdy but they are more concerned with the utility of the item also.

(*iv*) **Brand name:** The rural consumers are more concerned with the utility of the products. The brand name awareness in the rural areas is fairly high. A brand name and/or logo is very essential for rural consumers for it can be easily remembered.

2. **Pricing Strategies:** Pricing strategies are very much linked to product strategies. Some of these strategies are mentioned as follows:

(*i*) **Low cost/cheap products:** This is a common strategy being adopted widely by many manufacturing and marketing men. Price can be kept low by small unit packing.

(*ii*) **Avoid sophisticated packing:** Simple package can be adopted which can bring down the cost as it is presently being done in the case of biscuits. Some innovation in packing technology is very necessary for rural markets.

(*iii*) **Refill packs/reusable packaging:** Such measures have a significant impact on the rural market. By such technology also the price can be reduced. In addition the packaging material used should preferably lend itself for reuse in rural areas.

3. **Distribution Strategies:** The distribution strategies that are specifically designed for rural areas are: through co-operative societies, public distribution system, multi-purpose distribution centres, distribution up to feeder markets/*mandi* towns shanties/*hat* / *jathras* / *melas*, agricultural input dealers etc. Experience has shown that the cooperatives have played a useful role in improving the marketing services in the regulated markets. The fact, however, remains that these societies command only a small share of the total markets and do not present any challenge to the private trade in most places.

4. **Promotion Strategies:** Mass media is a powerful medium of communication. It could be television, cinema, print media, radio and so on. The other means of mass media available are hoardings/ wall paintings, shanties/*hats* / *melas*, non-price competition, special campaigns, sales promotion activity etc. Besides these, other mass media are hand bills and booklets, posters, stickers, banners of the schemes etc. For disseminating the information, related to agricultural and other rural industry products, the government should circulate

pamphlets either to panchayati raj office or to schools where it can be documented for the reference.

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SUMMARY

- Prior to the time of the Industrial Revolution, virtually all trade and exchange processes involved some personal contact between suppliers and their customers.
- The most comprehensive definition of service marketing is that it is essentially intangible and does not result in the ownership of anything.
- Marketing is the process of persuading potential consumers to buy the organization's product or service.
- Services are intangible and do not have a physical existence. Hence, services cannot be touched, held, tasted or smelt.
- Services cannot be stored, saved, returned or resold once they have been used. Once rendered to a customer the service is completely consumed and cannot be delivered to another customer.
- Services are produced and consumed at the same time, unlike goods which may be manufactured, then stored for later distribution.
- The service marketing mix consists of 7Ps as compared to the 4Ps of a product marketing mix.
- Banking industry is one of the most important service industries which touches the lives of millions of people. Its service is unique both in social and economic points of view of a nation.
- A Marketing Information System (MIS) is a set of procedures and methods designed to generate, analyze, disseminate, and store anticipated marketing decision information on a regular and continuous basis.
- Transport refers to the activity that facilitates physical movement of goods as well as individuals from one place to another.
- Railways are a service industry, hence the railway employees responsible for delivery of service are conspicuous to users and indeed are directly accountable to users for service quality.
- Transport volumes in India remain much less than those in the developed countries. India has still to go a long way in strengthening its transportation network.
- The term 'Insurance Marketing' refers to the marketing of insurance services with the aim of creating customer and generating profit through customer satisfaction.
- Rural marketing involves the process of developing, pricing, promoting, distributing rural specific product and a service leading to exchange between rural and urban market which satisfies consumer demand and also achieves organizational objectives.
- The liberalization and globalization of the Indian economy have given an added advantage to sophisticated production, proliferation and mass distribution of goods and services.

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- Today every sales executive would prefer to serve in rural markets. A number of factors have been recognized as responsible for the rural market boom.
- An efficient marketing system can provide better prices to producers and improve the availability of competitively priced produce to consumers.

REVIEW QUESTIONS

1. What is marketing services? Explain the characteristics of services.
2. Explain the different elements of marketing mix and services marketing.
3. What is bank marketing?
4. What is marketing information system?
5. Describe transport marketing.
6. Define the marketing in Indian railways.
7. Define insurance marketing. Explain Life Insurance Corporation of India.
8. What is rural marketing? Define the characteristics of rural marketing.
9. Explain the scope of rural marketing.
10. Explain the importance of rural marketing.
11. Distinguish between rural and urban marketing.
12. What are the problems of rural marketing?
13. Explain the strategies in rural marketing.

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