M.B.A IInd Semester

Course - 205

Marketing Management

LESSONS 1 TO 12

INTERNATIONAL CENTRE FOR DISTANCE EDUCATION AND OPEN LEARNING HIMACHAL PRADESH UNIVERSITY, GYAN PATH, SUMMERHILL, SHIMLA-171005

CONTENTS

Syllabus
Master of Business Administration (M.B.A.) 2nd Semester
205: Marketing Management

Objective

The objective of this course is to help the participants to understand the conceptual framework of marketing management. It also intends to exposes the participants to the various decisions the marketing managers in India are required to take under various environmental conditions.

Course Contents:

UNIT-I

Nature and Scope of Marketing, Corporate orientations towards the marketplace. The Marketing environment and environment scanning marketing information system and Marketing Research.

UNIT-II

Understanding Consumer and Industrial Markets, Market Segmentation, Targeting and Positioning.

UNIT-III

Product decision product mix product life cycle, new product development, branding and packaging decisions, Pricing methods and strategies.

UNIT-IV

Promotion decisions-promotion mix, advertising, sale promotion, publicity and personal selling Channel Management-Selection, Co-operation and conflict management, vertical marketing-implementation and system.

UNIT-V

Organizing and implementing marketing in the organization. Evaluation and control of marketing efforts. New issues in marketing-Globalization, Consumerism. Green Marketing, Legal issues.

SUGGESTED READINGS:

1. Enis, B.M. Marketing Classis : A Selection of Influential Articles, New York, McGraw Hill, 1991.
2. Kotler, Philip and Armstrong, G. Principles of Marketing. New Delhi, Prentice Hall of India, 1997.
3. Kotler, Philip Marketing Management: Analysis, Planning, Implementation and Control, New Delhi, Prentice Hall of India, 1994.
4. Ramaswamy, V.S. and Namakumari, S. Marketing Management: Planning Control New Delhi, MacMillan, 1990.
5. Ramaswamy, V.S. and namakumari, S Marketing Management: Planning Control New Delhi Macmillan, 1990.
6. Station, William. J Fundamentals of Marketing, New York, McGraw Hill, 1994.
7. Neelamegham, S. Marketing in India. Cases and Readings New Delhi, Vikas, 1988.

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Lesson No. 1
Marketing – Nature & Scopes, Corporate Orientation towards Marketing

Structure

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1.0 Introduction

In the increasingly competitive world of today, characterized with the buyers getting more and more demanding, the importance of marketing can hardly be underestimated. Business has come a long way from being a sellers' dominated to the present-day market-dominated situation. The survival of all enterprises, irrespective of whether they are profit-oriented or not, depends to a great extent on their marketing skills.

1.1 Learning Objectives

After studying this lesson, you will familiarize with following concepts:

- Marketing: Conceptual Framework
- Origin of Marketing

- Nature of Marketing
- Development of Marketing Theory
    - o The Exchange Concept
    - o The Production Concept
    - o The Product Concept
    - o The Sales Concept
    - o The Marketing Concept
    - o The Societal Marketing Concept
    - o Recent Concepts
- Social and Ethical Aspects of Marketing
- Legal Aspects of Marketing

1.2 Presentation of Contents

1.2.1 Marketing: Conceptual Framework

There are many reasons behind the increased thrust on marketing-orientation. The customers of today are more informed and aware. They are willing to spend extra time in searching for the value offering. The availability of a large number of substitutes – both direct and indirect, gives more choice to the customers. Unless an enterprise is able to deliver higher value to its customers, it is unlikely to survive and compete in the modern world. It must be noted that marketing is not the activity done by the business enterprises alone. Even non-business enterprises such as Indian Army, Universities, libraries, hospitals and even religious institutions engage into the marketing activities, although their reasons might not be profit maximization.

The above discussion emphasized the importance of marketing in the present times, but there was never a time when it was not an important activity. Marketing has remained the line function of an organization, although, with the passage of time, it has changed in both form and intensity. There has been a change in the concept and orientation of marketing, depending upon the business environment in which it was operating.

1.2.2 Origin of marketing

The origin of marketing can be divided into the following stages:

(i) Barter Stage

Barter means the exchange of goods and services without the se of money. In the ancient times, the use of money was quite uncommon, as the same had not been introduced in many parts of the world. In those days, people exchanged their goods and services with those produced/offered by others. For example, in villages the potter gives the mud utensils to the farmers in return of grain. This system of exchange was possible in a close market place where the buyers and sellers could come in close contact with each other. Such a system continue to function even after the introduction of money. In India, it is still practiced in some form in remote villages and tribal areas. However, there is no place for such a system in complex economic structure of today.

(ii) Monetary Exchange

In this stage, money became the medium of exchange of goods and services. All the goods and services were measured in the form of their monetary value, thus making price as the mechanism of exchange process. In the early days, upto the onset of industrial revolution, the exchange process continued to be between the buyers and sellers coming in close contact with each other. The business travelers did travel far and wide, but they came in direct contact with the buyers. The scale of economies was quite small.

(iii) Industrial Stage

The business processes never remained the same with the onset of the industrial revolution, which began in the seventeenth century in England The process of setting up of large-scale industries began and there was an abundance of goods and services. Since the production was done at large scale, the business firms achieved economies of scale. However, their produce was far in excess of what could be consumed locally. They had to look for the markets in the area, far away. This started the process of marketing. In its early form, marketing was synonymous with distribution. The number of buyers was large and that of the producers was small. Demand far exceeded the supply. Hence, marketers prime job was availability of goods and services.

(iv) Competition age

There has never existed any time when there was no competition among the groups of individuals. However, as the industrial revolution matured, the extent of the competition has increased manifold and the firms had to make a lot of efforts of persuade their customers to buy their product. Marketing became the process of delivering higher value to the customers. The centrality of the customers was realized and the products were made according to their specific needs. In the present times, there are many forces driving competition among the firms. The most important is the trend towards a free-market economy where market forces determine the destiny of the markets. Augmenting the same are the technological advances, particularly those in information technology and the setting up of the world bodies such as the WTO etc.

1.2.3 Nature of marketing

The nature of marketing basically defines whether marketing is an art or a science. This discussion has become meaningless in the present times because it has been well established that it is both an art as well as a science. The handling of marketing responsibilities calls for a diversity of human talents. There responsibilities require creative personnel who possess the personality traits to do their job effectively. They have to be effective, creative and artistic in dealing with the customers. They need strong analytical capabilities to fulfill the demanding nature of job. These aspects make the marketing an art. Supporting the same is the creative functions such as advertising, promotion etc.

However, all creativity cannot be effective without the active support of science. The very process of marketing begins with marketing research, which is a scientific process. Marketing activities need the support of technology. Internet, cable and satellite television are actively supporting the marketing activities of the companies. These make the job of a marketer compatible with the scientific gadgets and tools, and also with the scientific processes. The degree of penetration of technology in our everyday lives has made the scientific paradigm an inseparable part of human life. Today, marketing has a well-developed body of knowledge, being actively enriched with quality research, which strengthens its scientific nature.

To sum up, marketing requires creativity, an artistic trait, and the active support of the developments in science and technology.

1.2.4 Development of marketing theory

Marketing, as a theory has been changing, keeping pace with the socio-economic conditions and the orientation of the business. As a business function, marketing has been acquiring different forms and the same has been looked upon from different perspectives. Different concepts of marketing have emerged, each highlighting a distinct philosophy. Some of the marketing concepts are:

1.2.4.1 The exchange concept

1.2.4.2 The production concept

1.2.4.3 The product concept

1.2.4.4 The sales concept

1.2.4.5 The marketing concept

1.2.4.6 The societal marketing concept

1.2.4.7 Recent concepts

1.2.4.1 The Exchange Concept

In the evolutionary stages, barter was the mechanism of all economic transactions. Hence, this was the first concept of marketing to develop. However, its inadequacy has already been explained earlier and it is no longer able to explain the present day complexities.

It may be cautioned that barter, as a means of economic activity, is not totally redundant even today. At macro level, nations and firms exchange commodities and services. However, at micro level, its application is confined to primitive economies, being practiced in certain remote quarters of the society.

1.4.2.2 The Production Concept

At the onset of industrial revolution, large industries were set up in Europe and their prime thrust of was on mass production of goods. This enabled them to reap economies of scale and thus become a low cost producer. In those days, there were fewer manufacturers and more consumers. Hence, there was no problem of marketing of goods. Marketing essentially was the ac of rationing and distribution of goods to the consumers. The advocates of production concept believed that the firms should focus their activities on production of goods only so that they are able to reap the economies of scale and remain cost competitive and earn high profits. They believed that by low cost of products, customers would buy them automatically.

This concept was very relevant in the early days. However, in the present times of free-market economy, it is not enough to persuade the customers to buy the goods and services. In the present times, there are more producers and limiter buyers. The buyers of today are much more informed and carefully weigh the costs and benefits of each product offering before buying the same. Low cost producers do not enjoy the competitive advantage for long. The price war between the companies leads to an unhealthy competition and reduces their profits. Hence, companies have realized that mass production of goods is not the solution to their business problems. They need to do much more to satisfy the customers.

Some of the examples of the companies following production concept are Nirma (detergent powder), Maruti (800 cc car), Akai (televisions), Elle 18 (cosmetics) etc. These companies compete on price and sell large volumes. Their profits come from large volumes sold and not the high margins. However, in the same markets, premium brands also sell and earn even higher profits, with much less effort. This forces the marketers to rethink their strategies and we find even these manufacturers are beginning to follow other marketing concepts.

1.2.4.3 The Product Concept

The product concept is advancement over production concept. The followers of this concept uphold that the product should remain the prime focus of all business activities. The managers should concentrate on making the product of the best quality and the customers would automatically buy the same. Producing a premium quality product and charging a price premium from the customers can offset the low-cost advantage.

The companies following this concept invest heavily in research and development and produce exclusive products. They become the first companies to launch the products into the market and are able to charge price premium because they have no competition in the early stages. Some of the companies following this concept are Mercedes Benz, Nokia, Sony, Revlon, and Nike etc. They have very strong brands and their products have exclusivity of features and quality.

This concept is very useful to increase the profits of the companies. However, the major limitation of this concept is that it ignores the customers. The quality features contained in a product must be according to the requirements of the customers. The marketers often make the mistake of superimposing their ideas on them. This can reduce the acceptability of the products by the market. Research has shown that over 70% of the new innovations launched in the markets end up as a failure. This happens because the marketers do not take the customer into confidence. Another major limitation of this product is that there is a high risk of the product being copied by a low cost producer, thus eroding the competitive advantage for the company.

Many companies keep the pace of innovation so fast that the competitors find it difficult to keep pace with them. For example, Intel and other big manufacturers of computer components launch upgraded versions of the products at a very fast pace and charge a premium price. As soon the competitors launch their products, they leave that product and launch an upgraded version. However, this immense investment oriented business policy is possible only in high technology sectors.

1.2.4.4 The Sales Concept

As the competition became intense, the marketers found that the customers do not purchase the products on their own. They need to be convinced or persuaded to make the purchases. The advocates of this concept believe that the customers are very conservative in their decision-making and when left on their own, they are unlikely to purchase anything until it is a necessity. So, the marketers should try their best to persuade the customers to make purchases. This concept led to the designing of intense sales promotion programmes, heavy advertisements, incentives, gift schemes, easy payment facilities and lots of other such schemes. The intense selling activity not only helped in securing the customers, but also helped in stimulating the demand. This concept of marketing is very useful in the markets with intense competition.

A believer of this concept would uphold that if someone is able to sell a comb to a bald person, or a refrigerator to an Eskimo, then he is an excellent marketer. However, such an opportunist and short-term approach to marketing is unlikely to extend a long-term standing into the market. Such an approach can confuse the customers once, but it will erode the customer confidence. A customer shall stop buying the products, which do not satisfy his needs. Hence, selling is a short-term measure and not a strategy for marketing.

1.2.4.5 The Marketing Concept

The marketing concept is an improvement over the earlier concepts as it starts from the customers and continues to revolve around the customers. The entire marketing activity must have a singe-minded aim to satisfy the customer needs, only then, can the gaps between the manufacturers and the customers be reduced to a minimum. The whole organization must be customer oriented. The products should be made keeping in mind the needs of the customers. The price of the products should be within the reach of the customers. The sales promotion should give a genuine incentive to the customers. The distribution of the company should be such that the customer does not have to spend too much time and effort to acquire the product. Such a customer-driven approach to marketing shall ensure that the product is acceptable to the customers, without having the risk of superimposing the views of the manufacturers, as was in the case of product concept. This concept drives the marketing department of a company to achieve the organizational goals.

1.2.4.6 Societal Marketing Concept

This concept upholds that the organization's task is to determine the needs, wants and interests of the target markets and to deliver the desired satisfactions more effectively and efficiently than their competitors in a way that it preserves or enhances the society's well-being. In other words, this concept emphasizes the social responsibility of marketing. In the present times of high economic activity and intense competition, there is a high pressure on the resources, some of which are non-renewable. If we continue to exhaust these resources at this pace, we would deplete our environment to unrepairable levels. The marketing activity should ensure that such an injury is not caused to the resources.

The marketing should not only be responsible towards preserving and conserving the natural resources, but should also preserve the cultural and ethical values of the society. There have been many reports when the manufacturers have caused injury to the society for marginal economic gains. For example, Bhopal gas tragedy, pesticides in soft-drinks, worms in chocolates, use of CFCs, running foreign advertisements and messages in oriental markets. If proper attention is not paid to the society, the business would become a self-destructive endevour, which is not in its own interest. So, upholding the social responsibility should be an issue of prime concern for the marketers.

1.2.4.7 Recents Concepts

In the modern times, newer concepts of marketing are being advocated. These are the value-deliver concept of marketing and relationship marketing. These are explained below:

(a) Value delivery concept

This concept looks upon the marketing as a means to delivering value to their customers. Value is what customers get for what they pay to acquire a product offering. Hence, the entire marketing activity should start from value preposition (i.e. stating what value is to be offered), providing the value and communicating the value. Value preposition, also called as choosing the value, comprises of customer segmentation, market selection and value positioning. This is an improvement over the customer-orientation because is strikes a balance between the *give* and the *get* components of a product offering. The nest stage, i.e. choosing the value comprises of the activities such as product/service development, pricing, sourcing, making, delivering and servicing the value offering. This refers to the operational aspects of value delivery. The nest stage is communicating the value, which comprises of the activities such as sales management, sales promotion and advertising.

By maintaining a close focus on value, this concept ensures that the customers get the best and at the same time, the manufacturer/marketers is able to retain a reasonable share of the value.

(b) Relationship Marketing

Marketing has matured from being a bridge between a manufacturer and the customer. Rather, the process of integration has begun, in which, the companies are striving to make the customers a part of their marketing activities. They develop long-term relationships with them and not confine to a transactional profitability approach.

1.2.5 Social and ethical aspects of marketing

As has been discussed earlier, marketing is a part of the social system it must ensure that all the stakeholders get a reasonable benefit of the economic activity. No doubt that the shareholders are the real owners of the business and the marketing has a sole responsibility towards them, but other participants such as the employees, customers, government, publics etc. cannot be ignored. The behaviour of the marketers should maintain a reasonable balance between the conflicting interests of these groups.

Ethical behaviour means conformance to established social standards. The marketers tend to sacrifice societal interests over economic interests. Such behaviour is not desired from them. They must ensure that competition remains healthy and their behaviour does not come in conflict with the established societal norms. It is noteworthy that the established societal norms vary from country to country and from time to time. Still, the marketers must respect the prevalent norms.

1.2.6 Legal aspects of marketing

No civil society exists without the legal system. So, the responsible business must conform to the laws of the land. In India, there exists a very comprehensive legal set-up to regulate the business operations. There are over 50 different acts, which regulate the business operations. Even before independence, the legal system in India was functional and was highly effective. This momentum has been retained and strengthened. The Indian legislature has been particularly active in enacting the laws for regulating various facets of the business. Although the laws cover a wide array of issues, the general objectives of the laws are:

(i) To protect the interests of the consumers.

(ii) To regulate the functioning of business

(iii) To check black marketing.

(iv) To ensure transparency in business transactions.

(v) To generate revenue for the state.

(vi) To develop the local resources.

(vii) To deliver the right products and services to the consumers.

(viii) To safeguard from pornography and other social evils, particularly through the use of IT gadgets and tools.

(ix) To ensure general well being of the society.

However, despite a plethora of laws regulating business, the implementation machinery is full of corruption and laxity. Hence, despite having many laws, the Indian customers are cheated. There is a complete lack of awareness on the part of the consumers also. They do not exert their rights and do not resist being cheated or being exploited. There is a need to educate them and motivate them to exert their rights. The government machinery is doing a good work in educating the consumers. However, there is a need for strengthening the consumer moment in India. The NGOs and other voluntary organizations can help in achieving a higher degree of compliance of the laws.

1.3 Self-Assessment Questions:

Q1: What is marketing?

Q2: Explain features of marketing?

Q3: Write short note on production concept?

Q4: Describe briefly societal marketing concept?

Q5: What is meant by product concept?

Q6: Explain the term legal aspect of marketing?

1.4 Summary:

Marketing helps in developing economic resources. Since a business firm generates revenue and earns profits by carrying out marketing functions, it will engage in exploiting more and more resources of the country to earn higher profits. Marketing determines the needs of the customers and sets out the pattern of production of goods and services necessary to satisfy their needs.

1.5 Glossary

- **Marketing:** It is a total system designed to plan , price, promote and distribute want satisfying products and services for target markets.
- **Nature:** Marketing is integrated, customer-oriented system, part of environment, creative, goal-oriented, art as well as science, pervasive.
- **Marketing Concept:** It is a philosophy, consumer-oriented, integrated approach, involves marketing research and aims at profits through consumer satisfaction.
- **Marketing and Selling:** The two differ in scope, focus, beginning and end, orientation and demand creation. Marketing is wider than selling.
- **Marketing Mix:** A systematic and integrated combination of product, price, place (distribution) and promotion.
- **Marketing Management Process:** Analysis, planning, implementation and control are the steps in this process.
- **Marketing Functions:** Exchange, Physical supply and Facilitating functions.

1.6 Answer to Self-Check Questions:

Q1: Refer to 1.2.1

Q2: Refer to 1.2.3

Q3: Refer to 1.2.4.2

Q4: Refer to 1.2.4.6

Q5: Refer to 1.2.4.3

Q6: Refer to 1.2.6

1.7 Terminal Questions:

1. State the nature of Marketing. How does marketing satisfy the wants of people?
2. "The present-day marketing is consumer-oriented" Explain the statement with the help of suitable examples?
3. Explain marketing philosophies or concepts that have evolved after the advent of modern factory system"?
4. How can you explain the relevance of marketing in the present day environment?

1.8 Suggested Readings:

1. Saxena, Rajan: Marketing Management.
2. Kotler,Philip: Marketing Management, New Delhi: Prentice Hall of India.
3. Stanton, William J. Michael J.Etzel and Bruce J. Walker: Fundamentals of marketing.

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Lesson No. 2
Marketing Environment; Environment Scanning

Structure

2.0 Introduction

In today's world, the environment in which the business operates is much more complex and uncertain than it was before. In today's world, strategy formulation entails a careful analysis of the business environment and acting upon it. The essence of any successful business strategy is its environmental orientation. With increasing pressure from globalization, the firms have to be more competitive and quick in their responses. Mere understanding of the customer requirements is not enough. A company has to go beyond its internal strategies, understanding customer requirements.

What makes a business strategy successful in one market and a failure in another market is because of the difference in the firms' capabilities to understand and respond to the business environment.

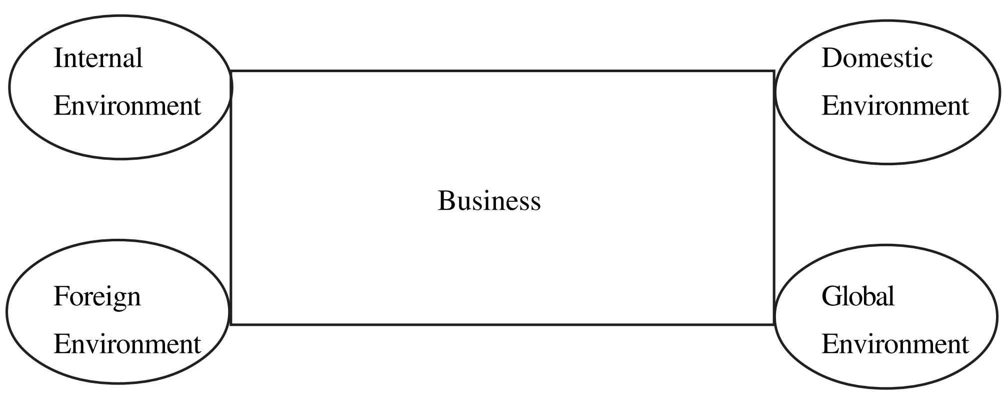

Figure 1: Components of business environment

2.1 Learning Objectives:

After studying this lesson, you will familiarize with following concepts:

- Components of international business environment
- Domestic environment
- Foreign environment
- Global environment

2.2 Presentation of contents:

2.2.1 Components of international business environment

As a firm starts its business across its national boundaries, it encounters three different sets of external environments:

2.2.1.1 Domestic environment

2.2.1.2 Foreign environment

2.2.1.3 Global environment

These environmental components can be represented in the form of the diagram shown above

(A) Internal (Controllable) environment

The internal environment of a firm decides its competence to do business in foreign countries. It is also called as the controllable component of international business environment because the company can control it to a great extent. Some of the components of internal environment are:

a) Mission

The firm's mission decides the course of action that a firm will follow in order to survive and grow. In the present times, the firms develop a few core competences and develop their entire global business plan on its basis. They do not dissipate their resources by venturing into too many businesses, but concentrate on their core strengths and do not mind outsourcing the rest.

b) Strategy

The mission translates into more operational paradigm in the form of strategy, which operates at various levels. Firms often develop core competences, but only a few are able to convert it into successful business. The classical case of Cannon vs Xerox is an example. Both the companies started by developing core competence in optical scanning, but over a period of time, Xerox outsmarted the former by its superior strategy. Cannon, at one time, had practically driven Xerox even out of its home country i.e. USA. But, Xerox developed a very comprehensive marketing and customer service strategy and regained its leadership in the photocopier industry.

c) Operations

The operations refer to the operating competence of a company i.e., how well it is able to undertake the work at the ground level. It is that paradigm of the strategy, which can be implemented. A firm's cost leadership, its marketing strategy, its production efficiency and the nature of its human resources have a significant impact on the success of a company.

Although, the above components are called as the controllable components of business environment, but in a strict sense, they might not remain controllable at all times. The external uncontrollable components can become too powerful and can even influence the strategy of a company. For example, when Coke and Pepsi faced a problem because of the presence of pesticides, their strategies had to be redrafted because of a sudden development in the external environment.

(B) External (Uncontrollable) environment

The external environment, also called as uncontrollable has been divided into two components, namely foreign and international. The foreign environment comprises of the environmental conditions prevailing in the host country, while the international environment refers to the overall international circumstances, which influence the conduct of business. In practice, such a division is not followed strictly and the external environment is studied as one component. Some of the sub-components of the external environment are:

Economic environment

Political environment

Legal and regulatory environment

Cultural environment

Demographic environment

a) Economic environment

The economic environment is a major determinant of market potential and opportunity. Since the single most important indicator of market potential is income, the first step in determining the potential of a country or a region is to identify the total, and even more significantly, the per capita income. In general, as peoples' income rises, they spend less on the necessities and more on the discretionary purchases. One of the ways of determining market potential for a product is to evaluate product saturation levels. In general, it is appropriate to compare the saturation levels of countries or of consumer segments with similar income levels. Countries and markets go through typical stages of market development. Although, development is on a continuum, it is possible to identify distinct stages and formulate general estimates about the type of the market that will be found in a country or a market at a particular stage of development. In advanced countries, for example, more than half the GNP is accounted for by the services as opposed to goods. In under-developed countries, the proportion of services is very low.

Some of the typical characteristics of economic environment are:

⇒ Changes in world economy

Over the years, several changes have taken place in the world economy, which have changed the very manner of doing business. Keegan has identified the five most significant changes in the world economy, which have occurred in the past decades, and will influence the conduct of business. These changes are:

Capital movement rather than trade have become the driving forces of world economy.

The capital movement represents the attractiveness of a country for investment. For example, by its favourable pro-business policies, China has attracted the maximum investment. In no time, China is likely to emerge as the manufacturing base for the whole world. Although, many country are ahead of China in terms of trade, but they feel the threat to their economy because of a sudden increase in the economic potential of China, arising because of huge foreign investment.

b) Production has become uncoupled from employment

Although, the Government of India claimed to have touched 8% growth in the GDP, the growth is a jobless growth. The increase in productivity does not translate into more jobs for the people. Such a situation is not good for the economies in the long run because a large section of the society will be siphoned out of the economic activities.

c) Primary products have become uncoupled from the industrial economy

In the industrial economy, focus is more on innovation and value addition and not mere value addition. Michael Porter has stated in his book, "The Competitive Advantage of Nations," that as an economy progresses, it is driven by the factors of production, namely land, labour, capital and management. However, after one stage, it stops getting leverage out of mere factors of production. It becomes a wealth driven economy. Here, wealth begets more wealth. However, in long run, such a strategy is not going to deliver results. If an economy aspires to grow further, it has to become an innovation driven economy. Thus, primary products cease to the driving forces of the industry. Industry is going in for rapid innovation and thus is aiming at delivering higher value to its customers.

The world economy is in control. The macro economics of nation-states no longer control economic outcomes

Keegan observes a gradual separation between economics and politics, although the shift is very subtle. The economy is in the control of the market forces because more and more governments are opening up and allowing business to work freely.

The 75-year contest between capitalism and socialism is over. The clear success of the capitalist system over the communist centrally controlled model has led to the collapse of communism as a model of organization of economic activity and as an ideology

By the above remarks, it is clear that the world economy is heading for a new world economic order. The leftist forces are not as strong as they were on the yesteryears. The world is no longer a bi-polar world, but is now a multi-polar world with many regional economic groupings and powers. The democracy has shown a definite edge over other systems and is likely to persuade more and more countries to allow free play of the market forces.

⇒ Economic systems

Although, communism is said to have failed, but a socialistic thought does influence the economic decision-making. People feel that the fruits of economic development must pass on the larger sections of the society. Traditionally, the economic systems are classified as capitalist and communist. However, in the present times, a new blend of the two is emerging, as has been very successfully shown by China. German, the home of Karl Marx does hold the socialist philosophy in high esteem and its ideology can be seen in the regulatory framework of the country. Workers have a participation in the decision making process of the companies.

⇒ Stages in market development

Due to unequitable distribution of the wealth, the markets are different stages of development. There are a few (27) countries in the high-income group, while a large number (55 each) lie in the upper middle income group and the lower middle income group countries. There are 42 countries, which have been classified as low-income countries. The extent of economic disparities has increased with the globalisation of trade, as is shown by various reports on human development, released by UNO. The following problems are often encountered as the economic health of a country deteriorates:

- Low industrialization
- High dependence of agriculture
- High birth rates

- Low literacy rates
- Political instability and unrest
- Low education and health levels of people

Such problems influence the purchasing behaviour of people and thus the business prospects in the region.

⇒ Balance of payments

Several poor countries face the situation of adverse balance of payments. In such a situation, the government discourages import and encourages export. The balance of payment situation of a country is an indicator of its economic health. If it is too adverse, there is a likelihood of the default of payment by the host country and thus increasing the business risk.

⇒ Foreign exchange problem

Some countries like India face a unique problem of adverse foreign exchange rate situation, despite having a favourable balance of payments. A strong rupee is discouraging exports and encouraging imports. Similar situation is faced by many countries, which are strongly tied up with the trade in US Dollar. Governments of these countries intervene and regulate the exchange rates. Such unfavourable exchange rates can influence the investment and marketing strategies of the multinational companies.

b) Political environment

As a firm ventures abroad, it has to deal with various countries, each having its own political set up. Some of the components of the political environment are:

i. Types of political systems

By and large, the communist or the socialist form of government is not working in many countries, but the impact of socialism as a philosophy does persist. There are countries like Pakistan, which follow dictatorship style of government, while most countries in Europe and North America follow democracy. Even the democracy has various forms such as the presidential form, as prevalent in USA, or the parliamentary form of government, as in UK and India. Some countries in the Middle East have a typical theist –political set-up, while others are secular countries.

In business, the form of government has a direct impact, because each form of government has its own typical set of policies, programmes and priorities. These have an impact on the regulatory mechanist of the countries and the business has to comply with the laws of the land.

⇒ Political instability

Despite diverse political systems, no system is bad if it works in a stable manner. The biggest problem arises when there is political instability. Some of the examples of political instability are:

- In Italy, over 45 governments changed in 50 years
- Last decade has seen rapid changes of governments in Japan
- India is passing through the ear of coalition governments
- Pakistan had a military coup and then a democracy, controlled by the military dictator
- Afghanistan was under the rule of fundamentalist Taliban and then is heading towards a more democratic set up
- Iraq has seen a change in regime, enforced by America
- There are coups and genocides in Sierra Leone, Ethiopia, Eritrea, Congo and many other African countries

In each of the examples quoted above, we find an element of uncertainty. The forms of government change and so do the nature of doing business with that country. For a firm aspiring to market its products abroad, it has to carefully study the type of the political system and the stability. In countries, which are politically instable, the business takes extra protective measures and restricts its operations to exporting or joint ventures. However, in the countries with high political stability, the business makes direct investments.

China has attracted maximum foreign direct investment because of a stable pro-business attitude of the government. Despite being a socialist state, China has transformed itself to the needs of time and has opened up its economy at a fast rate. On the other hand, the ghost of regulatory set-up of the yesteryears continues to haunt India and we see less investment here.

Even within India, we see lesser investment in the states such as Kerala and West-Bengal because of the leftist parties in power. We find a significant difference in the investment, even within Punjab and Haryana, partially attributed to favourable government policies.

⇒ Political risk

Although, often correlated, political instability and political risk do not go together always. In the first three examples quoted in the above para we find that although the governments changed rapidly in India, Japan and Italy, the basic policies of the government did not change. Business had a sense of security while doing business in these countries. However, the war in Afghanistan and Iraq has had a tremendous impact on the business. Not many companies are taking the initiative of doing business in these countries. They prefer to wait till normalcy returns.

Political risk in more associated with the uncertainty and unpredictability of the political parties in power in a country. Basically, political risk depends on two factors:

(i) The willingness of a government to keep the situation under control.

(ii) The ability of the government to keep the situation under control

The careful analysis of the political system can greatly reduce the associated risks.

⇒ Analysis of political risk

Sundaram and Black have summarized the analysis of political risk in the form of the following points:

Step 1

- Determine the critical economic/business issues relevant to the firm.
- Assess the relative importance of these issues.

Step2

- Determine the relevant political events.
- Determine the probability of occurring.
- Determine the cause and effect relationship.
- Determine the government's ability and willingness to respond.

Step 3

- Determine the initial impact of the probable scenarios.
- Determine the possible responses to the initial impacts.
- Determine the initial and ultimate political risk.

c) Legal and regulatory environment

The marketers must carefully study the legal and regulatory system prevalent in the countries to avoid the situations that might result in conflict, misunderstanding or outright violation of the laws of the foreign country. Some of the important aspects, worth consideration, in the legal and regulatory environment are:

(i) International Law

International law has existed since the sixteenth century, although, it has undergone a change in the form over the years. The international bodies such as UN, WTO and the regional groupings have been instrumental in developing the international rules and regulations. These international laws are ratified by the participating countries and are binding in nature. Hence, the business must understand them correctly to ensure compliance.

(ii) Conflict of laws

While doing business across nations, there can arise situations when the laws of two or more countries can be conflicting. The businessmen must study these laws and take measures to avoid being caught in such a situation. For example, most of the countries of Middle East want that the goods should be dispatched to them only in those ships, which do not go to Israeli ports. They ask for a certificate from the shipping line in this regard. If an exporter ignores this law, he can be in a very difficult situation and can incur heavy losses.

(iii) Freedom of contracts

In developed countries and those which have a very sound legal system, the principles of contract are taken for granted and are strictly enforced by law. However, in some countries, government interferes with these principles and can cause a loss to the businessman. One should be vigilant especially while participating in global tenders or the projects of long gestation periods.

(iv) Patents and Trademarks

Another important issue for a multinational corporation is the protection of its patents, trademarks and the intellectual property. Most companies invest heavily in research and development. However, unscrupulous manufacturers of some developing countries take the advantage of the difference in the patent laws and manufacture a duplicate of the product, causing a heavy loss to the original manufacturer. The companies, which has invested heavily in R&D must analyse these situations and take protective measures. The issue has been addressed by WTO, which has instituted TRIPS (Trade Related Intellectual Property Rights) mechanism to avoid loss to the original manufacturers.

(v) Conflict resolution

It is very difficult to achieve an ideal situation when there is no conflict between the trading partners. Conflicts do happen, but there has to be a sound system of resolution of the conflicts. There are sets of principles laid down for international arbitration. The businessmen must be aware of these and carefully analyse the devotion of the partners towards implementing them.

Besides arbitration, there are alternative mechanisms of dispute resolution developed by international bodies. Some of the international bodies, which have instituted mechanisms for international arbitration, are:

- (ICC) International Chamber of Commerce
- (AAA) American Arbitration Association
- (IACAC) Inter-American Commercial Arbitration Commission

- (ICSID) International Centre of Settlement of Investment Disputes
- Swedish Arbitration Institute
- (UNCITRAL) United Nations Conference on International Trade Law

(vi) Recourse

In case of a legal action, the operation of law can be very lengthy and costly procedure in many countries. If a country engages in long legal disputes in a country, it tarnishes its images, besides incurring losses of time, money and efforts.

(vii) Tariff mechanism

The tariff and taxation structure of the foreign countries must be clear to the business to avoid complications at a later stage. Although, the tariff structures are being standardized across nations, still there exist differences and these must be carefully studied.

(viii) Equity control

Different countries have different laws regarding equity participation of the foreign partner. Some might allow 100% FDI in some sectors, while there might be limits on investment. Some countries make the participation of a domestic partner obligatory. Such different situations must be carefully studied before taking any investment decision.

(ix) Documentation and formalities

While most countries are dismantling the tariff barriers, they are yet to make the procedures more easy and user friendly. It is notable that China's economic success story has a lot to do with the ease of doing business there. There is little red-tapism and most of the regulatory requirements are cleared speedily. On the other hand, business has to run from pillar to post to get approvals and the essential registrations for doing business in India. A thorough knowledge of the prevailing system is essential for success in a foreign country.

d) Cultural environment

Culture is the set of shared values of a society. It encompasses religion, language, customs, traditions and beliefs, tastes and preferences, social stratification, social institutions, buying and consumption habits etc. It has several interfaces where it influences the business. Some of the important interfaces where culture affects business are:

⇒ Culture and Organizational Behaviour

In their book on international management, Hodgetts and Luthans have identified the following points where culture affects organizational behaviour:

(i) Centralized vs decentralized decision-making

In some societies, all-important organizational decisions are made by the top management, while in others, the decisions are diffused throughout the organization. For example, the decision making is highly decentralized in Japanese firms, while it is highly centralized in American firms. There are cultural reasons ascribed to this.

(ii) Safety vs risk

The decision-makers in some organizations are averse to risk, while some take risk and thus make higher gains. The risk bearing behaviour of groups is also a cultural phenomenon. This influences investment decisions at the organizational levels and at the micro level of the consumers, it has its impact on the buying habits. People who take risk buy new and innovative products, while others prefer to stick to tested products.

(iii) Individual vs group reward

In some societies, such as the Japanese, the group reward is valued more than the individual reward, which is the order in he American firms.

(iv) High vs low organizational loyalty

Extrapolating the above point, the societies with strong inter-personal ties have a high degree of organizational loyalty, while those who value individual achievements have low organizational loyalty.

⇒ Culture and perception

Culture has a great bearing on how people view themselves and their surroundings, which influences their behaviour. From the perspective of business, the manner in which the people view the following are important:

(i) Views of themselves

People lay varying degree of importance on self-gratification. For example, in the earlier times, people had a high degree of propensity to show off their splendour. Their consumption and spending behaviour was towards extravaganza. Nowdays, people are hard pressed with resources and are driven by value while purchasing. Business needs to study the general trend of buying and take appropriate decisions.

(ii) Views of others

A trend from 'me society' to 'we society' is being shown by the people at large. People feel the pain of others and offer a helping hand to them. The exploitative authoritative manner of business cannot be successful in today's paradigm.

(iii) Views of organizations

Under the pressure of performance and incentive, people as well as organizations have undergone a deep change in their relationship. Employment is no longer for the whole lifetime and the organization is no longer perceived as the bread-giver. Such a shift in the relationship has its impact on the management of human resources in organizations.

⇒ Subculture

Within the culture, there exist several sub-cultures, which exhibit a similar influence on the business. A subculture is a variant of the culture. While it shares values and beliefs with the culture, it does modify it according to the specific requirements of the group. For example, although people all over India share common values, celebrate common festivals and profess similar religious beliefs, there are several variations at local levels. Hindus of Punjab would follow different rituals from those in Bengal or Madras. The marketer must understand the subculture as well while adapting to the local conditions.

⇒ Culture and business

The culture can have a profound impact on business. The following examples will make this more clear:

(i) Language

Words acquire different meaning when spoken in different languages. So, the marketers have to understand the language of the host country and speak in the words understood by the people there. An offensive marketing campaign can ruin the prospects of selling even the best products. Proper understanding of language can contribute heavily towards the success of any communication and negotiation of business.

(ii) Customs and rituals

The knowledge of customs, rituals, festivals etc. is important because people exhibit typical spending behaviour at different times. For example, hindus go on a shopping spree during the navratras and stop all important purchases during the shradhas. Muslims and Christians make heavy purchases during ramzan and Christmas. A marketer can identify the right marketing opportunities and design the marketing strategy.

(iii) Mannerism and ettiquates

The manners and ettiquettes vary with culture and their knowledge is important while negotiating any deal with the customers.

(iv) Time perspective

People have varying perceptions on time. Some culture are very punctual and work fast and adhere to schedule, while others work with leisure. The time perspective of the target country must be understood and the strategy designed accordingly.

(v) Decision-making

Culture has a profound impact on the decision-making behaviour of the people. While working in the countries where decision making is slow, one must not push for decision and vice versa.

To conclude, understanding of culture is of vital importance for anyone aspiring to be successful in business in foreign lands. Although, the world is becoming global and there is a high degree of cultural diffusion, still, there is a need to adapt to the local environment, of which culture is an important constituent.

e)Demographic environment

Management gurus have stated this long ago that 'management is men, while marketing is people.' All business activities ultimately revolve around the people. People are the cause of any business. So, any changes in their population has an impact on the business. Some of the important ways in which demographic environment influences business can be stated as under:

⇒ Population size

The very size of a population determines the size of the possible business. It represents the potential to which the market can expand.

⇒ Age distribution

In India, we are witnessing an increase in the population in the age group of 15-40 years, i.e., the productive people. This means that te economic prosperity of people is likely to increase in the times to come. On the other hand, we find an increasing population of old people in countries like Japan. This is because of very low birth rates and high life expectancy. This can influence the spending habits and business potential significantly.

⇒ Migration

The migration of people from villages to cities and from the country to other countries in search of job has a high influence on the business potential. People increase their economic prosperity by movement and thus the business potential grows.

⇒ Education and occupation

There is a trend towards higher education and preference for white collar jobs over the blue collar jobs. This also has a tremendous impact on the spending habits of the business.

⇒ Technological environment

Probably, technology is the single most important factor, which has influences the business. Particularly the advances made in the field of information technology have revolutionized the manner in which business is conducted. The people of today are much more informed and have the entire information available to them, at the click of a mouse. The business firms have to make use of the opportunity and use technology to its advantage.

2.3Self-Assessment Questions:

Q1:What is marketing environment?

Q2:Explain internal environment?

Q3:What is the full form of WTO?

Q4:What is the full form of TRIPS?

Q5: What is the full form of ICSID?

Q6: What is the full form of UNCITRAL?

2.4 Summary

The business is a part and parcel of the social system and is influenced by several forces. In order to be successful, an understanding of the culture is essential, particularly if a marketer wants to venture out of his national boundaries. There is a sea change in the degree of risk and uncertainty in international business, which is driven primarily by the environmental forces. The business managers must be able to scan the opportunities and identify the threats posed by the environment and make a way for their success. It is noteworthy that there are several tools and techniques for analysing the environment and the student is advised to refer to standard textbooks for the same.

2.5 Glossary:

Environment: Marketing is a system and it operates within a wider system called environment.

Scanning: It is a reading technique where the reader looks for specific information rather than trying to absorb all the information.

Micro Environment: It is consists of suppliers, intermediaries, costumers, competitors and public.

Macro Environment: It includes economics, social, cultural, political, legal, technologies and natural forces that affect marketers. These forces are either controllable or uncontrollable.

Consumer behaviour: The behaviour exhibited by consumers in buying and using products and services is called consumer behaviour.

Demographic: are quantifiable characteristics of a given population. Demographic analysis can cover whole societies or groups defined by criteria such as education, nationality, religion, and ethnicity.

2.6 Answer to Self-Check Questions:

Q1: Refer to 2.2.1

Q2: Refer to 2.2.1

Q3: World Trade Organization.

Q4: Trade Related Intellectual Property Rights.

Q5: International Centre of Settlement of Investment Disputes.

Q6: United Nations Conference on International Trade Law.

2.7 Terminal Questions

Q.1 Define business environment. Why is it necessary to stydy the same?

Q.2 How does the business environment in international business differ from that in domestic business? Explain with examples.

Q.3 What are the recent changes in the economic environment, which have influences the business?

Q.4 Briefly discuss the role of culture in business.

Q.5 Discuss how the technological innovations in the recent times influence the business?

2.8 Suggested Reading

1. Cherunilam Francis (2004) Business Environment, Himalaya Publishing House, New Delhi.
2. Sundaram, Anant K. and J. Stewart Black (2000) The International Business Environment: Text and Cases, Prentice Hall of India Pvt. Ltd., New Delhi.
3. Kotler Philip, Marketing Management, PHI, New Delhi (Please refer to the latest edition).

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Lesson No. 3
M IS & Marketing Research

Structure

3.0 Introduction:

There have been turning points in the evolution of mankind. For example, invention of potter's wheel, discovery of fire etc. These turning points, often called as strategic inflection points, drastically changed the manner in which people lived and conducted their daily business. One such strategic inflection point at the dawn of the twenty-first century is the growth of information technology. In today's world, no aspect of life has remained untouched from its impact and marketing is no exception. Information is as vital to an organisation as is blood to human body. In the competitive world of today, only those firms are successful which have access to accurate and timely information and means to draw meaningful conclusions from the same. Mere possession of information is not sufficient. An organisation must have a complete system to process it and assimilate it in the overall system of the organisation.

3.1 Learning Objectives

After studying this lesson, you will familiarize with following concepts:

- Concept of information system
- Types of information systems
    - o Operation Support Systems
    - o Management Support systems

- o Marketing information system
  - o Marketing Intelligence system
  - o Marketing Research system
  - o Analytical Marketing system
- Marketing Research and MIS

3.2 Presentation of Contents

3.2.1 Concept of information system

Before developing the concept of information system, it is desirable to define some of the related concepts. (Source: O'Brien)

(a) Data :

Data is defined as the representation of facts, concepts or instructions in a formalized manner, suitable for communication, interpretation or processing by a human being or an electronic machine. It can be both qualitative and quantitative. The quantitative data can be expressed in the form of measurable connotations or symbols, while the qualitative data can be expressed in descriptive form. For example, sales, exports, growth rate, profits of an organisation are some of the facts that are represented in the numerical terms.

(b) Information :

Information is the organized or classified data, from which certain conclusions can be drawn. For example, the fact that the sales of a company are 20% higher over the sales of the last year provides an idea of its functioning in the last financial year. This has been derived from the sales figures of last year and the current year. The sales figures do not convey much on their own, but the growth of company does convey something about its performance. So, the sales figures can be called as data and the growth rate as the information derived from it.

(c) Information System:

It is a set of people, procedures and resources that collects, transforms and disseminates information in an organisation. In other words, an information system is a system that accepts data resources as inputs and processes them into information products as outputs.

(d) Management Information System:

This is a management support system that produces pre-specified reports, displays and responses on a periodic, exception, or demand basis.

(e) Marketing Information Systems:

They are the systems that support the planning, control and transaction processing required for the accomplishment of marketing activities such as sales management, advertising and promotion. According to Kotler, marketing information system consists of people, equipment and procedures to gather, sort, analyze, evaluate and distribute the needed, timely, and accurate information to marketing decision makers.

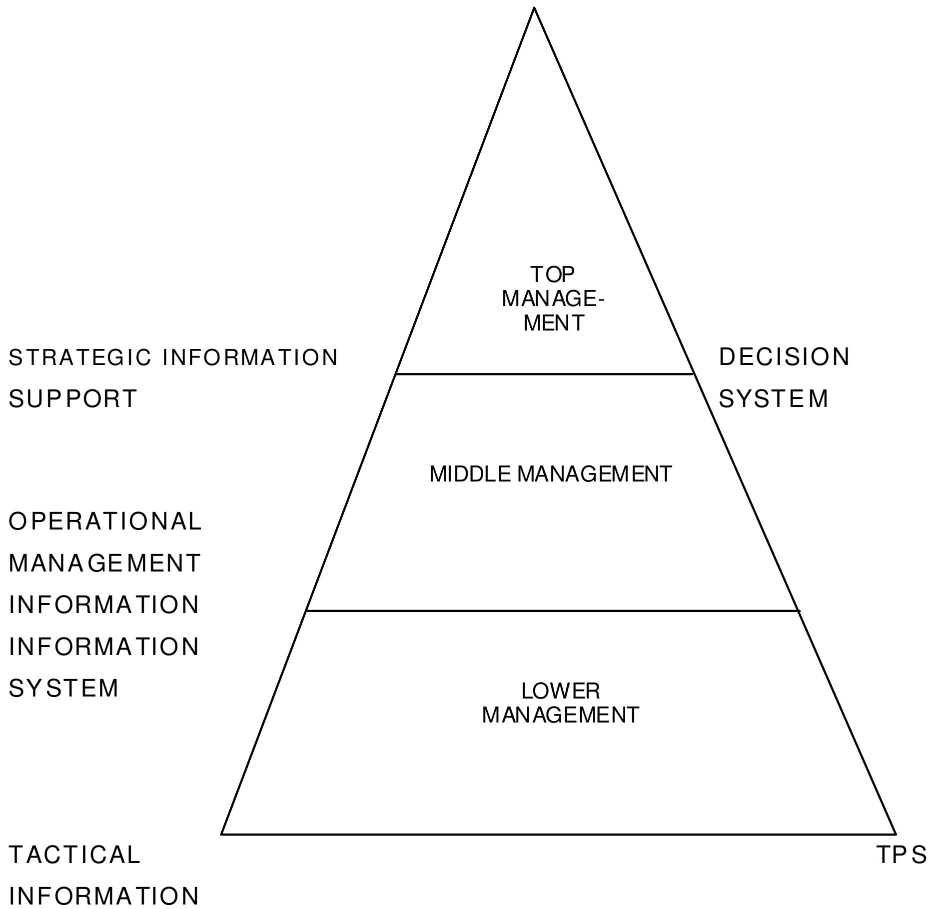

Figure 1: Levels of management and information systems

The above figure shows that the requirement of information varies with the level of management. At the lower level of the management, the information required in called tactical information. The tactical information is routine in nature and is required for day to day functioning. This information is processed with the help of transaction processing system. This system is concerned with carrying out relatively simple, but repetitive computations on a large number of records involved, such as payroll preparation, inventory records, sales accounting etc.

At the middle level, the managers are concerned with the information that helps them in medium term planning. They do not require the information on day-to-day working as the same is taken care of by the lower management. They need information on some critical areas that help in setting the objectives that meet the targets set by the top management. This operational information is processed with the help of management information system.

The managers at the top level require the strategic information, which is used for setting objectives and formulating long-term corporate strategies. Top management requires accurate and vital information of only some key areas. Generally, the top management does not require any routine information on day-to-day activities. The vital, selective, strategic information can be analyzed through decision support systems. It must be noted that this distinction of information system types is not very strict as no clear boundaries can be drawn between them, particularly between MIS and DSS. With time, newer packages are being launched into the market and they have different features. Their vendors often coin newer terminologies for them.

3.2.2 Types of information systems

The information systems can be classified on several bases. On the basis of the role they play in the operations and management of a business, the classification of information systems is shown in Figure 2. The information systems are of two types- operations support systems and management support systems. Further, operations support systems comprise of transaction processing systems, process control systems and enterprise collaboration systems. The management support systems comprise of management information systems, decision support systems and executive information systems.

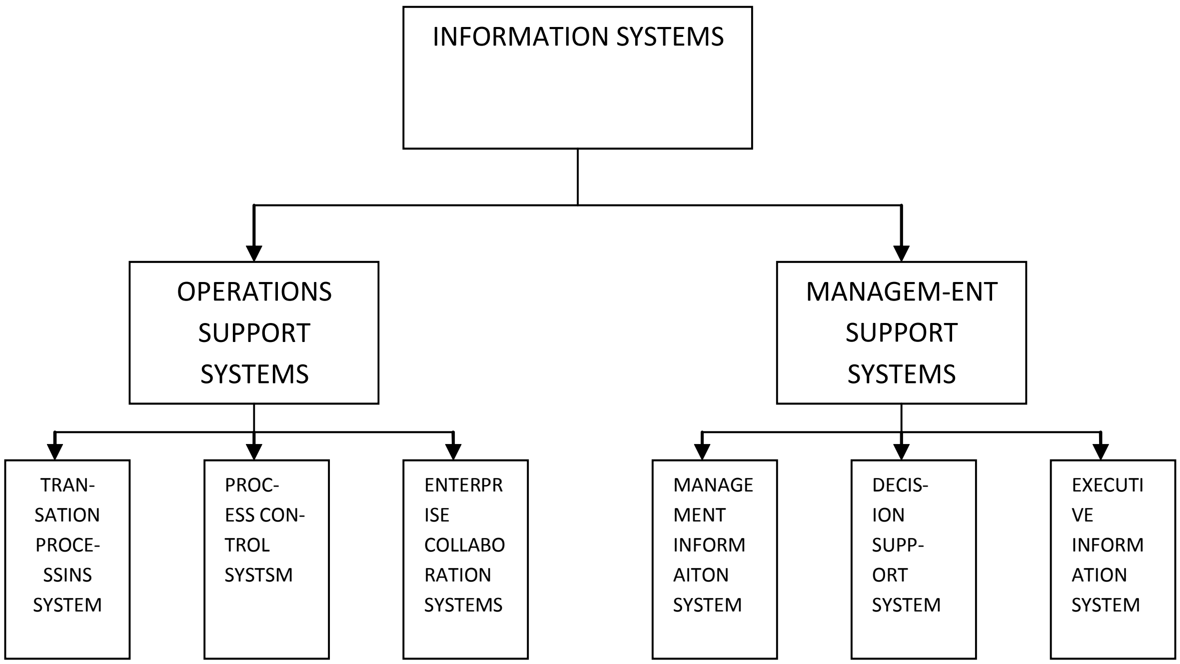

Figure 2:Classification of information systems (Source O'Brien pp 56)

3.2.2.1 Operations Support Systems:

They produce a variety of information products for internal and external use. However, they do not produce specific products for use by managers and the data generated by them has to be processed further to draw meaningful conclusions. Still, they play a vital role in the efficient processing of business information, control of business processes and updating of corporate data bases. The operations support systems comprise of the following:

i) Transaction Processing Systems (TPS)

TPS record and process the data resulting from business, e.g information systems that process sales, purchases and inventory changes etc. The results of these databases are used to update customer, inventory and other databases and serve as resources for other information systems such as management information systems, decision support systems etc. TPS can be batch processing systems as well as real-time (or online) processing systems.

ii) Process Control Systems

The routine decisions have to be made in an enterprise to control the business processes and run day to day affairs. This is done with the help of process control systems. For example, managers need data on inventory in order to reorder the same automatically. The process control systems are also used to control the production processes in case of large plants run on automatic machines.

iii) *Enterprise Collaboration Systems*

These information systems use a variety of information technologies that help the people to work together. They help to collaborate, communicate, share resources and achieve coordination in an enterprise, both formal and informal.

3.2.2.2 Management Support Systems

They are the information systems that focus on providing information and support for effective decision making by the managers. The concept of MIS originated in 1960 and has been used very frequently since then. It is the managerial application of information technology and is not confined only to the technical aspects of computer hardware and software. It emphasizes that the systems frame work should be used for organizing information system. This is important because of the interrelatedness of business information.

i) Management information systems

MIS are the most common form of management support system. They provide the managerial end users with the information products that support much of their day to day decision making needs. They provide a variety of reports for use by the management.

ii) Decision support systems

They are a natural progression from information reporting systems and transaction processing systems. They are interactive, computer based information systems that use decision models and specialized databases to assist the managerial decision makers. While TPS focus on the processing of data generated by business transactions and operations, DSS extract data from corporate databases maintained by TPS. Similarly, they differ from MIS, which focus on providing the managers with pre-specified information reports that can be used to help them to make more effective and structured decisions. DDS provides the managerial end users with the information on an interactive and adhoc (need-based) basis.

iii) Executive information systems

They are the management information systems tailored to meet the needs of strategic information of the top management. The top executives get the information from the sources such as reports, letters, memos, periodicals etc. The goal of EIS is to provide the top management with immediate and easy excess to selective information on key factors that are critical to accomplishing the firm's strategic objectives.

3.2.2.3 Marketing information system

Marketing is one of the most important activities of a firm. While there are many ways to look at the marketing function, it is primarily concerned with the planning promotion and sale of products. Marketing information systems employ information technologies that support major components of the marketing functions. As shown in figure 4, MIS comprises of interactive marketing, sales automation, advertising and promotion and sales management. It also includes marketing research and forecasting, customer service and support and product management.

a) *Interactive marketing*

The term interactive marketing describes the marketing based on internet, intranets and extranets to establish a two way interaction between the customers and the firm. Interactive marketing enables a company to profitably use those networks to attract and keep customers who will become partners with the business in creating, purchasing and improving products and services. The interactive marketing enables the firms view the customers as belonging to the distinct segments and meet their specific requirements. This targeted marketing technique enables them to service their customers better and thus derive s long-term profitability.

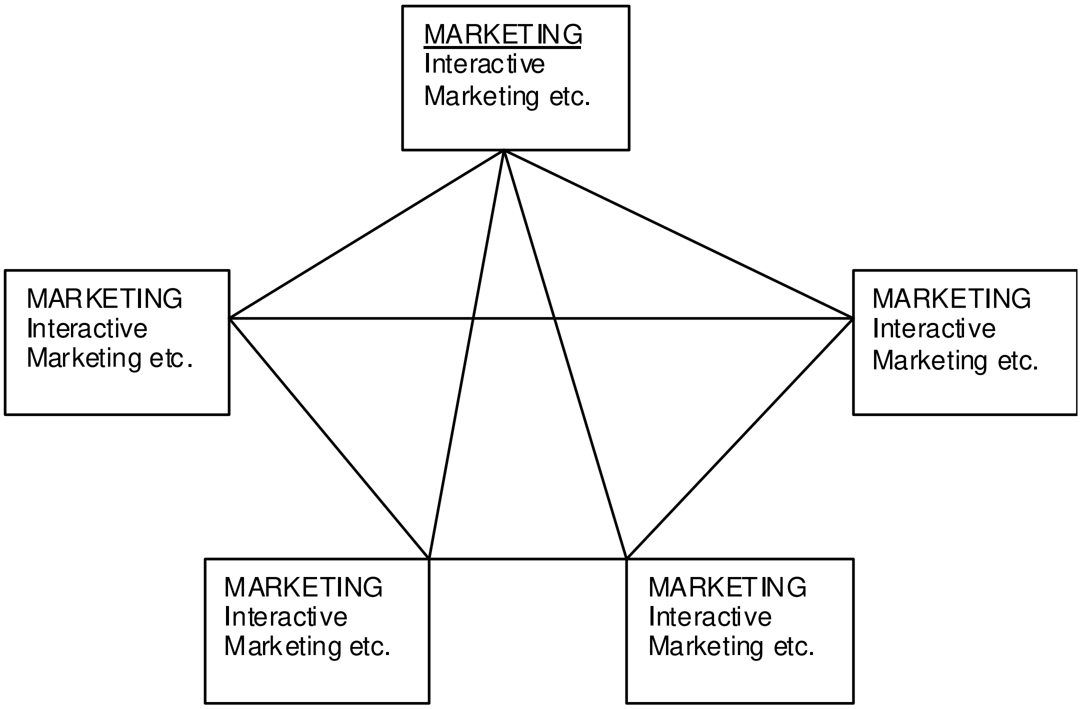

Figure 3: Cross-functional information systems

b) ***Sales force automation***

Many companies are finding novel ways to automate the collection and processing of the information generated by the sales force. Many companies have established intranets that keep the sales force in touch with the top managers at all times. This not only increases the productivity of the sales force, but also speeds up their operations in the market-place. They can offer the products to the customers faster and keep their customers satisfied and delighted.

c) ***Sales and product management***

Sales management entails continuous support to the sales team and also monitoring of their performance. Computer based systems enable fast sales analysis by product and territory. These reports can improve the performance of the sales teams drastically. Similarly, product managers require continuous information to plan and control the performance of specific products and product lines. IT enabled information systems have speeded up the decision making based the information gathered from the market place.

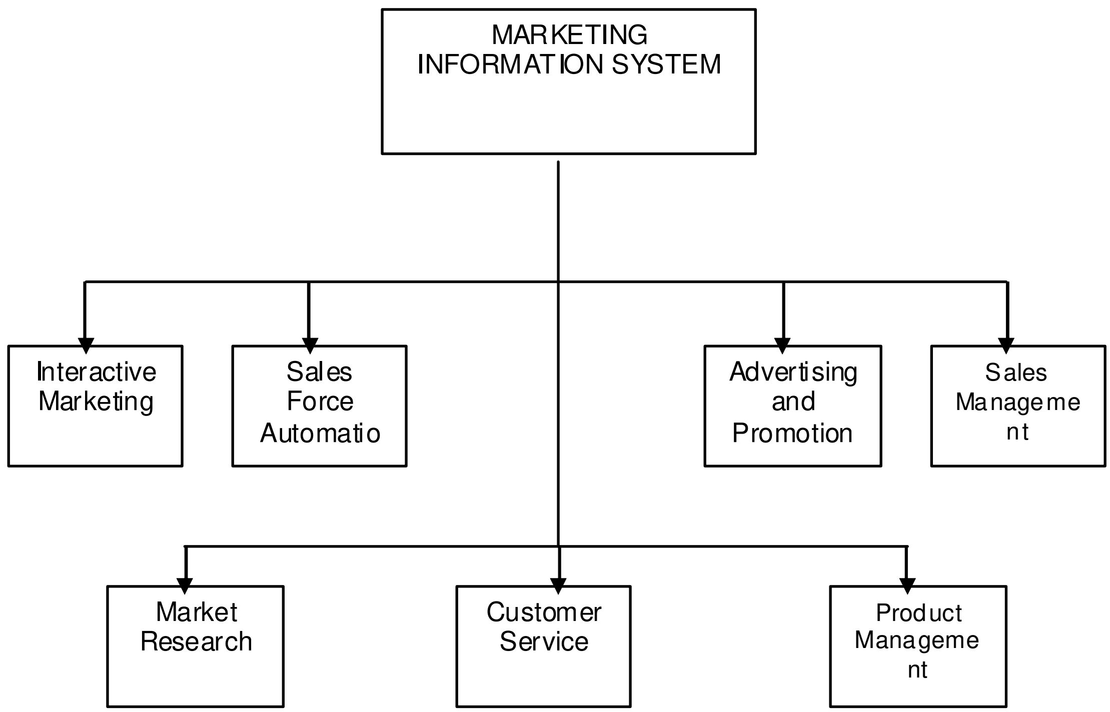

Figure 4: Marketing Information System

d) ***Advertising and Promotion***

Marketing information systems use marketing research information and promotion models for the selection of media and promotional methods, allocation of financial resources, control and evaluation of results of various advertising and promotion campaigns.

e) ***Targeted marketing***

Targeted marketing entails designing the marketing mix in order to specifically meet the requirements of a target market. For example, a firm can identify unique characteristics of a market and design its product offering, especially tailored to meet the requirements of that segment. This is possible only when the marketers have the knowledge about the target markets, possible through IT enabled systems.

f) ***Marketing Research and Forecasting***

IT enabled information systems have revolutionized the marketing research in firms. They can collect the data more easily that before. Also, they can analyze the same and formulate strategies to meet the newer challenges in the market place. The difference between MIS and marketing research is quite thin and each provide inputs to the other. A firm needs both in order to be successful.

3.2.2.4 MARKETING INTELLIGENCE SYSTEM

While the internal reports system supplies managers with *results data* the marketing intelligence system supplies managers with *happenings data.* Kotler defines the *marketing intelligence system as the set of producers and sources used by executives to obtain their everyday information about pertinent developments in the marketing environment.*

The marketing executives of a firm scan the environment in four ways :

a) *Undirected viewing***.** General exposure to information where the manager has no specific purpose in mind.

b) *Conditioned viewing***.** Directed exposure not involving active search to a more or less clearly identified area or type of information.

c) *Informal search***.** A relatively limited and unstructured effort to obtain specific information or information for specific purpose.

d) *Formal search.* A deliberate effort usually following a pre-established plan, procedure or methodology to secure specific information or information relating to a specific issue.

Marketing executives carry on marketing intelligence mostly on their own by reading books, newspapers and trade publications, surfing Internet, talking to customers, suppliers, distributors, and other outsiders and talking with other managers and personnel within the company. Yet this system is quite casual and valuable information may be lost or arrive too late. Executives may learn of a competitive move a new-customer need, or a dealer problem too late to make the best response. In order to avoid falling in this trap, they need to design a marketing intelligence system to get timely information of the markets.

Well-run companies take additional steps to improve the quality and quantity of marketing intelligence. First, they train and motivate the sales force to spot and report new developments. Sales representatives are the company's "eyes and ears". They are in an excellent position to pick up information missed by other means. Some companies, such as Cipla Ltd., even device out incentives for the sales team to motivate them to provide timely information of the market. The sales team keeps a track of the bonus offer schemes, price cuts and other moves of the competitors.

Second, the company motivates its distributors, retailers, and other middlemen to pass along important intelligence. The marketing channels are a powerful source of information. Any happening of market-place is known to the wholesalers and retailers. Firms having a good rapport with them get timely information from them. However, the problem can crop up if the wholesalers and retailers are serving competitor firms also. In such cases, there is a danger of the firm's information passing into the hands of the competitors. Despite this limitation, marketing channels can be judiciously employed as conduits of relevant market information.

Third, the company can purchase information from the suppliers. The suppliers have business interests with a firm and they also with that its sales grow. The growth of a firm's sales leads to the growth of their suppliers' sales also. So, the suppliers can cater to the information needs of a firm in the form of competitor's reports, sales literature, circulars, advertisements etc. Even secret information on the purchase price of the competitors can be accessed from the suppliers. However, suppliers serving the competitors also leak the firm's information.

Fourth, some companies have established an internal *marketing information center* to collect and circulate marketing intelligence. The staff scans major publications, abstracts relevant news, and disseminates a news bulletin to marketing managers. It collects and files relevant information. The staff assists managers in evaluating new information. These services greatly improve the quality of information available to marketing managers. Firms can even employ tactics such as purchasing a competitor's product, participating in their shareholders' meetings etc. This can give them vital information about the competitors.

3.2.2.5 MARKETING RESEARCH SYSTEM

Besides the information generated from the internal reports and marketing intelligence, the marketing executives often need focused studies of specific problems and opportunities. They may need a market survey, a product-preference test, a sales forecast by region, or an advertising-effectiveness study. The managers themselves normally do not have the skill or time to obtain this information. They need to commission formal marketing research. *Marketing Research may be defined as a systematic design, collection, analysis, and reporting of data and findings relevant to a specific marketing situation facing the company.*

Marketing research can be obtained by firms in a number of ways. Most of the large firms have their in-house marketing research departments. Firms that cannot afford to have a marketing research department can make use of marketing research companies and consultants. They can also engage MBA students and Universities to conduct marketing research for them. Nowdays, a lot of information is being taken from the Internet. Depending upon their requirements, they can hire syndicated service research firms, custom marketing research firms and specialty line marketing research firms.

Basically, marketing research process, comprises of the following steps:

a) Define the problem.

b) Develop the research plan.

c) Collect the information

d) Analyze the information.

e) Present the findings.

A further discussion on the process of marketing research is beyond the scope of this lesson and is covered in other lessons.

3.2.2.6 ANALYTICAL MARKETING SYSTEM

Many companies have started using a fourth information service to help their marketing executives an analytical marketing system. Today's marketing managers in companies can use their computer terminals and answer many questions based on stored data that were formerly inaccessible. Their computers store a bank of linked statistical and decision models that make up a *marketing decision support system.*

A marketing decision support system is a coordinated collection of data, systems, tools and techniques with supporting software and hardware by which an organization gathers and interprets relevant information from business environment and turns it into a basis for marketing action. Some of the statistical tools used in marketing are multiple-regression, discriminant analysis, factor analysis, cluster analysis, conjoint analysis, multidimensional scaling etc. Commonly used marketing models are Markov-Process model, queuing model, new-product pretest models, sales response models etc. Several computer software such as SPSS (Statistical Package for Social Sciences), STATISTICA, Marketing Engineering packages etc. are available in the market. They can be employed to analyze the information in a very convenient way. It needs to be cautioned that these are tools for analyzing information. The information has to be provided to them by collecting it from the right source and in the correct manner.

3.2.3 MARKETING RESEARCH AND MIS

Marketing Information System (MIS) is a broader term in comparison to marketing research. Marketing research is basically an aid to MIS and contributes to its development. The differences between the two can be summarized as under:

***i) Purpose*:**

Marketing research aims at solving the marketing problems whereas MIS is concerned with both preventing and solving the problems. It may be noted that the marketing research does not solve routine problems. It is used only to solve specific, non-routing or unprogrammed problems that affect a company. Once that problem becomes a routine issue, it is handled by MIS. E.g. Suppose that marketing managers want to know the preference of consumers towards their new flavour of cold drink. They might engage a marketing research agency to solve this problem. Once they get the information on the same, the routine information regarding the marketing of this product can be done by MIS.

ii) Continuity:

Marketing research, although being a continuous activity, is done on project to project basis whereas MIS is a continuous process.

iii) Orientation:

Marketing research focuses on past and present while MIS is oriented towards future.

iv) Data:

Marketing research mainly deals with external data such as the one generated from customers, dealers, staff etc. whereas MIS handles both external and internal data.

The distinction between marketing research and MIS can be tabulated as under:

Table 1: Difference between Marketing Research and MIS

	Marketing Research	**Marketing Information System**
1. Definition	It is systematic collection, recording and analysis of data about the problems relating to the marketing of goods and services.	MIS includes a set of procedures and methods for the continuous analysis and presentation of information for decision making in the area of marketing
2.Scope	It handles problems pertaining to specific problems	It concerns all types of problems related to marketing.
3. Continuity	Although continuous, it operates on specific problems.	It is a continuous process.
4. Objective	It has specific objectives, seeking solutions to specific problems.	It cautions against all possible marketing problems. It is both preventive and curative.
5.Orientation	It primarily seeks answers to the events that have already taken place.	It is primarily directed towards future problems of marketing.
6.Higher System	It is a part of the marketing information system.	It is a part of the overall the management information system of the company.

3.3 Self-Assessment Questions:

Q1: What do you mean by concept of information system?

Q2: What are the types of information system?

Q3: Explain the term marketing research?

Q4: What is the full form of MIS?

Q5: Briefly explain marketing intelligence system?

Q6: Write short on analytical marketing system?

3.4 Summary:

Information in itself is a very deceptive tool and needs to be used with caution. It can lead to erroneous results, if it is not interpreted correctly. So, the limitation of any information system stems from the manner in which information is collected and interpreted. Mostly, managers lack a clear understanding of what they want from any system. They might collect the information that is not required. Managers also face the problem of excessive information, most of which might not be relevant. The information collected must be specific, succinct and relevant. It is also essential that MIS should supplement the overall management information system of a company. If there is a mismatch between the two, there can be lack of understanding between various departments of the company and can create confusion and conflicts. This can create more problems for the management, instead of solving them.

3.5 Glossary:

- **Marketing: :** It is a total system designed to plan , price, promote and distribute want satisfying products and services for target markets.
- **Research:** It is creative and systematic work undertaken to increase the stock of knowledge, including knowledge of humans, culture and society, and the use of this stock of knowledge to devise new applications.
- **Management:** It means directing and controlling a group of people or an organization to reach a goal.
- **Enterprise:** It is the activity of managing companies and businesses or starting new ones.
- **Statistical:** It is the discipline that concerns the collection, organization, analysis, interpretation and presentation of data.
- **Analyse:** It is the discipline that concerns the collection, organization, analysis, interpretation and presentation of data.
- **Buying process:** A buying process is the series of steps that a consumer will take to make a purchasing decision.

3.6 Answer to Self-Check Questions:

Q1: Refer to 3.2.1

Q2: Refer to 3.2.2

Q3: Refer to 3.2.3

Q4: Management Information System(MIS).

Q5: Refer to 3.2.2.4

Q6: Refer to3.2.2.6

3.7 Terminal Questions:

Q.1. What is management information system? Why is it desirable to have a management information system?

Q.2. What are various types of management information systems? Briefly discuss their evolution and growth.

Q.3. Differentiate between data and information.

Q.4. What are various types of marketing information system? What are various components of a marketing information system?

Q.5. Differentiate between marketing research and marketing information system. Which of the two is more important for a company?

3.8 Suggested Reading

1. James A. O'Brien (2000) Management Information System, Tata McGraw Hill Edition.
2. Kotler Philip (1999) Marketing Management, Prentice Hall of India.
3. Charles Parker (1998) Management Information Systems, McGraw Hill, 2^{nd} Edition.

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Lesson No. 4
Understanding Consumer & Industrial Markets

Structure

4.0 Introduction:

Customers purchase a product or a service as a consequence of certain material, mental and economic forces that create desires or wants, which are understood to be satisfied by the product offering. The set of drivers that make a consumer purchase are distinct for every individual. Marketing professionals need to understand these drivers and design heir product offerings accordingly, in order to motivate people to purchase. The study of such drivers constitutes the study of consumer behaviour.

4.1 Learning Objectives

After studying this lesson, you will familiarize with following concepts:

- Concept of Consumer Behaviour
- Buying Process: Problem solving Approach
- Factor influencing problem solving
- Influences of consumer behaviour
- Marketing strategy

4.2 Presentation of Content

4.2.0 Concept of Consumer Behaviour:

The consumer has always remained at the centre stage of all marketing activities. Marketers have spent sizable resources to find out the factors that underlie a customer's purchase of products and services. Customers purchase a product or a service as a consequence of certain material, mental and economic forces that create desires or wants, which are understood to be satisfied by the product offering. The set of drivers that make a consumer purchase are distinct for every individual. Marketing professionals need to understand these drivers and design heir product offerings accordingly, in order to motivate people to purchase. The study of such drivers constitutes the study of consumer behaviour. Consumer behaviour may thus be defined as under: -

"*Consumer behaviour constitutes the actions directly involved in obtaining, consuming and disposing of products and services, including the decision processes that precede and follow these actions.*"

(Engel,Blackwell & Miniard)

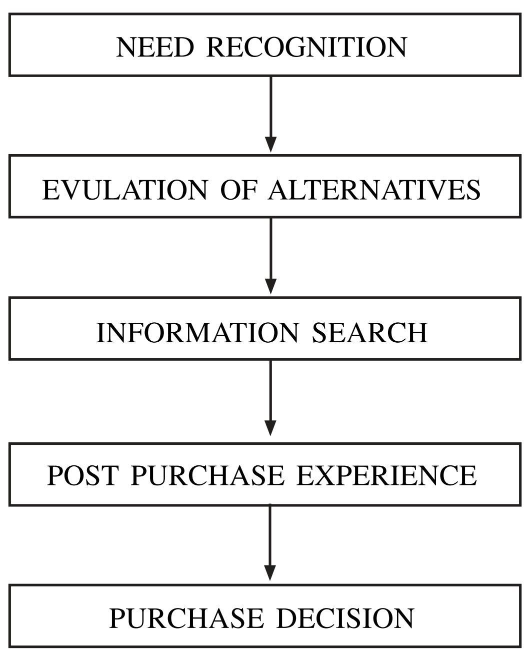
The term consumer behaviour refers to the behaviour that consumers display in searching for, purchasing, using, evaluating and disposing of products and services, that they expect will satisfy their needs.

(Schiffman & Kanuk)

4.2.1 Buying Process: Problem solving Approach

In the modern viewpoint on marketing, whenever the consumers purchase any product offering, they are looked upon as seeking solutions to their problems. For example, when a person purchases an air conditioner, he is seeking a solution to the problem arising from hot weather. Similarly, a person purchasing a pizza is

Exhibit 1: Buying Process



trying to solve the problem arising from hunger. The marketers need to understand these problems and the ways in which the customers attempt to solve them. In other words, the buying process is looked upon as a process of solving problems. In course of solving their problems, consumers are said to undergo the following steps.

(a) Need Recognition

A need is defined as a felt state of deprivation. The first step in the buying process is a feeling that certain need or desire has arisen and it needs to be satisfied. In other words, it is acknowledgement of existence of a problem. For example, in summer if someone feels hot, he understands that he is deprived of a comfortable feeling arising of coolness. The problems emanating of heat can be solved in a variety of ways.

Similarly, when one is deprived of food for a long period of time, he understands that he is hungry and looks for ways and means to satisfy his hunger. The marketers understand these problems and suggest mean to solve them. In the course of solving their customers' problems, they offer their products and services and make profits.

(b) Information Search

After a person has recognized a problem, he looks for various alternative ways to solve the same. For example the feeling of being uncomfortable due to hot weather can he abated by a variety of means. A person can move a newspaper and make himself feel comfortable. He can start a fan, room cooler or an air-conditioner to ward off heat. He can have a soft-drink and check the feeling of not being comfortable. Alternatively, he can go to a hill station and make himself comfortable. A person will choose the alternative that suits him the most in a given set of circumstances. Marketers try to understand those factors that underlie the choice amongst these alternatives. For example, a set of customers ready to spend upto Rs. 1500/- to ward of heat would purchase fans, those ready to spend upto Rs. 5000/- would purchase room coolers and those ready to sacrifice upto Rs. 25000/- would purchase an air conditioner. Customers do not just evaluate the purchasing cost, but also ascertain the running cost. A person may be ready to spend Rs. 25000/- to purchase an A/C, but not ready to pay the electricity bills. So, he might content with a room cooler or even a fan. Marketers have to make the information available to the customers at their earliest convenience in order to help them to make purchase

(c) Evaluation of Alternative

Once the available alternatives are established, they are evaluated. The most lucrative alternative may not always be chosen for solving a problem because the customers weigh the alternatives in totality. Marketers need to understand the evaluation process and know the factors that are considered to be important. It helps them in building upon the important attributes and laying lesser degree of importance on non-significant factors. For example, Tata launched their passenger car Indica, that runs on diesel. The Indian customers are highly sensitive to the running cost of vehicle. Moreover, Indica was positioned as a more sturdy car as compared to Maruti. These features made the car a big success in short span of time. Other cars like Santro and Matiz failed to capture the market to the extent that Indica was able to do.

(d) Purchase Decision

After evaluation of alternatives, the customers may choose the most viable alternative. However, there can be several factors at the time of purchase that might influence a customers' purchase of a particular brand. A customer who has planned to purchase a Hitachi air conditioner may have to contend with Videocon as the local Hitachi dealer may not be providing after sales services or installment facility for purchasing. Marketers try to understand the manner in which customers make purchase decisions. This helps them to design the product offerings that are likely to gain a higher acceptability by the customers.

(e) Post-Purchase Experience

The buying process does not end with the purchase of a product. A consumer's experience after purchase plays a significant role in re-purchase or influencing the purchase of peers, friends and families. So, marketers have to continue with the activities that influence post-purchase satisfaction of the consumers. For example, in automobiles markets, most manufacturers are holding free service camps in order to keep their customers satisfied even after purchase. Most companies have started 24 hour helpline services and/or online customer support services to provide better after sales services.

4.2.2 Factors influencing problem solving

The process of problems solving is not as simple as it seems because there exist a complex set of attributes that influence the same. Moreover, the buying process for the problem solving process is unique for every individual. The degree of complexity of problem solving is influenced by the following factors: -

a) Differentiated alternatives.

b) Time availability

c) Involvement

(a) Differentiated alternatives

Problem solving rests on availability of differentiated alternatives. In absence of choice, the consumers might have to contend with available alternatives. For example, about 25 years ago, there were only two brands of cars available to Indian consumers-Ambassador and Fiat. Now over two dozen models are available and consumers have to undergo a complex procedure for decision making. Similarly, the fast food joints and processed foods were not very popular in olden days and people had to contend with local dhabas or restaurants for satisfying their hunger. Now, lots of alternatives are available to customers to satisfy their hunger and thirst and they have to spend time in choosing amongst them.

(b) Time availability

The amount of time available with a consumer also influences consumer behaviour. A consumer might not undertake a comprehensive search of information and a meticulous evaluation of alternatives if he does not have enough time at his disposal. In such a case, marketers have to assist him in the same in order to evoke a favourable purchase action.

(c) Involvement

The degree of involvement of a person with a product also influences his/her purchase behaviour. Involvement can express itself in form of ego relationship with the product, perceived risk of negative consequences, social sanctions and hedonic (material) significance of that product. For example, a person might spend unusually high time in choosing his dress because the same might give him a high sense of self-esteem and social sanction. He might wear Van Husan shirts and Allen Solly pants but travel by a scooter. Another person might dress up in economical clothes but travel in Esteem. Thus one's involvement with a product has a high influence on his/her purchase behaviour.

4.2.3 Influences of consumer behaviour

The process of buying (or problem solving) is influenced by a variety of factors. The significant among there are:-

a) Environmental influences

b) Individual differences

c) Psychological processes

d) Environmental stimulus

Each of these factors comprises of such-factors that briefly or overtly influence buying process (Exhibit 2)

(A) Environmental Influences

Several environmental factors influence an individual's buying process. Amongst them, the significant environmental factors influencing the consumer behaviour are:-

a) Culture

b) Social class

c) Social factors

d) Situational factors

(a) Culture

Culture comprises of values (shared beliefs), ideas and other meaningful symbols that help the individuals to communicate, interpret and evaluate as the members of society. The cultural factors are said to exert the broadest and deepest influence on consumer behaviour. In broadest sense, culture can be classified as macro and micro culture. Macro culture comprises of sets of values and symbols that apply to the entire society, while micro culture comprises of sets of values and symbols of a more restrictive group e.g. religious, ethic or other sub-divisions.

Culture is dynamic and responds to environmental stimuli. Culture shapes the consumption pattern and decision-making process of individuals through out their lives. Some of the influences of culture on the buyer's behaviour are:-

(i) Sense of self and space

Culture significantly influences one's self concept and space. Some cultures might foster brave, masculine, mancho and emotional type self concept while others might impart a serve, intellectual, rational and urban self concept. Marketers need to understand this and position their products accordingly. Culture also influences sense of space. Societies that preserve individuality look for wider space around them while individuals in some societies might contend with lesser space. Knowledge of space helps marketers in deciding the most acceptable levels of customer proximity.

(ii) Communication and language.

Culture has a direct impact on communication and language of individuals. This helps the marketers in designing their advertisements and sales promotion strategies. Correct choice of words can have a significant role in effective communication. For example, most advertising campaigns are designed in local languages such as Punjabi, Gujarati or Tamil in order to make the customer understand them.

(iii) Dress and appearance

Dress and appearance also has a major of one's culture. The dressing habits of individuals are also representatives of their self image and personality. An understanding of the dress code is vital for promotion of several product categories such as suitings and shirtings etc. For example, in most offices in north India, people prefer to be formally dressed and in southern and western India, people do not frown at a person who is informally dressed at work place. Marketers of shirts position their products as formals in north India and as casuals in southern and western India.

(iv) Food & Feeding Habits

Food and feeding habits are also unique to every culture. Some cultures might be primarily vegetarian while others non-vegetarians. Similarly, people have their own preferences for the nature food and its ingredients. Those selling food products need to know what people of a culture want and offer their products accordingly. Not only the marketers of food products, other industries such as furniture, house hold appliances, buildings etc. also need to understand the feeding habits of cultures and design their products accordingly because people's feeling habits influence the purchase of these products also.

(v) Time consciousness

The level of time consciousness varies across culture. Some culture might look upon time as a valuable resource and may not consider wasting it. In such cultures, marketers need to offer products in a manner such that a customer has to spend little time in acquiring and using it. Some cultures might not treat time as valuable and prefer to work with leisure. In such areas, marketers should not force customers to make quick decisions as this might evoke an unfavourable response.

(vi) Relationships

The warmth of relationships is also specific to cultures. The urban areas comprise of nuclear families. So, the influence of uncles, grand parents etc. might be less in comparison to people living in rural areas, where people might be living in joint families. Marketers need to understand such relationships in order to identify the influences and decision-makers of the buying process.

(vii) Beliefs and norms

Beliefs and norms are significantly affected by the culture. Some cultures might attach a high degree importance to morality and value system while others might not be steadfast on these issues. People's consumption habits are greatly influenced by their value system. The marketers need to study beliefs and attitudes of cultures to identify niches for their products and also design their marketing strategies.

b) Social Class

Social class arises out of social stratification. It is defined as a homogenous and enduring division in a society that is hierarchically ordered or whose members share similar values, interests and behaviour. The bases for forming social class are different for different cultures and society. In India, social classes can be formed the following basis:-

i) Economic classes

ii) Caste

iii) Ethnicity

iv) Socialization

v) Politics

(i) Economic classes

Social classes can be formed on economic bases as upper, middle and lower classes. Researchers have tried several permutations and combinations to draw clear-cut social classes on the basis of their economic status, as possible. It is believed that the people of same economic level are likely to exhibit similar consumption patterns and buying processes. So, marketing strategies for different economic classes can be devised according to their unique attributes.

(ii) Caste

Unfortunately, in India, caste is a basis of forming social classes. Fortunately, no marketer has attempted to use this as a basis for designing marketing strategies as economic basis of social class is deemed to be more reliable in designing the same.

(iii) Ethnicity

Ethnicity refers to religion as a basis of social class. The religions of majority of population shapes its beliefs and value system, which in turn shapes the consumption pattern of individuals of these societies. Marketers try to understand the religious beliefs and design their strategies accordingly. While marketing liquid glucose to UAE, Gujarat Ambuja Protens Ltd. packed it in green coloured drums as the muslims prefer his colour. Elsewhere, green colour was associated with environmental friendliness. Indian subsidiary of Pizza Hut did not launch the pizzas using beef as a majority of the people might resent it.

(iv) Socialization

Certain social classes exhibit a high degree of participation in social and community life while certain societies are individualistic and have low community affiliations. The role of influencers varies in such societies and affects the buying process of individuals. Marketers study the degree of socialization and relate it with buying processes..

(v) Politics

Certain social classes exhibit a high degree of politics and propensity to power. The buying process of such classes is unique and deserves a closer look by the marketers. For example, while marketing their products in India, even multinational companies like Xerox revealed payment of kickbacks to secure institutional orders. Receiving of Kickbacks might not evoke a surprise in India, but it is a taboo in countries such as US. Similarly, an ex Pakistani prime-minister faces charges of corruption due to allegedly receiving money from SGS in lieu of imparting government contracts. Such political influences vary across countries and societies.

c) Social Factors

A consumer's behavior is also influenced by such social factors as reference groups, family, and social roles and status.

(i) Reference Groups

An individual's reference group consists of all the groups of persons that have a direct (face-to-face) or indirect influence on the person's attitudes or behavior. Groups having a direct influence on a person are called membership groups. These are groups to which or person belongs and interacts with. These groups usually comprise of family, friends, neighbours, and co-workers or primary groups are often informal. The secondary groups, which tend to be more formal, have a less continuous interaction. They include religious, professional, and trade union groups

An individual might be influenced by those groups of which he/she is not a member. For example, a person may not be associated with Green Peace (environmental group), but might be influenced by it. Groups to which a person intends to belong are called aspirational groups and those, which a person intends to avoid, are called dissociative groups. Even dissociative groups influence purchase behaviour. For example, a person might not like cowboy culture and may reject products such as jeans or hats.

Marketers try to identify the reference groups of their target customers. People are significantly influenced by their reference groups in at least three ways. Reference groups expose an individual to new behaviours and lifestyles. They also influence the person's attitude and self-concept because he or she normally desires to "fit in." And they create pressure for conformity that may affect the person's actual product and brand choices.

(ii) Family

Family is the most influential of the reference groups. Family consists of people related by blood marriage or adoption. While the influence of family is diminishing in most developed countries, in India, it skill continues to influence purchase behaviour significantly. Family influences utilitarian effect, value expression and interpretation of information.

There are several product categories where husband has the most important role in purchase. Similarly, wife and children also exert their opinion while purchasing, although the degree of influence may vary from family to family and product to product. The purchase is also significantly influenced by the stage of family life cycle.

The influence is also significant at introducing stage of the product life cycle, wherein people do consider such opinion of others before purchasing. However, after purchasing, an individual experience with the product becomes the prime influence of his satisfaction or dissatisfaction.

(iii) Role and Status

A person participates in many groups throughout life e.g. family, clubs and organization. The person's position in each group can be defined in terms of his/her role and status. A role consists of the activities that a person is expected to perform according to the persons around him or her. Role is an indicator of a person's position and people often express it through their purchase. A senior manager may go to his office in a car even if it is located at a walking distance. He may wear Van-Husan shirts and Ray Ban sunglasses. Marketers need to identify the role of their market segments are design their product offerings.

d) Personal Factors

The buyer's decisions are also influenced by his or her personal characteristics, notably the buyer's age and life-cycle stage, occupation, economic circumstances, lifestyle, personality and self-concept.

(i) Age and Life-Cycle State

People change the goods and services they buy over their lifetime. They eat baby food in the early years, most foods in the growing and mature years, and special diets in the later years. People's taste in clothes, furniture, and recreation is also age related. The marketers try to identify the average age of the target markets and design their marketing strategies accordingly. For example, younger generation tends to be impulsive in its purchase and is influenced by catchy advertisements while the older age group is likely to be mature and may rest its purchase decision on product features.

(ii) Occupation

A person's consumption pattern is also influenced by his or her occupation. A blue-collar worker will buy work clothes, work shoes, lunch boxes, and bowling recreation. A senior executive in a blue chip company will buy expensive suits, air travel, country club membership etc. Marketers try to identify the occupational groups that have an above-average interest in their products and services. A Company can even specialize in producing the products needed by a particular occupational group. Thus computer software companies design different computer software for brand managers, engineers, lawyers, and physicians. Even furniture manufacturers are making furniture specially designed for computer professionals. Mobile phone service providers for special schemes to those dealing in stock market.

(iii) Economic Circumstances

Product choice is greatly affected by one's economic circumstances. People's economic circumstances consist of their disposable income, savings and assets, borrowing power, and attitude toward spending versus saving. Thus, a person can consider purchasing a personal computer if he/she has enough disposable income or savings.

Lifestyle portrays the ''whole person'' interacting with his or her environment. Lifestyle reflects something beyond a person's social class and personally. If we know someone's social class, we can infer several things about the person's likely behaviour but fail to see the person as an individual. If we know someone's personality, we can infer distinguishing psychological characteristics but not much about actual activities, interests, and opinions. Lifestyle attempts to profile a person's way of being and acting in the world. A philanthropic type of a person might not purchase an expensive car even if he can afford. He might prefer a suave and a sobre life style. Similarly, one preferring to lead a high life would purchase expensive products, even if he has to put in extra labour for acquiring the same. He might purchase products on installments or through credit cards and end up paying a price much higher than the actual cost of the product.

Marketers try to search for the relationship between their products and the lifestyle groups. A personal-computer manufacturer might find that many target buyers have the value and lifestyles of an achiever. The marketer may then aim the brand more clearly at the achiever lifestyle. Advertising copywriters can create advertising that is congruent with the symbols in this person's lifestyle. Similarly, Ford Ikon is positioned as josh machine and Tata Safari as a tough vehicle capable of going anywhere. On the other hand, Belano and Siena are positioned for their luxury.

(iv) Personality and self-concept

Each person has a distinct personality that will influence his or her buying behaviour. Personality broadly means a person's distinguishing psychological characteristics that lead to relatively consistent and enduring responses to his or her environment. Personality is usually described in terms of such traits as self-confidence, dominance, autonomy, sociability, defensiveness, and adaptability etc. Personality can be a useful variable in analyzing consumer behavior provided that the personality types can be classified and strong correlations existing between certain personality types and product or brand choices be established. For example, a personal-computer company might discover that many prospects have high self-confidence, dominance, and autonomy. This suggests using these appeals in advertising personal computers. Red and While cigarettes are associated with bravery and Pierre Cardin pens with success.

d) Psychological Factors

A person's buying choices are also influenced by four major psychological factors—motivation, perception, learning, and beliefs and attitudes. The role of each factor in the buying process is explained herein.

(i) Motivation

A person has many needs at any given time. Some needs are biogenic. They arise from physiological states of tension such as hunger, thirst, and discomfort. Other needs are psychogenic. They arise from the psychological states of tension such as the need for recognition, esteem, or belonging. Most of these needs will not be intense enough to motivate the person to act on them immediately. A need becomes a motive when it is aroused to a sufficient level of intensity. A motive (or drive) is a need that is sufficiently pressing to drive the person to act. Satisfying the need reduces the felt tension.

Psychologists have developed theories of human motivation. Three of the best known—the theories of Sigmund Freud, Abraham Maslow, and Frederick Herzberg—carry quite different implications for consumer analysis and marketing strategy. It is not feasible to discuss these theories here and the students are directed to refer to standard text books or notes of other subjects. Although people are motivated by different motivators, general motivators of the target markets can be identified and the marketing strategies designed accordingly.

(ii) Perception

Perception can be defined as ''the process by which an individual selects, organizes, and interprets information inputs to create a meaningful picture of the world.'' Perception depends not only on the character of the physical stimuli but also on the relation of the stimuli to the surrounding field and on conditions within the individual.

People can emerge with different perceptions of the same stimulus object because of three perceptual processes: selective attention, selective distortion, and selective retention.

(iii) Learning

When people act, they learn. Learning describes changes in an individual's behavior arising from experience. Most human behavior is learned. Learning theorists say that a person's learning is produced through the interplay of drives, stimuli, cues, responses, and reinforcement. The practical importance of learning theory for marketers is that they can build up demand for a product by associating it with strong drives, using motivating cues, and providing positive reinforcement. A new company can enter the market by appealing to the same drives that competitors appeal to and providing similar cue configurations because buyers are more likely to transfer loyalty to similar brands than to dissimilar brands. Alternatively, it might design its brand to appeal a different set of drives and offer strong cue inducements to switch.

(iv) Beliefs and Attitudes

Through acting and learning, people acquire their beliefs and attitudes. These in turn influence their buying behavior. A belief is a descriptive thought that a person holds about something.

Manufacturers are interested in the beliefs of people about their products and services. These beliefs make up product and brand images, and people act on these images. If some of the beliefs are wrong and inhibit purchase, the manufacturer will want to launch a campaign to correct these beliefs. For example, tea manufacturers have launched a campaign on the benefits of tea. Similarly, egg manufacturers are trying hard to induce people to eat eggs. People have a relatively negative attitude towards these products and marketers are trying to change the same. Saffola is trying to divert people to it by changing their belief on desi-ghee.

An attitude describes a person's enduring favorable or unfavorable cognitive evaluations, emotional feelings, and action tendencies towards some object or idea. People have attitudes toward almost everything: religion, politics, clothes, music, food etc. Attitudes put them into a frame of mind of liking or disliking an object, moving toward or away from it. Attitudes lead people to behave in a fairly consistent way toward similar objects. People do not have to interpret and react to every object in a fresh way. People tend to be conservative towards their attitudes. Because of this, attitudes are very difficult to change. A person's attitudes settle into a consistent pattern, and to change a single attitude may require major adjustments in other attitudes.

Thus, companies often try to fit their products into the existing attitudes, rather than attempting to change people's attitudes. There are examples of companies that have successfully changed the attitude, but they have to incur heavy cost for the same.

4.2.4 Marketing strategy

The marketers also give a lot of stimuli to the consumer and thus influence their decision making process. Infact, in the modern age of consumerism, marketing cues have become stronger than ever. Marketers have successfully changed the manner in which people think, act and purchase. Newer products and their promotion is exerting a strong influence on the receptive minds of well educated people, who are quite aware of themselves and their surroundings.

(a) Product

The technological advances have made available the products that satisfy multiple needs of individuals. Every walk of life has witnessed availability of newer products that make life easy and convenient. Microwave ovens are changing the way in which housewives cook food, economical cars have facilitated transportation, television and other devices have revolutionized the entertainment activity. Computers and mobile phones have drastically changed our lives. The availability of products is on of the strongest influence of consumer behaviour.

(b) Price

With the technological advances and higher sales volumes the prices of products are becoming more competitive. The availability of finance for purchase makes the products for convenient than before, motivating people to buy. The automobiles and durables industry has boomed primarily because of the availability of finance at low cost. This has drastically changed the purchase decision making process. Earlier, one used to purchase a house and car at a later stage in life. Nowadays, people do so in early years of life and pay at convenience. This influences their consumption patterns and subsequent purchase behaviour.

(c) Place

The marketers have increased their distribution networks to reach every nook and corner of the country, ensuring easy approach-ability of the customers. The availability of products at convenient distances has greatly influenced the purchase decision-making habits of the consumers. Well-developed logistics networks ensure that customer can be reached and satisfied at all costs.

(d) Promotion

The sales promotion activities of the consumers have made greatest input on consumer behaviour. People have changed the manner in which they think and act. The media boom has greatly contributed to widespread advertising and sales promotion. Innovative campaigns by marketers are changing the value systems of people and are creating needs of the products. They bring forth the latent demand and also help in increasing the consumption levels. They provide information inputs to the consumers and help them in arriving at purchase decision.

4.3 Self-Assessment Questions:

Q1: Explain the concept of consumer behaviour ?

Q2: Explain factor influencing problem solving?

Q3: What is buying process?

Q4: Write short note on marketing strategy?

Q5: What are the factors that influences of consumer behavior?

4.4. Summary

Although every consumer is different, broad generalizations of how he or she purchases and what influences their purchase decisions can be identified. Consumer behaviour is the study of the influence of various factors that influence the decision making process of a consumer. A person's purchase choice is the result of the complex interplay of cultural, social, personal, and psychological factors. Many of these factors cannot be influenced by the marketer. They are useful, however, in identifying the buyers who might have the most interest in the product. Other factors are subject to marketer's influence and enable a marketer in developing the product, price, place, and promotion strategies to attract favourable consumer response. This enables them to provide higher value to the consumers and reap higher profits for themselves.

4.5 Glossary:

- **Market:** A market is a place where people go to buy or sell things.
- **Industrial market:** The industrial market consists of business-to-business sales. One business serves as a consumer, purchasing goods or services from another business.
- **Consumer behaviour:** The behaviour exhibited by consumers in buying and using products and services is called consumer behaviour.
- **Buying process:** A buying process is the series of steps that a consumer will take to make a purchasing decision.
- **Belief & Attitudes:** an attitude refers to a set of emotions, beliefs, and behaviours toward a particular object, person, thing, or event.
- **Strategy:** a plan of action designed to achieve a long-term or overall aim.

4.6 Answer to Self-Check Questions:

Q1: Refer to 4.2.0

Q2: Refer to 4.2.2

Q3: Refer to 4.2.1

Q4: Refer to 4.2.4

Q5: Refer to 4.2.3

4.7 Terminal Questions

1. Define consumer behaviour and explain its importance in marketing?
2. What is sub-culture? How does it influence consumer's purchase decision making process?
3. What is the influence of personality on consumer behaviour.
4. Briefly explain how marketing strategy of the firms influences the consumer decision making process.
5. How does a family influence consumer's buying process?

4.8 Suggested Readings

1. Engel, F. James; Blackwell Roger D.; and Miniard, Paul W., *Consumer Behaviour*, New York, The Dryden Press, 1993.
2. Howard, J. and Seth, J.N., *The Theory of Buyer Behaviour,* New York, John Wiley &Sons Inc.1969.
3. Loudon, David L.and Bitta, Albert J., *Consumer Behaviour: Concepts and Application,* New Delhi, McGraw-Hill Inc, Publishing Company Ltd., 1993.
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Lesson No. 5
Marketing Segmentation, Targeting & Positioning

Structure

5.0 Introduction

In the increasingly competitive world of today, no two consumers have similar sets of preferences. A marketer has to divide the markets and understand unique characteristics of each of them so that s/he can develop effective marketing strategies aimed to specific consumer groups. A general marketing strategy is unlikely to cater for the entire market because people differ in their tastes and preferences. The success of marketing strategy depends upon how well it is able to cater to the diverse needs of the consumers. In order to achieve this, division of markets into different segments is required. These segments need to be targeted with appropriate strategies. Product positioning is developing perceptual position of the product in the minds of the consumers. Such sets of activities are collectively known as STP – Segmentation, Targeting and Positioning strategies. These are also known as the three components of target marketing.

5.1 Learning Objectives

After studying this lesson, you will familiarize with following concepts:

- Market Segmentation
- Bases of Segmentation
- Basis of Segmenting the Consumer Markets
- Segmentation Process
- Segmentation Strategies

5.2 Presentation of Contents

5.2.1 Market Segmentation

Stanton has defined market segmentation as consisting of total heterogeneous market for a product and dividing it into several sub-markets or segments, each of which tends to be homogenous in all significant steps. In other words, market segmentation is a technique of dividing the customers of a product or a service into several homogenous groups. This exercise helps the marketers in understanding their specific needs and thus design their offerings accordingly. The effective segmentation can be achieved only when the market segments are measurable, accessible, large enough to be viable and have adequate potential.

There are several bases of market segmentation. In its simplest form, market can be segmented as comprising of ultimate consumers and business users. Besides this, consumer markets can be segmented on the basis of geographical, demographic, psychographic and behavioural variables. Geographical segmentation entails dividing the market on the basis of the territory. Demographic segmentation is done on the basis of the demographic characteristics of the population, e.g. age, gender, family life cycle, income, occupation, religion, race, social class etc. The psychographic variables often taken as a basis for segmentation are the personality characteristics, lifestyle etc. Behavioural segmentation divides buyers into groups on the basis of their knowledge, attitudes, responses to the products, occasions, user status, user rate, loyalty status etc. The business markets are segmented on the basis of demographics, operating characteristics (heavy/medium/light users etc.), purchasing approaches, nature of industry, situational factors and personal characteristics of the decision makers.

The market segments are subjected to constant evaluation in terms of segment size and growth, segment structural attractiveness, objectives and resources of the company etc. After having segmented the markets, firms usually employ three marketing strategies – undifferentiated marketing, differentiated marketing and concentrated marketing, with each having its own pros and cons.

5.2.2 Bases of Segmentation

The total market may be divided into two broad segments:

(i) Ultimate Consumers

(ii) Business Consumers

5.2.2.1 Basis of Segmenting the Consumer Markets:

There are four major bases that may be used for segmenting the consumer markets:

1. Geographic
2. Demographic
3. Psychographic
4. Behavioura Variables

(a) Geographical Segmentation

Geographical segmentation is the process of dividing the market into different geographical units such as nations,states,regions,countries etc. Acompany may decide to operate in one or mor geographical areas, or to operate in all areas but pay attention to geographical differences in needs and wants. This segment is very commonly used to allocate the territories to the salemen.For Example, coolers are not sold in hilly areas or areas with hot and humid climate.

(B) Demographic Segmentation

Demographic segmentation consists of dividing the market into groups based on variables such as gender, family life cycle, income , occupation, education, nationality. One reasons that consumer needs, wants, and usage rates often vary with demographic variables are easier to measure than other variables.

i) Age:

Consumer needs and wants change with age, some companies use age and life cycle segmentation offering different products or using different marketing approaches for different age and life cycle stages. Companies offer different marketing producers for the customers of different age groups, e.g. Horlicks Junior is sold to the children of age groups upto2 years while Horlicks is targeted for children upto 15 years.

ii) Life Cycle:

Companies segment the markets on the basis of the stage of the life cycle of their customers. While most motorcycle manufacture target unmarried trendy teenagers, Maruti positions its entry level car as a “family car”. Santro seeks to capture the market of middlesized cars and targets trendy customers, living a fast life and craving for style.

iii) Gender:

Some products are specifically targeted for males, While others are for females. For examples, Axe perfume is targeted for the men while Fa is targeted for females. Most recently, a popular brand Fair and Lovely has been launched for male consumers as there was a demand for such a product in this segment as well. Many manufacturers employ gender as a very powerful basis for segmentation. The manufacturers of garments, cosmetics, magazines etc. employ this as a basis for segments.

iv) Income:

Income segmentation is used by the marketers of products and sevices such as automobiles, boats, clothing, cosmetics and travel. Many companies target affluent consumers with luxury goods and convenience services. For example, Maruti offes its range of cars for people of different income grops. While Maruti 800 is specifically targeted for lower middle class.

v) Social Class:

Social class is measure made up of combination of demographic characteristics, This includes level of education types of occupation and type of neighbourhood a person lives in.

(C) Psyhographic Segmentation

Psychographic segmentation divides buyer into different groups based on lifestyle or personality characterstics. People in the some demographic group can have different psychographic mark-ups.

i) Personality Characterstics:

Marketers also have used personality variables to segment market, giving their products, that personality that correspond to consumer personality. Market segmentation based on personality have been used for products such as cigarettes, insurance etc. For example, Cigarette manufacturer has associated its brand RED & WHITE with bravery . Similarly , Raymonds associates it clothing with personality of a man. Their slogan “The complete man” is a representative of their market strategy.

ii) Life style:

Life style relates to activities, interests and opinions. People lifestyle affect what products they buy and what brands they prefer. Marketers segment their market based on life style characterstics. Some people are usd to living a fast life.Hence, they make use of convenience products. Manufacturers of fast foods, microwaves, vacuum cleaners target such market segments.

(D) Behavioural Segmentation:

Behavioral segmentations divides buyers into groups on their knowledge, attitudes, use or responses to a product.

i) Occasions:

Buyers can be grouped according to occasions where they get the ides to buy, actually make purchase or use the purchase item. Occasion segmentation can help firms build up product usage. For example, in India it is customary to paint the houses during the festival season. Marketers of paints become active during this period of the year. Event managers become active during the marriage season. Similarly, there is a sudden increase in the demand of the products that are consumed on specific occasions, for example, crackers during diwali, durables during navratras, etc.

ii) User Status:

Markets can be segmented into groups of non-users, ex-users, Potential users, first time users and regular users of a product. Potential users are regular users and may require different kinds of marketing appeals.

iii) Usage Rate:

Markets also can be segmented into light, medium and heavy users groups. Heavy users are often a small percentage of markets, but account for a high percentage of total buying. The mobile companies offer differential tariffs, making the call rates more economical for those who have more usage. On the other hand, electricity companies in India charge higher rates from the heavy users of the consumers. These are some of the examples where different marketing strategies have been employed for different product usage.

iv) Loyalty status:

A market can also be segmented by consumer loyalty; consumers can be loyal to brands, stores and companies. Buyer can be divided according to degree of loyalty. Many companies have relationship programmes, loyalty bonuses, exchange offers where they reward the loyal customers and secure long term affiliations with them. Such customers become their means of publicity and bring in more sales to them.

5.2.3 Segmentation Process

Mere identification of a difference between one customer group and another does not complete market segmentation. Many other steps have to be carried out for effectiveness market segmentation. The main steps involves in segmentation process are as follows:

(a) Assess differences between consumer groups

(b) Identify characteristics of each consumer groups

(c) De-segregate consumers into separate segments

(d) Develop strategies for market segments

(e) Estimate the possible impact of marketing strategies in each segment

(f) Estimate the likely levels of purchase by each segment

(g) Select the segment with higher potential

5.2.4 Segmentation Strategies

After a company has segmented the total market of its products, it is in position to select one or more segments as its target markets. This is the problem of target market selection. A target market consists of set of buyers who share common needs or characteristics that the company decides to serve. A firm can adopt one of the three market coverage strategies:

(i) Undifferentiated Marketing

(ii) Differentiated Marketing

(iii) Concentrated Marketing

(i) Undifferentiated Marketing:

It is also known as mass marketing. By adopting an undifferentiated market strategy, a seller treats its local market as a single segment. A firm goes for the whole market with the offer. This offer will focus on what is common in the needs of consumers rather than on what is different. The products where brands are not developed, or in case of commodities of the generic kinds of the products, this strategy is used. In such products, differentiation cannot be build into the products. So, the firms do not invest in a segmented strategy.

(ii) Differentiated Marketing:

Using a differential marketing strategy, a firm targets several market segments and design separate marketing mix to reach each segment. By offering product and marketing variations, it hopes for higher sale and stronger market position. For example, Maruti has launched several car models, each catering to a different segment. The Maruti 800 is positioned as an enry level car, although now Alto is fast acquiring this status. The next higher versions are Zen (Estilo), Esteem, Swift, Belano, etc. Each of these is also having three variants in itself. Therefore, there is an increased consumer choice and it caters to different segments.

(iii) Concentrated Marketing:

A single segment or concentrated strategy involves selecting one segment from the total market as target market.

5.3 Targeting

Targets are the specific segments or group of consumers, to whom, the specific marketing strategies are designed. Target markets emerge as a consequence of segmentation. The marketers develop the segments and then study them. They identify the unique characteristics of each of the target groups and then devise the marketing strategies accordingly.

For example, in case of motorcycles, the target consumer group of Hero Honda CD 100 is likely to be cost conscious middle income male. Therefore, the product is specifically developed to give fuel economy and is priced at the lowest reference price. On the other hand, the target market for their product – Glamour, is likely to be an upwardly mobile trendy male. Therefore, style is the mail appeal developed in the advertising campaigns.

In the event of database marketing, specific target customers can be identified, who can be contacted by the sales teams for selling the product. For example, the insurance companies have developed databases and they dig out the profiles of the customers and target their policies towards them.

5.4 Positioning

Positioning is defined as an act of designing the company's offering and image to occupy a distinctive place in the target's mind. The concept was proposed by two advertisers Al Ries and Jack Trout. They proposed that well known products generally hold a distinctive position in the consumers' minds. If the marketers can understand this distinctive position, they can isolate the product attributes, or the Unique Selling Propositions (USPs) that have led to the development of such a distinct position. Accordingly, they can design a marketing strategy that can secure a favourable action from the target consumers.

For example, Maruti 800 is seen as an entry level car and is usually the first car of the target consumers. No consumer would purchase Esteem in the first place, even if s/he can afford it. Such a distinctiveness has emerged as a result of product positioning. No car has been able to replace Maruti 800's position as an entry level car, from several decades. It is only now that Alto is beginning to eat away into its market share.

5.5 Positioning and PLC

Product positioning changes with the change in the stages of the product life cycle. At the entry stage, the consumers would rely on the information and develop perceptions about the product. Usually, these perceptions are based on the reference product, which might be existing in the market. Subsequently, the positioning might be reinforced or weakened by the experience of the consumers, or their peers. At the maturity, the products would have had a stable product positioning and secure high degree of consumer loyalty, unless there is a sudden attack by the competitors. At the decline stage, the product position is usually negative and there are declining sales.

The consumers develop differential grading of the products, which is relative to a competitor's product. This differential grading is dynamic and is subject to influence from various forces of the environment.

5.6 Self-Assessment Questions:

Q1: What is marketing segmentation?

Q2: What are the bases of segmentation?

Q3: Briefly explain segmentation process?

Q4: Explain the term segmentation strategies?

Q5: Write a short note on demographic segmentation?

Q6: What is positioning?

5.7 Summary

To sum up, segmentation is a technique of dividing the markets into smaller units, where the unique characteristics of the consumers can be identified. Targeting referes to understanding these unique characteristics of the segments and developing the appropriate marketing strategies to secure a favourable response from the consumers. Positioning refers to the differential perception that emerges into the minds of the consumers, where a product is placed at a a particular position into the perceptual framework of the consumers. Product positioning can influence the purchase behaviour and is influenced by various factor. A marketer has to understand the right bases tht separate the markets and develop the right response strategies to gain long term growth into the markets.

5.8 Glossary:

Marketing: It is a total system designed to plan , price, promote and distribute want satisfying products and services for target markets.

Marketing Segmentation: Market segmentation is the process of dividing a market of potential customers into groups, or segments, based on different characteristics.

Positioning: It refers to the process of establishing the image or identity of a brand or product so that consumers perceive it in a certain way.

Bases of segmentation: The basis of the segmentation is age, sex, education, income, occupation, marital status, family size, family life cycle, religion, nationality and social class.

Bases of positioning: Features, benefits, usage, comparison, product category, price and quality, geographic area, parentage, ingredients, manufacturing process, endorsements and pro-environment.

5.9 Answer to Self-Check Questions:

Q1: Refer to 5.2.1

Q2: Refer to 5.2.2

Q3: Refer to 5.2.3

Q4: Refer to 5.2.4

Q5: Refer to 5.2.2

Q6: Refer to 5.4

5.10 Terminal Questions

1. Why it is advantageous for the marketers to segment the markets?

2. Discuss the process of market Segmentation?

3. What are various bases and strategies for market segmentation?

4. Write short notes on:

a. Targeting

b. Positioning

5.11 Suggested Readings

1. Frain John (1992) Principles and Practices of Marketing, Wheeler Publishing, Allahabad.
2. Gandhi JC (1990) Marketing: Managerial Introduction, TMH, New Delhi.
3. John P. Steinbrink (1992) The Dartnell Sales Manager's Handbook, UBS Publishers, New Delhi
4. Kotler Philip (1999) Marketing Management: Analysis, Planning, Implementation and Control, PHI, New Delhi.

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Lesson No. 6
Product Decisions-Product Mix, PLC

Structure

6.0 Introduction

A product is the starting point of any marketing programme and is a vital component of marketing mix. All other components of marketing mix revolve around the product. In the business environment of today, gone are the days when the sellers used to dictate terms by virtue of their monopoly. Today's market is buyer's market and for any success in market place, firms have to meet the consumer's needs of the product. It is because of this vital and prime importance that firms are spending a lot of their time and energy in developing products to satisfy their customers better.

6.1 learning objectives

After studying this lesson, you will familiarize with following concepts:

- Concept of Product
- Levels of Product
- Product Mix:
- Product Mix & Product Line Strategies:
- Product Mix Expansion:

- Product Modification/Adaptation
- Product-Mix Contraction:
- Product Life cycle
- Significance of Product Life-Cycle:
- Advantages of Product Life-Cycle

6.2 Presentation of Contents:

6.2.1 Concept of Product

A product may be defined as anything that can be offered to a market to satisfy a want or need. In other words, a product is an offering, a bundle of attributes that satisfied a stated or implied needs or wants. Almost everything that we come across in our daily life is a product. The scope of a product is very wide and almost anything that can be traded is a product. In broad terms, a product would include the following:

*	Physical Goods	-	Newspaper, Scooter etc.
*	Services	-	Airlines, Hospitals, Insurance etc.
*	Persons	-	Shahrukh Khan, Sonia Gandhi
*	Ideas	-	Family Planning, Safe Driving, Drug Abuse
*	Places	-	Tourist destinations

Although diverse in nature, each of these categories of products satisfy different sets of needs and the marketers can devise out the marketing strategies to market them across to the consumers.

6.2.2 Levels of Product

The products do not satisfy just one sets of needs. Rather, there are multiple sets of needs that are satisfied and the product components that satisfy these hierarchies of the needs constitute the levels of the product. Basically, there are five levels of products, as shown in the following diagram.

(i) Core Product

The core product is the fundamental service or a benefit that a customer is buying. For example, when we go to a hotel, at the very first place, we need a safe place where we can have rest. In case a hotel room does not provide this, no customer would purchase it. All other components of the product will be meaningless until this component is satisfied. Similarly, in case of a car, the core product is transportation, a university must provide education and the clothing must cover the body. These are the core sets of the benefits that a customer wants in a product.

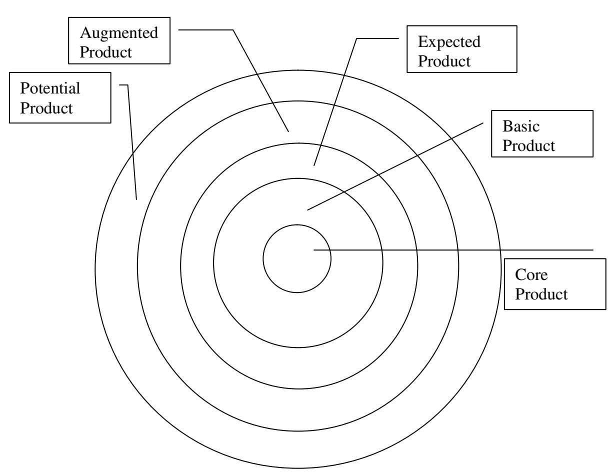

Figure 1: Levels of a Product

(ii) Basic Product

In order to satisfy the core need, the basic product has to be developed. For example, in order to provide rest, a hotelier needs to develop rooms, bedding, toilet, etc. In order to provide transportation service, the car has to be made, the clothes have to be stitched and designed to cover the body. The core product cannot be satisfied if there is no basic product.

(iii) Expected Product

After satisfying the basic needs, a product must measure upto the expectations of the consumer. For example, in addition to covering the body, the product must also look good. It must not cause skin irritation. A hotel room must be clean and should include a television, towel, and a good room service. A consumer would always expect the presence of these features in a product. He would not be very satisfied by the presence of these features, but their absence would definitely cause dissatisfaction. There are minimum levels of expectations that a product must satisfy.

(iv) Augmented Product

An augmented product exceeds the expectations of a consumer. For example, a hotel having a refrigerator would make the customer more satisfied. A car with better safety features, a cloth with a trendy design, a bread fortified with nice flavours are sets of augmented products offered alongwith the core, basic and augmented products.

(v) Potential Products

A potential product satisfies those needs, which a customer is not even aware of himself. Satisfying these needs exceeds customer expectations and brings in customer delight. The potential product includes all possible augmentations or additions in a product, that a customer can think of.

6.2.3 Product Mix:

Product Mix is called product assortment. The set of all products offered for sale by a company is called a product mix. All the products offered by Maruti constitute its product mix. It can have diverse forms and extent. The structure of product mix has a certain width, length, depth & consistency.

- **Product Width:**

It refers to how many products lines the company carries. It is also called breadth. For example, Tatas make chemicals, cars, steel, trucks, salt, etc. Each of these together make the product width.

- **Product Length:**

This refers to total number of items in its product mix. In the above example, all the categories of the items made by the Tatas, would constitute the product lines.

- **Product Depth:**

Product depth refers to the number of variants offered of each product in the line. For example, in cars, Tatas sell Indica and Indigo. Similarly, there are several models of trucks, several qualities of steel, several packing sizes of salt that are sold. Each of these shape up the depth of a product line.

- **Consistency:**

The consistency refers to how closely related the various product lines are in end use, production requirement, distribution channels or some other way.

These four dimensions of the product mix provide the handles for defining the company's product strategy.

6.2.4 Product Mix & Product Line Strategies:

6.2.4.1 Positioning the product-

Management's ability to bring attention to a product and to differentiate it in a favourable way from similar products goes a long way toward determining that product's revenues and the company's profits. Positioning means developing the image that a product projects in relation to competitive products and to the firm's other products. A firm can pursue several positioning strategies;

(a) Positioning in relation to competitor-

For some products, best position is directly against the competition. This strategy is especially suitable for a firm that already has solid differential advantages or is trying to solidify such advantages, e.g. Coca-Cola and Pepsi.

(b) Positioning in relation to a product class/attribute-

Sometimes a company's positioning strategy entrails associating its product with a product class/ attribute. For example, Horlicks is associated with giving a healthy food, while Glucon D is positioned as an instant energy drink. This strategy is widely used now for food products.

(c) Positioning by Price and quality-

Certain producers are known for their high-quality products and high prices in automobiles. For example, Mercedes cars are positioned for the top end customer segments. Similarly, Sony products also command a premium price in the markets,

(d) Positioning in relation to a target market-

Regardless of which positioning strategy is used, the needs of the target market always may be considered. This positioning strategy does not suggest that the other ones ignore the target markets. Rather, with this strategy, the target market rather than other factors such as competition is the focus point in positioning the product.

6.2.5 Product Mix Expansion:

It is accomplished by increasing the depth within a particular line and/or the number of lines firm offer to consumers. When a company adds a similar item to an existing product line with the same brand name, this is termed a fine extension. A firm can extend its line up, down or both ways to cover a large segment of the market.

(a) Downward Extension: Practice of adding to a product line a less expensive product with fewer features or options and for more price-sensitive segment of the market

(b) Upward Extension: Upward extension is often harder than downward extension, but the reward can be substantial. It is strategy of adding to a product line a higher quality product with more features and options, and designed to sell at a higher price.

6.2.6 Product Modification/Adaptation

Often, improving an established product-product alteration-can be more profitable and less risky than developing a completely new one. However, product alteration is not without risks. When Coca-Cola company modified the formula for its leading product and changed its name to new Coke, Sales suffered so much that the old formula was brought back three months later under the Coca-Cola classic name. Redesigning the product itself can sustain its appeal or even initiate its re-launch.

6.2.7 Product-Mix Contraction:

Another product strategy, product-mix contraction, is carried out either by eliminating an entire line or by simplifying the assortment within a line. Thinner and/or shorter product lines or mixes can weed out low-profits and unprofitable products. The intended result of product-mix contraction is higher profits from fewer products. In services fields, some travel agencies have shifted from selling all models of travel to concentrate on specialized tours and trips to exotic places.

6.2.8 Product Life Cycle

Every product has its life. Industrial goods may have a longer life than consumer goods. When a Product idea is commercialised, the product enters into the market and competes with the rivals, for making sales and earning profits, Like human beings, the products also have a product life-cycle. The product life-cycle is generally termed as product market life-cycle, because it is related to particular market. The product life-cycle may be short for some products and long for some other products. The period may differ from product to product. Every product passes through certain stages, collectively known as product life-cycle stages.

These stages include:

Stage I - Introduction

Stage II - Growth

Stage III - Maturity

Stage IV - Decline

Stage I - Introduction Stage:

The first stage of a product Life-cycle is the introduction or pioneering stage. Under this stage, competition is almost or non-existent, prices are relatively high, markets are limited and the product innovation is not known much. The growth in sales volume is at a lower rate because of lack of knowledge on the part of the customers and difficulties in making the product available to the customers. During this stage, high expenditure has to be incurred on advertising and other promotional techniques. Prices are usually high during the introduction stage because of small scale of production, technological problems and heavy promotional expenditure.

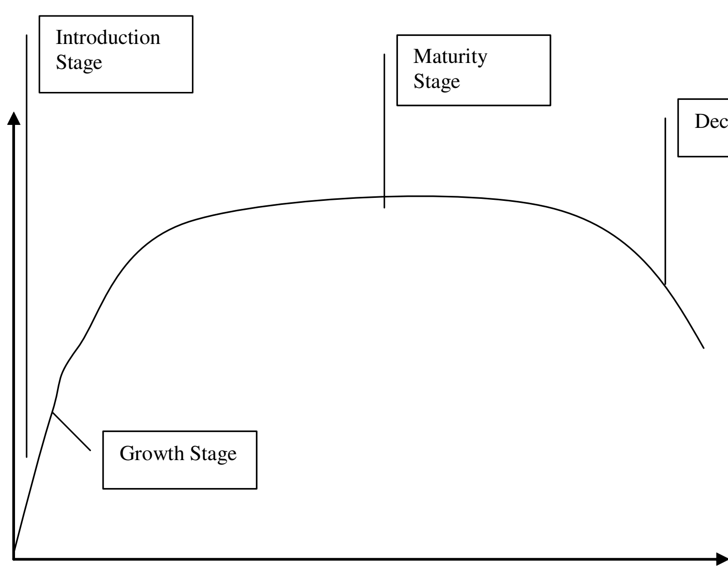

Figure 2: Stages in PLC

Stage II - Growth Stage:

As the product grows in popularity, it moves into the second phase of its Life-cycle, i.e., the growth stage. In this stage, the demand expands rapidly, prices fall, competition increases, and distribution is greatly widened. The marketing management focuses its attention on improving the market share by deeper penetration into the existing markets and entry into new markets. Sometimes, major improvements also take place in the product during this stage. The promotional expenses remain high although they tend to fall as a ratio to sales volume. The falling ratio of promotional expenditure to sales leads to increase in profitability during this stage.

Stage III - Maturity Stage:

The products enter into maturity stage as competition intensifies further and market gets stabilized. Profits come down because of stiff competition and the marketing expenditures rise. The prices are decreased because of competition and innovations in technology. There is saturation in the market as three is no possibility of sales increase. This stage may last for a long period as in the case of many products with long-run demand characteristics. But sooner or later, demand of the product starts declining as new products are introduces in the market. Product differentiation, identification of new segments and product improvement are emphasized during this stage.

Stage IV - Decline Stage:

This stage is characterized by either the product's gradual displacement by some new products or change in consumer buying behaviour. The sales fall down sharply and the expenditure on promotion has to be cut down drastically. The decline may be rapid with the product soon passing out of market or slow if new uses of the product are found. To avoid sharp decline in sales, the following strategies may be used:

i) New features may be added to the product and its packaging may be more attractive.

ii) Economy packs or models may be introduced to revive the market.

iii) The promotion of the product should be selective to reduce distribution costs.

6.2.9 Significance of Product Life-Cycle:

The concept of product Life -Cycle highlights that sooner or later all products die and that if management wishes to sustain its revenues, it must replace the declining products with the new ones. The product life-cycle concept indicates a to what can be expected in the market for a new product at various stages i.e, introduction, growth, maturity and decline. Thus, the concept of product life cycle can be used as a forecasting tool. It can alert management that its product will inevitably face saturation and decline, and the host of problems these stages pose. The product life-cycle is also a useful framework for describing the typical evolution of marketing strategy over the stages of product Life-cycle. This will help in taking sound marketing decisions at different stages of the product life-cycle.

After a product has been developed, it is launched in the market with the help of various promotional devices such as advertising, sales promotion, publicity and personal selling. In other words, product development must be followed by the successful introduction of the product in the market. For this, planning for introduction of the product starts during the process of product development itself. Every firm makes sale projections during introduction, growth and maturity stage of the product life-cycle. To achieve the projected sales target, it formulates promotional, pricing and distribution policies. Thus, the concept of product Life-cycle facilitates integrated marketing policies relating to product, price, promotion and distribution.

6.2.10 Advantages of Product Life- Cycle

1. When the product life-cycle is predictable, the management must be cautious in taking advance steps before the decline stage, by adopting product modification, pricing strategies, styles, quality change, etc.
2. The firm can prepare an effective product plan by knowing the product life-cycle of a product.
3. The management can find new uses of the product for the expansion of market during growth stage and for extending the maturity stage.
4. The management can adopt latest technological changes to improve the product quality, features and design.

6.3 Self-Assessment Questions:

Q1: What do you meant by concept of product?

Q2: What are the different levels of product?

Q3: Briefly explain production mix expansion?

Q4: What are the advantages of product life-cycle?

Q5: Explain product life-cycle?

Q6: What are the stages in product life-cycle?

6.4 Summary

A product is a set of attributes that satisfies a stated or an implied need. It consists of various levels – core product, basic product, expected product, augmented product and potential product. The product mix is the range of the products offered by a marketer and has depths and length. The product also has a product life cycle, with introduction, growth, maturity and decline stages. The marketing strategies at each of these stages varies and the successful marketer is one, who is able to identify these strategies and take the corrective action.

6.5 Glossary

- **Product:** an article or substance that is manufactured or refined for sale.
- **Branding:** It is a marketing practice in which a company creates a name, symbol or design that is easily identifiable as belonging to the company. This helps to identify a product and distinguish it from other products and service
- **Packaging:** It refers to all those activities related to designing, evaluating and producing the container for a product
- **Labelling:** Itis the display of label in a product.
- **Product Mix and Product Line:** A product mix is a group of everything a company sells. However, the product line is a subset of the product mix. A product line refers to a unique product category or product brand a company offers
- **Strategies:** A plan of action designed to achieve long-term or overall goals.

6.6 Answer to Self-Check Questions:

Q1: Refer to 6.2.1

Q2: Refer to 6.2.2

Q3: Refer to 6.2.5

Q4: Refer to 6.2.10

Q5: Refer to 6.2.8

Q6: Refer to 6.2.8

6.7 Terminal Questions

Q1. What is Product-mix? Explain briefly the product-mix and product line strategies?

Q.2. Explain how the marketing mix should be changed during the various stages of the Product-Life-Cycle?

Q.3. What strategies should be followed during various stages of Product life-cycle?

Q.4. What is Product life-cycle ? Explain its various stages? What marketing strategies are followed at each stage of the product life cycle?

Q.5. Discuss the significance and advantages of Product life-Cycle?

6.8 Suggested Readings:

1. Saxena, Rajan: Marketing Management.
2. Kotler, Philip: Marketing Management, New Delhi: Prentice Hall of India.
3. Stanton, William J. Michael J.Etzel and Bruce J. Walker: Fundamentals of marketing.

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Lesson No. 7
Pricing Methods and Strategies

Structure

7.0 Introduction

In highly competitive market place , most of the manufacturers find attracting customers, as a big challenge. In most competitive environment, price has become an integral part of marketing strategy for a product or a product line and can influence demand in variety of ways. It is also a direct source of revenue for the firm since sales volume is dependent on price. Pricing is a crucial determinant of buyer choice. It is a decision that has to be taken with the great care by all profit organisation as well as non schedule item profit organisations because it is the only element in the marketing mix that produces revenue, the other elements produce cost. Price represents the money which the buyer offers for the product offered by the seller. Now a days consumer does not want product only but certain services are also expected by him. For example, free home delivery, after sale services etc. The price shall not be for the product alone but also include these services.

7.1 Learning Objectives:

After studying this lesson, you will familiarize with following concepts:

- Pricing Methods:
  - o Cost-Oriented Methods:
  - o Competition-Oriented Methods:
- Objectives of Pricing:
- Pricing Strategies:
  - o Pricing at Prevailing Prices:
  - o Penetration Pricing:
  - o One Price Versus variable Price Policy:
  - o Price Lining:
  - o Geographical Pricing:
- Approaches to Geographical Pricing Strategies:
- Special Pricing Strategies:

7.2 Presentation of Contents:

7.2.1 Pricing Methods:

The price of product can play a vital role in attracting sufficient demand and providing handsome profit in aggregate. The most commonly used pricing methods can be classified into two categories as under:

7.2.1.1 Cost-Oriented Methods:

a) Cost-plus pricing

b) Pricing for a rate of return

c) Marginal Cost pricing

7.2.1.2 Competition- Oriented Methods:

a) Perceived Value pricing

b) Going rate pricing

c) Tender Pricing

7.2.1.1 Cost-Oriented Methods:

a) Cost- Plus Pricing:

Cost- Plus pricing is one of the commonly used methods. In this method, the price is set to cover costs and a predetermined percentage for profit. The percentage may differ among industries, among members-firms and even among products of the same firm. But is denotes some vague notion of a just profit. In full cost pricing, no sale is made at a price lower than the level that covers total costs, including both variables and fixed costs.

There are complex problems involved in determining real costs. Various types of costs are affected differentially by changes in level of output.

Full cost pricing is easier and safest to apply. The results given by this method are reliable and accurate.

Advantages of cost-pricing

1. Pricing based on full cost look factual and precise and may be more defensible on moral grounds than price established by other means.
2. Firms preferring stability, use full cost as guide to pricing in an uncertain market where knowledge is incomplete.
3. When firms are uncertain about the shape of their demand curve and about the probable response to any price change. This makes it too risky to move a way from full-cost pricing.
4. Management tends to know more about products cost than other factors which are relevant to pricing.

b) Pricing for Rate of return:

Another cost-oriented pricing approach is target pricing. The firm tries to determine the cost price that would yield the target rate of return on investment or maintain profits as a constant percentage of total sales. The target return price is given by following formulas:

$$\text{Target return price} = \frac{\text{Units Cost+ Desired Return X invested Capital}}{\text{Units sales}}$$

Unit sales depend on the price elasticity and competitor's prices. But, target return pricing tends to ignore these considerations. The manufacturer should consider different prices and estimates their probable impact on sales volume and profits. This method does not allow the exploitation of the full price which the customers might be willing to pay. Also this method does not consider the overall competitive situation in the market place.

c) Marginal Cost Pricing:

Both under full cost pricing and the rate of return pricing, prices are based on total costs comprising fixed and variable costs. But in marginal cost pricing, fixed costs are ignored and prices are determined on the basis of marginal cost. The marginal cost pricing aims at maximising the contribution towards fixed costs.

The marginal costs includes all the direct variable costs of one product. In marginal cost pricing, these direct variable costs are realised fully. Like others methods marginal cost pricing too has its advantages and limitations.

Advantages:

1. Marginal cost approach takes into account the cost aspects as well as demand aspects of product. Thus, under competitive market condition, the marginal cost pricing is useful.
2. Marginal cost pricing gives flexibility for realizing the fixed costs through different products/product lines at different rates depending on Market Conditions, while recovering all the marginal costs directly from the concerned products.
3. This method is useful in quoting for competitive tenders and in export marketing.

7.2.1.2 Competitors-Oriented Methods:

a) Perceived Value Pricing:

Many companies are basing their price on the product's perceived value. The fix the price according to the buyers perception of value from the product not he seller's cost, as the key pricing. Value is the ratio of what a customer gets for what he gives. They use the non price variables in the marketing mix to build up perceived value in the buyer's minds. Prices is set to capture the perceived value.

Perceived-value pricing fits in well with modern target market thinking. A company develops a product concept for a particular target market with a planned quality price. Then management estimates the volume it hopes to sell at this price. This indicates the needed plant capacity, investment, and unit costs. Management then figures out whether the product will yield a satisfactory profit at the planned price and cost. The company goes ahead with product development if it shows the sign of profitability. The key to perceived -value pricing is to accurately determine the market's perception of the product's value. Seller with an inflated view of their offer will overprice their product, or they might underestimate the perceived value and charge less than they could. Market research is needed to establish the markets perception of value as a guide to effective pricing. However, a major limitation of this method is that no method is standardised to measure customer value.

b) Going- Rate Pricing:

In going- rate pricing, the firm base, its price largely on competitors' prices, with less attention paid to its own cost or demand. The firm might charge the same, more or less than competitors. In oligopolistic industries that sell a commodity such as steel, paper, or fertilizer, firm normally charge at the sample price. The smaller firms 'follow the leader." They change their prices when the market leader's prices change rather than when their own cost or demand changes. Some firms may charge a slight premium or slight discount, but they preserve the amount of difference.

Going-rate pricing is quite popular. Where costs are difficult to measure, or competitive response is uncertain, firm feel that the going rate pricing represents a good solution.

c) Tender Pricing:

Business firms might be required to fix the prices of their product on tender basis when they have to make industrial/institutional bids. Tender pricing is also a competition oriented method of pricing. Industrial/ Institutional customers usually go by competitive bidding through sealed tenders or by quotations. They seek the best price consistent with the minimum quality specification. Obviously, the marketer cannot get the best possible price under these circumstances and has to bag the order.

The problem faced by any firm in tender pricing is basically one of the finding a price that is consistent with costs, profits and company objectives and also low enough get the business. The marketer has to set his price lower than what his competitors would quote for their products. He has to work out his barest minimum price. It will depend on his costs and how badly he needs the particular order.

7.2.2 Objectives of Pricing:

As an element of the marketing-mix, pricing strategy should be directed towards the accomplishment of specific marketing objectives which lead to overall organizational objectives. Pricing is not an end in itself, but a means to achieve certain objectives of the marketing department of a firm. Before determining the price itself, an explicit formulation of the firm's pricing objectives. Non-formulation of the clear-cut pricing objectives and policies leads to inconsistency and non-uniformity of pricing with other marketing-mix variables in the long-run.

The fundamental guides to pricing are the firm's overall goals. Normally, the broadest of these is survival. But to be more specific, firm's objectives relate to the rate of growth, market share, independence of operations, and earning of sufficient profits. The pricing objectives vary from firm to firm. Generally, the firms have multiple pricing objectives. The important pricing objectives followed by various firms are as under:

i) To achieve target rate of return on investment or on net sale.

ii) To achieve price stability.

iii) To meet or prevent competition.

iv) To maintain or improve market share.

v) To maximize profit.

vi) To survive in the market.

vii) To build public image.

7.2.3 Pricing Strategies:

Every firm has to take pricing decisions from time to time depending upon its pricing policies and conditions prevailing in the market. Some of the important pricing practices are discussed below:

7.2.3.1 Pricing at Prevailing Prices:

The strategy is followed to stay in the market because a price above the market price would sharply bring down sales while a lower price would not significantly increase sales. The product offered by different producers are substitutes of each other and there is no product differentiation. Pricing at the prevailing price is aimed at avoiding price competition and price wars as in case of customary pricing.

7.2.3.2 Penetration Pricing:

Under the pricing policy, prices are fixed below the competitive level to obtain a larger share of the market and to develop popularity of the brand. This method of pricing is usually found at the retail level of distribution. Many retailers offer discount to attract more and more customers. They operate on the principles of low mark-up and higher volume. Penetration pricing may also be used at the time of introduction of a new product by keeping the profits margin very low. This policy helps in developing the brand preference of the people and is useful in marketing the products which are expected to have a steady long-term market. Penetration pricing is an aggressive pricing strategy and is likely to be successful under the the following conditions:

i) The product has highly elastic demand, i.e., the quality sold is highly sensitive to price.

ii) Production is carried out on a large scale to achieve low cost of production per unit.

iii) There is a strong competition in the market.

7.2.3.3 One Price versus Variable Price Policy:

In case of one-price policy, the seller charges the same price to similar types of customers who purchase similar quantities of the product under essentially the same term of sale. The price may vary according to the quantity of purchase. However, prices charged for different quantities to different customers are the same.

7.2.3.4 Price Lining:

Price lining is used extensively by the retailers. The retailers usually offer a good, better and best assortment of merchandise at different price levels. Price lining simplifies pricing decision in the future as retail prices are already set. This helps the retailer to plan his purchase to suit his price lining. It also simplifies buying decisions by the customer.

7.2.3.5 Geographical Pricing:

Geographical pricing involves the company in deciding how to price its products to customers located in different parts of country. Should the company charge higher transportation costs and thereby risk losing their business? Or should the company charge the same to all customers regardless of location? So companies have these different

7.2.4 Approaches To Geographical Pricing Strategy.

(a) Point of production Pricing:

In a widely used geographical pricing strategy, the seller quotes the selling price at the point of production, and buyer selects the mode of transportation and pays all freight costs. Usually, referred to as FOB Factory pricing, which stands for free on board, this strategy is only in which the seller does not pay any of freight costs. The seller only pays for loading the shipment on the freight carrier, For bulky commodities such as milk, coal , iron steel , the price increases with the geographical distance of the point of point of consumption from the point of manufacturer. Such companies set a price level and the buyer has to pay for the freight and other handling expenses.

(b) Uniform Delivered Pricing:

Under uniform delivered pricing, the same delivered price is quoted to all buyers regardless of their locations. It is called, postage stamp pricing because of its similarly of the pricing of first-class mail services. This strategy is used by many retailers who believe free delivery in an additional services that strengthens their market position. Companies like Reynolds, Stick pens etc. charge the same price throughout the country.

(c) Zone- Delivered Pricing:

Zone-delivered pricing divides a seller's market into a limited number of broad geographic Zones and then sets a uniform delivered price for each zone. Zone-delivered pricing a similar to the system used in pricing package-delivery services. When using this strategy seller must walk a tight rope to avoid charges of illegal price discrimination. This method is a mixture of earlier methods. Petroleum companies follow this method. They charge a uniform price is a state. Usually, they have a distribution center in a state and from there, they absurb the freight within the state to arrive at uniform delivered price.

(d) Freight – Absorption Pricing:

The seller who is anxious to do business with a particular customer or geographical area might absorb all or part of the actual freight charges in order to get the business. Freight absorption pricing is used for market penetration markets and also to hold on to increasingly competitive markets.

(e) Promotional Pricing:

Under certain circumstances companies will temporarily price their products below the list price and sometimes even below cost. Promotional pricing takes several features:

(f) Loss leader pricing:

In this strategy supermarkets and department stores temporarily drop price on well know brand to generate store traffic. The items on which prices are cut are termed as leaders. But manufacturers typically disapprove of their brands being used a loss leaders because this can dilute the brand image as well as cause complaints from other retailers who charge the normal price.

(g) Special event pricing:

Companies often come up with special promotional schemes at special events such a Diwali or Christmas to give a boost to their sales at the festive reason. Companies manufacturing the air conditions come up with off-reason discounts to boost the sales during the winters. Similarly, companies making woolen products cut down prices of their products during summers.

(h) Cash discounts:

A cash discount is a deduction to buyers who pay their bills promptly. Such discounts are customary in many industries and serve the purpose of improving the sellers, liquidity and reducing credit collection costs.

(i) Functional discounts:

Functional discounts also called trade discounts are reduction from the list price offered to buyers in payment for marketing functions the buyers will perform-functions such as storing ,promoting and selling the product.

(j) Allowances:

Allowances are other types of reductions from the list price for example, trade in allowances reduction granted or turning in an old item when buying a new one. Trade in allowances are most common in automobile industry and in some other durables goods categories. Promotional allowance is a price reduction granted by a seller as payment for promotional service performed by buyer.

7.2.5 Special Pricing Strategies:

To set initial prices and evaluate existing price, a firm needs to consider a number of distinctive strategies. It is likely that at least one, but probably not all, will apply to a particular pricing situation.

(a) One Price and Flexible Price Strategies:

Under a one price strategies, a seller charges the same price to all similar customers who buy identical quantities a produce. Under flexible price strategy, also called a variable price strategy, similar customers may pay different prices when buying identical quantities of a product. Flexible pricing is used in many firms like airlines.

(b) Single Price Strategies:

Different from one price strategy, all items sold by the firm, carry a single price. Single price strategy can be successful not just during recession but during prosperous time as well.

(c) Odd Pricing:

Odd pricing is commonly used in retailing. Odd pricing sets prices at uneven or odd account. The rational for odd pricing is that is suggest lower prices and as a result yield greater sales than even pricing.

7.3 Self-Assessment Questions:

Q1: What do you meant by pricing methods?

Q2: What are the objectives of pricing?

Q3: Explain pricing strategies?

Q4: Write a short note on geographical pricing?

Q5: Briefly explain penetration pricing?

Q6: What are the advantages of cost pricing?

7.4 Summary

Pricing policies constitute the general framework, within which pricing decisions should be made in order to achieve the pricing objectives. They provide guidelines within which pricing strategies is formulated and implemented. Each firm designs its pricing strategies to achieve the marketing objectives i.e. customer-delight, profitable sales volume, increased market share and better public image.

7.5 Glossary:

- **Pricing:** Pricing is the process you need to go through to figure out what price to attach to each unit.
- **Geographical pricing:** It is the practice of modifying a basic list price based on the geographical location of the buyer.
- **Product line pricing:** Product line pricing involves the separation of goods and services into cost categories in order to create various perceived quality levels in the minds of consumers.
- **Discounts:** The discount is list price minus the sale price then divided by the list price and multiplied by 100 to get a percentage.
- **Rebates:** A partial refund to someone who has paid too much for tax, rent, or a utility.
- **Pricing policies:** Pricing policy refers to how a company sets the prices of its products and services based on costs, value, demand, and competition.
- **Pricing methods:** Cost plus pricing, Mark-up pricing, Break-even pricing, Target return pricing, early cash recovery pricing, Perceived value pricing, Going-rate pricing, Sealed-bid pricing:

7.6 Answer to Self-Check Questions:

Q1: Refer to 7.2.1

Q2: Refer to 7.2.2

Q3: Refer to 7.2.3

Q4: Refer to 7.2.3

Q5: Refer to 7.2.3

Q6: Refer to 7.2.1

7.7 Terminal Questions:

1. Explain the objectives of pricing policy of a business firm?
2. Explain penetration pricing? How does it differ from skimming the cream pricing policy?
3. State and explain the various pricing policies and practices followed by business enterprises?
4. Discuss the basic methods of pricing used by modern business firms?
5. What do you understand by psychological pricing and premium pricing? Based on your personal experience, give examples of both?

7.8 Suggested Readings:

1. Saxena, Rajan: Marketing Management.
2. Kotler,Philip: Marketing Management, New Delhi: Prentice Hall of India.
3. Wind, Yorman J. Product Policy: Concepts, Methods and Strategy.
4. Ramaswamy, V.S. and Kumari, Nama S.: Marketing Management :Planning Implication and Control.

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Lesson No. 8
Promotion Decisions-Advertising

Structure

8.0 Introduction:

Effective communication is the essence of promotion. In the age of information, marketing is incomplete without effective communication with the prospective buyer about the right product at the price that is available at the right place. Marketer's must communicate the product, its features, etc to the right target customers by formulating right message in the language that is understood by them. Proper communication requires advertising, sales promotion, personal selling, direct marketing, and public relations. The marketer has to use complex of marketing communication, and public relations.

Promotion is an important part of the marketing-mix of a business enterprise. It is the spark plug of the marketing-mix. Promotion is a process of communication involving information, persuasion, and influence. It includes all types of personal or impersonal communication with customer as well as middlemen in distribution. The purpose of promotion is to inform, persuade and influence the prospective customers. Personal selling, advertising, publicity and sales promotion are widely used to inform the people about the availability of products and create among them the desire to buy the products.

8.1 learning Objectives

After studying this lesson, you will familiarize with following concepts:

- Promotion-Mix Concept
    - o Factor affecting Promotion-Mix

- Advertising
    - o Evaluating Advertising Effectiveness/Campaign
    - o Objectives of Advertising
    - o Function of Advertising
- o Significance of Advertising

8.2 Presentation of Contents:

8.2.1 Promotion mix concept

The term "Promotion-Mix" is used to refer to the combination of different kinds of promotional tools used by a firm to advertise and sell its products. The main promotional tools or activities which make-up the promotion-mix are:

(a) Personal Selling

(b) Advertising

(c) Public Relations

(d) Publicity

(e) Sale Promotion

The modern business cannot depend upon a single promotional tool. They have to make use of all the promotional tools in different degrees depending upon the nature of product, nature of competition and kinds of customers. The marketing manager is supposed to decide about the use of various promotional activities and allocate budget for them. While taking a decision about promotional-mix, two factors need adequate consideration.

8.2.1.1 Factors Affecting Promotion-Mix

There is no tailor-made promotional –mix for a firm. Every firm has to design its own promotional-mix i.e. to determine the various promotional tools to be used for promoting the sales of its products. The most striking feature of the promotional tools is their cross-substitutability calls for treating various promotional tools in a joint decision framework. Promotional Strategy is determined by the product-market strategy and overall marketing strategy. Various combinations, types and degrees of personal selling, advertising and other forms of promotional tools are brought together into a promotional –mix to develop the promotional strategy. For each component of the promotional –mix, management has to set objectives, determine policies and formulate strategies.

The managerial decision about the promotional- mix of a firm is influenced by the following factors:

(a) Nature of Product:

The type of promotional –mix will differ depending upon the nature of the product. In case of sale of consumer's products, advertising, publicity and sales promotion are necessary in addition to personal selling. But in order to push up industrial goods, personal selling is much more effective because its market is easily identifiable, products are often made to specifications and a great deal of pre-sale and after-sale services are required to sell and install the product.

(b) Product Image:

Prestige goods rarely use coupons or point-of –purchase-displays. They may occasionally arrange sales. However, there may be great usage of freebies.

(c) Pricing Policy:

The pricing of product can broadly decide the type of promotional-mix. Depending upon whether a firm follows the market penetration, or market skimming strategy, the message, media, appeal, etc. would undergo a change.

(d) Level of competition:

The type of competition existing in the market is one of the factors, which can affect the penetration of the product/brand into the market. The promotional efforts must match the level of competition and there is generally tendency to go for high advertising, sales promotion and personal selling, when there is highly competitive marketing environment.

(e) Geographical Coverage:

In case of wide market coverage, advertising and sales promotion are desirable. For example, to inform that the LG television is widely available at competitive prices, high promotional campaign is launched by LG Company.

(f) Promotional Budget:

The allocation of funds by the top management for the promotional activities must be kept in mind by the marketing manager while determining the promotional –mix. A firm with huge promotional budget can spend on all promotional activities. But a marketer with financial constraints will be selective in the use of promotional activities. Personal selling is cheaper and more effective in short-run. Advertising in reputed magazines and journals is very costly, but can attract the status conscious customers towards the product.

8.2.2 Advertising:

In the present times, advertising has become the hallmark of marketing and every customer is exposed to them. To conceptualize advertising, it can be looked upon as the dissemination of information concerning an idea, product or service to induce action in accordance with the intent of the advertiser. According to William .J. Stanton," Advertising consists of all the activities involved in presenting to an audience a non-personal, sponsor-identified, paid-for message about a product or organization.

Advertising is any paid form of non-personal presentation and promotional of ideas, goods or services of an identified sponsor. Since every firm has limited resources, it cannot advertise without considering its impact, It must evaluate whether the advertisement has achieved its objectives or not. Some of the techniques of measuring ad-effectiveness are explained in the following discussion.

8.2.2.1 Evaluating Advertising Effectiveness/Campaign:

In managing the advertising programme, company should carefully evaluate the effectiveness of previous ads and use the results to improve the quality of future ads. It is however, the most demanding task facing an advertiser. But there is difficulty of evaluation because ads have different objectives and ads can have an effect over time. Testing ad effectiveness can be done either before or after the campaign.

a) Pre-Test:

These tests estimate the likely effective was of an advertisement before it is released. These tests are used to determine the based appeal, layout and media. Some common pretests are as follow:

i) Consumer jury test- it uses a panel of consumers from the target market. They rank the ads by perceived effectiveness and explain their ranking and their reaction to each ad.

ii) Portfolio or unfinished –rough test-The purpose is to evaluate print advertising. Consumers are asked what ads they remember. Then they respond to questions about specific ads. It also helps in measuring the effectiveness of proposed television commercials.

iii) Physiological Tests- Consumers have involuntary physical reactions to advertisements. Physiological tests. Measure these human responses, using galvanic skin response tests, eye movement experiments & pupil dilation measurements.

b) Post-Test:

After advertiser implements a campaign, they often conduct test to measure its effectiveness. The post effectiveness of a campaign usually tested through the following:

i) Recognition Tests- It is used to measure the effectiveness of magazine advertising .

ii) Aided Recall- asking people if they can recall seeing any ad for a particular, brand with help of clues.

iii) Unaided Recall- asking people if they can remember seeing any ad within a identified product category, without providing any clues.

1. Attitude Measures: Often attitude measures are incorporated into recall and recognition tests. For example, interviewers may ask interviewees multiple- choice questions on a scale.

8.2.2.2 Objectives of Advertising:

The fundamental purpose of advertising is to sell something- a product, a service or an idea. In addition to this general objectives, advertising is also used by the modern business enterprises for certain specific objectives which are listed below;

1. To introduce a new product by creating interest for it among the prospective customers.
2. To support personal selling programme. Advertising may be used to open customer's doors for salesman.
3. To reach people inaccessible to salesman.
4. To enter a new market or attract a new group of customers.
5. To fight competition in the market and to increase the sales as seen in the fierce competition between Coke and Pepsi.
6. To enhance the goodwill of the enterprise by promising better quality products and services.
7. To improve dealer relations. Advertising supports the dealers in selling the products and services.
8. To warn the public against imitation of an enterprise's products.

3.2.2.3 Functions of Advertising

Advertising has become an essential marketing activity in the modern era of large scale of production and serve competition in the market. It performs the following functions:

(a) Promotions of Sales:

It promotes the sale of goods and services by informing and persuading the people to buy them. A good advertising campaign helps in winning new customers both in the national as well as in the international markets.

Introduction of New Product: It helps the introduction of new products in the market. A business enterprise can introduce itself and its product to the public through advertising . A new enterprise can't make an impact on the prospective customers without the help of advertising. Advertising enables quick publicity in the market.

(b) Creation of Good Public Image

It builds up the reputation of the advertiser. Advertising enables a business firm to communicate its achievement in an effort to satisfy the customers needs. This increases the goodwill and reputation of firm which is necessary to fight against competition in the market.

(c) Economies of Scale

Advertising facilitates large-scale production. Advertising encourages production of goods in large-scale because the business firms knows that it will be able to sell on large-scale with the help of advertising. Mass production reduces the cost of production per unit by the economical use of various factors of production.

(d) Research

Advertising stimulates research and development activities. Advertising has become a competitive marketing activity. Every firm tries to differentiate its product from the substitutes available in the market through advertising. This compels every business firm to do more and more research to find new products and their new uses. If firm does not engage in research and development activities, it will be out of the market in the near future.

(e) Education of People

Advertising educate the people about new products and their uses. Advertising message about the utility of a product enables the people to widen their knowledge. It is advertising which has helped people in adopting new ways of life and giving-up old habits.

(f) Support to Media

Advertising provides an important source of revenue to the publishers and magazines. It enables to increase the circulation of their publication by selling them at lower rates. People are also benefited by selling them at lower rates.

8.2.2.4 Significance of Advertising

Benefits to Manufacturers and Traders:

i) Advertising helps in introducing new products. A business enterprise can introduce itself and its products to the public through advertising.

ii) It can create new taste among the public and stimulate them to purchase the new product through effective advertisement.

iii) Advertising assists to increase the sale of existing products by entering into new markets and attracting new customers.

iv) Advertising help in meeting the forces of competition in the market-place. If a product is not advertised continuously, the competitors may snatch its market through increased advertisements.

v) Advertising is used to increase the goodwill of a firm by promising improved quality to the customers.

Benefits to Customers:

i) Advertising helps the customers to know about the existence of various products and their prices. They can choose from the various brands to satisfy their wants. Thus, they cannot be exploited by the seller.

ii) Advertising educates the people about new products and their diverse uses.

iii) Advertising increased the utility of existing products for many people adds to the amount of satisfaction which they are already enjoying.

iv) Advertising induces the manufacturers to improve the quality of their products through research and development. This ensures supply of the products of better quality to the consumers

Benefits of Society:

i) Advertising provides employment to persons engaged in writing, designing and issuing advertisements. Increases employment brings additional income with the people, which stimulate more demand. Employment is further generated to meet the increased demand.

ii) Advertising promotes the standard of living of the people by increasing the variety and quality in consumption as a result of sustained research and development activities by the manufacturers.

iii) Advertising educates the people about the various uses of different products and this increases their knowledge. Advertising also helps in finding customers in the international market which is essential for earning foreign exchange.

8.3 Self-Assessment Questions:

Q1: What do you meant by promotion-mix concept?

Q2: What are the factors affecting promotion-mix?

Q3: what is advertising?

Q4: Briefly explain the objectives of advertising?

Q5: Write few functions of advertising?

Q6: Explain the benefits of advertising?

8.4 Summary

Advertising is a paid form of non-personal communication aimed at promoting a product/service, or an idea. It helps in spreading information about the advertising firm, its products, qualities and place of availability of its products, and so on. It helps to create a non-personal link between the advertiser and the receiver of the message. The significance of advertising has increased in the modern era of large scale production and tough competition in the market. Advertising is needed not only by the manufacturers and traders but also for the customers and the society.

8.5 Glossary:

- **Promotion:** It refers to any type of marketing communication used to inform or persuade target audiences of the relative merits of a product, service, brand or issue.
- **Advertising:** It is a marketing communication that employs an openly sponsored, non-personal message to promote or sell a product, service or idea.
- **Marketer:** .A person whose duties include the identification of the goods and services desired by a set of consumers, as well as the marketing of those goods and services on behalf of a company.

- **Personal selling:** It is where businesses use people (the "sales force") to sell the product after meeting face-to-face with the customer.
- **Public relation:** It is the practice of deliberately managing the spread of information between an individual or an organization and the public.
- **Evaluation:** It is a systematic determination of a subject's merit, worth and significance, using criteria governed by a set of standards.
- **Research:** It is "creative and systematic work undertaken to increase the stock of knowledge, including knowledge of humans, culture and society, and the use of this stock of knowledge to devise new applications.

8.6Answer to Self-Check Questions:

Q1: Refer to 8.2.1

Q2: Refer to 8.2.1

Q3: Refer to 8.2.2

Q4: Refer to 8.2.2

Q5: Refer to 8.2.2

Q6: Refer to 8.2.2

8.7 Terminal Questions:

1. What is promotion? What are the important objectives of promotion?
2. What do you understand by advertising? Discuss?
3. Examine the objectives and functions of advertising?
4. Comment upon the advantages of advertising on various stakeholders – advertisers, public, society, etc?
5. Is advertising a necessary economic function in modern business? What consideration would you keep in mind while choosing advertising media?

8.8 Suggested Readings:

1. Sengupta, Subroto, Cases in Advertising and communications management in India.
2. Kotler,Philip, and Gary Armstrong, Principles of Marketing.
3. Sandage and Fryburger, Advertising, PHI, New Delhi.

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Lesson No. 9
Sales Management, Publicity and Personal Selling

Structure

9.0 Introduction

Sales promotion is an important marketing function as all the marketing strategy is ultimately implemented by the sales teams that work in the field. Personal selling, advertising and publicity are the important components of an effective sales promotion programme. At the outset, this unit discusses sales planning, which entails clearly developing the sales programme, organizing the sales activities and finally sales control. Subsequently, the concept of advertising and publicity are also discussed.

9.1 Learning Objectives:

After studying this lesson, you will familiarize with following concepts:

- Planning the personal selling programme
- Issues in planning sales programme
- Planning of sales organization
- Advertising
- Publicity
    - o Advantages/Limitations of Publicity
    - o Publicity and Advertising

9.2 Presentation of contents

9.2.1 Planning the personal selling programme

While planning the sales programme, the sales managers often specify their plans on the following:

(i) Type of product

(ii) Size of the company

(iii) Type of supervisory organization

(i) Type of product

The nature of sales operations depends, to a large extent, on the type of a product. As the product lines grow in numbers, the planning function becomes more and more complex. The degree of importance of planning varies with the nature of goods also. In case of consumer goods, where the sales team has to contact a large number of the customers and has to cover a wide area, the planning becomes even more difficult. A lot of effort has to be done for the development of sales programmes, coordinating personal selling with advertising and building and maintaining good relationships with the dealers and the customers.

If the product is an industrial product, it is the operational part, which becomes more important. A sales manager has to manage and direct the sales force, make calls with the sales personnel and maintain a close touch with the buyers. The markets of industrial products are not as changing as they are in case of consumer goods. So, once the systems are developed, it is more important to maintain them.

(ii) Size of the company

The amount of time devoted to planning varies with the size of the company. The sales manager of a small company spends more time in operations, while a sales manager of a large company spends more time in planning. As the size of a company grows, it has to service increased number of customers and has to sell more number of products. This makes sales planning an important task. It must be noted that achieving a big size is one thing, but increasing or even maintaining it is all the more difficult because the competitors are always on watch and strike at the slightest opportunity. This increases the need for a continuous growth, which is impossible to achieve in absence of a very well planning.

(iii) Type of supervisory organization

Supervisory organization refers to controlling the way in which the sales personnel distribute their time and effort. As the sales teams grow in size, the senior management often follows the principle of 'management by exception' and spends more time in strategic planning. The task of operational level plans is left to the middle level managers. The sales people in the field do the day-to-day planning, under the supervision of their seniors. It is noteworthy that the degree of supervision varies from organization to organization and so does the nature and degree of sales planning function.

9.2.2 Issues in planning sales programme

Some of the important issues for planning the sales programme are as under:

(i) Sales budget

(ii) Sales quotas

(iii) Sales territories

(iv) Routing and scheduling of sales team

(v) Sales expenses

(vi) Sales meetings

(vii) Sales force management

(i) Sales budget

Sales budget is the quantified version of a sales plan. In a sales budget, the levels of sales to be achieved are specified in terms of volume as well as value. The targets are broken according to the territory, time-span and the products. The growth projections are made using historical data and/or other mechanisms. The detailed discussion on the sales forecasting is in the subsequent section.

(ii) Sales quota

Sales quota refers to the level of sales specified to each member of the sales team, which he/she has to achieve in a given territory, in a specified period of time. As in case of budget, the planning of sales quota is done in terms of both value and volume of sales to be achieved. In the case of the launch of a new product, or when the company is interested to promote a specific product, the product-specific quota may also be assigned. The quota is the projected level of sales that is likely to be achieved from a given region and serves as a benchmark for the sales team.

(iii) Sales territory

The markets of a product are spread in a wide area. So, the usual practice is to divide the market into smaller territories so that the sales personnel can focus on the specific areas for achieving their targets. This entails the process of forming sales territories. Quite often, the sales territories once made are not changed. So, it is very important that at the planning stage, they are designed properly. The size of territories should not be too large, otherwise the sales person will not be able to cover the entire territory and realize the full market potential. In case the sales territories are too small, the sales person shall be under-utilized and the overhead expenses of sales shall be too high. So, the size and the shape of the sales territories should be optimum. Often, the shape of the sales territories is circular or wedge-shaped.

The centrality of the planning of sales territory can be realized from the fact that all the subsequent indicators of sales performance are heavily based on the sales territories. So, proper care should be taken while designing them.

(iv) Routing and scheduling of sales team

After the sales territories are designed and the sales team allocated their specific tasks, their routing and scheduling of activities is planned in order to ensure that they spend their time to the best of their level. In absence of proper planning of their routing and scheduling, it would be difficult to control their activities into the market.

(v) Sales expenses

Sales activities are one of the costliest activities in a business organization. Since the sales teams are not under the direct supervision of their seniors, there is a possibility that they may not plan their activities to the best of their efficiency. As stated earlier, the tour plans of the sales team; the expenditure that they are making in the field for promotion and other activities must be kept under proper check to ensure that the level of profitability does not go down.

(vi) Sales meetings

Sales meetings are one of the useful control devises for the sales force management. However, if done without proper planning, they might not be able to achieve the results and may become a useless exercise. The sales meetings take the sales team off the field and reduce their activities. Also, they are a costly affair in terms of the expenditure, as the entire sales team has to be lodged in a star hotel and paid traveling expenses etc. So, the frequency and duration of the meetings should be planned properly to achieve the results. The agenda of the meetings should be clearly specified in advance; otherwise, they might go off the track in their discussions.

(vii) Sales force management

Sales management is primarily the task of sales force management. So, no planning of sales activities is successful in absence of proper planning of the sales force management activities. At the first stage come the activities related to manpower planning in the sales departments. The sales managers have to decide on their projections of the sales in the future times and specify the number and skill level of the sales teams, to be required in future. They might have to look for newer sources of sales personnel and devise newer methods of testing and selection.

After the recruitment and selection come the planning of induction and training activities of the sales team. Most good companies have very comprehensive orientation and training programmes. The sales managers have to anticipate the training needs of future and design make their plans in advance. The sales managers also need to design and update their compensation and separation policies. In case the compensation is less than the industry, there shall be higher employee turnover and if the same is less than the industry, the sales expenses shall increase. The level of salary and other benefits to the employees should be optimum. Since the industry practices of compensation and separation keep on changing, the sales managers have to keep themselves abreast with the changes and take the necessary actions.

9.2.3 Planning of sales organization

Essentially, sales organization is the process of identification of activities, grouping of activities and assigning the people to activities and jobs. The relationships among the people are specified in terms of the authority and responsibility.

The relationships in an organization cannot be changed every now and then. So, the task of sales organization needs a very careful planning. A rightly designed structure can make an organization very efficient and effective and a poorly designed sales organization can be a source of unnecessary conflict. Some of the issues in planning of sales organization are:

(i) Objectives

(ii) Type of sales organization

(iii) Dividing line authority in sales organization

(iv) Degree of centralization

(v) Sales department relations

(vi) Coordination function of sales department

(i) Objectives

The objectives specify the very purpose of an organization and must be specified clearly. Also, it is important that the sales objectives must be commensurate with the objectives of the organization. Several problems can arise in absence of such coordination between the objectives of the various departments of an organization.

The harmony of objectives must permit specialization of tasks and allow these specialists to work to the best of their ability. It may be appreciated that at times there might be a conflict in the objectives of the sales department and other departments. In such a situation, there should be mechanisms to reduce or offset the conflict. Proper planning can control a wide range or problems, which may crop up subsequently.

(ii) Type of sales organization

The type of sales organization must be defined at the stage of planning. Typically, small organizations follow line organizations. The bigger organizations follow line and staff organization because several specialist functions grow as an organization grows in size. In the modern complex organizations, characterized with multiple product lines and serving diverse markets, it is the matrix form of organization, which is emerging to be more popular.

(iii) Dividing line authority in sales organizations

The division of line authority refers to the process of departmentation. In sales organizations, typical bases for dividing line authority are the geographical, product and the customers. The most popular basis of dividing the line authority is the geographical basis. Many companies divide the countries into zones and zones into regions. The regions are further divided into territories.

If a company has multiple product lines and serves diverse market, departmentation on the basis of product is also becoming very popular. For example, Cipla Ltd., a leading pharmaceutical company has six divisions, each selling a specialized range of products to the same market. This enables the sales teams to devote their time in selling a few products and thus achieve greater effectiveness. Some companies also divide their line authority on the basis of customers. For example, Asian Paints serves to industrial as well as consumer markets. They have different sales departments for each of these sets of customers.

The basis of dividing line authority would depend on several factors such as the company objectives and the diversity of products, consumers and markets etc.

(iv) Degree of centralization

Degree of centralization refers to the extent to which the power of decision-making is retained by the top management in its hands. A large number of factors influence this. The prominent among them are the top management philosophy, capacity of seniors and the subordinates and the nature of duties. For an effective sales function, a reasonable degree of freedom is essential for the sales team because while working in the field, they cannot refer to the top management for every decision. Quite often, they have to be given enough authority to negotiate the deals. The nature and shape of the sales organization varies with the degree of centralization of power in an organization. Highly centralized organizations have close supervision and have a narrow span of control, while the decentralized organizations have a relatively structure.

(v) Sales department relations

The sales department has to maintain relations with various individuals and group of people. At the first place, they have to keep relations with the customers. In order to ensure the uninterrupted supply of goods and services, they have to issue the timely instructions with the company also. It would not be an exaggeration to say that the success of any sales programme depends very heavily on the ability of the salespersons to make relations and to keep them.

(vi) Coordination function of sales department

Sales function is essentially a function of coordination among various groups of people, both within the organization as well as outside the organization. Outside the organization, the salesperson has to coordinate with the customers, government, and members of the distribution channel, press etc. Within the organization, the salespersons have to coordinate their activities with the logistics, finance, marketing, advertising, and customer service departments. They also supply useful feedback to the marketing research, production and the R & D departments. The dexterity of the sales team to ensure uninterrupted flow of goods and services, finances and information depends on how well they are able to coordinate themselves with others.

Planning Sales control

Planning would remain useless in absence of proper control mechanisms. The control function goes hand in hand with the planning function. The sales managers have to lay down the parameters of performance and clearly spell out the mechanisms to measure the performance against the laid down standards. Detailed discussion on the techniques of sales control is contained in another lesson. At this stage, it needs to be appreciated that sales control, as a function, has to be performed at the planning stage.

9.2.4 Advertising

Advertising is a paid form of non-personal communication, impressing upon the consumers to purchase the product/service. In an advertisement, the sponsor is clearly identifiable and the message is conveyed across by various media to be ultimately delivered to the prospective consumers. In the present day market-led economy, advertisements are the hall mark of the marketing activities. A study found that on an average, an Indian is exposed to several hundred advertisements in a day. Advertisement is assuming newer forms and is coming to the audience through different media. They assume diverse appeals and forms to secure some place in the consumers mind so that s/he is motivated to purchase the product.

Commonly used media in advertising are the print media, the electronic media – TV, radio, outdoor media, Internet, etc. A lot of research goes on designing the advertisements and rightfully launching them to secure high degree of effectiveness. Within the constraints of this study material, it is not possible to discuss the subject in greater details. The students must refer to standard textbooks on the subject to gain better understanding.

9.2.5 Publicity

In addition to advertising, publicity is an important means of marketing communication. In advertising, the sponsor is clearly identifiable, but in case of publicity, it is not possible to identify the sponsor. Rather, publicity can be a non-paid for of marketing communication as well, where a positive opinion about the product or service is built by giving favourable news in the media. The following examples will make the concept of publicity and its difference from advertising more clear.

(i) Sometimes, newspapers have the articles which say that saturated fats have the danger of blocking the heart arteries. So, it is recommended that non-saturated fats be consumed. Such news are aimed at selling products like Saffola. Here, the sponsor will not come in limelight directly, rather it will be promoted indirectly.

(ii) Politicians give favourable news about themselves to secure favourable public opinion. They would not have made payments directly to get such a publicity.

(iii) Educational institutions sponsor seminars to impress upon the students to join the courses, which they offer.

9.2.5.1 Advantages/Limitations of Publicity

|In publicity, the credibility is more as people believe that the opinion being expressed in the news is reliable as nobody has made any payment for the same. They would believe the expert's advice, research reports, testimonials, etc. and tend to trust the potential benefits of the brands that are being promoted through such a publicity. For the marketer, publicity is more economical means of communication. However, there lies a risk in publicity also. Since the brand name does not appear in the publicity, the consumers might not be able to recall and recognize the same. They might appreciate the benefits of the class of products and end up using the competitor brand.

9.2.5.2 Publicity and Advertising

Publicity and advertising are not mutually exclusive means of marketing communication. Rather, they can be effective only if they are used together. Publicity in absence of advertisement might lead to confusion on brand name and may not secure the desired sales results. Similarly, only advertisements might not be readily acceptable as the consumers might feel that the product features are being exaggerated. If both of them are used together, there is far greater impact. For example, Hidustan Levers held demonstrations in villages to show the advantages of washing hands before eating food. This publicity campaign made Lifebouy the largest selling brand of soap. Here, publicity (in the form of street demonstration) and advertising were done together and the results are quite encouraging.

9.3 Self-Assessment Questions:

Q1: What do you meant by planning the personal selling programme?

Q2: Explain the planning of sales organization?

Q3: Briefly explain publicity?

Q4: What is advertising?

Q5: What are the limitations of publicity?

Q6: Name some important issues for planning the sales programme?

9.4 Summary

Sales promotion is a complex activity, which aims at motivating the consumers to purchase the product. There are four components of a typical sales promotion programme. At the very outset, proper sales management is an essential component of such an exercise. Then follow the activities such as bonus offers, schemes, gifts and other such programmes that motivate a consumer to purchase the product. These measures need the support of advertisements and publicity, which secure a favourable attitude in the minds of the consumers and motivates them to purchase a product. Sales management and sales promotion has a large number of the factors, that can support or hamper its effectiveness. Therefore, a proper balancing of these factors is a must to secure optimal results.

9.5 Glossary:

- Management: It means directing and controlling a group of people or an organization to reach a goal.
- Publicity: It is the public visibility or awareness for any product, service or company.
- Personal selling: It is where businesses use people (the "sales force") to sell the product after meeting face-to-face with the customer.

- Budget: A budget is a financial plan for a defined period, often one year. It may also include planned sales volumes and revenues, resource quantities, costs and expenses, assets, liabilities and cash flows.
- Centralisation: It refers to the process in which activities involving planning and decision-making within an organization.
- Coordination: The organization of the different elements of a complex body or activity so as to enable them to work together effectively.
- Planning: It is the process of thinking about the activities required to achieve a desired goal.

9.6 Answer to Self-Check Questions:

Q1: Refer to 9.2.1

Q2: Refer to 9.2.3

Q3: Refer to 9.2.5

Q4: Refer to 9.2.4

Q5: Refer to 9.2.5

Q6: Refer to 9.2.2

9.7 Terminal Questions

1. Why is it important to plan the sales activities?
2. What are various methods of organising sales departments?
3. What are various means of sales promotion?
4. Differentiate between publicity and advertising. Which of the two is more effective and why?

9.8 Suggested Reading

(i) Gandhi JC (1990) Marketing: Managerial Introduction, TMH, New Delhi.

(ii) Kotler Philip (1999) Marketing Management: Analysis, Planning, Implementation and Control, PHI, New Delhi.

(iii) Still, Cundiff and Govani (1999) Sales Management: Decisions, Strategies and Cases, PHI, New Delhi.

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Lesson No. 10
Management of Marketing Channels

Structure

10.0 Introduction:

In the olden days, people used to exchange their products by 'barter' system. As business expanded people felt that they couldn't be physically present at all the times to be available to the prospective buyers. Then arose the need of employing the services of the middlemen. There is evidence to suggest that the middlemen played their role even in ancient Greeks. Indian merchants traveled overseas to sell spices and bring home gold. In the modern economy, there is a high degree of inter-dependence. Globalization has opened newer markets for the business and nowdays, increased quantum of the products is being sold in the foreign markets. This is not possible without the role of these middlemen or the intermediaries, collectively known on the marketing channels.

10.1 Learning Objectives:

After studying this lesson, you will familiarize with following concepts:

- Marketing Mix & Marketing Channels
- Flow in marketing Channels
- Advantages at Marketing Channels
- Function of Marketing Channels
- Classifying channels on the basis of levels

10.2 Presentation of Contents:

10.2.1 Marketing Mix & Marketing Channels

The task of marketing management involves a strategic blending of controllable and uncontrollable variables. The uncontrollable variables are often referred to as external variables as from cannot control them. The internal variables are often referred as marketing mix, comprising of the 4Ps product, price, place and promotion.

The external uncontrollable variables constitute the major environmental forces as the economy, socio-cultural patterns of buyer behaviour, competition, government and technology; the non marketing functions of the firm constitute internal uncontrollable variables.

In order to be successful, the marketing channels must be properly aligned with the internal factors and properly respond to the emerging demands of the external factors. The major tasks of marketing management are to seek out potential target markets and to develop appropriate and coordinated product, price, promotion, and distribution strategies to serve those markets in a competitive and dynamic environment.

Marketing channel management, as one of the major strategic areas of marketing management, fits under the distribution variable in the marketing mix. Management must develop and operate the external contractual organization (the marketing channel) in such a way as to support and enhance the other strategic variables of the marketing mix in order to meet the demands of the firm's target markets.

Physical Distribution Management vs. Marketing Channel Management

As discussed above, marketing channel management lies under the distribution (or the place) variable of the marketing mix. Physical distribution management also fits under the distribution strategy variable of the marketing mix. The two components, channel management and physical distribution management, together comprise the distribution variable of the marketing mix. This is illustrated in Figure 1.

Channel management and physical distribution management, though closely related, are actually quite different. However, there is often considerable confusion regarding the distinction between these two areas. Actually, channel management is a much broader and more basic component of the distribution strategy variable of the marketing mix than is physical distribution management.

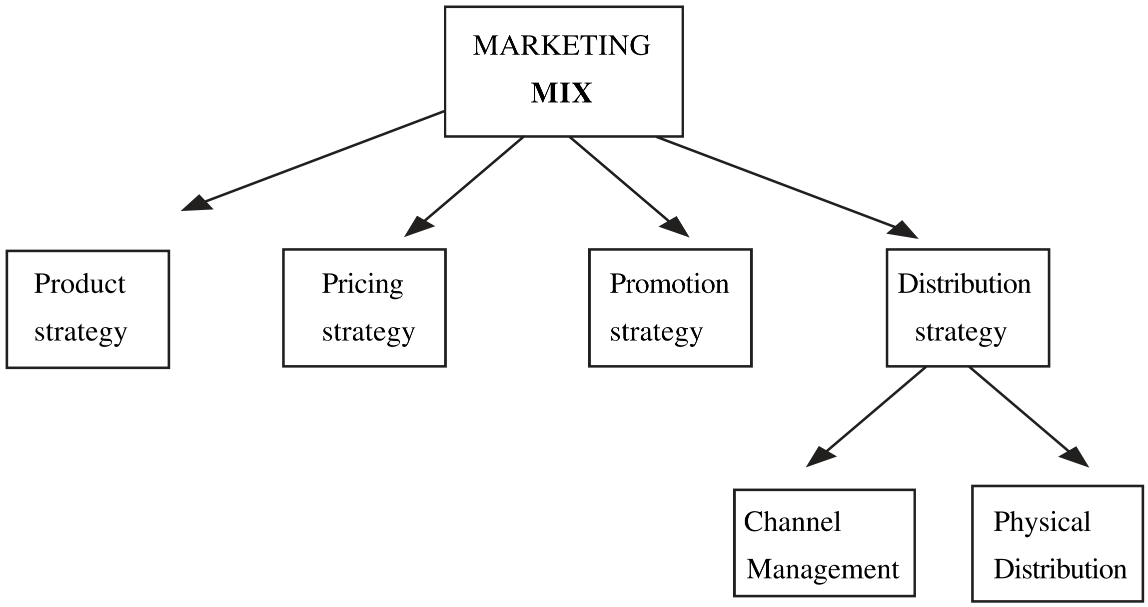


Figure 2

Relationship of channel management and physical distribution with the marketing mix

Channel management is concerned with the entire process of setting up and operating the contractual organization that is responsible for meeting the firm's distribution objectives.

Physical distribution management on the other hand, is more narrowly focused on providing product availability at the appropriate times and places in the marketing channel. Quite often, channel management must be well underway before physical distribution strategy can even be considered.

10.2.2. Flows in Marketing Channels

Once a channel of distribution has been developed, a series of flows emerges. These flows provide the links that tie channel members and other agencies together in he distribution of goods and services. From a channel management standpoint, the most important of these flows are:-

1. Product flow
2. Negotiation flow
3. Ownership flow
4. Information flow
5. Promotion flow

These flow are illustrated in Figure 3

The product flow represents the actual physical movement o the product from the manufacturer through all of the parties who take physical possession of the product, from its point of production to final consumers.

The negotiation flow represents the interplay of buying and selling functions associated with the transfer of title to and from the manufacturer it may be Noticed that the transportation and warehousing firms are not included in this flow because they do not participate in negotiatory functions. The do take the physical persuasion of the goods, but they do not become the owner of the goods. It may further he noted that the

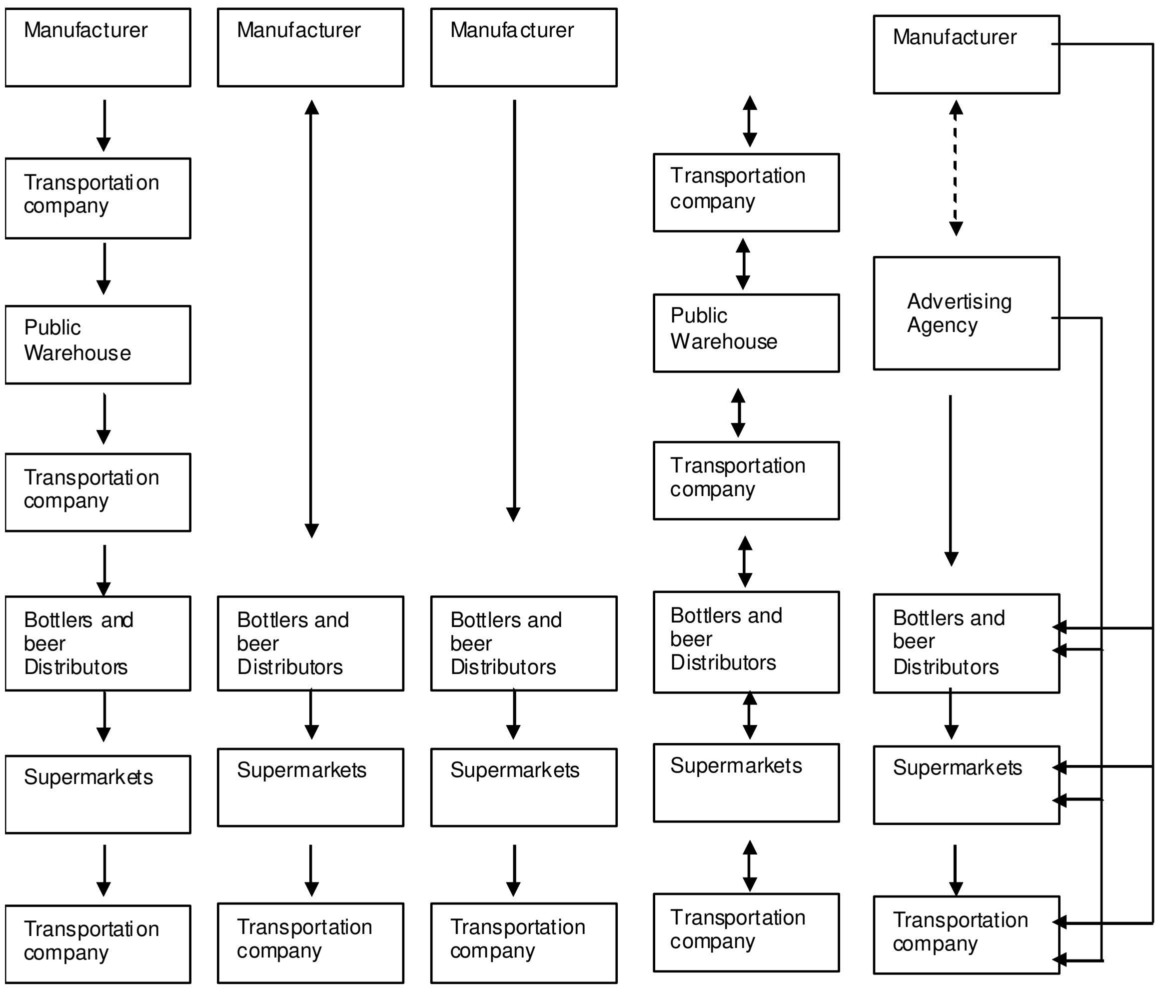


Figure 3: Various flows in marketing channels

arrows flow in both directions, indicating that negotiations involve a mutual exchange between buyers and sellers at all levels of the channel.

The ownership flow shows the movement of the title to the product as it moves from manufacturer to final consumer. Here again, the transportation and warehousing firms are not included in this flow because they do not take title to the product nor are they actively involved in facilitating its transfer. They are involved only in the transportation or storage of the physical product itself.

The information flow is another significant component of a logistics system. Marketing channels, being independent organization, need to coordinate their operations. For this purpose, the flow of information must coincide with the physical flow of goods. The information flows both ways, as represented by double-edged arrows. It may be noted that even the transportation and the warehousing firm are also involved with the flow of information along with the manufacturer, distributors, retailers and the customers. The flow of information gives vital input to the marketing managers about the situation of the market and helps them to design the right, marketing strategy.

Significance of the Channel Flows Concept

The channel flows concept is useful from both theoretical and managerial standpoints.

From the theoretical standpoint, the flow concept provides another basis for distinguishing between physical distribution management and channel management. As stated earlier, channel management is a much broader and comprehensive component of distribution as compared to the physical distribution management. In the context of the channel flows concept, this follows because channel management involves management of all of the flows while physical distribution is concerned almost entirely with the management of the product flow.

Also, at the theoretical level, the concept of channel flows provides a good basis for separating channel members from non-channel members. From the standpoint of channel flows then, only those parties who participate in the negotiation or ownership flows would be members of the marketing channel.

From a management standpoint, the concept of channel flows provides a very useful framework for understanding the scope ad complexity of channel management. By thinking in terms of the five flows, it becomes obvious that channel management involves much more than merely managing the physical product flow through the channel. The other flows of negotiation, ownership, information, and promotion must also be effectively managed and coordinated to achieve the firm's distribution objectives. Indeed much of the material in this text is concerned with channel management activities that involve these channel flows.

Also, from the perspective of channel management, the concept of flows in marketing channels helps to convey the dynamic nature of marketing channels. The word flow suggests movement or a fluid state and indeed this is the nature of channels of distribution. Changes, both obvious and subtle, always seem to be occurring. New forms of distribution emerge, different types of middlemen appear in the channel while others drop out, unusual competitive structures close off some avenues of distribution and open up other. Changing patterns of buyer behavior and new forms of technology add yet another dimension of change to channels of distribution. Channel flows must be adapted and adjusted to meet these changes. Innovative channel strategies and effective channel management are needed to this happen.

10.2.3 Advantages at Marketing Channels

Since marketing channels comprise of several organization, each having its share of profits, requiting an escalation of the cost of a product and reduction in a manufacture's profit still, almost all manufacturers make use of intermediaries for making their products available to the customers.

(a) Many producers lack the financial resources to carry out direct marketing. For example, Maruti Udyog Ltd. sells its automobiles through several hundered dealers, located throughout the country. Even the giant automobile company such as Maruti would be hard pressed to raise the cash to buy out its dealers.

(b) Direct marketing would require many producers to become middlemen for the complementary products of other producers in order to achieve mass-distribution economies. For example, bubble gum a toffee manufacturing company like Nutrine may not find it practical to establish small retail gum shops throughout the country or to sell toffes and chewing gum door-to-door. It would have to sell gum along with many other small products and would end up in the drugstore and grocery store business. Nutrine finds it easier to work through the extensive network of privately owned distribution institutions.

(c) Producers who can afford to establish their own channels can often earn a greater return by increasing their investment in their main business. For example if a company earns a 20 percent rate of return on manufacturing and foresees only a 10 percent return on retailing, it will not want to undertake its own retailing.

(d) Some producers may set up a partially owned distribution system. For example, McDonald's owns over on fourth of its total outlets. The advantage is that the company remains up dated about the consumers' tastes and preferences by managing its retail outlets itself. This helps in deciding the performance standers it can expect from operator outlets. The disadvantage is that operator-owned outlets many resent the competition coming from company-owned outlets. Dual distribution often creates channel conflict.

(e) The use of middlemen results into superior efficiency in making goods widely available and accessible to target markets. Marketing intermediaries, through their contacts, experience, specialization, and scale of operation, offer the firm more than it can usually achieve on its own.

(f) From the point of view of the economic system, the basic role of marketing intermediaries is to transform the heterogeneous supplies found in nature into meaningful goods assortments desired by people. Intermediaries smooth on the flow of goods and services. This is necessary in order to bridge the discrepancy between the assortment of goods and services generated by the producer and the assortment demanded by the consumer. The discrepancy results from the fact that manufacturers typically produce a large quantity of a limited variety of goods whereas consumers usually desire only a limited quantity of a wide variety of goods.

10.2.4 Function of Marketing Channels

(i) Information. The collection and dissemination of marketing research information about potential and current customers, competitors, and other actors and forces in the marketing environment.

(ii) Promotion. The development dissemination of persuasive communications about the offer designed to attract customers.

(iii) Negotiation. The attempt to reach final agreement on price and other terms of the offer so that transfer of ownership or possession can be effected.

(iv) Ordering. The backward communication of intentions to buy by the marketing-channel members to the manufacture.

(v) Financing. The acquisition and allocation of funds required to finance the carrying of inventory at any level of the marketing channel.

(vi) RiskTaking. The assumptions of risks in connection with carrying out the channel work.

(vii) Physical Possession. The successive storage and movement of physical products from raw materials to the final customers.

(viii) Payment. Buyers paying their bills through banks and other financial institutions to the sellers for the goods and services provided.

(ix) Title. The actual transfer of ownership from one marketing institution to another.

10.2.5 Classifying channels on the basis of levels

Marketing channels can be classified on the basis of the number of channel levels. Each middleman that performs some work in bringing the product and its title closer to the final buyer constitutes a channel level. Since the producer and the final consumer both perform some work, they are part of every channel. We will use the number of intermediary levels to designate the length of a channel. Figure illustrates several consumer goods marketing channels of different lengths.

I. Zero Level Channels

A zero-level channel (also called a direct-marketing channel) consists of a manufacturer selling directly to consumers. The three major ways of direct selling are door-to-door, mail order, and manufacturer-owned stores. The zero level channels are mostly used in case of institutional buyers, where the quantity of the order is very large and the both buyer and the seller find it feasible to contact each other directly. This reduces the cost of distribution as nothing is paid to the intermediaries. Some innovative firms use zero level marking channels even for retail customers. For example, Eureka Forbes sells its vacuum cleaners and water purifiers directly to the customers.

II. One Level Channels

A one-level channel contains one selling intermediary, such as a retailer. One level channels are used in the cases. Firstly, the manufacturer wants to later to big customers, who are located far away. It might not be able to reach out to them on its own. It may appoint an agent or a wholesaler to supply the goods and services. Secondly, the manufacturer may not be very big and may he operating in a small area. It might appoint agents/dealers at local level. For example, local ice-cream manufacturers make use of one level channel. Firms marketing financial services such as mutual funds (Alliang, ICICI), insurance companies (LIC) also make use of one level channels as they use only one intermediary.

III. Two Level Channels

A two-level channel contains two intermediaries. In consumer markets, they are typically a wholesaler and a retailer. Most of the FMCA, pharmaceuticals, durables manufacturers make use two levels channels. They appoint wholesalers at district levels, who supply the goods to the retailers. The wholesalers are often supplied the goods through company's warehouses or C&F agents, who work on behalf of the company.

IV. Three Level Channel

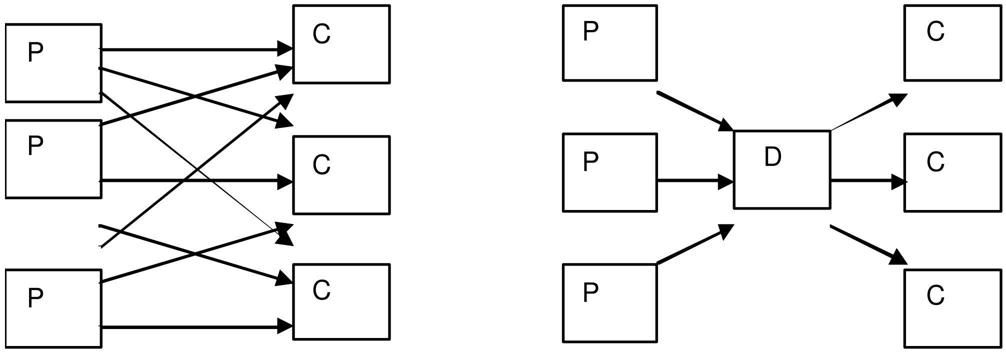
A three-level channel contains three intermediaries. For example, in the meatpacking industry, a jobber usually intervenes between the wholesalers and the retailers. The jobber buys from wholesalers and sells to the smaller retailers who generally are not serviced by the large wholesalers. Several repackers and assemblers fall in this category.

V. Higher Level Channels

Higher-level marketing channels are also found but with less frequency. From the producer's point of view, the problem of attaining information and exercising control increases with the number of channel levels, even though the manufacturer typically deals only with the adjacent level. Higher level channels are more apparent when the marketing channels run across nations.

VI. Backward Channels

Channels normally describe a forward movement of products. However, the flow of goods is not always in the forward direction only. The goods also flow from the consumers to the producers. The channels which move the goods from the consumers to the producers are called backward channels. Typical



examples of industries using backward channels are soft drinks, dairy, foundaries, plastics, electronics etc. The soft-drinks and dairy industry has a well developed paraphernalia for moving the empty bottles back to the factory. Similarly, glass plastics, forgoing units and foundries recycle the waste and convert them to the finished goods are junk dealers (Kabaris), recycling centers etc.

Several middlemen play in role in " backward" channels, including manufacturers' redemption centers, traditional middlemen such as soft-drink middlemen,) trash-collection specialists, recycling centers, modernized "rag and junk men, trash-recycling brokers and central-processing warehousing.

10.3 Self-Assessment Questions:

Q1: Explain marketing-mix?

Q2: Briefly explain the flow in marketing channels?

Q3: What are the functions of marketing channels?

Q4: Classify the channels on the basis of levels?

Q5: Write a short on contractual organization?

Q6: What are the advantages of marketing channels?

10.4 Summary

Globalization has opened newer markets for the business and nowdays, increased quantum of the products is being sold in the foreign markets. This is not possible without the role of these middlemen or the intermediaries, collectively known on the marketing channels. They acquire various forms and play an important role in making the product available for final consumption.

10.5 Glossary:

- **Management:** It means directing and controlling a group of people or an organization to reach a goal.
- **Marketing:** It is a total system designed to plan, price, promote and distribute want satisfying products and services for target markets.
- **Strategies:** A plan of action designed to achieve long-term or overall goals.
- **Channels:** It is a type of landform consisting of the outline of a path of relatively shallow and narrow body of fluid, most commonly the confine of a river, river delta or strait.
- **Direct marketing:** It is a form of communicating an offer, where organizations communicate directly to a pre-selected customer and supply a method for a direct response.

10.6 Answers to Self-Check Questions:

Q1: Refer to 10.2.1

Q2: Refer to 10.2.2

Q3: Refer to 10.2.4

Q4: Refer to 10.2.5

Q5: Refer to 10.2.1

Q6: Refer to 10.2.3

10.7 Self Assessment Questions

1. Why do you need middlemen in the process of marketing? Explain their function in the distribution.
2. Define marketing channels. Explain their types, role and function.
3. Write short notes on:
   a. Vertical Marketing Channels
   b. Horizontal Marketing Channels
4. What are backward channels? Explain their role in the present day conditions.

10.8 Suggested Readings

1. Bert Rosenbloom: Marketing channels, Dryden Press.
2. Louis W. Stern and Adel I.El-Ansary: Marketing Channels, Upper Saddle River, NJ, PHI, New Delhi.
3. Philip Kotler: Marketing Management.

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Lesson No. 11
Marketing Planning, Organization, Implementation & Control

Structure

11.0 Introduction

Like any managerial activity, marketing needs a proper system of planning, organization and control. There are so many variables that influence marketing that in absence of proper control mechanisms, there is a high risk of failure. Every organization needs to direct and coordinate its marketing efforts and therefore, it must frame a marketing plan. While the task of developing a domestic marketing plan is difficult in itself, its gets further complicated when a firm goes to international marketing. Therefore, in order to survive in the competitive times, the marketing managers must have a thorough understanding of the environment, develop appropriate plans to respond, and have mechanisms to implement and control these operations.

11.1 Learning Objectives:

After studying this lesson, you familiarize with following concepts:

- Marketing Planning
- Contents of Marketing Plan
- Steps in Marketing Planning
- Marketing Organization
- Marketing Control

11.2 Presentation of Contents

11.2.1 Marketing Planning:

A marketing plan can be defined as a course of marketing actions and activities that are to be taken in future. While operating in a local market, the domestic marketing plan may be prepared. Such domestic marketing plan must lay down the strengths and weaknesses of the firm. It proceeds to set an objective along with the assumptions. In the light of above, the firm must prepare a broad action plan, the organization structure and the control system.

The marketing planning process normally consists of the following steps:

- i) Diagnosis of the situation
- ii) Identification of firm's strengths and weaknesses.
- iii) Identification of environmental opportunities and threats.
- iv) Objectives of firm.
- v) Estimated foreign sales.
- vi) Costs and profit.
- vii) Appropriate marketing programmes based on the firm's objectives and estimates.
- viii) Budget for the plan

These points are discussed as under.

a. Setting Objectives:

First of all, the marketer should prepare a list of the firm's own objectives. There may be various objectives of the firm for marketing viz:

- i) Profitability, return on investment.
- ii) Market share during initial period.
- iii) Excess liquidity.
- iv) Better utilization of current resources and differential advantages.
- v) Data feedback for future decision.
- vi) Test marketing or other marketing research

Depending upon these sets of objectives, a marketing plan would vary in the nature and spirit. The objectives would give a direction to the course of actions that a marketer would take.

b. Assessing Resources:

An assessment of the inventory of physical and human resources should be made in the order to take stock of the whole situation. In this respect the following are the main factors to be considered:

- i) Manpower skill.
- ii) Finances
- iii) Patent and technology
- iv) Marketing expertise
- v) Image of high quality

The available resources are the constraints within which the marketing activities have to be carried out. The marketers must not exceed the available resources as this would increase the cost. At the same time, they should not underutilize the resources as this would give sub-optimal returns.

c. Cost factor:

The marketing planners should be meticulous about getting and analyzing the cost information. The following information about cost may be considered while developing any marketing plan.

i) Cost of product

ii) Market Costs.

The cost must not be so high that the product is not accepted in the market. In the competitive times of today, cost competitiveness is an important consideration. Therefore, access to the resources that enable a marketer to deliver the product at the low cost is an important competitive strategy.

11.2.2 Contents of Marketing Plan

The main contents of marketing plan are as under:

i) A comprehensive review and penetrating analysis of the relevant data on each aspect of the development and marketing of the company, product or brand involved. The result of market study should also be discussed in it.

ii) A complete and realistic description and appraisal of the present situation should be explained well.

iii) A specific statement of objectives must be given. In other word, product development, profits, sales, share market etc. must be given very clearly so that the action plan may be prepared towards the achievement of those objectives. These objectives should be listed from short and long run points of view.

iv) A description and analysis of all the marketing problems involved international marketing should be given. Such problems may be of competition, finance, agency appointment, channel of distribution, shipping and insurance etc.

v) A complete blueprint of strategy and tactics to be followed in overcoming the problems involved and reaching the objectives must be prepared. Such a plan should include all necessary recommendations regarding budgets and operations.

vi) Marketing plan must make mention of budget.

vii) Marketing plan must contain possible organizational arrangement and means of effective control over marketing operations.

Thus, the essence of export marketing plan is decision of what needs to be done. It involves the determination of the means by which the organization hopes to reach the objectives set for it.

11.2.3 Steps in Marketing Planning

(A) Gathering the market information

The first step in preparing the marketing plan is to collect as much information as possible about the market, product distribution system and consumers.

(B) Assessment of Market Problems and Opportunities:

Once all the relevant facts have been collected, verified and found correct, they have to be weighed according to their importance and translated into realistic assessment of the market potential of the product.

(C) Specifying Marketing Objectives:

The statement of marketing objectives is the most important one in preparing the plan because actions to a great extend, depend upon these objectives. As stated earlier, the nature of objectives would vary and so will the marketing plan.

(D) Plan of Action:

There is a clear relationship between objectives and plan of action. Each specific objective has various corresponding plans of action. The plan of action should be specific and should define the sets of activities that need to be undertaken to achieve the marketing objectives.

(E) Budget:

Budget of a given plan of action drawn in advance must be based on the description of the plan and covering, in as much detail as possible, all the expenditure necessary for the execution of the plan.

(F) Control:

Whether a marketing plan is good or bad can be ascertained only when it is put into operation. If the results show some progress towards the achievement of the objectives, the plan can be describe as a good one. A plan successful in one area or market but may be quite unsuccessful in the other areas. So, proper control mechanisms need to be developed at the stage of marketing planning.

11.2.4 Marketing Organization:

Marketing organization is essential to be established to achieve different objectives such as fulfilling targets and searching new markets for the products.

(A) Factors Affecting the Organisation:

Many factors affect organisation. The under mentioned factors influence the marketing organisation;

(a) Ability of Management:

The able and talented managers in an enterprise have their impact directly on marketing organisation. When an enterprise has plenty of able and trained managers, the enterprise can start separate department and the managers can be asked to manage the affairs.

(b) Financial Resources:

Organization can be enlarged and can become strong when an enterprise is economically strong or possesses unlimited financial resources.

(c) Nature of the Product:

The nature of products also affects the organization. The organization of those enterprises is usually large, which make the products that are bought repeatedly.

(d) Size of the Firm:

Size of the firm has its impact on organization. If an enterprise big, then it is certain it will be producing on a large scale. It would need more manpower and consequently its organizational structure would also be wider and bigger.

(e) Sales Policies:

The firm adopting defensive sale policies have small organization while those adopting aggressive sales policies usually form large organization.

(f) Profit Factor:

If the business concern is making those products which earn sufficiently big profits, it will have large organization and vice-versa. Now the trend is to develop lean organizations, with high employee efficiency. Lesser number of employees, with high productivity increases the profit of the organization.

(g) Size of Markets:

Size of the markets and their potential growth in future also affect the size of organization. When a market has great business potentiality, it will require large organization. The firms operating in the overseas markets would have large organizational structures. Their nature and forms can vary, depending upon several environmental factors.

11.2.5 Marketing Control

The control of marketing operations is very difficult. In order to perform at optimum levels, systematic control and coordination must be considered :

i) The cost of control system must be less and commensurate with the benefits from it.

ii) The control system may need variation according to the need of market.

iii) The control system must be sensitive and quick so that the organization retains the flexibility to react to environment opportunities and challenges of the market.

a. Importance of Marketing Control:

1. Locate Responsibility for Failure
2. Detection of Deviations
3. Self-Examination by Employers
4. Organisational Complexity
5. Assist Plan Reformulation
6. Matching Environmental Changes

b. Steps Involved in Management Control System

In designing a management control system, the following steps are involved:

i) Start with the predetermined objectives.

ii) Set clear measure of performance.

iii) Measure performance

iv) Decide the parameters of control

v) Define the level at which different controls are to be active.

vi) Develop a monitoring system that would provide the feedback of different levels.

vii) Choose the tools and techniques of control.

viii) Observe, analysis, interpret and evaluate the variances.

ix) Develop a mechanism that can correct existing activity so as to achieve the predetermined objectives.

c. Characteristics of a Sound Marketing Control System:

The benefits of a marketing control system can accrue to a company when some of the following characteristics of an effective control system.

(i) Meeting Operational Requirements

Every control system in the marketing department should match the specific operational requirements of its sub-functions. Performance of no two operations can be measured and evaluated by identical standards as, for example, the performance of marketing research men would require a set of standards different from that for salesmen or advertising men. Sales volume may be reasonable criterion for control of sales department but not for marketing research department. Also, the standards set should be within the reasonable reach of the persons who are suppose to meet them. Standard taller than the men would breed dissatisfaction and lower the morale.

(ii) Identification of Errors

The control system should be such that any error or deviation from the programme is promptly reported to the concerned managers who can then trigger corrective mechanism. Delay in detection and reporting would make control irrelevant because manager then can do very little about it.

(iii) Flexible

The control system should not prove to be a straight-jacket. It must have the capacity to adapt to changes made in the plans or detours followed. The flexibility should be in terms of standards and appraisal techniques. Unforeseen circumstances should no impede the working of the control system.

(iv) Fitting into the organizational structure

A marketing plan must fit into the marketing organization. It must specify that those incharge of marketing and its sub-functions should have the authority to control their respective operations. Although divergence from the organizational pattern may be developed by appointing separate controllers, experience show that control works best when the man incharge of operations also control them.

(v) Cost Effective

The control system should be so economical as to be affordable by a company using it. A small company, for example, cannot afford an elaborate and sophisticated system of marketing control involving charts, detailed analysis, computer programs, etc. There are large number of technologies that are able to have effective control mechanisms, without incurring excessive costs.

(vi) Understandable

To be used, the control system should be understandable by the employees, both at the operational level and those at the managerial levels. In India, one of the problem faced by the supervisors is to comprehend the modern control methods based on breakeven charts, statistical analysis and mathematical formula in spite of the advances made through management development programs. Fortunately, computer based control mechanisms are user friendly and present the results in the form, which is easily understandable by the managers.

(vii) Active Corrective Action

A good control system should activate corrective action no sooner deviations occur. It should reveal the points of deviations, pinpoint responsibility for failures, and indicate corrective measures.

11.3 Self-Assessment Questions:

Q1: Explain marketing planning?

Q2: What are the contents of marketing plan?

Q3: Write few steps in marketing planning?

Q4: Briefly explain marketing organization?

Q5: What are the factors affecting the organization?

Q6: What is marketing control?

11.4 Summary

The marketing plan is an important ingredient and should not be over looked. The essence of successful marketing is to work-out a sound and reasoned strategic plan to obtain the agreement of all concerned and then to stick to the plan with only tactical diversions as changing circumstances may demand. A well designed marketing organization can help in the efficient implementation of the marketing programmes. The marketing organizations vary, depending upon the marketing organization. Proper control mechanisms are essential for the success of any marketing programmes. Several control techniques are available to the marketers, that can ensure that the marketing plans are implemented easily and efficiently.

11.5 Glossary:

- **Marketing:** It is a total system designed to plan, price, promote and distribute want satisfying products and services for target markets.
- **Planning:** It is the process of thinking about the activities required to achieve a desired goal.
- **Organizing:** It is the establishment of effective authority relationships among selected work, persons and work places in order for the group to work together efficiently.
- **Control:** It is a function of management which helps to check errors in order to take corrective actions.
- **Budget:** A budget is a financial plan for a defined period, often one year. It may also include planned sales volumes and revenues, resource quantities, costs and expenses, assets, liabilities and cash flows.
- **Organization:** It is an entity comprising multiple people, such as an institution or an association, which has a particular purpose.
- **Management:** It means directing and controlling a group of people or an organization to reach a goal.
- **Cost:** It is the monetary value that has been spent by a company in order to produce something.

11.6 Answers to Self-Check Questions:

Q1: Refer to 11.2.1

Q2: Refer to 11.2.2

Q3: Refer to 11.2.3

Q4: Refer to 11.2.4

Q5: Refer to 11.2.4

Q6: Refer to 11.2.5

11.7 Terminal Questions:

1. What do you mean by planning of marketing? Discuss the factors which affect the marketing plan?
2. Critically evaluate the importance of marketing plan?
3. What elements should a marketing plan comprise?
4. What is Marketing Organization? Discuss the factors influencing choice of an organization?
5. Why control is necessary in the marketing system? Explain the essentials of a good control programme.

11.8 Suggested Readings:

1. Ramaswamy, V.S. and Kumari, Nama S., *Marketing Management: Planning, Implementation and Control,* New Delhi, Macmillan India Ltd., 1995.
2. Philip Kotler: Marketing Management.
3. Rao, S.L and I. Natarajan, Markets for consumer products in India
4. Khurana, Rakesh and A.N. Ravichandran, Strategic Marketing Management: Concepts & Cases.

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Lesson No. 12
Issues in Marketing

Structure

12.0 Introduction:

As the times change, the marketing has also undergone tremendous change, in both nature and spirit. There are several newer developments in the field of marketing. Many firms are beginning to realize that they are members of the wider community and therefore must behave in an environmentally responsible manner. This results in fulfilling the environmental objectives as well as profit related objectives. Other new developments 1in marketing entail direct marketing. The developments in the fields of information technology have also brought about revolutionary changes in the marketing operations.

12.1 Learning Objectives:

After studying this lesson, you familiarize with following concepts:

- Relationship Marketing
- The process of costumer development
- Levels of relationship marketing
- Green Marketing
- Direct Marketing

12.2 Presentation of Contents:

12.2.1 Relationship Marketing

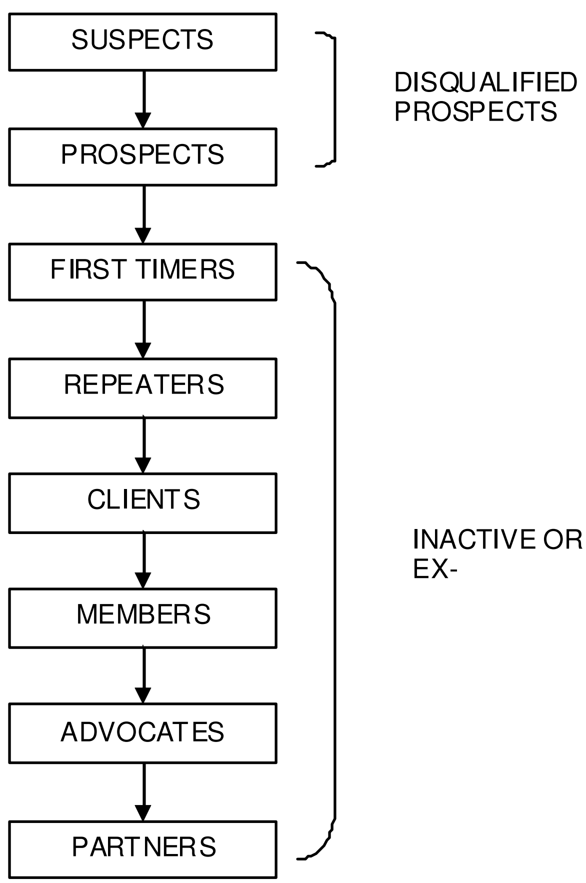
As the competition is growing, the marketers are finding it difficult to add more and more customers to their list. They have realized that retaining an old customer is far easier than finding a new customer every time for their products. So, they are striving hard to retain their old customers.

Basically, there are two approaches to strengthen customer retention. Firstly, a company can erect high switching barriers. Then the customers will be less inclined to switch as it will involve high switching cost in terms of capital costs, search costs or loss of customer loyalty discounts. For example, recently Reliance had given telephone connections at a very low first time cost of Rs. 500.00. But, if a customer wanted to surrender his connection before three years, he had to pay a very high exit cost. Many customers had to continue with their telephone connections unwillingly. Secondly, a company can retain its customers by delivering them a higher satisfaction. This will make it difficult for the competitors to overcome the switching barriers by simply offering low price or other incentives to switch.

The task of creating strong customer loyalty is called relationship marketing. Thus, relationship marketing involves all those steps that companies take to know and serve their valued customers.

12.2.2 The process of customer development

In order to understand relationship marketing, it is important to know the process of customer development. In general, there are following steps in the process of customer development.



The process of customer development (Source Kotler, Millennium Edition)

Various stages of the customer development process are:

(a) Suspects: comprising of those customers who might purchase any product or a service.

(b) Prospects: the people who have a strong potential interest in purchasing a product and the ability to pay for it. The prospects rejected because of their poor capacity to pay for a product are known as disqualified prospects.

(c) First timers: those who purchase the product for the first time

(d) Repeaters: those who continue to purchase a product.

(e) Clients: special customers for the company because of their loyalty.

(f) Members: the participants to the relationship programme.

(g) Advocates: satisfied customers who start advocating for a company's product because of their relationship with the company.

(h) Partners: the customers who work with the company for the development of the products and markets.

12.2.3 Levels of relationship marketing

Developing more and more loyal customer increases the cost of the product as it involves considerable investments also. The company has to decide on the amount to be invested for building fruitful relationships. There are five levels of investment in customer-relationship building:

(a) Basic Marketing:

In this, the sales person simply sells his product. The relationship with the customer ends with the closing of the sale. Example is a salesman selling his products in a bus.

(b) Reactive Marketing:

In this case, a salesman sells the product and encourages the customer to contact him in case of any problem or complaint with regards to the product. The relationship with the customer does not end abruptly with the closing of the sale.

(c) Accountable Marketing:

In this case, the salesman checks back from the customer regarding the functioning of the product and ascertains whether the customer's expectations are being met or not. Such an information keeps the company updated and helps it to improve its performance.

(d) Proactive Marketing:

Here, the company contacts the customers from time to time with suggestions about improved product uses or helpful new products.

(e) Partnership Marketing:

Here, the company works continuously with the customer to discover ways to perform better.

12.2.4 Advantages of relationship marketing

Relationship marketing offers several advantages to both the company as well as the customers. For the company, effective relations represent an assured market for its products. The inputs for retaining such customers are relatively less and thus there is a better chance of higher profits. For the customers, relations with the company enable them to get many concessions in lieu of its loyalty. For example, Maruti gives cash discounts to the customers who purchase a new Maruti after selling an old car of the same company. Similarly, the telephone companies also give concessions to their customers who refer new customers to them.

12.2.5 Green Marketing

As the customers are becoming more and more aware about safeguarding their environment, they are exerting more and more pressure to the companies to offer the products that cause lesser pollution to the environment. Due to the increased pressure from the society, NGOs and other institutions, government is also enacting more and more stringent laws binding the companies to check the environmental pollution. In light of the increased pressures from various quarters, the marketers are also offering the products and services that cause least damage to the environment. This practice of marketing the products and services, that cause no or minimum damage to the environment is known as green marketing.

⇒ Examples of green marketing

- Oil companies are marketing lead free oil, which causes less damage to the environment.
- Maruti has started manufacturing its vehicles that conform to the European emission norms.
- Companies are reducing the use of polythene as packaging material as it causes environmental pollution.
- Cement companies are beginning to pack cement in kraft paper bags instead of using LDPE bags.
- More and more companies are using goods of plant origin so that environmental pollution can be controlled.
- More and more companies are adopting ISO 14000 standards, which deal with controlling environmental pollution.

12.2.6 Advantages of green marketing

Man cannot afford to continue the pollution of the environment. Already, a lot of damage has been done to the air, water, soil etc., which is causing a lot of health related problems. Many people in metro cities are suffering from Asthma and other bronchial diseases because of the air pollution. The effluents from various factories are percolating down to the ground water and polluting it. There are increased incidents of water borne diseases such as hepatitis, cholera, food poisoning etc. Due to these problems, more and more people are voicing their concern over the issue of environmental pollution. Green marketing will reduce the environmental pollution and thus check the problems related to it.

12.2.7 Problems of green marketing

While the issue of checking environmental pollution deserves serious attention, it is not possible to implement green marketing without increasing the cost of the product. Some of the customers, who are aware of the environmental problems are willing to pay for the increased cost, but most of them resist the increased price. In light of the increased competition, it is not practically feasible for the marketers to charge higher prices from their customers. So, they face a problem in implementing green marketing. Still, responsible marketers implement it.

12.2.8 Role of government in green marketing

Government is enacting more and more stringent laws to check environmental pollution. There are provisions for checking pollution in the laws such as the PFA (Prevention of Food Adulteration Act) and the standards of the Bureau of Indian Standards (BIS) etc. It is also increasing the safety standards e.g. it has enforced European standards for various products such as vehicular effluents, food products, soft drinks etc. The marketers are being forced to implement them. However, there is a big problem of implementing the laws made by the government as the enforcement machinery is often not tuned up to implement the laws made by the government. At times, there is a need for public interest litigation for the government to force the implementation of the laws. For example, although the use of polythene as packing material is banned in many states, the law is not enforced strictly. Polythene continues to be used and pollute the environment.

12.2.9 Direct Marketing

Direct marketing, sometimes called direct-response marketing, refers to the techniques used to get consumers to buy from their homes. These techniques include direct mail, catalogs and mail order, telemarketing and electronic retailing. Shoppers or buyers using these methods are less bound by traditional shopping situations and perceive less risk even in buying by mail or telephone. Therefore direct marketing is used to distribute products, by retail stores, direct sales people, independent distributors , agents and franchises etc.

Direct marketing strives for an immediate response from the consumers. Direct marketing typically uses a database of customer demography. Because marketers can record the number of customers responding to direct marketing efforts, results are more accurately measured. Privacy issues have become a major concern for many consumers in the use of highly specialized database marketing. Today, many consumers feel that direct marketing techniques invade their privacy and pose ethical questions. Overall, direct marketing is a relational marketing process that takes places in context of concern for the privacy of customers. It concentrates on developing customer relationships that results in repeated sale over time.

a. Elements of Direct Marketing:

(i) It facilitates communication directly with the customers.

(ii) It facilitates focused, targeted customer communications.

(iii) In direct marketing, communication is interactive.

(iv) It encourages the prospective customer to take immediate specific action.

(v) It can make marketing strategies less visible to competitors.

b. Types of Direct Marketing:

(i) Telemarketing

Telephone is the most commonly used direct marketing media. Telemarketing is indispensable for the marketing of many consumer and business products. Telemarketing makes use of the latest technologies, including communication hardware and software, database technology, in- bound and out-bound call centers, and auto-dialers. Telephone marketing comprise the integrated and systematic application of telecommunications and information-processing technologies with management systems to optimize the marketing communications mix used by a company to reach its customers. It is well planned; it does not consist of making a series of hit-or-miss telephone calls. Rather it is a carefully thought-out and controlled activity in which the persons or companies called have been identified as the actual or potential members of the firm's target market. Telemarketing retains personalized customer needs and improve the firm's cost effectiveness.

Telephone marketing is the most often used as part of an integrated marketing communications program. Only rarely is it used as a stand -alone medium. One of the key advantages of telephone marketing is that it allows a business to build and maintain its customer relationships. Interaction with the customer or prospect is personal, even though it is not fact-to -face.

(ii) Direct Response Television:

A direct-response television commercial is more like a direct mail package then it is like an ordinary television commercial. Both direct mail and direct- response television ask for an immediate decision from individuals. Television aims to hit target audience and encourages viewers to place orders or search for more information.

There are several important uses of television in direct marketing: direct response and support advertising; informercials; and home shopping channels.

(iii) Direct- response print media:

Direct- response print is another major direct marketing medium. It usually involves the placement of an advertisement in a magazine, newspaper, or some other similar medium. A direct-response space advertisement always includes at least one reply mechanism.

Magazines: Direct- response advertising in magazines is used by a wide variety of product and service marketers. This is aimed at people who enjoy history and reading.

Newspapers: Newspapers, too, are an important medium for many direct marketers. Once the dominant mass medium, newspapers have found competition, especially from television, to be intense in recent years.

(iv) Direct - response radio:

The use of radio as a direct-response or support medium is similar to the use of TV, but radio has the special ability to reach people as they pursue their daily lives in their cars or at work where television viewing is not practical. Radio was not traditionally considered a strong medium for direct - response marketing, because people usually listen to the radio while they are doing something.

(v) On-line or internet response:

Online or Internet is the one of most emerging electronic media that are achieving widespread acceptance among direct marketers. The internet particularly the World wide Web, is gaining mass-market acceptance. Although the audience on the Internet is small, but is increasing rapidly. The Web sites are designed to entertain, to inform, and to sell. On web customers can conveniently place orders for goods by saving precious time through credit card.

(vi) Direct-mail marketing:

Direct mail includes individual mailings of brochures and other offers as well as catalogs containing many pages of merchandise.

Individual Mailing:

This mailing present a very widely used form of direct marketing communication. The generally emphasize single product or service such as an offer to sell a mutual fund or a computer software package.

(vii) Catalogs:

Catalogs are one of the most widely used forms of direct mail. Catalogs contain a line of merchandise, usually with a specialty focus, although some contain an array of general merchandise. Catalogs are used extensively by both consumer goods and business to business marketers.

12.2.10 Variables of Direct Marketing:

Analogous to the marketing mix, there are some variables in the direct marketing as well, which need to be understood before implementing any direct marketing plan. These are the offer, creative, media, timings/ sequencing, and customer service. These are explained in the following discussion.

(a) Offer:

The offer is the complete proposition made by the marketer to a prospective customer. It includes the product or service itself, the price at which it is offered, any adjustment to the price, and other elements of the positioning strategy for the product. For example, Amway sells cosmetics. Therefore, it is the offer of this company.

(b) Creative

The creative component of the direct marketing program includes the copy platform, the graphic design elements, any involvement techniques, and production considerations such as personalization.

(c) Media:

The media available to direct marketing include all those used by general marketing as well as direct mail, telephone, and the new electronic media, especially the World Wide Web. Personal contact is an important media that is used in direct marketing.

(d) Timing/Sequencing:

These include one-shot messages versus campaigns, pulsing versus a steady flow of communications, seasonal effects, and questions of how much repetition is enough. Direct marketers often have more control over media than do general marketers. The direct mail marketer can decide when to mail, whereas the marketer who uses magazines must adjust to publication schedules and space availability.

(e)Customer services:

The importance of services cannot be overstated. The type of customer services offered-toll free numbers, free limited trial, acceptance of several credit cards, etc. are the important techniques for overcoming customer resistance to buying via direct-response media.

12.3 Self-Assessment Questions:

Q1: Explain relationship in marketing?

Q2: What are the processes of costumer development?

Q3: Briefly explain the levels of relationship marketing?

Q4: What do you meant by green marketing?

Q5: What is direct marketing?

Q6: Name the elements of direct marketing.

12.4 Summary

Marketing is acquiring newer forms and the students need to understand the concepts and operations underlying these forms. In the competitive times of today, relationship marketing is an important technique to develop long term customers, serving as a perennial source of revenue. The increased consciousness of environmental protection is forcing the firms to make the products that do not cause the degradation to the environment. Therefore, green marketing is an important emerging concept. Direct marketing is another very commonly used form of marketing in the current times.

12.5 Glossary:

- **Marketing:** It is a total system designed to plan, price, promote and distribute want satisfying products and services for target markets.

- **Clients:** It is a piece of computer hardware or software that accesses a service made available by a server.
- **Partner:** A person who shares or is associated with another in some action or endeavor; sharer; associate.
- **Green marketing:** It refers to the process of promoting products or services based on their environmental benefits.
- **Direct marketing:** It is a form of communicating an offer, where organizations communicate directly to a pre-selected customer and supply a method for a direct response.
- **Telemarketing:** It is a method of direct marketing in which a salesperson solicits prospective customers to buy products or services, either over the phone or through a subsequent face to face or web conferencing appointment scheduled during the call.

12.6 Answer to Self-Check Questions:

Q1: Refer to 12.2.1

Q2: Refer to 12.2.2

Q3: Refer to 12.2.3

Q4: Refer to 12.2.5

Q5: Refer to 12.2.9

Q6: Refer to 12.2.9

12.7 Terminal Questions:

1. What is Green Marketing? Why the firms are using Green Marketing?
2. Define Direct- Marketing. What are the different components of Direct Marketing?
3. "One of the important considerations in today's business scenario is environment". Comment.
4. "Direct Marketing has become the buzzword in today's competitive scenario". Discuss?
5. "It has become necessity for the companies to follow the principals of Green marketing. Comment?

12.8 Suggested Readings:

1. Charter, Martin(ed) Green Marketing, Sheffield.
2. Edward Nash(1998), Direct Marketing, Mc-Graw Hill, New York.
3. Janal, Daniel S. Online Marketing Handbook.
4. Stanton, Etzel, and Walker, Fundamentals of Marketing.

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M.B.A IInd Semester

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Marketing Management

LESSONS 1 TO 12

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