Semester-II **MARKETING MANAGEMENT**
Lesson No. 1AUTHOR: SHILPI GOYAL

NATURE, SCOPE AND CONCEPTS OF MARKETING

1.0 OBJECTIVES

After reading this chapter, the student should be able to:

- Determine the basic concepts of marketing and understand the importance of marketing in profit and non-profit making organizations.
- Get an insight into the nature and scope of marketing and the various marketing tasks.

1.1 INTRODUCTION

Marketing is increasingly recognized as being central to the success of any organization, irrespective of its size or the sector of the economy in which it operates. This was not always the case. In the past, many manufacturing firms relied simply on the belief that the ability to mass produce products and price them competitively would be sufficient to ensure success because consumers would look favorably on products which we're both widely available and affordable. This approach was successful when markets were typified by conditions of excess demand, in which consumer's willingness to purchase goods and services outstripped organizations production capacities. Indeed, the initial success of Henry Ford was based on just such an approach to business. The original Model T was mass produced to a standard specification and sold as cheaply as possible to an eager public who were so concerned about owning a car that they were more than happy to take 'any color you like as long as its black'!

However, economic conditions change; productivity increases and the development of new technologies combined with relatively slower rates of growth in income and wealth in Western economies have altered the business environment. The level of competition has increased and many markets are characterized by conditions of excess supply where the capacity to produce goods and services exceeds existing and expected levels of demand. In such a situation, the production orientation described above is not sufficient. On the contrary, with greater competition and with more sophisticated and quality conscious consumers, business success requires that the firm become marketing orientated, and looks to the markets in which it operates with a view to developing and producing products which will fulfil the needs of consumers in those markets.

This marketing orientation is perhaps most visible, and most commonly associated with fast moving consumer goods, such as food and drink, and consumer durables such as household goods, electrical goods and so on. In practice of course, marketing is important to all types of businesses, whether they are large or small, whether they produce tangible goods or intangible services or ideas and whether they sell to final consumers or to other businesses.

1.2 DEFINITIONS OF MARKETING

Marketing can be defined as a societal process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value with others.

Marketing is the analysis, planning, implementation, and control of carefully formulated programs designed to bring about voluntary exchanges of values with target markets for the purpose of achieving organizational objectives. It relies heavily on designing the organization's offering in terms of the target markets' needs and desires, and on using effective pricing, communication, and distribution to inform, motivate, and service the markets.

The American Marketing Association offers the following definition: Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy the individual and organizational goals.

1.3 WHAT IS MARKETING?

The term 'marketing' is one that is widely used and misused. To some it has an image of glamorous and exciting careers; to others it concerns the cynical exploitation of consumers using a variety of means of persuasion. Certain marketing activities such as selling and advertising are the most visible and least mysterious parts of marketing expenditure. Consequently, they often form the central components of many peoples understanding of the subject. In practice, marketing as a business philosophy encompasses many more activities; it is not always glamorous and rarely does it involve persuading consumers to buy what they do not actually want.

The basis of marketing is the need for exchange. Most economies operate on the principle of specialization in production through the division of labor. This specialization in turn creates a need to exchange goods and services, either for money or for other goods and services. For this exchange to occur, buyers and sellers must be willing participants, they must have something to gain from the exchange process and they must have knowledge of what is available within a market. The purpose of marketing is to manage this buyer-seller interface and facilitate the process of exchange between the two parties. It is perhaps useful to stress that neither of the two parties enters into this exchange for altruistic purposes. Buyers and sellers both enter into exchange relationship in order to achieve their own particular objectives. In the case of a commercial business, the objective may be profit, in the case of the consumer, the objective may be to increase satisfaction. One of the key principles of marketing is that any organization will improve its chances of achieving its own objectives if it helps its consumers to achieve their objectives. This marketing orientation views organizational success as being driven by the provision of long-term consumer satisfaction.

Thus, in broad terms we can see marketing as being concerned with facilitating exchange and improving business performance through the creation of long-term customer satisfaction. However, there is rather more to the marketing philosophy than this basic definition would indicate. There are five key dimensions to marketing.

1. Consumers

The guiding principle of marketing is that the needs and wants of the consumer should be central to the business approach adopted by an organization. The nature of the goods or services that an organization produces should be guided by these needs and wants rather than by simple criteria of cost and efficiency in production. The organization must therefore concern itself with clearly identifying its consumers. It is not sufficient to simply know who these customers are; the organization must also establish what they expect and what they want. Consumers may be viewed as a single group or as separate sub groups (segments) with distinctive needs and wants. The products that are produced should match the needs of the organization consumers, in terms of the features and benefits offered, their availability and their price.

2. Organizational capabilities

Marketing simply does not require that the organization establishes consumer needs and supply products that precisely match those needs. If it were to do so, an unnecessary diversity of products may result, because consumer requirements are both highly variable and frequently change. With such diversity, it is likely that production, inventory and marketing costs will be so high that the organization cannot then operate profitably. Thus, in reality, the marketing approach involves analyzing consumer needs and evaluating the organizations capacity to supply those needs and whether it is appropriate to do so given the nature of the business environment. The ultimate aim is to ensure that the organization creates a match between what its consumers want and the type of products it is capable of supplying.

3. Competitors

Adopting and implementing a marketing orientation also acts as a competitive tool for an organization in that the organization which is most successful at meeting the needs of its consumers in a cost-effective way, will be placed in a relatively strong competitive position. In practice, it may not matter whether the products being marketed are a very good match to consumer needs or a very poor match in absolute terms, what does matter is whether the organization is able to meet consumer needs more or less effectively than its competitors.

4. Co-ordination

As an element in the concept of marketing, co-ordination is concerned with the importance of the interrelationships between marketing and other functional activities within the organization. In the current competitive climate, it is often suggested that marketing is far too important a function to be left solely to the marketing department; rather it should be seen as a business philosophy and an orientation towards consumers which must permeate the entire structure of an organization. The marketing orientated organization will be successful only if the marketing philosophy is adopted, not just at senior management level but by employees at every level. Consequently, marketing is not just external in orientation, it is also internal. Internal marketing concerns itself with ensuring that staff at all levels within an organization are aware of and understand their role in developing and maintaining a marketing orientation. For example, the successful turnaround of SAS (Scandinavian Airline System) by Jan Carlsson owed much to his own commitment to the marketing philosophy and his ability to communicate this philosophy to staff throughout the company.

Co-ordination is not just about ensuring a common belief in the marketing philosophy at a given point in time, it is also about ensuring that marketing plays a key role in organizational development over time. To develop successfully, an organization must remain aware of its customers and competitors and be responsive to changes in its markets. A failure to do so can potentially have serious consequences. For example, the Hollywood film industry found itself in considerable difficulty in the late 1950s and 1960s because of a failure to recognize the growing importance of television, while the Swiss watch industry suffered a substantial loss of sales in the 1970s because of a failure to appreciate the market potential of the electronic watch. Thus, marketing is not simply a short-term tactical component of business activities; it has a critical role to play in ensuring the long-term survival of an organization.

5. Performance

Marketing should be viewed as an activity which is concerned with improving organizational performance; certainly, it will increase costs but successful marketing will also provide the means to increase sales and profits. Extra costs may be incurred in order to establish the nature of consumer demand and modify products in order to come as close as possible to matching this demand. In turn, this would typically lead to either an increase in the volume of sales or the ability to charge a rather higher price for a product which more closely matches consumer needs, and thus generate higher revenue.

Central to the concept of marketing is the need for organizations to adopt a proactive approach to their markets. Marketing is not just about identifying consumer needs. It is also about anticipating changes in consumer requirements so as to enable an organization to gain a competitive edge by being first into the market with new products which reflect changing consumer demands. Indeed, the ability of an organization to develop a truly proactive approach and identify markets which do not yet exist will be the key to future success.

An organization with a marketing orientation is one that places the consumer at the centre of its business and attempts to develop products and services that meet the needs and expectations of those consumers, both now and in the future. To do this effectively, an organization must focus its attention on the nature of consumer needs and wants and not just on the range of products which meet those needs.

The marketing function therefore encompasses a wide variety of techniques and activities. It is concerned with identifying and analyzing existing and potential markets; understanding consumer's motivations and behavior in those markets as well as identifying groups of consumers of particular interest to the organization. To build the link between the organization and its consumers requires the development of an appropriate marketing strategy and an appropriate marketing mix. The marketing strategy defines the organizations target markets and identifies the ways in which products are to be presented to those markets. The marketing mix refers to marketing variables which the organization can use and control in presenting products to the target market and it is commonly referred to as the 'four Ps'. The components of this marketing mix are:

- Product
- Price
- Promotion
- Place

and these must be managed to ensure that the right type of product is available at the right price, in the right place and that the right consumer is aware of this. Although these four elements of the marketing mix are of undoubted importance, their simple manipulation will provide little in the way of long-term solutions to organizations marketing problems. Effective marketing is dependent on the organization taking a strategic view and considering marketing as an integrated and driving force in its long-term strategy and planning.

SELF CHECK EXERCISE

I. The term "market" sounds like it involves selling simple, tangible goods, but as you know, hardly anything can be marketed. (True or False)

II. Some things that can be marketed include goods, services, experiences, events, and people. (True or False)

III. Customers typically do not mind paying for purchases. (True or False)

IV. Today's marketplace is focused more on

(a) Business (c) Product

(b) Customers (d) Price

1.4 THE DEVELOPMENT OF THE MARKETING CONCEPT

The marketing orientation described above is not the only approach to business. The ways in which organizations could conduct their business and face their markets can be described under four general headings.

1.4.1The Production Concept

The production concept is perhaps one of the most well-established approaches to business. It is based on the idea that mass production and low cost is the key to business success because consumers are interested primarily in wide availability and low price. This approach can be effective under conditions of excess demand, when the consumer is concerned more with being in a position to purchase the product itself than with the finer points of the products features and attributes. It may be equally effective for products whose initial costs are high and for which there are substantial economies of scale (falling average costs with increasing levels of output). A good example of this approach is provided by Texas Instruments who, in the 1970s, concentrated their efforts on expanding volume and bringing down the prices of products such as hand-held calculators. Although potentially very effective, such an approach can equally be vulnerable to changes in consumer tastes and changes in technology which affect production process. For example, the development of manufacturing techniques such as CAD, CAM and Flexible Manufacturing Systems has enabled many organizations to produce a considerable variety of products cost effectively (economies of scope). These, economies of scope have become more important than economies of scale in many industries; if variety can be supplied at a low cost, there will be little for the organization to gain from mass producing standardiszed products at a similarly low cost.

1.4.2The Product Concept

The product concept is based on the premise that consumers will prefer products with the best range of features, performance or quality. Managers in these organizations focus on making superior products and improving them over time. They assume that buyers admire well-made products and can evaluate quality and performance. While this approach may be effective in small, specialist niche markets (e.g. Rolls Royce cars) there is the danger that following the product concept may lead organizations into the marketing myopia trap, as discussed earlier. The Swiss Watch industry provides a good example of this problem. Despite having invented the electronic watch, Swiss manufacturers, convinced of the superiority of their high-quality mechanical watches made no real attempt to exploit this innovation and as a consequence, lost a large share of their market to Japanese and other far eastern competitors in the 1970s.

1.4.3The Selling Concept

The underlying premise of the selling concept is that consumers may be interested in the organizations products but will not actively seek to make a purchase. Business success depends therefore on actively and aggressively selling those products to the consumer.

another common business orientation. This concept holds that customers and businesses, if left alone, will ordinarily not buy enough of the organization's products. The organization, must therefore, undertake an aggressive selling and promotion effort. This concept assumes that consumers typically show buying inertia or resistance and must be coaxed into buying. It also assumes that the company has a whole battery of effective selling and promotion tools to stimulate more buying. In the short term, the selling concept can provide the basis for success, but there is the problem that aggressive selling without specific consideration of customer needs will lead to short term gains at the expense of long-term losses.

1.4.4The Marketing Concept

This concept is an attitude. It's a philosophy that is driven down throughout the organization from the very top of the management structure. The Marketing Concept communicates that "the customer is king." Everything that the company does focuses on the customer. Via the Marketing Concept, a company makes every effort to best understand the wants and needs of its target market and to create want-satisfying goods that best fulfill the needs of that target market and to do this better than the competitors. In the "Marketing Concept," the company embraces a philosophy that the "Customer is King.'

Recent years have seen a modification of the marketing concept as an approach to business and this is usually described as the societal marketing concept. Although the societal marketing concept is often treated as distinct from the marketing concept, it is essentially a development of the traditional approach. Societal marketing argues that organizations should try to maintain a balance between the interests of the organization itself, the interests of consumers and the interests of society. It demands that organizations behave in a manner that is socially responsible and suggests that the reward for social responsibility will be in the form of improved long-term profitability. Green marketing is one variant of societal marketing which has become increasingly important in recent years.

SELF CHECK EXERCISE

V. The societal marketing concept is often treated as distinct from the marketing concept. (True or False)

VI. These days we live in a truly product-oriented and product-empowered marketing world. (True or False)

VII. You'll always be a step ahead of your competition if you simply think about your company. (True or False)

VIII. Every ……………………begins with an assessment of convenience or wants.

(a) Marketing effort (b) Marketing idea

(c) Transaction (d) Purchase

1.5 THE SCOPE OF MARKETING '

The development of a marketing orientation is not just restricted to businesses. On the contrary, marketing is relevant to any organization whether it is a non-profit making body, a public sector organization a commercial business or an industrial conglomerate. Marketing concerns itself with understanding what customers want and attempting to match these wants to the products or services that the organization is supplying. In the business environment these customers pay directly for goods and services. In other areas, such as health and education, there is no direct purchase, but the users of these services are customers nevertheless. Developing a marketing orientation will enable public sector organizations to meet the needs of these 'customers' more effectively and thus improve organizational performance.

1.5.1 Marketing Management and Marketing Tasks

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

In principle, according to Kotler, eight different demand situations can be identified. Different marketing tasks are associated with each. These are summarized as below:

(i) **Demand State** - Negative demand

Marketing Task - Disabuse demand

Formal Name - Conversional marketing

Most or even all important segments in a market dislike the product, even to the extent of being prepared to pay a price to avoid it for example, some people have a negative demand for dental care, others have a negative demand for air travel. The task of marketing in this situation is generally to identify the cause of negative demand and attempt to counter it. For example, if the product has a poor reputation or image, or its features or performance are inadequate, then marketing managers will need to consider how to alter the reputation of the product, whether to change its features and generally determine how to ensure that the correct image is created for that product.

(ii) **Demand State** - No demand

Marketing Task - Create demand

Formal Name - Stimulation marketing

This usually covers products with no perceived value in a particular market. In relatively crime free areas, for example, there may be no demand for security systems because consumers may not appreciate the need for such products. The task of marketing then becomes one of stimulating demand for that product. In practice, this often means persuading consumers to buy or use a particular product or service. This element of persuasion means that stimulation marketing is often subject to criticism for being manipulative, but of course we must remember that it may be beneficial in many cases such as encouraging vaccination and encouraging health screening.

(iii) **Demand State** - Latent demand
Marketing Task - Develop demand
Formal Name - Developmental marketing
In this case, a large group of consumers share a need for something which does not yet exist in the form of an actual product e.g. the user friendly computer systems or the good tasting, nicotine free cigarette. The task of marketing is then to identify the nature and characteristics of latent demand, establish (often in conjunction with R&D) whether a product can be developed to meet these characteristics and determine how it should be presented to the market.

(iv) **Demand State** - Faltering demand
Marketing Task - Revitalize demand
Formal Name - Remarketing
In this case, the demand for a product is declining and this decline represents something more serious than a temporary drop in sales. Examples might include rail travel in the US, vinyl records or mechanical watches. The task of marketing is to identify causes of decline and to reassess the nature of the product, its features, its target market and the marketing campaign with a view to either reviving demand for the product or deleting it. Attempts to revive a product go beyond simply relying on large scale advertising and promotional efforts since these often act as an indication to the consumer that the particular product is experiencing difficulties.

(v) **Demand State** - Irregular demand
Marketing Task - Synchronize demand
Formal Name - Synchro marketing
Irregular demand is arguably one of the most common situations facing anyone involved in marketing in the service sector. It involves a situation where the pattern of demand is based on seasonal factors or other sources-of volatile such as short-term economic fluctuations. There are many examples of this type, of demand in food markets, holiday markets and travel markets. The task of marketing management in this situation is concerned with attempting to synchronize demand and supply. Marketing may tend to focus primarily on the demand side by discouraging use when demand is at its strongest, encouraging use when demand is at its weakest or finding alternative markets with counter cyclical patterns of demand. However, there may need to be some consideration of the supply side and the potential to which supply can be increased by the holding of larger stocks, improved distribution or increased output.

(vi) **Demand State** - Full demand
Marketing Task - Maintain demand
Formal Name - Maintenance Marketing
Demand is currently at a desirable level and one that is consistent with the existing corporate and marketing objectives. The main concern in this situation is to maintain this level of demand by continuously monitoring and adjusting marketing campaign as and when attitudes change or competitive threats appear.

(vii) **Demand State** - Overfull demand
Marketing Task - Reduce demand
Formal Name - Demarketing
Demand exceeds the level of supply on what appears to be a permanent basis ie demand is above supply and there is no desire or ability to increase supply. Such a situation may occur with certain exclusive products such as specialist cars, restaurants or with non-renewable

resources such as oil. The marketing task is to reduce but not remove demand perhaps by making the product less available to less attractive market segments or by making it generally less available by reduced promotions, increased price or limited distribution.

(viii) **Demand State** - Unwholesome demand
Marketing Task - Destroy demand
Formal Name - Counter marketing
Any positive level of demand is regarded as excessive because of the undesirable qualities of the product. This situation is probably most commonly associated with vice' products such as drugs, smoking and other social cause' products. However, counter marketing may also be relevant in the business community when it may be used to phase out firms existing products. This may involve ending promotions, raising price or even, for some products, the implementation of legal restrictions. These categories of demand demonstrate that the task of marketing management is much broader than simply creating and maintaining demand rather it involves responding to and managing patterns of demand within the market place. However, it is important to stress that this demand management does not take place in isolation. Marketing must manage demand more effectively than the competition in order to be successful and must be prepared to respond and react to what happens in the marketplace, not only in terms of existing and potential consumers but also in terms of competitors activities.

1.6 HOW IS MARKETING MANAGED?

Marketing managers could be required to deal with a variety of demand situations as explained above. Each has different characteristics, presents different problems and requires different solutions. Since the demand characteristics of a product or service will change quite considerably over time, forcing managers to deal first with one situation and then another, it is important to develop a systematic approach to deal with a number of different sets of circumstances. Three key components can be identified in the techniques for marketing management:

- The need for planning
- The management of the marketing mix
- The need for information

Planning the marketing' effort is important to ensure that the marketing approach to a situation is consistent and coherent with the objectives and capabilities of the organization and the needs of the marketplace. Planning will establish targets, identify how and when those targets are to be achieved and establish who will take responsibility for the relevant marketing tasks. By stating objectives, procedures, processes and personnel requirements prior to the start-of a marketing campaign, the plan also provides a framework for the monitoring and control of marketing activities.

Within the marketing plan, the set of techniques which can be used to influence the buying behavior of consumers and therefore the overall level of demand is described as the marketing mix. This concept has been described in the form of the 4 'Ps'. Although there are a number of different components of the marketing mix, it is the interaction of these components and their impact on the consumer that is important. In order to influence the level of demand and the behavior of consumers, marketing managers must first understand what motivates buyers and how they make their purchase decisions. From this understanding the aim is to develop a marketing mix which will create a particular image for a product and send specific signals to consumers which may increase, maintain or reduce demand levels as appropriate. In order to do this successfully, it is important that the individual components of the marketing mix are consistent with one another; an attempt to create the image of a unique and exclusive product will be ruined if the product is available at a low price and in every high street store.

Effective planning and implementation is impossible without access to pertinent information. The need for information is not unique to the marketing function any organizational decision-making process depends on a variety of information flows. However, the value of good information is being increasingly recognized, not only to provide the right sort of support for decision making processes, but also to provide the organization with a competitive edge in its market place. Thus, at every stage in the marketing process, whether the organization is trying to understand consumers, or understand markets or establish levels of profitability for products or determine price, a variety of different types of information will be required. Equally, throughout a marketing campaign, information will also be a key component of any monitoring and control functions. Thus, in order to manage marketing, it is necessary to obtain and manage information and this is the role of the marketing information system.

SELF CHECK EXERCISE

IX. The marketing function encompasses a wide variety of techniques and activities. (True or False).

X. Which of the following is defined to be an exchange between a firm and its customers?
(a) Advertising
(b) Consumer behaviour
(c) Marketing
(d) None of the above

XI. If companies are good and if they are lucky, the exchange continues iterating between the customer and the company, _____ the tie between them.
(a) Strengthening
(b) Weakening
(c) Distracting
(d) Exhausting

1.7 SUMMARY

As markets become more and more competitive" and customers become more sophisticated and quality conscious, the adoption of a marketing orientation becomes increasingly important in ensuring organizational success. This marketing orientation requires that the consumer be seen as central to the business and that the organization focuses its attention on identifying and responding to consumer needs as they are at present, as well as trying to anticipate future needs. However, the type of products which can be developed will be affected by the organization's own capabilities. The key principle of marketing is to be able to meet consumer needs more effectively than competitors.

If these principles are followed, the organization will be in a position to generate higher sales and/or command higher prices. Thus, adopting a marketing orientation will provide the basis for long term survival and enable the commercial organization to improve business performance. Marketing can be equally important to nonprofit making organizations where the process of matching the organizations offering to the needs of its 'consumers' will improve organizational performance.

1.8 KEYWORDS

- **Marketing** - a societal process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value with others.
- **Marketing management** - the art and science of choosing target markets and getting, keeping and growing customers through creating, delivering and communicating superior customer value.
- **Market-** Place in the economy where the organizations are fighting for their products.
- **Consumer Markets-** The Motive of buying is to consume the product for their personal use.

1.9 PRACTICE QUESTIONS

1.9.1 SHORT ANSWER QUESTIONS

1. What do you understand by marketing concepts?
2. What is co-ordination?
3. How production concept is different from product concept?
4. What is a competitive advantage?

1.9.2 LONG ANSWER QUESTIONS

1. How do changed economic conditions explain the increased importance of marketing as an approach to business?
2. What are the five important features of a marketing orientation?
3. How does marketing help businesses to outperform their competitors?
4. Identify four common reasons for failing to achieve a marketing objective.
5. Discuss the difference between sales and market orientations.

1.10 REFERENCES

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1.11 ANSWERS OF SELF CHECK EXERCISE

I.	false	V.	true	IX.	true
II.	true	VI.	false	X.	a
III.	true	VII.	false	XI.	b
IV.	c	VIII.	d		

Semester-II **MARKETING MANAGEMENT**
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MARKETING ENVIRONMENT AND ENVIRONMENT SCANNING

2.0 OBJECTIVES

After reading this chapter, the student should be able to:

- Determine the key methods for tracking and identifying opportunities in the macro-environment
- Determine the key demographic, economic, natural, technological, political, and cultural developments.

2.1 INTRODUCTION

Marketers need to be good at building relationships with customers, others in the company, and external partners. To do this effectively, they must understand the major environmental forces that surround all of these relationships. A company's marketing environment consists of the actors and forces outside marketing that affect marketing management's ability to build and maintain successful relationships with target customers. Successful companies know the vital importance of constantly watching and adapting to the changing environment.

The environment continues to change rapidly, and both consumers and marketers wonder what the future will bring. More than any other group in the company, marketers must be the trend trackers and opportunity seekers. Although every manager in an organization needs to observe the outside environment, marketers have two special attitudes. They have disciplined methods - marketing research and marketing intelligence - for collecting information about the marketing environment. They also spend more time in the customer and competitor environments. By carefully studying the environment, marketers can adapt their strategies to meet new marketplace challenges and opportunities.

The marketing environment is made up of a microenvironment and a macroenvironment. The microenvironment consists of the actors close to the company that affect its liability to serve its customers - the company, suppliers, marketing intermediaries, customer markets, competitors and publics. The macroenvironment consists of the larger societal forces that affect the microenvironment - demographic, economic, natural, technological, political and cultural forces.

2.2 THE COMPANY’S MICROENVIRONMENT

2.2.1 The Company

In designing marketing plans, marketing management should take other company functions, such as top management, finance, research and development, purchasing, manufacturing, human resources and accounting, into consideration. All these interrelated groups form the internal environment. Top management sets the company's mission, objectives, broad strategies, and policies. Marketing managers make decisions within the strategies and plans made by top management.

2.2.2 Suppliers

Suppliers are firms and individuals that provide the resources needed by the company to produce its goods and services. Supplier developments can seriously affect marketing. Marketing managers must therefore watch supply availability - supply shortages or delays, labor strikes, and other events can cost sales in the short run and damage customer goodwill in the long run. Marketing managers also monitor the price trends of their key inputs. Rising supply costs may force price increases that can harm the company's sales volume.

2.2.3 Marketing intermediaries

Marketing intermediaries/ Distributors are firms that help the company to promote, sell, and distribute its goods to final buyers. They include middlemen, physical distribution firms, marketing services agencies, and financial intermediaries. Middlemen are distribution channel firms that help the company find customers or make sales to them. These include wholesalers and retailers who buy and resell merchandise.

Physical distribution firms help the company to stock and move goods from their points of origin to their destinations.

Marketing service agencies are the marketing research firms, advertising agencies, media firms and marketing consulting firms that help the company target and promote its products to the right markets.

Financial intermediaries include banks, credit companies, insurance companies, and other businesses that help finance transactions or insure against the risks associated with the buying and selling of goods.

2.2.4 Customers

The company must study its customer market(s) closely. Consumer markets consist of individuals and households that buy goods and services for personal consumption. Business markets buy goods and services for further processing or for use in their production process. Reseller markets buy goods and services to resell at a profit. Institutional markets are made up of schools, hospitals, nursing homes, prisons and other institutions that provide goods and services to people in their care. Government markets are made up of government agencies that buy goods and services for distribution to the relevant bodies.

Each market type has special characteristics that call for careful study by the seller. At any point in time, the firm may deal with one or more customer markets.

The Total Market Demand for a product or a service is the total volume that would be bought by a defined consumer group in a defined geographic area in a defined time period in a defined marketing environment under a defined level and mix of industry marketing effort. Total market demand is not a fixed number, but a function of the stated conditions.

2.2.5 Competitors

The marketing concept states that to be successful, a company must satisfy the needs and wants of consumers better than its competitors do. Thus, marketers must do more than simply adapt to the needs of target consumers.

No single marketing strategy is best for all companies. Each firm must consider its own size and industry position compared to those of its competitors. Large firms with dominant positions in the industry can use certain strategies that smaller firms cannot afford.

2.2.6 Publics

A public is any group that has an actual or potential inters in or impact on an organization's ability to achieve its objectives. Seven types of publics can be identified:

- **Financial publics** influence the company's ability to obtain funds. Banks, investment houses, and stockholders are the major financial publics.
- **Media publics** carry news, features and editorial opinions. They include newspapers, magazines, and radio and television stations.
- **Government publics**: Management must take government developments into account. Marketers must often consult the company's lawyers on issues of product safety, truth in advertising, and other matters.
- **Citizen-action publics**: A company's marketing decisions may be questioned by consumer organizations, environmental groups, minority groups and others. Its public relations department can help it stay in touch with consumer and citizen groups.
- **Local publics** include neighbourhood residents and community organizations. Large companies usually appoint a community relations officer to deal with the community, attend meetings, answer questions and contribute to worthwhile causes.
- **General public**: A company needs to be concerned about the general public's attitude toward its products and activities. The public's image of the company affects its buying.
- **Internal publics** include workers, managers, volunteers and the board of directors. Large companies use newsletters and other means to inform and motivate their internal publics. When employees feel good about their company, this positive attitude spills over to external publics.

SELF CHECK EXERCISE

I. "________ fever" results from the convergence of a wide range of forces in the marketing environment from technological, economic, and demographic forces to cultural, social and political ones.
(a) Marketing (b) Cultural
(c) Techno graphic (d) Millennial

II. The microenvironment is the actors and forces outside marketing that affect marketing management's ability to develop and maintain successful transactions with its target customers.(True or False)

III. Suppliers are firms and individuals that……………. the resources needed by the company to produce its goods and services.

IV. The microenvironment for most firms consists of the company itself, suppliers, marketing channel firms, customer markets, competitors, and public. (True or False)

2.3 THE COMPANY'S MACROENVIRONMENT

The company and all of the other actors operate in a larger macroenvironment of forces that shape opportunities ad pose threats to the company.

2.3.1 Demographic Environment

Demography is the study of human populations in terms of size, density, location, age, gender, race, occupation and other statistics. The demographic environment is of considerable interest to marketers because it involves people, and people make up markets. Amongst the most important demographic characteristics are:

- population size and growth trends
- changing age structure of the population
- the changing family
- rising number of educated people

2.3.2 Cultural Environment

The cultural environment is made up of institutions and other forces that affect society's values, perceptions, preferences and behaviors. People grow up in a particular society that shapes their basic beliefs and values. They absorb a world view that defines their relationships to themselves and others. Marketers must be aware of these cultural influences and how they vary across societies within the markets served by the firm. The following characteristics can affect marketing decision making.

- Persistence of cultural values. People's core beliefs and values have a high degree of persistence.
- Shifts in secondary cultural values. Although core values are fairly persistent, cultural swings do take place. Consider the impact of music groups, etc. Marketers want to predict cultural shifts in order to spot new opportunities or threats.
- People's views of themselves. People vary in their emphasis on serving themselves and serving others. Some people seek personal pleasure, wanting fun, change and escape. Others seek self-realization through religion, recreation etc. People use products, brands and services as a means of self-expression and buy products and services that match their views of themselves.

2.3.3 Economic Environment

The economic environment consists of factors that affect consumer purchasing power and spending patterns. Marketers need to be aware of the following predominant economic trends.

- **Income distribution and changes in purchasing power** - Where consumer purchasing power is reduced, as in an economic recession, value-for-money becomes a key purchasing criterion. Marketers must pursue value-based marketing to capture and retain price conscious customers during lean economic times, unlike boom periods when consumers become addicted to personal consumption.
- **Changing consumer spending patterns** - Changes in chief economic variables such as income, cost of living, interest rates, and savings and borrowing patterns have a large impact on the marketplace. Companies watch these variables by using economic forecasting.

2.3.4 Natural Environment

The natural environment involves the natural resources that are needed as inputs by marketers or that are affected by marketing activities. Environmental concerns have grown steadily during the past two decades. Protection of the natural environment will remain a crucial world-wide issue facing business and the public. Marketers should be aware of the four trends in the natural environment:

- shortages of raw materials
- increased cost of energy
- increased pollution
- government intervention in natural resource management

2.3.5 Technological Environment

The technological environment is perhaps the most dramatic force now shaping our destiny.

Technology has released such wonders as penicillin, organ transplants and computers. It has also released such horrors as nerve gas and the nuclear bomb. Our attitude towards technology depends on whether we are more impressed with its wonders or its blunders. Every new technology replaces an older technology. When old industries fought or ignored new technologies, their businesses declined. New technologies create new markets and opportunities. The marketer should watch the following trends in technology.

- fast pace of technological change
- higher R & D budgets
- concentration on minor improvements
- increased regulation

Increasingly companies in all industries are attempting to harness the benefits of technology in an attempt to reduce costs (e.g. often labour costs) and also develop new income streams (e.g. through the internet). Many industries, particularly those in business to business markets are embracing the internet and using it to identify new trading partners world-wide as well as exploiting the capacity of the net to advertise globally.

2.3.6 Political Environment

Marketing decisions are strongly affected by developments in the political environment. Close relationships with politicians are often cultivated by organizations both to monitor political moods and also to influence them.

In America the cigarette industry has a vested industry in maintaining close ties with government to counter proposals from pressure groups, Companies sometimes make sizeable contributions to the funds of political parties in an attempt to maintain favorable relationships. The present proposals in the USA that the cigarette industry pay huge damages to the US government are worth noting. This will preclude individuals suffering from cancer taking legal action against individual companies. The cigarette industry is a particularly interesting and popular focus both in business terms and also increasingly in popular culture. The political environment consists of laws, government agencies and pressure groups that influence and limit various organizations and individuals in a given society. The marketer should consider the following:

- legislation regulating business
- growth of public interest groups
- increased emphasis on ethics and socially responsible actions

Once a target market has been established, environmental scanning is a tool that can help determine a company's strategies. Environmental scanning consists of analyzing a variety of external dynamics. It is a search for information about relevant external torces to see how these may affect a business.

SELF CHECK EXERCISE

V. _________________ help the company to promote, sell, and distribute its goods to final buyers.

VI. Workers, volunteers, managers, and the board of directors would be called a company's internal public. (True or False)

VII. Culture is the study of human populations in terms of size, density, location, age, gender, race, occupation, and other statistics. (True or False)

VIII. All of the following would be considered to be a part of a company's macro environment-except

(a) Demographic forces (b) Marketing channel forces

(c) Technological forces (d) Natural force

2.4 ENVIRONMENT SCANNING

Environmental scanning is a process of gathering, analyzing, and dispensing information for tactical or strategic purposes. The environmental scanning process entails obtaining both factual and subjective information on the business environments in which a company is operating or considering entering.

2.4.1 Methods

There are three ways of scanning the business environment:

- **Ad-hoc scanning** - Short term, infrequent examinations usually initiated by a crisis
- **Regular scanning** - Studies done on a regular schedule (say, once a year)
- **Continuous scanning** - (also called continuous learning) - continuous structured data collection and processing on a broad range of environmental factors

Most commentators feel that in today's turbulent business environment the best scanning method available is continuous scanning. This allows the firm to act quickly, take advantage of opportunities before competitors do, and respond to environmental threats before significant damage is done.

The steps followed in marketing environment scanning are shown in the figure below:

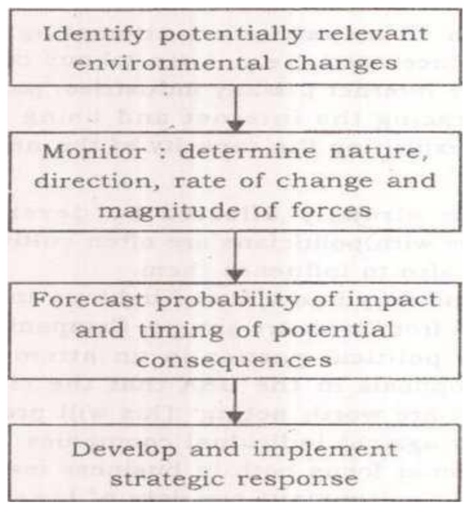


Figure 1: Steps in Environmental Scanning

Step 1: Identify potentially relevant environmental changes

The process of identifying potentially relevant changes can be organized in various ways:

- One of the basic approaches to it is to begin with **significant macroenvironmental changes** in society and then to assess their potential future relevance to the organization. This is the "**external to internal**" **(EX - IN)** approach
- The second and more common approach starts with **internal parameters of the company** and its possible environmental influence. Here, marketers are trying to analyze real or possible environmental changes that can influence upon these parameters. This is the "**internal to external (IN - EX) approach**"
- Advanced companies use the extensive approach for identifying change forces; it is called the **Systematic Procedure for Identifying the Relevant Environment,** or **SPIRE.** This approach centers on a matrix with **likely external changes** on one axis and **possible strategic decisions** on the other axis. The cells of this matrix are studied, screened, and clustered.

Step 2: Monitor change

Once potentially relevant changes have been identified, an organization must decide how to monitor them; this is done by learning more about the changes' nature and direction rather than by learning more about their current rate of the change.

Valuable information for monitoring is readily available from government and trade sources, business and non-business magazines. Some corporations have their own information monitoring systems for analyzing and predicting changes. Most environmental information, however, is gathered from the aforementioned, readily available data sources.Effective monitoring provides a good basis for forecasting.

Step 3: Forecast impact, timing, and consequences

Any forecast relies on seeking past and present relationships that help predict the future. The process of forecasting includes one or more of the following:

- Projecting historical trends
- Forecasting the future from related current events
- Basing forecasts on variables that are thought to cause future events

The relative complexity of forecasting varies by environmental sector. Environmental forecasting for social, political, and technological environments is intuitive and judgmental. The level of complexity depends on the degree to which the processes of change are understood.

The methods of forecasting can be divided to two groups:

- Extrapolation methods: Use of past information to predict the future; the assumption that past trends will continue in the future
- Subjective/ judgmental methods: Use of expert opinion for predicting the future

Typically used methods for estimation of timing of environmental changes and thelikelihood of their impact is considered below:

- Individual judgments: "Best guess" of experts
- The Delphi method: The independent questioning of a panel of experts concerning some future event or trend without group discussion
- Trends extrapolation: Projects historical trends on the assumption that the factors causing change in the future will be similar to those that caused them in the past
- Cross-impact matrices: Forecasts derived by different methods may be combined in tables to ensure consistency.
- Scenarios: Verbal picture of the future. Multiple scenarios are usually developed. Alternative strategic directions are evaluated in terms of each scenario.
- Modeling: Trends are specified in equation form

Step 4 : Develop strategic responses

Important environmental changes have been identified and monitored, and their future states have been forecasted. At this point, the marketing management should be ready to cope with these changes. Marketing managers must decide what to do in the new environmental situation. Strategic marketing decisions rely on two related assumptions:

- The objective is to effectively match changing markets with a company's strengths (its special resources)
- The firm's strengths and resources are difficult to change in the short term
- There are usually only defined periods during which a "strategic window" exists for a given company. The "strategic window" is a period of time in which a company can react to the environmental change. Out of the "strategic window," it is too late (or too early) to react

Several guidelines may be used to help organizations cope with changes:

- **Focus on probabilities, consequences, and timing**: Potentially disastrous consequences must receive attention even though their probability is low. Highly probable events should be considered even if their consequences are weak
- **Stay flexible**: If a particular strategy, for example, is appropriate within two future scenarios rather than one, it is the more appropriate strategy
- **Develop counterforces**: Sometimes it is easier to change the environment rather than adapt to it

Scanning these macroenvironmental variables for threats and opportunities requires that each issue be rated on two dimensions. It must be rated on its potential impact on the company, and rated on its likeliness of occurrence. Multiplying the potential impact parameter by the likeliness of occurrence parameter gives us a good indication of its importance to the firm.

2.4.2 Responses

When an issue is detected, there are generally six ways of responding to them:

- Opposition strategy - try to influence the environmental forces so as to negate their impact. This is only successful where you have some control over the environmental variable in question
- Adaptation strategy - adapt your marketing plan to the new environmental conditions
- Offensive strategy - try to turn the new influence into an advantage - quick response can give you a competitive advantage
- Redeployment strategy - redeploy your assets into another industry
- Contingency strategies - determine a broad range of possible reactions - find substitutes
- Passive strategy - no response - study the situation further

SELF CHECK EXRECISE

IX. _____________ Publics include workers, managers, volunteers and the board of directors of an organization.
  i. (a) General (b) Financial
  ii. (c) Internal (d) Local

X. The study of human populations in terms of size, density, location, age, gender, race, occupation and other statistics is called:
  b. (a) Geothermic (b) Demography
  c. (c) Ethnography (d) Hemos-popography

XI. ______________ beliefs and values are passed on from parents to children and are reinforced by schools, churches, business and government.

2.5 SUMMARY

The marketing environment consists of largely uncontrollable forces that change and influence companies. These forces include the intraorganizational environment of the firm, the task/mediating environment, the macroenvironment, and the global environment. There are social, demographic, technological, political, economic, and natural elements of macroenvironment. Identifying potentially relevant forces, monitoring them, forecasting their rate of change and the likelihood of their impact, and strategically responding to them describes the process of environmental scanning.

2.6 KEYWORDS

- **Microenvironment** - consists of the actors close to the company that affect its liability to serve its customers - the company, suppliers, marketing intermediaries, customer markets, competitors and publics.
- **Macroenvironment** - consists of the larger societal forces that affect the microenvironment - demographic, economic, natural, technological, political and cultural forces.
- **Environmental scanning** is a process of gathering, analyzing, and dispensing information for tactical or strategic purposes

2.7 PRACTICE QUESTIONS

2.7.1 SHORT ANSWER QUESTION

1. What is environmental scanning?
2. What do you mean by adaptation strategy?
3. How micro environmental factors influence business?
4. Elucidate difference between micro and macro environment?

2.7.2 LONG ANSWER QUESTION

1. Discuss the components of marketing environment and the significance of each for the marketers.
2. Why do the marketers need to scan the marketing environment? Briefly discuss the process of environment scanning.
3. An organization is not completely at the mercy of the external environment. Explain environmental management and give an example how a motorcycle helmet

manufacturer might use it.

4. Discuss the types of macro environment.

2.8 REFERENCES

- Kotler, P., Armstrong, G., **Principles of Marketing,** Prentice Hall of India Private Limited, New Delhi, 12th Edition, 2007.
- Kotler,P., **Marketing Management,** Pearson Education, Delhi, 2004

2.9 ANSWER KEY

I.	D	V.	Middle man between company and consumer	VII.	False
II.	False			VIII.	B
III.	Provide raw material			IX.	C
				X.	B
IV.	True	VI.	True	XI.	Core

Semester-II **MARKETING MANAGEMENT**
Lesson No.3 **AUTHOR: SANDEEP S. VIRDI**

MARKETING INFORMATION SYSTEM

3.0 OBJECTIVES

After reading this chapter, the reader should be able to:

- Understand the concept of Marketing Information System.
- Define the requisites of a good MIS.

3.1 INTRODUCTION/SIGNIFICANCE OF MARKETING INFORMATION

Marketing information is crucial to effective marketing management. Often, the extent of marketing excellence achieved by a firm bears a direct relationship to the way it manages marketing information. Marketing excellence is, after all, the net result of correct marketing decisions. And, the decisions can be correct only when they are information base. This is particularly true in today's world.

Every firm must organize and distribute a continuous flow of information to its marketing managers. A Marketing Information System consists of people, equipment and procedures to gather, sort, analyze, evaluate and distribute needed, timely and accurate information to marketing decisions makers. A Marketing Information System relies on internal company records, marketing intelligence activities, and marketing research. The company's Marketing Information System should be a cross between what managers think they need, and what is economically feasible. An internal MIS committee can interview a cross section of marketing managers to discover their information needs.

SIGNIFICANCE OF INFORMATION GOES UP, AS KNOWLEDGE MANAGEMENT BECOMES THE BEDROCK OF BUSINESS SUCCESS

It is well known that today business organizations need knowledge management for success. It has become important not only in launching new businesses and developing corporate strategies, but in carrying out every major management activity/function. To put it in brief, the supremacy of knowledge management in running a business is now well established. Business success now requires a sustainable and cutting-edge knowledge base.

MARKETING INFORMATION BENEFITS A FIRM IN MANY WAYS

In Marketing Planning

1. Helps by making available relevant insights on the external environment as well as internal realities of the company.
2. Helps top opportunities and build defenses against threats
3. Helps quick spotting of changing trends
4. Provides valuable market intelligence

In Marketing Implementation

1. Helps implement all marketing action programmes.
2. Helps deliver customer-oriented marketing offers / 4Ps
3. In particular, helps in quickly adjusting products and services to the needs and tastes of customers
4. Helps product innovations; product innovations are, after all, the result of the firm's knowledge of unnerved market needs, marketing information confers this knowledge.
5. Helps reduce product failures
6. Supports Channel Management, Channel choice, Channel Motivation and Multi Channel Marketing
7. Support promotion; helps planning of promotion; Leads to better campaigns, better selection of target audience, better choice of media, and so
8. Helps build relations with customer. After all, customer relations rest on customer knowledge. And, marketing information confers this knowledge. It is by using such information intelligently that organizations build best relation with customers.

In Marketing Control

1. Imparts quality to all marketing decisions; the quality of these decisions is actually determined by the quality of marketing information available to the decision maker. And such quality decisions are the essence of effective marketing control

DATA-INFORMATION-KNOWLEDGE' SEQUENCE

Information becomes knowledge when it is discriminates, classified, processed and assembled in an appropriate manner. In as much as knowledge rests on information, the latter assumes an added significance in the era of knowledge.

Just as information becomes knowledge, when processed properly, data becomes information when processed properly. The role of processing in converting data into marketing information can easily be grasped from the often quoted statement of exasperated marketing executives; I am drowned in data, but starved of information, marketing decisions- for that matter, decisions in any management function need information, not just data.

Knowledge is the final entity in the sequence. And business decisions need knowledge, not just data or information. A firm may have in its possession unlimited data/information, internal an external. But, extracting knowledge from them will need a special effort and systems support. The Internet, for example, is a source of unlimited data/information, but translating the information into useful, cutting edge knowledge will need a special effort. And the ability of the firm to create relevant knowledge from data/information is what matters ultimately.

3.2 THE NEED FOR A SYSTEM TO HANDLE MARKETING INFORMATION

While the significance of marketing information is clear from the foregoing discussions, the question to be answered is: Why do we need a system for handling marketing information?

Advantage Conferred by a System

A system is essentially an integral procedure in which inputs are received, processed and stored, and the outputs are transmitted for absorption in the main stream.

Improves the Data Capture Process

A system improves the data capture process and checks for reliability, consistency and quality. In the case of marketing, as a large assortment of complex, diverse and voluminous data is involved, a system framework is essential for capturing and handling it.

Smoothens the Operation

Gathering and managing information becomes particularly difficult in the case of marketing, since marketing information relates largely to environmental factors like customers and competition. The job becomes somewhat easier with a system. A system smoothens the operation in gathering, processing and transmitting the data; it also works out patterns from out of the available information. A system also facilitates communicating the information to the decision makers in a ' decision ready' form.

Tailors Information Outputs to Suit Needs of Executives

Executives at different levels may need only particularly segments of the marketing information output, depending on the decisions they are called upon to make. Again, some of the information may be needed on a regular basis and some of it may be needed only on an occasional / adhoc basis. Also, certain items of information may be required only when new problem arise. Organizing the information into a system helps meet all such requirements. It ensures that the information provided is just right for tackling the problem on hand and not excessive.

Helps Using Same Information Several Times, and for Different Purposes

A system framework facilitates repetitive use of the same information by different departments/executives at different times and for different purposes. It is an inherent feature of management that the same marketing information is used in a variety of decisions over a period of time. The information has to be retrieved again and again and supplied for such use. It has to be arranged and interpreted in the manner in which the user wants it.

Helps Sort Out Conflicting Information.

Quite often, a firm received conflicting information on inputs on a given subject. While such variance mostly occurs when different sources provide inputs on the subject, at times this also happens with information provided by the same source. A system framework helps quick scanning of such information inputs and cross checking one with the other Conflicting information, if left unattended, will misdirect the effort of the decision makers.

Integration of information is perhaps the most important benefit of a system framework. A system helps instant access to company wide data by integrating all data into a unified entity. Often, data/information lies fragmented in certain isolated pockets of the organization or trapped in individual minds. There is very little cross sharing of information. A system assembles and integrates all the information. In the absence of a system, executives in the organization will be denied the benefit of integrated information. The lack of access to such data by those who need it, obviously hampers the quality of decision making.

Converts data into information and information into insights; In particular creates customer insights out of transaction data

By the very nature of an organization, raw data is flowing continuously into it from internal departments and external environment. But raw data is not of much use to decision makers. They need meaningful marketing information and insights. A system device creates such information and insights out of the raw data. Moreover, a system delivers the outputs in the right format. This helps the users appreciate the relationships among the various information In particular, a system framework helps create customer insights out of transaction data.

A system device also helps customer retention. The firm can know more about its customer. It can know about its customer It can know about its customers corporate wide and over different product lines. It can know who buys which products, and thereby target its marketing efforts more efficiently. It can Cross sell to customers who have already purchased from it. It can for example, send a focused direct mail on its washing machine to a customer, who has purchased a refrigerator from it. Without a system, the firm cannot have such knowledge about customers across lines of business.

Serves As a Knowledge Management Mechanism

A system converts raw data into information and information into knowledge; supports capture of knowledge; serves as a mechanism for managing it; makes the knowledge flow where it is required; and ensures that it is available in a readily usable form. In short, an MIS will serve as a total knowledge management mechanism. The advantages of having a system for Marketing Information are summarized in the following table.

SELF CHECK EXERCISE

I. Integration of information is perhaps the most important benefit of a system framework. (true/false)

II. A system framework facilitates repetitive use of the same information by different departments/executives at different times and for ___________ purposes.

III. The role of processing in converting data into marketing information can easily be grasped from the often-quoted statement of exasperated marketing executives. (true/false)

3.3 ADVANTAGE IN HAVING A SYSTEM FOR MARKETING INFORMATION

(i) A system framework provides a set of procedures and methods for regular, planned, purposeful and systematic gathering of data, and its analysis, storage and retrieval. Helps sort out conflicting information which if left unattended will misdirect the effort of the decision makers.

(ii) Helps improve the data capture process, checking for reliability, consistency and quality of the data.

(iii) Converts information into insights. Creates customer insights out of routine transactional data. This in turn helps create a deliver customer-oriented marketing offers, helps create and deliver customer - oriented marketing offers, helps customer retention and building of best customer relations. Put differently, an MIS helps offer superior value to customers by using routine transactional data.

(iv) Smoothens the operation in fathering, processing and transmitting the data;facilitates communicating the information to the decision makers in a decision ready' form.

(v) Helps using same information several times and for different purposes; helps create formats that automatically allow repeat and multiple-uses.

(vi) Helps sort out conflicting information which if left unattended will misdirect the effort of the decision makers.

(vii) Tailors information outputs to suit the needs of the concerned executives

(viii) Integration of information is perhaps the most important benefit of a system framework. System helps instant access to company wide data and cross sharing of information - cross function and cross location information and thereby helps the firm serve the customer better, save costs and score over competition.

(ix) Serves as a total knowledge management Mechanism. Converts data into Information into knowledge; supports capture of knowledge also serves as a mechanism for managing it; makes the knowledge flow where it is required and ensures that it is available in a readily usable form.

3.4 CLASSIFICATION OF MARKETING INFORMATION

The information used in the marketing job can be classified using two different approaches;

- Classification based on the end use/ purpose of the information
- Classification based on the subject matter of the information

Let us elaborate:

3.4.1 Classification Based on End Use / Purpose

As per this approach, marketing information can be classified into three types as shown below.

- Information needed for marketing planning
- Information needed for marketing operation
- Information needed for marketing control

3.4.2 Classification Based on Subject Matter

As per this approach, marketing information can be classified on the basis of the content or subject matter of the information as shown in the following Table.

CLASSIFICATION OF MARKETING INFORMATION BASED ON SUBJECT MATTER

It can be classified into marketing information relating to:

Product	Sales force
Consumer	Competition
Pricing	Sales methods
Distribution channels	Internal operations of the firm
Promotion	External environment of the firm

SELF CHECK EXERCISE

IV. A system framework that does not provides a set of procedures and methods for regular, planned, purposeful and systematic gathering of data is MIS. (true/false)

V. Integration of information is perhaps the most important benefit of a system framework

(a) System (c) information

(b) Pricing (d) planning

VI. MIS helps sort out conflicting information. (true/false)

3.5 DESIGNING AN MIS

Broadly speaking, MIS involves a three-step process of:

- Defining the information needs
- Getting the information
- Utilizing the information

A more elaborate list of steps involved in the designing and developing an MIS is given in the following table.

STEPS INVOLVED IN DESIGNING AND DEVELOPING AN MIS

Defining Information Needs	Designing the mechanisms / procedures for gathering processing, storing and retrieval of the information.
Classifying information appropriately and identifying whether it is for planning, or implementation or control purposesdefined by the concerned executives themselves.	Deciding the frequency and timing of collection/supply of the information
Evaluating the cost of collecting and processing the information and comparing the cost vs. benefits.	Processing, analyzing and interpreting the information and disseminating it to the right person at the right time in the right capsule
Identifying the sources of the information	Monitoring maintaining. Reviewing and improving the system

Defining Information Needs

Defining information needs is the most important step in the development of an MIS. The efficacy of the system as a whole depends on this basic step. When clarity is lacking with regard to information needs, the MIS as a whole gets misdirected and handicapped. The MIS recognizes that different executive levels in the organization require different types/ segments of marketing information and it ensures that the information needs are defined by the concerned executives themselves.

Classifying Information

As already stated, the information needs of marketing can be categorized broadly as follows:

- Information needs of planning task
- Information needs of operational task
- Information needs of control task

Each of these tasks has its distinct information needs. And if the MIS is to be relevant and useful to the organization, it is essential that the information needs of each of these tasks is specifically defined. it is also essential that the information needs be specified by the executives responsible for the tasks.

Critical Success Factors Approach will be of Use in Defining Information Needs of the Planning Task

Critical success factors (CSF) of the business will be help in defining information needs of the planning task, as the information needs of planning will naturally be related to these factors. By concentrating on them and working out the information needs related to them, the executives in charge of planning can enumerate their information needs.

3.6 REQUISITES OF A GOOD MIS

The following are the requirements that a good MIS should fulfill

A Good MIS —

- ✓ must be a unified system.
- ✓ must involve the suppliers of the information as well
- ✓ should be conceived and used as a marketing decision support system.
- ✓ must be economical. Value cost position of the information should be favorable.
- ✓ must be compatible with the culture and level of sophistication of the firm of the making

organization in particular.
- ✓ must meet the principle of selectivity
- ✓ must be user oriented and user friendly.
- ✓ must be capable of smoothly absorbing changes that may become necessary
- ✓ must also secure users' involvement.
- ✓ must be fast

Let us elaborate on some of the requisites.

The MIS Must Be a Unified System

The first requisite is that the MIS should be a unified system. It must be perceived and managed as a single entity. There will be several information components in any MIS. Also, there will be several activity components in their collection. Processing, storing and transmission. All these components must be integrated into a unified system and managed by single agency.

Must Work as a Decision Support System

MIS cannot be viewed as a record keeping or filing activity. Nor is it limited to a data bank service. While record keeping and data bank service are certainly parts of the MIS. Conceptually the latter is a much broader entity. It has the role for making marketing management more efficient.

Should be Compatible with the Firm's Culture and Level of Sophistication.

It is also essential that the MIS be compatible with the culture and level of sophistication of the organization. There is a close interrelationship between marketing operations, marketing control system and marketing communications of firm. The nature of this relationship.

Should be Economical

MIS should also be economical. The value cost position of the information must be positive MIS should know

- What type of information is required?
- By whom?
- For what purpose?
- When do they need it?
- Why that particular information?
- What is the real worth of the information
- What is the cost involved in making available the particular piece of information?

The information can be secured by different competing information designs. The information derived from each design has an associated value and cost. A comparison of these costs and values must be made and the best choice made. The MIS must ensure that the cost of the information never exceeds its value.

Should Incorporate Selectivity

The MIS must include the judgment factor. It must have the ability to decide whether a particular piece of information is essential or not. To do this. The MIS must know the nature and variety of information required by different departments and the roles of these departments in the total marketing system. MIS must be in a position to evaluate the various demands for information from the various executives and to moderate and temper those demands that appear unreasonable.

Should be Fast

The MIS should not only be economical, user oriented and selective, but also fast. The reports/information flow must be regular and timely. The information stored must also be quickly retrievable. Within the organization, the information must travel fast to higher levels of management where it can be used for effective decision making. Information that comes late and incompletes adversely affects the capacity of the firm to exploit as marketing opportunity or to defend against a marketing threat.

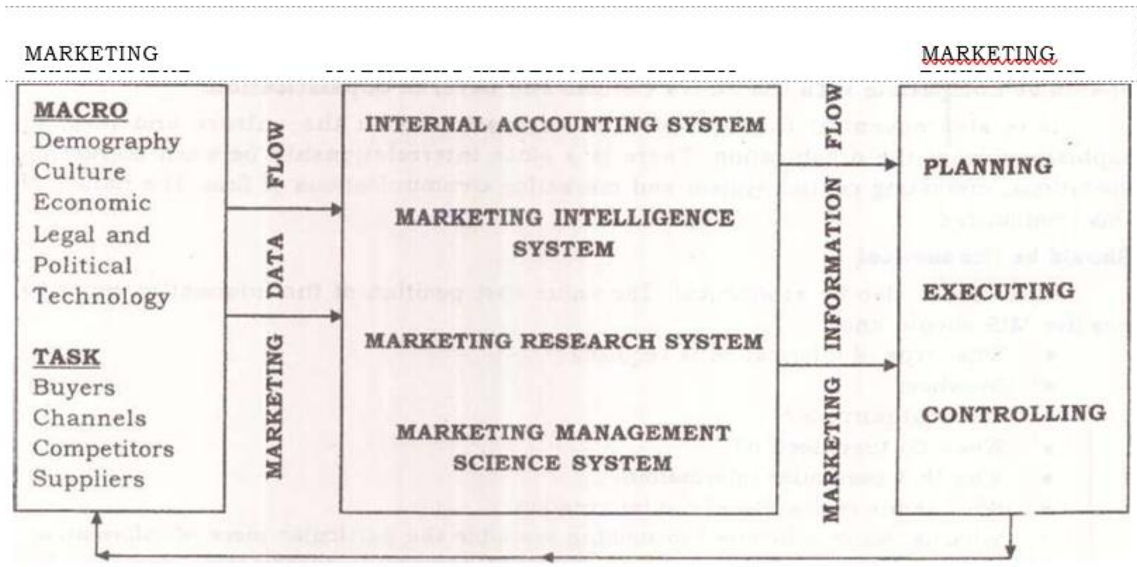
3.7 COMPONENTS OF MARKETING INFORMATION

A highly developed Marketing Information System has 4 major components or divisions namely:

1. Internal Marketing Information
2. Marketing Intelligence
3. Marketing Research
4. Management Science

Following figure shows the components of a Marketing Information System:

COMPONENTS OF MARKETING INFORMATION



Source : Marketing Management, Philip Kotler

1. **Internal Marketing Information**: Internal Marketing Information System is also called as Internal Accounting system. It involves the use of marketing data available from within the company as a means of indicating the cost effectiveness of the firm.
2. **Marketing Intelligence**: Marketing Intelligence involves the collection of qualitative and often subjective data about changing conditions in the Marketing Macro Environment, given external forces influencing the functioning of a given organization.
3. **Marketing Research**: Marketing Research offers special in-depth information to the marketing executives on request to face and combat typical marketing problems. It is a flash bulb activity in so much as it provides an intense but short-lived insight into particular areas of marketing concern.
4. **Management Science**: Management Science is basically Operations Research which is the application of scientific methodology and quantitative techniques to business and other operating problems. It uses mathematical models in the analysis which are representation of part of the real world.

SELF-CHECK EXERCISE

VII. Management Science is basically Operations Research which is the application of scientific methodology and quantitative techniques to business and other operating problems. (true/false)

VIII. Internal Marketing Information System is also called as Internal Accounting system. (true/false)

IX. Marketing Research does not offer special in-depth information to the marketing executives on request to face and combat typical marketing problems. (true/false)

X. The first requisite is that the MIS should be a ………… system.

3.8 CHARACTERISTICS OF GOOD MARKETING INFORMATION

The following table provides a list of the essential characteristics of good marketing information. The value and usefulness of the marketing information gathered by the firm will depend on the extent to which it possesses these characteristics.

CHARACTERISTICS OF GOOD MARKETING INFORMATION

• Relevance to decision making	• Reliability (from genuine sources)
• Clarity	• Accuracy
• Completeness	• Timeliness
• Confidentiality	• Objectivity (unbiased)
• Precision	• Authenticity
• Cost reasonableness	• Strategic value

3.9 WHAT TYPES OF OUTPUTS DOES ONE GET FROM THE MIS?

The outputs / reports emanating from the MIS can be classified into the following four categories:

- Periodic reports
- Triggered reports
- Demand reports
- Plan reports

Periodic reports are presented in predetermined formats at specified intervals of the time. They are the normal outputs of any data processing system. Triggered reports are reports on specific situation. By their very nature, the marketing task and the marketing decisions require a host of triggered reports on various situations and subjects. In fact, the competence of the MIS gets tested by its capacity to give the right triggered reports. Demand reports are the answers provided by the system to specific queries raised by the marketing decision makers. And plan reports are reports tailor-made for assisting the formulation of sales forecasts., sales plans, distribution plans, facilities plans and sales budgets.

Specialized Databases

MIS also develops specialized databases on different aspects of marketing.

Customer Database

A part from the basic information about name address and other demographic details, data pertaining to what an individual customer has bought. When the last purchase was make and other similar details are available in this database. They also provide the RFM (Recovery Frequency and Monetary) formula, which, in turn, helps the firm arrive at a customer index that shows which customers are more profitable for the firm. The MIS can take care of the customer database.

3.10 MARKETING INTELLIGENCE

Marketing intelligence is different from regular marketing information or marketing research data. It may form part MIS but it is special in the sense that it gives strategic information in a flash and is quite often related to competitors activities. The nature of the marketing job necessitates marketing intelligence. Broadly marketing intelligence furnishes information on changes in market conditions, changes in customer requirement, emerging strategies of competitors and emerging opportunities in the business.

SELF CHECK EXERCISE

XI. Demand reports are the answers provided by the ……….. to specific queries raised by the marketing decision makers.

(a) Customers (c) suppliers

(b) System (d) decision makers

XII. Marketing intelligence is same as regular marketing information or marketing research data. (true/false)

XIII. Marketing intelligence furnishes information on changes in market conditions, changes in customer requirement, emerging strategies of competitors and emerging opportunities in the business. (true/false)

3.11 DATA MINING AND DATA WAREHOUSING

Data mining and data warehousing are tow ideas that have gained currency I recent times in relation to processing, storing, unearthing and utilizing information.

The ideas have gained currency co terminus with the enlarging role of information and the growing complexity of its management of the one hand, and the developments on the IT front on the other. The two ideas are interrelated. A marketer does data mining out of a data warehouse. Together, they serve the purpose of an effective MIS.

3.11.1 DATA MINING

Data mining refers to the automated analysis of large data sets stored in a data warehouse with a view to finding patterns that might otherwise go undiscovered. It will be apt to understand data mining as technology/software that helps unearthing and utilization of information. With information power, it helps solve critical business/ marketing problems. It also helps tap opportunities and secure new revenues.

The process involved is similar to the extraction of metal out of ore, and hence the use of the term mining. As with extraction of metal from ore, data mining too based on the filtration process. It involves the assaying of mountain of data ore in order to get at some data nuggets.

Today, with the decline in the cost of computing power, most organization are anyway.

Let's see the utility of data mining in some detail.

Data mining will be of use in direct marketing: With data mining software's, the marketer will be able to achieve the purpose. He can sweep through mountains of databases, identify previously hidden patterns and develop an ideal list of target prospects.

The software can analyze massive databases in minutes, reckon all the data generated by previous direct mailing s and finally zero in on a list of target prospects that will not only definitely result in sales, but will also lead to most profitable kind of sales.

Will lead to effective customer database: If is evident from the previous paragraph that developing customer database and data mining are related. Data mining leads to customer database, which, in turn, forms the foundation of all tightly targeted marketing. Data mining leads to other kinds of database as well besides customer database

Will be of use in online marketing in particular: While data mining can be of use in all forms of direct marketing, as all of them rest on tight targeting through carefully developed customer database.

Will be of use in retailing: Data mining can also be of use to retail stores in selling more to their customers. To sell more, they have to first know who requires what. Then, they can try to sell them more through suitable special offers, etc. The stores have enormous data on their customers.

3.11.2 DATA WAREHOUSING

The expression data warehousing has come into vogue with the awareness that information.

Like merchandise needs to be warehoused. Today, organizations collect data/ information faster than they can apply it. They need to ware house it and apply it whenever needed. In fact, they apply it repeatedly and for multiple purposes; Data warehousing is obviously the answer.

According to Bill Inmon, "A Data Warehouse is a subject oriented, integrated, nonvolatile, time variant, collection of data in support of Management Decisions." The mission of data warehouse is to store data from multiple operational systems in a meaningful format. The data that is warehoused is non-volatile in the sense that it is stored in the warehouse separated from operational systems.

3.12 SUMMARY

Practically every decision area of marketing needs the support of marketing information. Organizations have always harnessed knowledge and used it as the main competitive advantage in their quest for business success. What is new is the growing compulsion for managing knowledge in a systematic and structured manner. To put it in brief, the supremacy of knowledge management in running a business is now well established. Business success now requires a sustainable and cutting-edge knowledge base. A Marketing Information System consists of people, equipment and procedures to gather, sort, analyze, evaluate and distribute needed, timely and accurate information to marketing decisions makers. The company's Marketing Information System should be a cross between what managers think they need^ and what is economically feasible.

3.13 KEYWORDS

- **Data Mining**: refers to the automated analysis of large data sets stored in a data warehouse with a view to finding patterns that might otherwise go undiscovered.
- **Data Warehousing**: is a subject oriented, integrated, non-volatile, time variant, collection of data in support of Management Decisions.

3.14PRACTICE QUESTIONS

3.14.1 SHORT ANSWER QUESTIONS

- What is information?
- What do you understand by management science?
- What is MIS?
- Define information needs.

3.14.2 LONG ANSWER QUESTIONS

- Describe the need and advantages of having a Marketing Information System in place in an organization?
- Enumerate the requisites of a good Marketing Information System.
- Explain the concept of Data Mining & Data Warehousing.
- What types of outputs does one get from the MIS?

3.15 REFERENCES

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3.16 ANSWER KEY

I. True	V. A	IX. False
II. Different	VI. True	X. Unified
III. True	VII. True	XI. B
IV. False	VIII. True	XII. False

XIII. true

Semester-II **MARKETING MANAGEMENT**
Lesson No. 4 **AUTHOR: DHIRAJ SHARMA**

STRATEGIC PLANNING IN MARKETING MANAGEMENT

4.0 OBJECTIVES

After going through this lesson, you will be able to understand and analyze the environment in which the business firm is working and which plays a very major role in the strategic planning of the business. Then we will discuss the Marketing planning process which lays a foundation stone. We would also discuss the components of the marketing plan which is very essential and useful for any marketing person.

4.1 SWOT ANALYSIS

When you are planning strategically with any company-online or offline-it is useful to complete an analysis that takes into account not only your own business, but your competitor's businesses and the current business environment as well. A SWOT is one such analysis. Completing a SWOT analysis helps you identify ways to minimize the effect of weaknesses in your business while maximizing your strengths. Ideally, you will match your strengths against market opportunities that result from your competitors' weaknesses or voids.

4.2 PERFORMING SWOT OR SITUATION ANALYSIS

In situation analysis, also known as SWOT analysis, an organization identifies internal strengths and weaknesses, as well as external opportunities and threats. It seeks to answer two general questions:

- Where is the firm now?
- In what direction is it headed?
- Situation analysis accomplishes the following:
- It recognizes strengths and weaknesses relative to competitors.

- It searches the environment for opportunities and threats.
- It assesses an organization's ability to capitalize on opportunities and to minimize threats.
- It anticipates competitors' responses to company strategies.
- Situation analysis can, and should be, conducted at any point in an organization's life.

Strengths & Weaknesses

The analysis of the internal environment of the firm reveals its strengths and its weaknesses which helps the firm to analyze how to turn its weaknesses in to strengths. Firms' strengths consists of its resources and capabilities that can be useful in developing its competitive advantage over its competitors. Some of the examples of firms' strengths are - Its access to high grade natural resources, strong brand name, strong distribution network, brand name, patents, strong information network, etc. Firms' weaknesses are absence of certain strengths which is the necessity for its business to fight competition. Some of the examples of it are - poor reputation among customers, lack of access to natural resources, lack of coordination with the suppliers and distributors, dissatisfied employees, demotivated marketing staff, etc.

Opportunities & Threats

The analysis of the external environment reveals to the firm the opportunities available for it in the market and what are the threats it is facing, which helps it analyze the various strategies what to select. Some of the examples of opportunities are - arrival of new technology, removal of some trade barriers or government regulations, an unfulfilled customer need, etc.

The changes that take place regularly in the external environment gives rise to certain threats to the business-like shift in consumer tastes, new regulations, increased trade barriers. Now the firm has to identify the best fit between its strengths and the opportunities available and try to overcome its weaknesses and ready to face the challenges / threats.

SELF CHECK EXERCISE

I. Completing a SWOT analysis helps you identify ways to minimize the effect of weaknesses in your business while maximizing your strengths. (true/false)

II. The components of the marketing plan are not very essential and useful for any marketing person. (true/false)

III. Completing a SWOT analysis helps you identify ways to minimize the effect of weaknesses in your business while_________your strengths.

IV. Firms weaknesses is absence of certain strengths which is the necessity for its business to fight______.

(a) Strategy (c) Opportunities
(b) Competition (d) Strengths

4.3 MARKETING STRATEGIC PLANNING

Marketing planning flows from the strategic plan of the organization. Businesses that succeed do so by creating and keeping customers. They do this by providing better value for the customer than the competition. Marketing management constantly has to assess which customers they are trying to reach and how they can design products and services that provide better value ("competitive advantage").

The main problem with this process is that the "environment" in which businesses operate is constantly changing. So, a business must adapt to reflect changes in the environment and make decisions about how to change the marketing mix in order to succeed. This process of adapting and decision-making is known as marketing planning.

Where do you think marketing plan fits in with the overall strategic planning of a business?

Strategic planning is concerned about the overall direction of the business. It is concerned with marketing, of course. But it also involves decision-making about production and operations, finance, human resource management and other business issues.

The objective of a strategic plan is to set the direction of a business and create its shape so that the products and services it provides meet the overall business objectives.

Marketing has a key role to play in strategic planning, because it is the job of marketing management to understand and manage the links between the business and the "environment".

Sometimes this is quite a straightforward task. For example, in many small businesses there is only one geographical market and a limited number of products. However, consider the challenge faced by marketing management in a multinational business, with hundreds of business units located around the globe, producing a wide range of products. How can such management keep control of marketing decision-making in such a complex situation? This calls for well-organized marketing planning. What do you think are the key issues that should be addressed in marketing planning? The following questions lie at the heart of any marketing (or indeed strategic) planning process:

- Where are we now?
- How did we get there?
- Where are we heading?
- Where would we like to be?
- How do we get there?
- Are we on course?
- Why do you think is marketing planning essential?

4.4 MARKETING PLANNING PROCESS AND PLANNING OF OPERATIONS

Businesses operate in hostile and increasingly complex environment. The ability of a business to achieve profitable sales is impacted by dozens of environmental factors, many of which are interconnected. It makes sense to try to bring some order to this chaos by understanding the commercial environment and bringing some strategic sense to the process of marketing products and services. How do you think a marketing plan is useful to people in a business? It can help to :

- Identify sources of competitive advantage
- Gain commitment to a strategy
- Get resources needed to invest in and build the business
- Inform stakeholders in the business
- Set objectives and strategies
- Measure performance

1. Assessing opportunities and threats:

Analysis and interpretation of marketing opportunities and threats is the starting point. Marketing opportunities are the marketing possibilities open to the firm and the threats represent the constraints or the challenges opposing the way to consumer satisfaction. Tracing marketing opportunities is to find the answers to the questions;

- What is the present business of the firm?
- What is its present competitive position?
- What opportunities it has within its reach?

This needs a thorough scanning of business environment with a view to identify and size-up the relevant factors having impact on firm's marketing operations.

The major steps involved in this stage of planning are:

1. Development of consumer profile.
2. Development of corporate profile.
3. Development of market profile.
4. Measuring potential demand and sales forecasting for the plan period and
5. Marketing postulations about economy, government, industry, technology and so on.

In effect, the first step lays down the premises on which the marketing plan is erected.

2. Establishing marketing objectives:

An objective is a temporary estimate of desirable future result that cannot be predicted with accuracy but is achievable through efforts. In any organization, marketing objectives are made Up of the basic objectives, goals and targets. The marketing objectives are the outcome of the interaction between top management and marketing manager because, marketing objectives are the sub-servients of the company's basic objectives. It is the company's mission and objectives that influence and shape the marketing objectives. The marketing manager establishes marketing goals and targets in the light of the broad company objectives.

These marketing goals and targets may be ’financial' and ’operating’. The financial’ goals are’ expressed in monetized indicators such as return on investment-ratio of gross profit to sales-market value of share-working capital ratio-turnover ratio. On the other hand, ’operating’ goals are the non-monetized expectations. These may be: balance between home and foreign sales, government and non-government sales, market share-utilization of production capacity, product or market or time wise increase sales. Anyway, the goals must be specific.

3. Framing marketing strategies and policies:

Marketing policies and strategies are the outcome of marketing objectives, goals and targets. A policy s a broad guideline for thinking and action. It is a broad statement of general intent that tells one what one is permitted to do. Strategy is the counter plan to face market pressures. It is the technique which a firm adopts to counteract to market changes. It is a comprehensive plan of action designed to meet the needs of a certain enterprise operating in a particular environment.

The factors to be considered while formulating marketing strategies are: moves of competitors - synergistic potential of marketing inputs - substitutability of marketing inputs-productivity of marketing inputs - input elasticity and the like.

Thus, a strategy is that consistent body of policies, objectives and programmes that enable the manager to get best results by optimising capabilities, resources and opportunities. Thus, to increase market share the alternative strategies can be: lowering the price-to increase the sales-improve product quality without raising the price, intensifying sales efforts by hiring more salesmen, to spend lore on advertising to compete away the business. The marketing policies are greatly influenced by the basic marketing objectives while strategies are influenced by goals and targets. In order to design marketing strategy, the management is to combine the interrelated official and working relations 1 the organization, resources at its command and the marketing mix so that appropriate action programme is devised to meet specific market requirements and pressures.

4. Programming of operations:

Based on the inputs of policies and strategies, the marketing management is to develop action programmes for each function and sub-function of marketing in terms of product or customer groups and market segments with perspectives of time and resources, In effect, sub-plans are to be prepared such as product-mix plan, sales-force plan, advertising and sales-promotion plan, distribution channels plan, pricing plan, marketing research plan and so on. Programme is a major course of action that enables the manager to achieve his objectives within the frame of policy guidelines.

These programmes for sub-functions that are based on procedures, rules, budgets, methods, are designed to attain the functional objectives within the limits of the firm's marketing policies and strategies. Such a programming can be ‘centralized or can be decentralized’. Centralized programming implies the formulation of programmes by the marketing manager and his associates at the top which are passed on to the lower level for the functional and sub-functional groups to implement. Contrary to this, decentralized programming is done at the functional and sub-functional level within the broad frame-work provided by the marketing manager. Much depends on as to which alternative is better because, each has a set of merits and limitations. In actual practice, a via media policy is followed rather than being totally centralized or decentralized.

5. Developing marketing mix:

Wherever and whenever decentralized programming is followed it warrants integration of sub-functional programmes to have a unified comprehensive and congruous master-marketing plan. This integration progress involves the critical evaluation of each sub-programme in relation to other in terms of costs incurred and benefits derived in the achievement of marketing objectives. This integration process culminates into marketing- mix whereby each sub-function of each mix-element is adjusted and matched to produce maximum total impact.

Thus, advertising programme is geared to the needs of sales-force and intermediaries in terms of time, contents and media; the physical distribution arrangement is made to move in tune with the advertising and sales efforts; the pricing is so adjusted as to cover all costs yet reasonability is maintained. This preparation of master-marketing plan is the responsibility of the marketing manager at the top. It is a tight-rope dance involving deliberations, compromises, balancing and dovetailing. It requires greatest degree of coordination with inter-departmental plans such as production -finance-purchasing- personnel-intermediaries and so on.

6. Designing resource-mobilization plan:

Now that the marketing manager ready with a comprehensive and integrated master-marketing plan at his hand for implementation, the top management is to go ahead with the designing of a programme of resource mobilization. Resource-mobilization plan portrays the quantum, types, costs of resources to be used to implement the master plan. These resources can be of three types: physical - financial and manpower. The physical resources may be research paraphernalia, advertising development, material handling, warehousing, selling kit and the like. The financial resources are the finance and credit needed to procure material and manpower resources and services from outside. The manpower resources refer to the number and the quality of men and women needed to implement the programmes. In essence, it is to plan, mobilize, organize and employ the resources.

7. Monitoring the operations:

In the final analysis, the master plan so designed and the resources mobilization so kept ready are to be executed to achieve the said marketing objectives. Planning has no meaning unless it has control over it. Control is the counter side of planning. Planning process is complete only when we have feedback loop and control. Therefore, controlling or monitoring and feedback are the penultimate step in planning process. Monitoring has four major aspects namely, fixing the performance standards, comparing the actual performance with the planned one, noting the nature - extent and causes of deviations and taking necessary corrective action. The study of such deviations means; either the standards are too high or too low. This excessive deviation leads to the periodic review and reformulation of plans so as to make them more exact and purposive.

4.5 SIGNIFICANCE OF MARKETING PLANNING

The significance of marketing planning lies in the tangible benefits it brings to the marketing planners and the business house. It has been rightly pointed out by Professors Fox and Wheatley of Miami University of America as "an organization without a plan is like a boat with no chart, no compass, no sextant, no sounding equipment; if it reaches the goal of safe harbour its pure luck."

Among other benefits, the following are the specific which are worth considering:

1. Foresee the Future Developments

Planning is the creative process of thinking before doing. It is the act of analyzing the past and projecting the future events: It is planning as a thinking process before doing compels the manager to identify the likely events of relevance to the firm and once these events are traced with acceptable degree of accuracy, it becomes easier to design relevant courses of actions to meet the marketing needs.

2. Assessment of Opportunities and Threats

Identification and tracing of future developments involves scanning of the business environment. Such scanning brings to the surface the marketing opportunities open and the challenges to be encountered. Considering these possible opportunities and the threats in threadbare culminates into the designing of the best possible solutions. The result is, there will be more rational approach to such events - both open and concealed thus, reducing the likely dangers of management by crises and errors.

3. Management by Objectives

Marketing planning is hinged on marketing objectives, goals and targets. As a result, the marketing objectives become the center around which marketing policies, programmes, strategies, procedures are built. Objectives, as they serve as performance standards, they highlight the deviations both good and bad. Such purposeful marketing planning is capable of subordinating the personal goals of employees to the organizational one because, what is good for the organization is good for employees. In planning process large numbers of people are involved and, therefore, diverse views can be heard. Participation in the planning process fosters a sense of commitment and identification on the part of participation.

4. Management by Exception

Marketing planning means that the marketing programme is scheduled in terms of time efforts and resources. This makes possible the marketing manager to delegate authority to his subordinates for the effective execution of the programme; he can thereby concentrate on matters of vital importance particularly the issues of co-ordination aad control. This delegation and decentralization brings in management by exception and much desired managerial efficiency in the organization.

5. Optimum Use of Resources

Planning implies rational thinking and righteous doing. It follows that the time, efforts and resources at the command of the firm are deployed in the most rational, economical and judicious manner. Each event and attendant employment of inputs are subject to trade-offs relating to the issues resulting in optimum utilisation of resources, maximised return on investments. Planning is such a process that brings about practical resource and market intake assessment, balancing of resources and requirements in the background of marketing objectives and proper scheduling of future resources augmentation programme. Even the cost marketing programme is reduced considerably as planning brings in consistency and congruity.

6. Infuses co-ordination

As specialization multiplies and delegation expands there will be greater need for co-ordination. Unity of thought, purpose and action is to be instilled in rank and file at each echelon of marketing organization. It is marketing plan that defines the roles with reference to the time dimension. As a result, the jobs are synchronized in terms of content and time and overall marketing operation is integrated for generating maximum market and marketing impact. Objectives, goals and targets of marketing plan are sure to make one and all to dovetail his effort to the total achievement in the defined roles in the marketing organization.

7. Basis for control

Control is the second side of the sharp blade of planning. It makes easier to measure performance. Planning becomes basis for not only co-ordination but also for control. A marketing plan lays down standards for marketing performance against which actual performance can be gauged, evaluated, the deviations can be noted and causes can be analyzed for prescribing corrective action. The process of correction continues till the results are in par with the standards. Therefore, "No planning no Control" that works. That is why, Professors H. Koontz and O. Donnell said, "Planning and Control are the Siamese twins of management."

4.6 ESSENTIALS OF EFFECTIVE PLANNING/PLANNING PROCESS

The primary purpose of marketing planning is to increase the managerial effectiveness. "Marketing planning is about the most important procedure management engages in" as put by Prof. David J. Rachman of City University of New York. Planning is nothing more than a formalised or systematic approach for the management to consider the possible alternatives and choices it faces. In recent years, planning has become more formalized and a well established procedure. A planning procedure that provides a technique should enjoy the following characteristics. These have been given by Mr. Edward J. Green, President, Planning Dynamics Incorporation, Pittsburgh, Pennsylvania, U.S.A.

1. It is simple

The planning process or the procedure planned should be simple. The firm should develop the simplest process that is responsive to the firm's requirements. The planned programme works only if the average manager is capable of using it in spite of pressures of day-to-day job and absence of intensive training. It is wrong to believe that a sugar quoted pill produces instant results. In the back-ground that modem planning has turned both ^complex and competitive, it is but necessary to keep the planning process simple. However, too much simplicity should not mar the process of produce results.

2. It is practical

The planning process is expected to be practical. Any planning process adjudged as practical when every manager feels benefited by the participation in the programme. If it is likely to benefit only the bosses and big bosses at higher levels, the juniors extend reluctant compliance very often followed by unwanted resentment. Therefore, it is a must to, make planning process, practical. To make planning beneficial even for the average manager, the marketing manager is to develop a practical process and should provide background information, training and technical assistance.

3. It is selective and adaptive

The planning process must be so selective and adaptable that all the managers are covered. Such an eligibility of participation should not force the participants to use it more than what he needs particularly in his area so that different areas of planning of each manager are coordinated and consolidated.

4. It is flexible

The planning process must be so flexible that it should be possible to change any portion of planning conveniently with least cost, if any thing happens warranting a change. However, in the name of change, plans and planning process provides this minimum standard of flexibility, it would not be responsive to the dynamic requirements of a modern business world. Computerization of planning process is a good step in this direction.

5. It is precise

Future planning should be precise in terms of goals and objectives though good deal of inaccuracy prevails. In fact, there is much in the future that cannot be predicted with accuracy and more the firm goes beyond the less accurate the far distanced future becomes. Though there are three ways of expressing the expected results namely, general, specific and dynamically quantified way the last one better than the other two ways. Dynamically quantified way of expression makes it possible to state it precisely so that it can be recognised easily the problem; it facilitates easy and quick identification, detection and measurement of possible deviations.

6. It has reliable information

Sound planning requires a continuity input of reliable information. The future estimate is neither a forecast nor a prediction but a temporary hypothesis regarding an important, probable future development that could not be predicted with accuracy. The planner needs to have continuing 'feed-back' of information so that he revises and refines the estimate whenever there is significant deviation.

7. It is synthesizing and synchronizing

The planning process is expected to help in coordinating and integrating all types of plans and planning - short and long range, logistic, strategic and corporate-financial and non-financial. In each functional area, there should be perfect synchronization and synthesization of functions; in marketing area, it applies to product - markets - territories - advertising - personnel recruitment and training and the like. If it does not co-ordinate and integrate all the sub-functions in the areas, the firm pays a high price for time, effort, confusion, resistance, resentment and frustration.

8. It is motivating

The planning process to be effective needs the intelligent and enthusiastic participation of managerial personnel. It encourages people to participate provided they are motivated. Any properly designed and implemented planning process improves employees' morale because it provides at least four strongest motivating factors:

1. It gives them a real sense of effective participation in planning for their own future destiny.
2. It relieves apprehension by converting the unknown into known.
3. It provides direction and security as to their position in the organization and
4. It develops pride of outfit as they belong to an organization that knows where it is and where it is going and how it is going to get there.

9. It has minimum paper-work

An effective planning process is one that gets the work done with least paper-work. The planning should not do all planning in writing. Such a step means minimum amount of paper-work, improved industrial relations and improved group communication. The writing work can be reduced to the minimum by following discussions and outlining; give the information just needed - do not unfold everything; avoid duplicity of information by providing common information from the common source.

10. It has a direction

To get the best results, there should be a director of planning services who does not do planning but oversees it as to how it is working and how it should work. He should be a planning specialist.

SELF CHECK EXERCISE

V. An effective planning process is one that gets the work done with least paper-work. (true/false)

VI. Properly designed and implemented planning process doesn't improve employees' morale. (true/false)

VII. As specialization multiplies and delegation expands there will be______need for coordination.
(a) Lesser (c) Some what
(b) Little bit (d) Higher

VIII. Planning is the creative process of_________before doing.

4.7 SUMMARY

A formal strategic planning process is needed to coordinate the factors controlled by top management and marketers, as well as provide guidance for decision-making. A strategic business plan "describes the overall direction an organization will pursue within its chosen environment and guides the allocation of resources and effort. It also provides the logic that integrates the perspectives of functional departments and operating units, and points them all in the same direction." It has these elements: An external orientation, A process for formulating strategies, Methods for analyzing strategic situations and alternatives, A commitment to action. This lesson considers the importance of strategic planning for marketing Strategic planning encompasses both strategic business plans and strategic marketing plans. Strategic business plans describe the overall direction firms will pursue within their chosen environment and guide the allocation of resources and effort. Strategic marketing plans outline what marketing actions to undertake, why those actions are needed, who is responsible for carrying them out, when and where they will be completed, and how they will be coordinated. Strategic planning provides guidance via a hierarchal process, clarifies goals, encourages departmental cooperation, focuses on strengths and weaknesses (as well as opportunities and threats), examines alternatives, helps allocate resources, and points up the value of monitoring results. A strategic marketing plan outlines the marketing actions to undertake, why they are needed, who is responsible for carrying them out, when and where they will be completed, and how they will be coordinated.

4.8 KEYWORDS

1. **Strategic Planning:** It is concerned about the overall direction of the business. It is concerned with marketing but it also involves decision-making about production and operations.
2. **Strategic Control:** It indicates how the marketing plan will be monitored.
3. **Objectives:** It defines the plan's financial and marketing goals in terms of sales volume, market share and profit.

4.9 PRACTICE QUESTIONS

4.9.1 SHORT ANSWER QUESTIONS

Q.1. What is strategic planning?
Q.2. what do you understand by strategic control?
Q.3. what is marketing strategic planning?
Q.4. briefly explain the process of strategic planning?

4.9.2 LONG ANSWER QUESTIONS

Q.1. Briefly mention the components of a strategic plan.
Q.2. Describe what goes into a market-oriented mission statement.
Q.3. Compare and contrast the following strategies for growth: market penetration, market development, product development, and diversification.
Q.4. How do marketers use partner relationship management to their advantage?

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4.11 ANSWER KEY

I.	True	IV.	B	VII.	D
II.	False	V.	True	VIII.	Thinking
III.	Maximizing	VI.	False		

Semester- II **MARKETING MANAGEMENT**
Lesson No. 5 **AUTHOR: TARANNUM MOHAN**

ANALYZING CONSUMER MARKETS AND BUYER BEHAVIOR

5.0 OBJECTIVES

After reading this chapter, the student should be able to:

(i) Understand Consumer and Industrial markets.
(ii) Factors influencing Consumer buying behavior.
(iii) To understand the buying process.

5.1 THE BUSINESS MARKET VERSUS THE CONSUMER MARKET

Consumer buyer behavior refers to the buying behavior of final consumers- individuals and households who buy goods and services for personal consumption. All of these final consumers combine to make up the consumer market.

The business market consists of all the organizations that acquire goods and services used in production of other products or services that are sold, rented, or supplied to others. The major industries making up the business market are agriculture, forestry, and fisheries; mining; manufacturing; construction; transportation; communication; public utilities; banking, finance and insurance; distribution; and services.

Business markets have several characteristics that contrast sharply with those of consumer markets.

- **Fewer Buyers**: The business marketer normally deals with far fewer buyers than the consumer marketer does.
- **Larger Buyers**: A few buyers do most of the purchasing in such industries as aircraft, engines and defense weapons.
- **Close supplier-customer relationship**: Because of the smaller customer base and the importance and power of the larger customers, suppliers are frequently expected to customize their offerings to individuals' business customer needs.
- **Derived Demand**: The demand for business goods is ultimately derived from the demand for consumer goods. For this reason, the business marketer must closely monitor the buying patterns of ultimate consumers.
- **Inelastic Demand**: The total demand for many business goods and services is inelastic-

that is, not much affected by price changes. Shoe manufacturers are not going to buy much more leather if the price of leather falls, nor will they buy much less leather if the price rises, unless they can find satisfactory substitutes.

- **Fluctuating Demand**: The demand for business goods and services tends to be more volatile than the demand for consumer goods and services. A given percentage increase in consumer demand can lead to a much larger percentage increase in the demand for plant and equipment necessary to produce the additional output. Economists refer to this as the acceleration effect.
- **Professional Purchasing**: Business goods are purchased by trained purchasing agents, who must follow their organization's purchasing policies, constraints, and requirements. Many of the buying instruments- for example, requests for quotations, proposals, and purchase contracts- are not typically found in consumer buying.
- **Several Buying Influence**: More people typically influence business buying decisions. Buying committees consisting of technical experts and even senior management are common in the purchase of major goods.
- **Multiple Sales Calls**: Because more people are involved in the selling process, it takes multiple sales calls to win most business orders, and some sales cycles can take years.
- **Direct Purchasing**: Business buyers often buy directly from manufacturers rather than through intermediaries, especially items that are technically complex or expensive.

5.2 MODEL OF CONSUMER BEHAVIOR

Consumers make many buying decisions every day. Most large companies' research consumer buying decisions in great detail to answer questions about what consumers buy, where they buy, how and how much they buy, when they buy and why they buy. Marketers can study actual consumer purchases to find out what they buy, where and how much. But learning about the whys of consumer buying behavior is not so easy- the answers are often locked deep within the consumer's head.

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

Stimulus-Response Model of Buyer Behaviour

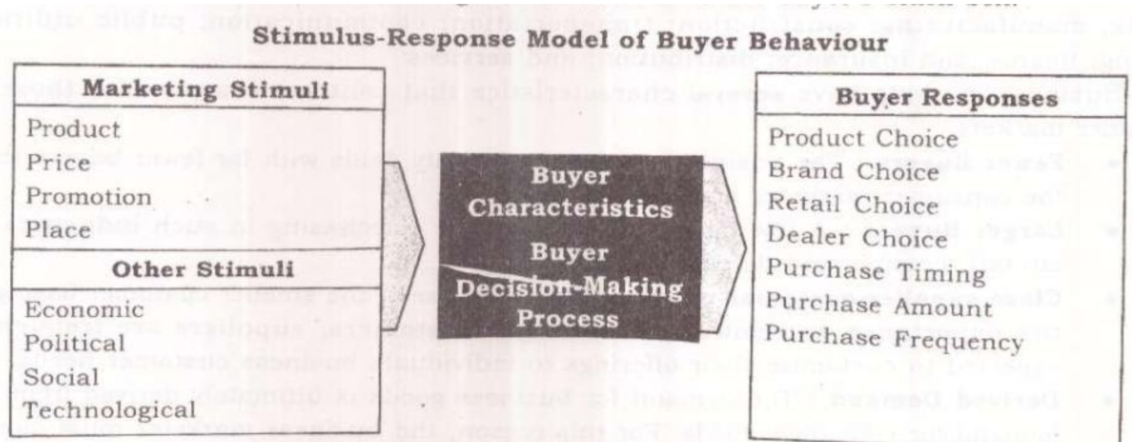


Figure 1 : Model of buyer behavior

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

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

5.3 FACTORS AFFECTING CONSUMER BEHAVIOR

A consumer's buying behavior is influenced by cultural, social, personal, and psychological factors. Cultural factors exert the broadest and deepest influence.

5.3.1 Cultural Factors

Culture, subculture, and social class are particularly important in buying behavior. Culture is the fundamental determinant of a person's wants and behavior. The growing child acquires a set of values, perceptions, preferences and behaviors through his or her family and other key institutions.

Each culture consists of smaller subcultures that provide more specific identification and socialization for their members. Subcultures include nationalities, religions, racial groups and geographical regions. When subcultures grow large and affluent enough, companies often design specialized marketing programs to serve them. Such programs are known as diversity marketing.

Diversity marketing grew out of careful marketing research, which revealed that different ethnic and demographic niches did not always respond favorably to mass- market advertising.

Almost every society has some form of social class structure. Social classes are society's relatively permanent and ordered divisions whose members share similar values, interests and behaviors. Social classes is not determined by a single factor, such as income, but is measured as a combination of occupation, income, education, wealth and other variables.

5.3.2 Social Factors

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

5.3.2.1 Reference group

A person s reference groups consist of all the groups that have a direct or indirect influence on the person's attitudes or behavior. Groups having a direct influence on a person are called membership groups. Some membership groups are primary groups, such as family, friends, neighbors and co-workers, with whom the person interacts fairly continuously and informally. People also belong to secondary groups, such as religious, professional, and trade- union groups, which tend to be more formal and require less continuous interaction.

People are also influenced by groups to which they do not belong. Aspirational groups are those a person hopes to join; dissociative groups are those whose values or behavior an individual rejects.

Manufacturers of products where groups influence is strong must determine how to reach and influence opinion leaders in these reference groups. An opinion leader is the person in informal, product-related communications who offers advice or information about a specific product, such as which of several brands is best or how a particular product may be used.

5.3.2.2 Family

The family is the most important consumer-buying organization in society, and family members constitute the most influential primary reference group. Here a distinction can be made between two families in the buyer's life. The family of orientation consists of parents and siblings. From parents a person acquires an orientation towards religion, politics and economics, self-worth and love. Even if the buyer no longer interacts very much with his or her parents, their influence on the buyer's behavior can be significant. A more direct influence on everyday buying behavior if the family of procreation- namely, one's spouse and children. Marketers are interested in the roles and relative influence of the husband, wife and children in the purchase of a large variety of products and services. These roles vary widely in different countries and social classes.

5.3.2.3 Roles and Statuses

A person participates in many groups- family, clubs' organizations. The person's position in each group can be defined in terms of role and status. A role consists of the activities a person is expected to perform. Each role carries status. A Supreme Court justice has more status than a sales manager, and a sales manager has more status than an office clerk. People choose products that communicate their role and status in society. Company presidents often drive Mercedes, wear expensive suits, and drink Chivas Regal scotch. Marketers must be aware of the status-symbol potential of products and brands.

5.3.3 Personal Factors

A buyer's decisions are also influenced by personal characteristics. These include the buyer's age and stage in the life cycle, occupation, economic circumstances, lifestyle, and personality and self-concept.

5.3.3.1 Age and stage In the life cycle

People change the goods and services they buy over their lifetimes. Tastes in food, clothes, furniture, and recreation are often age related. Buying is also shaped by the stage of the family life cycle- the stages through which families might pass as they mature over time. Marketers of ten defines their target markets in terms of life-cycle stage and develop appropriate products and marketing plans for each stage.

Traditional family life-cycle stages include young singles and married couples with children. Today, however marketers are increasingly catering to a growing number of alternatives, nontraditional stages such as unmarried couples, singles marrying later in life, childless couples, single parents, extended parents and others. For example, more and more companies are now reaching out to serve the fast-serving corps of the returning divorced.

5.3.3.2 Occupation and Economic Circumstances

Occupation also influences consumption patterns. A blue-collar worker will buy work clothes, work shoes, and lunch-boxes. A company president will buy expensive suits, air travel, and country club membership. Marketers try to identify the occupational groups that have above-average interest in their products and services. A company can even tailor its products for certain occupational groups.

Product choice is greatly affected by economic circumstances: spendable income, savings and assets, debts, borrowing power, and attitudes towards spending and saving. Marketers of income-sensitive goods continuously monitor trends in personal income, savings and interest rates.

5.3.3.3 Lifestyle

Lifestyle is a person's pattern of living as expressed in his or her psychographics. It involves measuring consumers' major AIO dimensions- activities (work, hobbies, shopping, sports, social events), interests (food, fashion) and opinions (about themselves social issues). Lifestyle captures something more than the person's social class or personality. Several research firms have developed lifestyle classifications. The most widely used is the SRI Consulting's Values and Lifestyles (VALS) typology. VALS classifies people according to how they spend their time and money. It divides consumers into eight groups based on two major dimensions: self- orientation and resources. Self-orientation groups include principle- oriented consumers who buy based on their views of the world; status -oriented buyers who base their purchases on the actions and opinions of others; and action-oriented buyers who are driven by their desire for activity, variety and risk taking.

Consumers within each orientation are further classified into those with abundant resources and those with minimal resources; depending on whether they have high or low levels of income, education, health and other factors. Consumers with either very high or very low levels of resources are classified without regard to their self-orientations. Actualizers are people with so many resources that they can indulge in any or all self-orientations. In contrast, strugglers are people with too few resources to be included in any consumer orientation.

5.3.3.4 Personality

Each person's distinct personality influences his or her buying behavior. Personality refers to the unique psychological characteristics that lead to relatively consistent and lasting responses to one's own environment. Personality can be useful in analyzing consumer behavior for certain product or brand choices. The idea is that brands also have personalities, and that consumers are likely to choose brands whose personalities match their own. A brand personality is the specific mix of human traits that may be attributed to a particular brand. One researcher identified five brand personality traits:

- Sincerity (down-to-earth, honest and cheerful)
- Excitement (daring, spirited, imaginative)
- Competence (reliable, intelligent)
- Sophistication (upper class and charming)
- Ruggedness (outdoorsy and tough)

Many marketers also use a concept related to personality- a person s self-concept. The basic self-concept premise is that people's possessions contribute to and reflect their identity; that is "we are what we have." Thus, in order to understand consumer behavior, the marketer must first understand the relationship between consumer self-concept and possessions.

5.3.4 Psychological factors

A person's buying choices are further influenced by four major psychological factors: motivation, perception, learning and beliefs and attitudes.

5.3.4.1 Motivation

A person has many needs at any given time. Some are biological, arising from states of tension such as hunger, thirst, or discomfort. Others are psychological, arising from the need for recognition, esteem or belonging. A need becomes a motive when it is aroused to a sufficient level of intensity. A motive is a need that is sufficiently pressing the person to seek satisfaction. Psychologists have developed theories of human motivation. Two of the most popular- the theories of Sigmund Freud and Abraham Maslow- have quite different meanings for consumer analysis and marketing.

Sigmund Freud assumed that people are largely unconscious about the real psychological forces shaping their behavior. He saw the person as growing up and repressing many' urges. These urges are never eliminated or under perfect control; they emerge in dreams, in slips of the tongue, in neurotic and obsessive behavior, or ultimately in psychoses. Thus, Freud suggested that a person does not fully understand his or her motivation. Motivation researchers often collect "in depth interviews" with a few dozen consumers to uncover deeper motives triggered by a product. They use various projective techniques such as word association, sentence completion, picture interpretation and role playing.

Abraham Maslow sought to explain why people are driven by particular needs at particular times. Why does one person spend much time and energy on personal safety and another on gaining the esteem of others? Maslow's answer is that human needs are arranged in a hierarchy, as shown in the figure, from the most pressing at the bottom to the least pressing at the top.

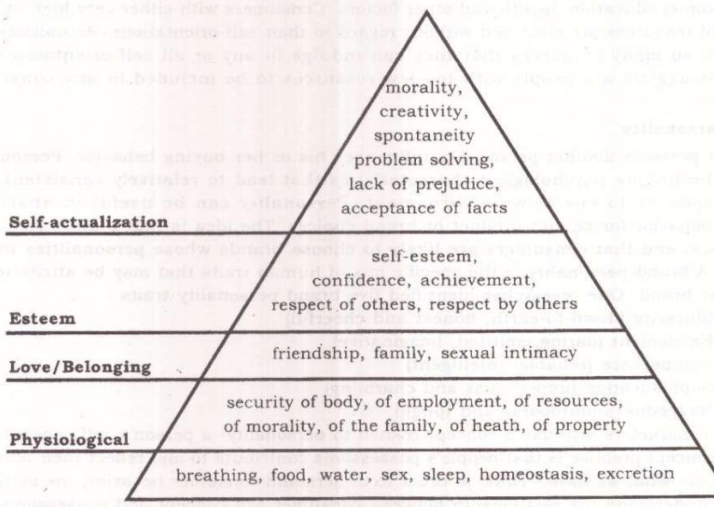


Figure 1 : Maslow's Hierarchy of Need

A person tries to satisfy the most important need first. When that need is satisfied it will stop being a motivator and the person will then try to satisfy the next most important need. Maslow's theory' help marketers understand how various products fit into the plans, goals and lives of consumers.

5.3.4.2 Perception

A motivated person is ready to act. How the person acts are influenced by his or her own perception of the situation. All of us learn by the flow of information through our five senses: sight, hearing, smell, touch and taste. However, each of us receives, organizes and interprets this sensory information in an individual way. Perception is the process by which people select, organize and interpret information to form a meaningful picture of the world.

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

Selective Attention: People are exposed to a tremendous amount of daily stimuli: the average person may be exposed to over 1,500 ads a day. Because a person cannot possibly attend to all of these, most stimuli will be screened out- a process called selective attention. Selective attention means that marketers have to work hard to attract consumers', notice.

Selective Distortion: Even noticed stimuli do not always come across in the way the senders intended. Selective distortion is the tendency to twist information into personal meanings and interpret information in a way that will it our preconceptions. Marketers, cannot do much about it.

Selective Retention: People will forget much that they learn but will tend to retain information that supports their attitudes and beliefs. Because of selective retention, we are likely to remember good points mentioned about a product we like and forget good points mentioned about competing products. Marketers use drama and retention in sending., messages to their target markets.

5.3.4.3 Learning

When people act, they learn. Learning involves changes in an individual's behavior arising from experience. Most human behavior is learned. Learning theorists believe that learning is produced through the interplay of drives, stimuli, cues, responses and reinforcement.

A drive is a strong internal stimulus impelling action. Cues are minor stimuli that determine when, where and how a person responds. Suppose you buy an IBM computer. If your experience is rewarding, your response to computers and IBM will be positively reinforced. Later on, when you want to buy a printer, you may assume that because IBM makes good computers, IBM also makes good printers. Learning theory teaches marketers that they can build up demand for a product by associating it with strong drives, using motivating cues and providing positive reinforcement.

5.3.4.4 Beliefs and Attitudes

Through doing and learning, people acquire beliefs and attitudes. These in turn influence buying behavior. A belief is a descriptive thought that a person holds about something. People's beliefs about a product or brand influence their buying decisions.

Marketers are interested in the beliefs that people formulate about specific products and services, because these beliefs make up product and brand images that affect buying behavior. If some of the beliefs are wrong and prevent purchase, the marketer will want to launch a campaign to correct them.

People have attitudes regarding religion, politics, music and almost everything. Attitude describes a person's relatively consistent evaluations, feeling, and tendencies towards an object or idea. Attitudes are difficult to change. A person's attitudes fit into pattern, and to change one attitude may require difficult adjustments in many others. Thus, a company should usually try to fit its products into existing attitudes rather than attempting to change attitude.

SELF-CHECK EXCECISE

I.The family in a buyer’s life consisting of parents and siblings is the ________.

A) family of procreation
B) family of influence
C) family of efficiency
D) family of orientation

II. At the top of Maslow's hierarchy of needs (shown as a pyramid in the text) are ________ needs.

A) esteem
B self-actualization
C)social
D)safety

III. Marketing managers should adapt the marketing mix to ___________________ and constantly monitor value changes and differences in both domestic and global markets.

A) Sales strategies
B) Marketing concepts
C)Cultural values
D)Brand images

IV.Maslow's hierarchy of needs is based on which premise?

A) All humans acquire a similar set of motives through genetic endowment and social interaction.
B) Some motives are more basic or critical than others.
C) The more basic motives must be satisfied to a minimum level before other motives are activated.
D) all of the above

5.4 TYPES OF BUYING-DECISION BEHAVIOR

Buying behavior differs greatly for a tube of toothpaste, a tennis racket, a digital camera and a new car. More complex decisions usually involve more buying participants and more buyer deliberation. First of all, marketers must identify who makes the buying decision about their product, possible types of buying decisions, and stages of the buying process.

Buying Roles

The buyers for many products can be identified easily. But marketers must be careful in using such stereotypes. Buying roles can change. For example, a British chemical firm discovered that 60 percent of the household paint buying decisions is made by women.

We can mark out five roles that people might play in a buying decision:

- Initiator suggests the idea of buying
- Influencer advises
- Decider decides whether to buy, what to buy, how to buy, and where to buy
- Buyer makes the purchase
- User consumes or uses the product

Consumer decision-making process varies with the type of buying decision. There are four types of consumer buying behavior distinguished based on the degree of buyer involvement and the degree of differences among brands.

	High Involvement	**Low Involvement**
Significant Differences Between Brands	**Complex buying behavior** Buyers may not know what attributes to consider, so they do research. Knowing this, marketers can help educate buyers about products. Example: buying a car.	**Variety-seeking buying behavior** Buyers switch brands for the sake of variety rather than dissatisfaction. Marketers can encourage variety seeking by offering lower prices, coupons, free samples that create reasons for trying something new. Example: buying cookies.
Insignificant Differences Between Brands	**Dissonance-reducingbehavior** Buyers purchase fairly quickly, and later look for information supporting the purchase decision. Example: buying a carpet.	**Habitual buying behavior** When the product is low-cost and frequently purchased, buyers make decisions based on brand familiarity. Marketers can use price and sales promotions to attract new customers try their products. Example: buying sugar.

5.5 STAGES OF THE BUYING DECISION PROCESS

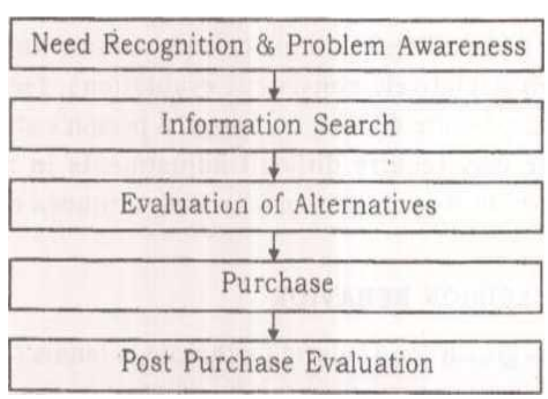


Figure shows that the buyer decision process consists of five stages: need recognition, information search, evaluation of alternatives, purchase decision and post purchase behavior. Clearly, the buying process starts long before actual purchase and continues long after. Marketers need to focus on the entire buying process rather than on just the purchase decision.

The figure implies that consumers pass through all five stages with every purchase. But in more routine purchases, consumer often skips or reverse some of these stages. A woman buying her regular brand of toothpaste would recognize the need and go right to the purchase decision, skipping information search and evaluation.

Problem Recognition

The buying process starts when the buyer recognizes a need. This need can be created by an internal factor (such as feel of hunger) or an external factor (such as an advertisement). By surveying consumers, marketers can identify the most frequent factors that create interest in a product category. Then they can develop marketing strategies that simulate consumer interest.

Information Search

A consumer who recognizes a need of a product will search for more information about this product, its producers and traders. We can mark out two levels of information search:

- **Heightened attention** - an individual becomes more receptive to information about a product.
- **Active information search** - a person searches information actively (uses the Internet, asks friends, visits stores).

Possible information sources are:

- Personal (family, friends, neighbours)
- Commercial (advertising, Web sites, salespeople, displays)
- Public (special magazines, product- and brand-rating organizations)
- Experiential (handling, examining, using the product).

A consumer usually receives the most information from commercial sources, although the most influential are personal sources.

It is possible to compose the total set of brands available to the consumer in every market. The individual consumer knows only a subset of these brands (awareness set). Some of these brands meet primary buying criteria of a buyer (consideration set). When a buyer gets more information, only a few brands will remain as possible alternatives (choice set). The person makes a final choice from this set.

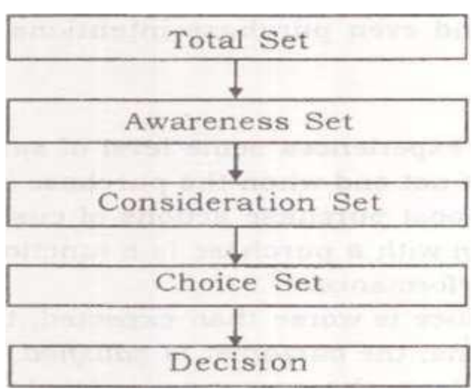


Figure 3: Hierarchy of Brand Sets

The company must identify what brands are in the consumer's awareness, consideration and choice sets. After this, marketers can find out, for what reason, for example, their product was not purchased (if it is out of awareness set - advertising channels should be changed; if it is out of consideration set - it doesn't meet the primary buyer's requirements; if it is out of choice set - it loses to competitors.

Evaluation of Alternatives

When a consumer has information about alternatives, how does he or she process this information and make a final judgment?

A consumer tries to satisfy a need. He seeks benefits from the product and sees a product as a bundle of attributes with different abilities to deliver the benefits for satisfaction of a certain need. Consumers vary in the importance they attach to each attribute.

A consumer also develops a set of beliefs about each attribute of each alternative brand. Beliefs are not always equal to real attribute value. A set of beliefs about a brand makes up the brand image. The image of a certain brand varies among customers according to the effects of selective perception, selective distortion, and selective retention. Ultimately, consumers develop attitudes toward various brand alternatives.

If a company found out through research that consumers will not choose their product, they can:

- Change the product attributes (a technique called real repositioning)
- Change consumers' beliefs about the product attributes (psychological repositioning)
- Change consumers' beliefs about competitors' products (competitive depositioning)
- Change the importance weights for attributes
- Change the customers' ideal level of attributes

Purchase Decision

This is when a buyer actually makes a purchase decision. There are a few points to consider here.

In the previous stage the consumer forms his or her preferences and an intention to buy the most preferred brand. However, there are two factors between the purchase intention and the purchase decision:

- **Attitudes of others**: another person's attitude can influence the ultimate purchase decision.
- **Situational factors**: a consumer can lose financial possibility to buy, other purchase might become more urgent, or a store salesperson may turn him or her off.

Therefore, preferences and even purchase intentions are not reliable predictors of a purchase.

Post Purchase Behavior

In this stage a customer experiences some level of satisfaction or dissatisfaction. This is why the marketer's work does not end when the purchase is made. Marketers must monitor post-purchase satisfaction and post-purchase actions of customers.

The **customer's satisfaction** with a purchase is a function of the customer's expectations and the product's perceived performance.

- If product's performance is worse than expected, the customer is **disappointed.**
- If it meets expectations, the customer is **satisfied.**
- If it exceeds expectations, the customer is **delighted.**

Almost all major purchases result in **Cognitive Dissonance,** or discomfort caused by post purchase conflict. After the purchase, consumers are satisfied with the benefits of the chosen brand and are glad to avoid the drawbacks of the brands not brought. However, every purchase involves compromise. Consumers feel uneasy about acquiring the drawbacks of the chosen brand and about losing the benefits of the brands not purchased. Thus, consumer feels at least some post purchase dissonance for every purchase.

The level of satisfaction influences whether the customer buys the product again and what he will say about product to other potential customers. Many marketers say: Our best advertisement is a satisfied customer.

5.6 CUSTOMER BUYING PROCESS FOR NEW PRODUCTS

How do customers approach the process of buying a new product? How does this differ from the process for buying a product which the customer has bought before? What is meant by a 'new product"?

A new product can be defined as:

"A good, service or idea that is "perceived" by some potential customers as new. It may have been available for some time, but many potential customers have not yet adopted the product nor decided to become a regular user of the product."

Research suggests that customers go through five stages in the process of adopting a new product or service: these are summarized below:

(1) **Awareness** - the customer becomes aware of the new product, but lacks information about it

(2) **Interest** - the customer seeks information about the new product

(3) **Evaluation** - the customer considers whether trying the new product makes sense

(4) **Trial** - the customer tries the new product on a limited or small scale to assess the value of the product

(5) **Adoption** - the customer decides to make full and/or regular use of the new product

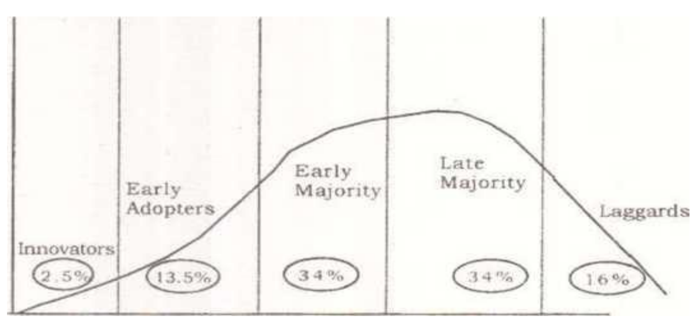
Role of marketing in the process of new-product adoption

A marketing team looking to successfully introduce a new product or service should think about how to help customers move through the five stages.

For example, what kind of advertising or other promotional campaign can be employed to build customer awareness? If customers show a desire to trial or sample a product, how can this be arranged effectively?

Research also suggests that customers can be divided into groups according to the speed with which they adopt new products. Rogers, in his influential work on the diffusion of innovations, suggested the following classification

Consumer Adoption Model for New Products



The **"innovators"** (those who adopt new products first) are usually relatively young, lively, intelligent, socially and geographically mobile. They are often of a high socioeconomic group ("AB's"). Conversely, the "laggards It follows from the

" (those who adopt last, if at all) tend to be older, less intelligent, less well-off and lower on the socioeconomic scale.

above model that when a business launches a new product or service, the customers who buy first sire likely to be significantly different from those who buy the product much later. This needs to be borne in mind when developing the marketing mix.

SELF-CHECK EXCECISE

V. All purchases are the same. (True or False)

VI. The pre-purchase phase includes identifying the need or want, searching possible solutions, and building a consideration set. (True or False)

VII. If performance meets consumer expectations, the consumer is _________.
(a) Satisfied (b) Dissatisfied (c) Delighted (d) Happy

VIII. First stage in the basic model of Consumer Decision Making is ______
(a). Purchase (b). Information Search (c). Need (d). Evaluation of alternatives

IX. The buyer decision process consists of five stages. Which of the following is not one of these stages?
(a). Evaluation of Alternatives (b). Information search (c). Variety-seeking buying behavior (d). Post purchase behavior

5.7 SUMMARY

Marketers must study consumer behavior. Consumer behavior is influenced by four groups of factors: cultural, social, personal, and psychological. To understand how consumers make decisions, marketers must identify who makes and influences the buying decision. People can be initiators, influencers, deciders, buyers, or users. Each type of person can be targeted by different marketing campaigns. The five-stage consumer buying process consists of problem recognition, information search, and evaluation of alternatives, purchase decision, and post-purchase behavior. Marketers should understand the consumer s behavior at every stage.

5.8 KEYWORDS

Post Purchase behaviour: the consumer behaviour after buying
Satisfaction: the consumer feeling regarding the purchase of product
Decision making: consumer mind either to buy or not
Buyer behaviour: the actions and reactions of consumers in the market

5.9 PRACTISE QUESTIONS

5.9.1 Short Answer Questions

Q.1. What factors affect consumer Behaviour?
Q.2. Explain difference between business market and consumer market.
Q.3. Explain buyer decision process.
Q,4. Who are considered as innovators?

5.9.2 Long answer questions

Q.1. Explain the four major factors that influence consumer buyer behavior.
Q.2.Explain the major types of buying- decision behavior and stages in the buyer decision process.
Q.3.Describe the adoption and diffusion process for new products.

5.10 REFERENCES

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5.11ANSWER KEY

I.	(D)	IV.	(C)	VII.	(A)
II.	(B)	V.	False	VIII.	(C)
III.	(C)	VI.	True	IX.	(C)

Semester- II **MARKETING MANAGEMENT**
Lesson No. 6 **AUTHOR: TARANNUM MOHAN**

SEGMENTATION, TARGETING, AND POSITIONING

6.0 OBJECTIVES

After reading this chapter, the student should be able to:

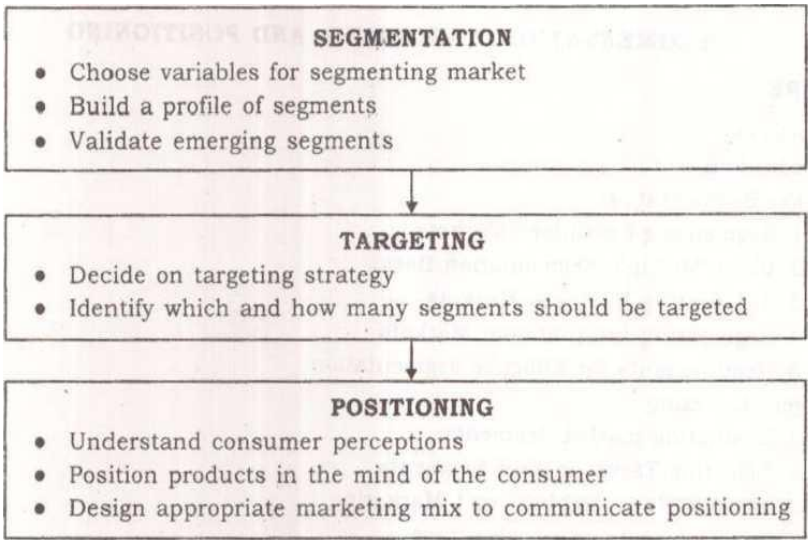
(i) Understand different types of segmentation variables to find the best way to view the market structure.
(ii) Understand different levels of target marketing.
(iii) To understand how company positions its product in consumers' mind.

6.1 INTRODUCTION

Companies today recognize that they cannot appeal to all buyers in the marketplace, or at least not all buyers in the same way. Buyers are too numerous, too widely scattered, and too varied in their needs and buying practices. Moreover, the companies themselves vary widely in their abilities to serve different segments of the market. Rather than trying to compete in an entire market, sometimes against superior competitors, each company must identify the parts of the market that it can serve best and most profitably.

Thus, most companies are being more choosy about the customers with whom they wish to build relationships. Most have moved away from marketing toward market segmentation and targeting.

Figure 1 shows the three major steps in target marketing. The first is market segmentation-dividing a market into smaller groups of buyers with distinct needs, characteristics, or behaviors who might require separate products or marketing mixes. The company identifies different ways to segment the market and develops profiles of the resulting market segments. The second step is



Source: Adapted from Dibb. S. et al**.** (1997 p. 205)

target marketing- evaluating each market segment's attractiveness and selecting one or more of the market segments to enter. The third step is market positioning-setting the competitive positioning for the product and creating a detailed marketing mix.

6.2 MARKET SEGMENTATION

Markets consist of buyers, and buyers differ in one or more ways. They may differ in their wants, resources, locations, buying attitudes, and buying practices. Through market segmentation, companies divide large, heterogeneous markets into smaller segments that can be reached more efficiently and effectively with products and services that match their unique needs.

6.2.1 Segmenting Consumer Markets

There is no single way to segment a market. Marketers must try different segmentation variables, alone and in combination, to find the best way to view the market structure.

1. **Geographic segmentation** divides the market into different geographical units, such as nations, regions, states, counties, cities, or even neighborhoods. A company may operate in one or a few geographic areas, or it may operate in all areas but pay attention to geographical differences in wants and needs.
2. **Demographic segmentation** divides the market into groups based on variables such as age, gender, family size, family life cycle, income, occupation, education, religion, race, generation, and nationality. Consumer wants, needs, and usage rates often vary with demographic variables. Demographic variables are also easier to measure than other variables. Some companies use age and life-cycle segmentation because consumer needs and wants change with age. Marketers must be careful to guard against stereotypes when using this form of segmentation.
3. **Gender segmentation** has long been used in clothing, cosmetics, toiletries, and magazines.
4. **Income segmentation** has been used by marketers for selling automobiles, boats, clothing, cosmetics, financial services, and travel. Many companies target affluent consumers with luxury goods. Other companies target lower-income consumers. Others still develop different products and sell them in different outlets based on income segmentation.
5. **Psychographic segmentation** divides buyers into different groups based on social class,

lifestyle, or personality characteristics. People in the same demographic group can have very different psychographic makeups, and marketers often segment by common lifestyles.

6. **Behavioral segmentation** divides buyers based on their knowledge, attitudes, uses, or responses to a product.
   i. Occasion segmentation groups buyers according to occasions when they get the idea to buy, actually make the purchase, or use the purchased item.
   ii. Benefit segmentation requires finding the major benefits people look for in the product class, the kinds of people who look for each benefit, and the major brands that deliver each benefit.
   iii. User status groups buyers according to whether they are nonusers, ex-users, potential users, first-time users, or regular users of the product.
   iv. Markets can also be segmented according to usage rate-light, medium, and heavy product users.
   v. Loyalty status looks at the level of loyalty to brands, stores, and companies.

6.2.2 Using Multiple Segmentation Bases

Marketers rarely limit their segmentation to only one or a few variables. They are increasingly using multiple segmentation bases in an effort to identify smaller, better defined target groups.

1. **Geodemographic segmentation** helps marketers link U.S. Census data with lifestyle patterns to better segment their markets down to zip codes, neighborhoods, and even city blocks.

6.2.3 Segmenting Business Markets

Business marketers use many of the same variables to segment their markets. Business buyers can be segmented geographically, demographically (industry, company size), or by benefits sought, user status, usage rate, and loyalty status.

Other characteristics are also used, including operating characteristics, purchasing approaches, situational factors, and personal characteristics.

Within a given target industry and customer size, the company can segment by purchase approaches and criteria. Many marketers believe that buying behavior and benefits provide the best basis for segmenting business markets, just as in consumer markets.

6.2.4 Segmenting International Markets

Different countries can vary greatly in their economic, cultural, and political makeup. International firms need to group their world markets into segments with distinct buying needs and behaviors.

Companies can segment international markets using one or a combination of several variables. They can segment by geographic location. This assumes that countries close to one another will have many common traits and behaviors.

World markets can also be grouped on the basis of economic factors, such as population income levels or by their overall level of economic development.

Countries can also be segmented by political and legal factors, such as the type and stability of government, receptivity to foreign firms, monetary regulations, and the amount of bureaucracy.

Cultural factors can also be used, grouping markets according to common languages, religions, values and attitudes, customs, and behavioral patterns.

Many companies use an approach called **intermarket segmentation.** Using this approach, they form segments of consumers who have similar needs and buying behavior even though they are located in different countries.

6.2.5 Requirements for Effective segmentation

Not all segmentations are effective. To be useful, segments must meet five criteria.

1. **It must be measurable:** The size, purchasing power, and profiles of the segments can be measured.
2. **It must be accessible:** The market segments can be effectively reached and served.
3. **It must be substantial:** The segments are large or profitable enough to serve. A segment should be the largest possible homogenous group worth pursuing with a tailored marketing strategy.
4. **It must be differentiable:** The segments are conceptually distinguishable and respond differently to different marketing mix elements and programs.
5. **It must be actionable:** Effective programs can be designed for attracting and serving the segments.

SELF-CHECK EXERCISE

I. Intermarket segmentation form segments of consumers who have similar ___________.

(a) Needs and buying behaviour (b) Usage rate

(c) Social status (d) Lifestyle

II. Target marketing evaluates each market segment's __________ and selecting one or more of the market segments to enter.

(a) Needs (b) Attractiveness

(c) Behavior (d) Preferences

III. _____________ helps marketers link U.S. Census data with lifestyle patterns to better segment their markets.

(a) Psychographic segmentation (b) Geodemographic segmentation

(c) Behavioral segmentation (d) Geographic segmentation

IV. Businesses are choosing their customers more carefully these days if they want todevelop lasting relationships. (True / False)

6.3 TARGET MARKETING

Segmentation reveals only the firm's opportunities. The firm now has to evaluate the various segments and decide how many and which segments it can best serve.

6.3.1 Evaluating market Segments

A firm must look at three factors to evaluate market segments: segment size and growth; segment structural attractiveness; and company objectives and resources.

The company must first collect and analyze data on current segment sales, growth rates, and expected profitability for various segments. It will be interested in segments that have the right size and growth characteristics. But "right size and growth" is a relative matter.

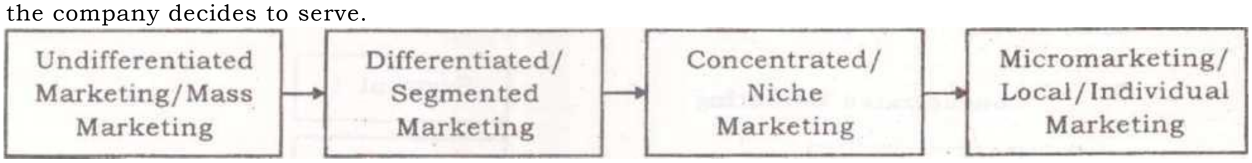
There are several structural characteristics that affect long-run segment attractiveness.

1. The segment is less attractive if there are several strong, aggressive competitors.
2. The existence of many actual or potential substitute products may limit prices and the profits that can be earned.
3. The relative power of buyers also affects segment attractiveness.
4. A segment may be less attractive if it contains powerful suppliers who can control prices or reduce the quality or quantity of ordered goods and services.

The company must take into account its own objectives and resources in relation to the segment. If a segment does hot mesh with the company's long-run objectives, it can be dismissed. The company must take into consideration whether it has the skills and resources needed to succeed in the market. The company should enter only segments in which it can offer superior value and gain advantage over competitors.

6.3.2 Selecting Target market Segments

A target market consists of a set of buyers who share common needs or characteristics that the company decides to serve.



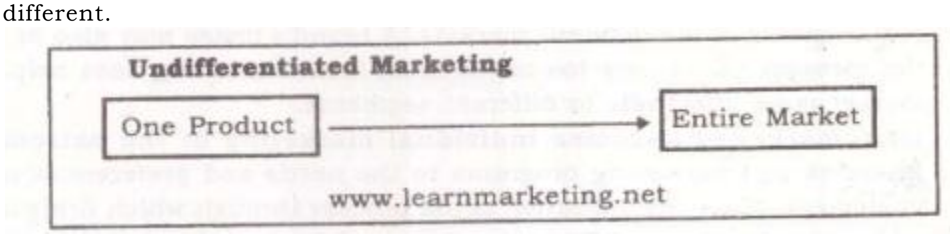
Targeting broadly

Targeting narrowly

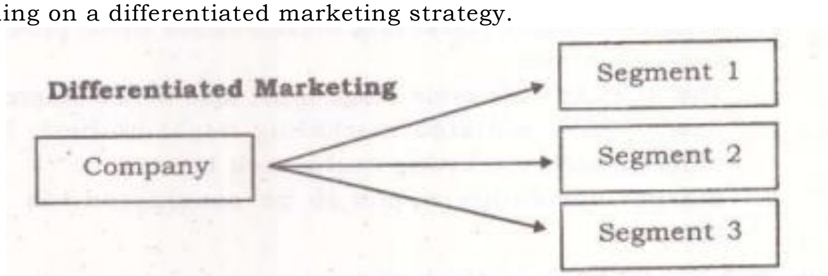
Figure 2: Target Marketing Strategies

Target marketing can be carried out at several different levels. Figure 2 shows that companies can target very broadly, through undifferentiated marketing; very narrowly, in micromarketing; or somewhere in between, which is differentiated or concentrated marketing.

1. In **undifferentiated marketing,** also called **mass marketing,** a firm might decide to ignore market segment differences and target the whole market with one offer. This strategy focuses on what is common in the needs of consumers, rather than on what is different.



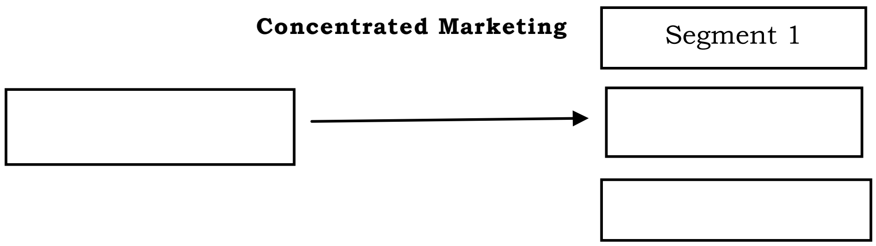
2. Using **differentiated** or **segmented marketing,** a firm decides to target several market segments and designs separate offers for each. Companies hope for higher sales and a stronger position within each market segment. This could yield more total sales than undifferentiated marketing across all segments. Differentiated marketing can also increase costs, however. So, companies must weigh increased sales against increased costs when deciding on a differentiated marketing strategy.



3. **Concentrated** or **niche marketing** is especially appealing when a company has limited resources. Instead of going after a small share of a large market, the firm goes after a large share of one or a few segments or niches. Niches are smaller than segments and may attract only one or a few competitors. A company can market more effectively by fine-tuning its products, prices, and programs to the needs of carefully defined segments.

Or

Where the organization concentrates its marketing effort on one particular segment. The firm will develop a product that caters for the needs of that particular group. For example, Rolls Royce cars aim its vehicles at the premium segment, same as Harrods within the UK.



4. **Micromarketing** is the practice of tailoring products and marketing programs to suit the tastes of specific individuals and locations. It includes local marketing and individual marketing.
   i. Local marketing entails tailoring brands and promotions to the needs and wants of local customer groups-cities, neighborhoods, and even specific stores. The drawbacks include that it can drive up manufacturing and marketing costs, and create logistics problems as companies try to meet the varied requirements of the different markets. A brand's image may also be diluted and the message could vary too much. But local marketing does help a companymarket more effectively to different segments.
   ii. Micromarketing becomes individual marketing in the extreme-tailoring products and marketing programs to the needs and preferences of individual customers. Mass customization is the process through which firms interact one- on-one with masses of customers to design products and services made specifically to individual needs. The move towards individual marketing mirrors the trend in consumer self-marketing, in which consumers take more responsibility for determining what to buy.
   iii. Which strategy to employ depends on company resources.
      a. When the firm's resources are limited, concentrated marketing makes sense.
      b. Undifferentiated marketing makes sense when product variability is low, such as in steel.
      c. The product's life-cycle stage must also be considered. When a product is new, undifferentiated marketing might be best. In the mature stage, differentiated marketing could work better.
      d. market variability needs to be considered, as should competitors' • strategies.

6.3.3 Socially Responsible Target Marketing

Target marketing sometimes generates controversy and concern. Issues usually involve the targeting of vulnerable or disadvantaged consumers with controversial or potentially harmful products. Problems arise when marketing adult products to kids, whether intentionally or unintentionally.

The growth of the Internet and other carefully targeted direct media has raised concerns about potential targeting abuses.

The issue is not so much who is targeted, but how and for what. Controversies arise when marketers attempt to profit when they unfairly target vulnerable segments or target them with questionable products or tactics. Socially responsible marketing calls for segmentation and targeting that serve not just the interests of the company, but also the interests of those targeted.

6.4 POSITIONING FOR COMPETITIVE ADVANTAGE

a. A product's position is the way the product is defined by the consumers on important attributes; it is the place the product occupies in consumers' minds relative to competing products. It involves implanting the brand's unique benefits and differentiation in customers' minds.

b. To simplify the buying process, consumers organize products, services, and companies into categories and "position" them in their minds. A product's position is a complex set of perceptions, impressions, and feelings that consumers have for the product compared with competing products.

c. Consumers will position products with or without the help of marketers. So marketers must plan positions that will give their products the greatest advantage in selected target markets, and then must design marketing mixes to create these planned positions.

Positioning Maps

d. Perceptual positioning maps show consumer perceptions of their brands versus competing products on important buying dimensions.

6.4.1 Choosing a positioning Strategy

Each firm must differentiate its offer by building a unique bundle of benefits that appeals to a substantial group within the segment.

The positioning task has three steps: identifying a set of possible competitive advantages; choosing the right competitive advantages; and selecting an overall positioning strategy. The company then needs to communicate and deliver the chosen position to the market.

1. Positioning begins with actually differentiating the company's marketing offer so that it will give consumers more value than competitors' offers do. A company or market offer can be differentiated by product, services, channels, people, or image.
   i. Product differentiation takes place along a continuum. At one extreme are products that vary little, while at the other extreme they are highly differentiated on features, performance, or style and design.
   ii. Services differentiation can be done through speedy, convenient, or careful delivery. Installation can also differentiate a company, as can repair services. Other possibilities include training services or consulting services.
   iii. Channel differentiation can help a company gain competitive advantage through coverage, expertise, and performance.
   iv. A company can differentiate on people-hiring and training people better than their competitors do.
   v. A company can also differentiate on image. The chosen symbols, characters, and other image elements must be communicated through advertising that conveys the company's or brand's personality.
2. The company must decide how many differences to promote and which ones.
   i. Some marketers believe that the best strategy is to promote only one unique advantage, which can be called the unique selling proposition.
   ii. Other marketers believe that companies should position themselves on more than one attribute, particularly if one or more companies are claiming to be best on the same attribute.
   iii. Not all brand preferences are meaningful or worthwhile.
   The company must carefully select which differences are worth promoting.
   a. It should be important and deliver a highly valued benefit to target buyers.
   b. It should be distinctive such that competitors do not offer the difference.

c. It should be superior, so that consumers cannot obtain the benefit elsewhere.
d. It should be communicable and visible to buyers.
e. It should be preemptive, so that competitors cannot easily copy it.
f. It should be affordable.
g. It should be profitable.

iv. Consumers typically choose products and services that give them the greatest value. The full positioning of a brand is called the brand's value proposition- the full mix of benefits upon which the brand is positioned.

Price

Benefits	More	The Same	Less
	More for more	More for the same	More for less
			The same for less
Less			Less for much less

Figure 3: Possible value proposition

v. Figure 3 shows possible value propositions with which a company might position its products.
a. "More for more" positioning involves providing the most upscale product or service and charging a higher price to cover the higher costs.
b. "More for the same" positioning introduces a brand offering comparable quality but at a lower price.
c. "The same for less" offers good deals to customers.
d. "Less for much less" positioning involves meeting consumers' lower performance or quality requirements at a much lower price.
e. "More for less" is often claimed by companies, and in the short run, companies can often make this work. But in the long run, offering more usually costs more, so it is difficult to deliver on this promise.

vi. Company and brand positioning should be summed up in a positioning statement. This statement should follow the form of "To (target segment and need) our (brand) is (concept) that (point of difference)." The statement first puts the product in a category and then shows the point of difference from other members in the category.

6.4.2 Communicating and Delivering the Chosen Position

When a company has chosen a position, it must take strong steps to deliver and communicate the desired position to target consumers.

All the company's marketing mix efforts must support the positioning strategy. Designing the marketing mix-product, place, price, and promotion-involves working out the tactical details of the positioning strategy.

Companies often find it easier to come up with a good positioning strategy than to implement it. Establishing a position or changing one usually takes a long time. However, positions that took years to build can be lost easily.

A company must take care to maintain the position through consistent performance and communication.

SELF-CHECK EXERCISE

V. Niche marketingis the practice of tailoring products and marketing programs to suitthe tastes of specific individuals and locations. (True / False)

VI. In undifferentiated marketing a firmfocuses on what is common in the needs ofconsumers, rather than on what is different. (True / False)

VII. The business should only go after markets where it can outperform rivals and providehigher value. (True / False)

VIII. _____________ is the practice of tailoring products and marketing programs to suit thetastes of specific individuals and locations.

(a) Micromarketing (b) Niche Marketing
(c) Segmented Marketing (d) Mass Marketing

6.5 SUMMARY

Marketers know that they cannot appeal to all buyers in their markets or at least not to all buyers in the same way. Buyers are too numerous, too widely scattered, and too varied in their needs and buying practices. Therefore, most companies today are moving away from mass marketing. Instead, they practice target marketing. In this way, seller can develop the right product for each target market and adjust their prices, distribution channels and advertising to reach the target market effectively.

6.6 KEY WORDS

1. **Market Segmentation:** Market segmentation helps companies divide large, heterogeneous markets into smaller segments that can be reached more efficiently and effectively with products and services that match their unique needs.
2. **Targeting:** The process of evaluating and selecting market segments and decide how many and which segments it can best serve.
3. **Positioning:** A strategic procedure that entails forming an identity or perception of the brand or product in the minds of potential consumers.

6.7 PRACTICE QUESTIONS

6.7.1 SHORT ANSWER QUESTIONS

Q.1 What do you mean by Segmentation?

Q.2 What does the positioning map show?

Q.3 Define Concentrated Marketing.

6.7.2 LONG ANSWER QUESTIONS

Q.4 List and discuss the major bases for segmenting consumer and business markets.

Q.5 Explain how companies identify attractive market segments and choose a target marketing strategies.

Q.6 Discuss how companies can position their products for maximum competitive advantage in the marketplace.

6.8 REFERENCES

- Kotler, Armstrong, **Principles of Marketing,** Tenth Edition, Prentice-Hall of India, New Delhi, 2004.
- Kotler Philip, **Marketing Management,** Eleventh Edition, Pearson Education, Delhi, 2004.

6.9 ANSWER KEY

I. (a)	**II. (b)**	**III. (b)**	**IV. True**
V. False	**VI. True**	**VII. True**	**VIII. (a)**

Semester – II **MARKETING MANAGEMENT**
Lesson No. 7 **AUTHOR- SANDEEP S. VIRDI**

PRODUCT DECISIONS

7.0 OBJECTIVES

After reading this chapter, the reader should be able to:

- Understand the New Product Development Process.
- Explore different Stages of Product Life Cycle.
- Explain the Concept of Product Mix.

7.1 INTRODUCTION

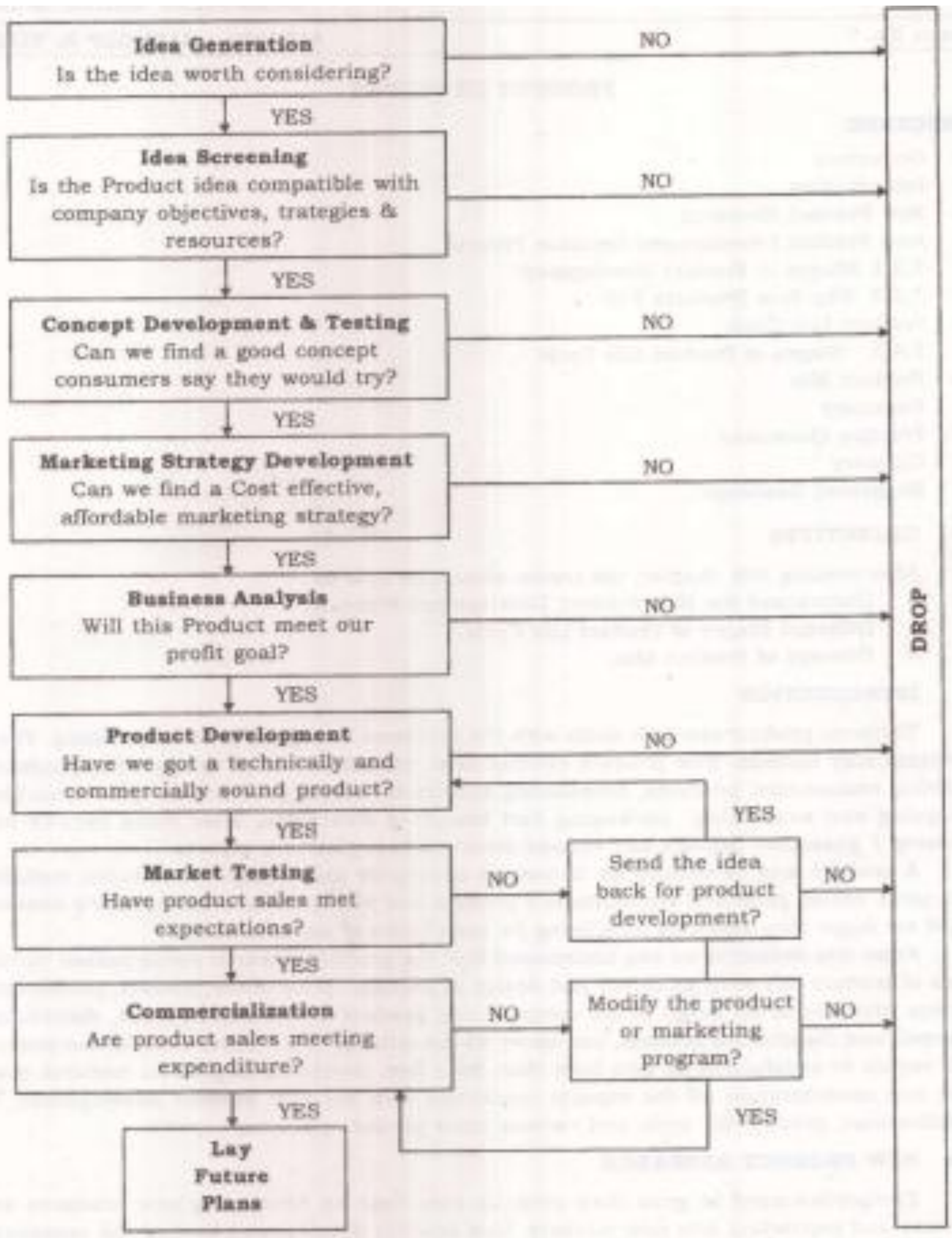
The term product research deals with the problems facing the product planning. These problems may include: New product development, modifications of the existing products, imitating competitors' products, formulating and implementing product life cycle strategies, designing and evaluating packaging and branding strategies, after sales service and warranty / guarantee policies and various other product planning aspects.

A product may be defined as "a complex of tangible and intangible attributes, including packaging, color, price and manufacturer's prestige and manufacturer's and retailer's services, which the buyer may accept as an offering for satisfaction of wants or needs."

From this definition we can understand that the product research encompasses various areas of product mix such as color and design of package, price of the product, promotional aspects which build an image of the company and product in the buyer's mind, distribution channels and distribution systems, and above all the attitude of the buyer towards the product with regard to satisfaction he gets from that. So a firm interested in product research must take into consideration all the aspects concerned with the new product development, its modifications, product life cycle and various other product planning aspects.

7.2 NEW PRODUCT RESEARCH

Companies need to grow their revenue over time by developing new products and services and expanding into new markets. New product development shapes the company's future. Improved or replacement products and services can maintain or build sales; new- to-the-world products and services can transform industries and companies and change lives. But the low success rate of new products and services point to the many challenges involved. More and more companies are doing more than just talking about innovation. They are fundamentally changing the way they are developing their new products and services. New product research is becoming increasingly significant because a huge amount is being spent on developing new products.



Source : Philip Kotler, Kevin Keller, Abraham Koshy, M. Jha, "Setting Product Strategy", *Marketing Management*, Prentice Hall / Pearson Education, 2009.

Firms all over the world are trying to come up with creative ways to develop even better new products and services, faster and more efficiently. Marketers are playing a key role in the development of new products buy identifying and evaluating new product ideas and working with R&D and other areas in every stage of development. New products range from new-to-the-world products that create and entirely new market at one end to minor improvements or revisions of existing product at the other end.

SELF CHECK EXERCISE

I. Idea generation is the last step in the process of new product research. (True / False)

II. Businesses must gradually increase their revenue by creating new products and services and entering untapped areas. (True / False)

III. Marketers are increasingly working on their R&D for betterment of their product and services. (True / False).

IV. _________ products and services can maintain or build sales and can transform industries and companies and change lives.

(a) Improved (b) Repaired

(c) Obsolete (d) Devalue

7.3 NEW PRODUCT DEVELOPMENT DECISION PROCESS

The stages in the new product development process are shown in the following figure. Many firms have parallel sets of projects working through the process, each at a different stage.

7.3.1 STAGES IN PRODUCT DEVELOPMENT

(A) Idea Generation

The new product development process starts with the search for ideas. Some marketing experts believe the greatest opportunities and highest leverage with new products are found by uncovering the best possible set of unmet customer needs or technological innovation. New product ideas can come from interacting with various groups and using creativity generation techniques. Product idea generation means fusion of perceived need with the recognition of a technical opportunity.

Whatever the source of new ideas may be, there is need for organized efforts to manage new ideas. When there is no formal management responsible for gathering ideas, many useful ideas are lost forever to the company. Sources of new ideas can be:

INTERNAL SOURCES

Basic Research: Research and Development often are divided between the development of product ideas that have already passed the initial screening stages and research into the areas of technology that give promise of producing totally new product concepts.

Manufacturing: People who manufacture products often have ideas about modifications and improvements. They frequently come out with new product ideas.

Sales People: They know what a customer wants and what they are not getting. Sales men are the first one to know about the competitor's products. They are in every day contact with the customer and are thus in a fairly good position to note customer's needs and the extent of satisfaction.

Top Management: Top management / executives can play an important role in the generation of new product ideas. Their ideas ought to be good as they know precisely about the company needs and resources.

EXTERNAL SOURCES

Secondary Sources of Information: They are published lists of new products, lists of available licenses that provide clues for new product ventures. Most magazines have a new product section and some business publications are devoted almost entirely to the area of new product news.

Competitors: Firms must establish a formal procedure for monitoring the new product activities of their competitors. By the time a competitor has a new product it is pretty late to be trying to do anything about it.

Customers: Customers frequently generate new product ideas, or at least information regarding problems that new and improved products would help to solve. The firms should pay more attention to customers who constitute the focal point of new products.

Foreign Markets: No country in the world has a monopoly of new product development.
Each country is known for certain products, like Germany - Volkswagen, France - Wine, Japan - Electronics etc. These can be tapped and improved upon.

Inventors: Inventors and other creators signify yet another key source of technological innovation and product ideas from outside the company. Most of the major companies are constantly approached by inventors with new products or ideas that can be acquired or licensed for production or distribution.

(B) Idea Screening

The new product idea generation stage aims at increasing the number of good new product ideas; it encourages every one and every source it builds a stock of such many good ideas. Conversely, all the succeeding stages of product development reduce the number of ideas. In screening of ideas, the company must avoid two types of errors.

Drop Error: which occurs when the company dismisses a good idea. It is extremely easy to find fault with other people's ideas.

Go Error: which occurs when the company permits a poor idea to move into the development and commercialization stage.

The purpose of idea screening is to drop poor ideas as early as possible. The rationale is that product development costs rise substantially with each successive development stage. Most companies require new product ideas to be described on a standard form for a new product committee's review.

METHODS OF IDEA SCREENING

Though there are several methods of routing of poor / unviable ideas, 2 methods are widely used by marketing experts. These are a follow:

(I) Check List Method Product ideas are appraised through check lists, which enumerates desirable product characteristics on a scale providing guidance to the screener. Professor H R Hamilton suggested nine significant factors to be considered on a nine-point scale:

Desired Point (Product Characteristics)	SCALE OF VALUES				
	Very Good	Good	Fair	Poor	Very Poor
	5	4	3	2	1
Sales Volume / Future Growth					
Type and number of competitors					
Technical opportunity					

Patent protection					
Raw material requirements					
Available manufacturing capacity					
Potential profitability					
Similarity to existing business					
Effect of present products					
Total					

Though check list method does help in screening new product ideas, there can arise 2 problems:

(a) The difficulty of defining what is good' and 'poor'. The analyst's opinion is not enough.

(b) Determining with precision as to how good a new product idea actually is on a scale.

In addition the product compatibility is valued in 10 point value system. Here, the final value is taken equal to the total of multiplication of sphere factor and compatibility factor. Following is given the Evaluation Matrix Product Fit.

The total value comes to 0.725 as against the standard set of 0.70. Thus, the new product idea goes to the next stage of business analysis.

2) Idea Rating Method: It is an improvement over the check list method. This method takes into account the significant sphere of product performance on one hand and each such sphere is given due weightage on the other.

(C) Concept Development and Testing

Attractive ideas must be refined into testable product concepts. A product idea is possible product the company might offer to the market. A product concept is an elaborated version of the idea expressed in consumer terms.

A product concept can be turned into several concepts. The first question is: Who will use this product? Second, what primary benefit should this product provide? Third, when will the people use this product? These are some basic questions among many to be answered at this stage.

Each concept represents a category concept that defines the product's competition. The product concept also gets converted into a brand concept.Concept Testing means presenting the product concept, symbolically or physically, to target the consumers and getting their reactions. The more the tested concepts resemble the final product or experience, the more dependable concept testing is. Concept testing of prototypes can help avoid costly mistakes, but it may be especially challenging with radically different, new-to-the-world products. In the past, creating physical prototypes was costly and time consuming, but today firms can use rapid prototyping to design products on a computer and then produce rough models of each to show potential consumers for their reactions. Concept testing presents the consumers with an elaborated version of the concept. It helps consumers understand the product idea, whether they are receptive towards the idea, whether they actually need such a product and whether they will try out such a product if it is out in the market and available to them. This exercise also helps the company bring the product concept into clearer focus. In the absence of real products to be shown to the respondents at this stage, the company naturally has to make elaborate and definitive statements about the would-be-product', its attributes and benefits. This exercise helps the firm thrash out much of the vagueness associated with the new product idea. Concept testing is of special importance when a totally new product - in contrast to a me-too' product - is being planned for introduction.

(D) Marketing Strategy Development

Following a successful concept test, the new product manager will develop a preliminary three part strategy for introducing the new product into the market. The first part describes the target market's size, structure and behaviour; the planned product positioning; and the sales, market share, and profit goals sought in the first few years. The second part outlines the planned price, distribution strategy and marketing budget for the first year. The third part of the marketing strategy plan describes the long run sales and profit goals and marketing-mix strategy over longer period of time.

	A	B											**c**
	Relative Weightage	.0	.1	.2	.3	.4	.5	.6	.7	.8	.9	1.0	A x B
Company Personality	0.20								X				0.140
and Goodwill													
Marketing	0.20										X		0.180
Research & Development	0.20								X				0.140
Personnel	0.15						X						0.750
Finance	0.10										X		0.900
Production	0.05								X				0.035
Purchasing & Supply	0.05					X							0.020
Public Policy	0.05										X		0.045
Total	1.00												0.725

(E) Business Analysis

After management develops the product concept and marketing strategy, it can evaluate the proposal's business attractiveness. Management needs to prepare sales, cost and profit projections to determine whether they satisfy the company's objectives. If they do, the concept can move to the development stage. As new information comes in, the business analysis will undergo revision and expansion. This stage is of special importance because several vital decisions regarding the project are taken based on the analysis done at this stage. This stage will decide whether form the financial and marketing point of view, the project is worth proceeding with. Investments analysis and profitability analysis of the project under different assumptions are made at this stage. The project's overall impact on the corporation's financial position with and without the new product are estimated and compared. Only when reliable and comprehensive information on the above aspects becomes available, can meaningfully estimates of overall profitability of the project can be made. And it is based on the overall profitability picture that the corporation decides to proceed further. The financial estimates will be reliable only if they are based on a fairly accurate demand forecast and related market factors.

There are 3 steps in Business Analysis:

(1) Demand Analysis
(2) Cost Analysis
(3) Profitability Analysis

Business analysis is more rigid, critical and expensive exercise carried out at the brass-tacks points so as to dismiss those ideas that do not conform to the conditions of Business Analysis. This mental exercise covers projection of future demand, sales, costs, investments and revenues, purpose being to determine the long-term contribution of the proposed product by projecting future sales, profits and profitability of the proposed new product so as to see whether it fits in the company's frame of objectives. The focus of Business Analysis is primarily on expected profits performance, however other considerations such as social responsibility also figure in the analysis.

(F) Product Development

Upto now the product has existed only as a word description, a drawing or a prototype. The next step represents a jump in investment that dwarfs the costs incurred so far. The job of translating target customer requirements into a working prototype is done in product development stage. R&D department will develop one or more physical versions of the product concept. Its goal is to find a prototype that embodies the key attributes described in the product-concept statement, that performs safely under normally use and conditions and that the firm can produce within budgeted manufacturing costs. Lab scientists must not only design the product's functional characteristics but also communicate its psychological aspects and brand image through its physical cues. How will consumers react to different colours, sizes and weights? Marketers need to supply the lab people with the information about what attributes consumers seek and how consumers judge whether these attributes are present or not?

When the prototypes are ready, they must be put through rigorous functional tests and customer tests before they are launched into the market. Alpha testing is testing the product within the firm to see how it performs in different applications. After refining the prototype further, the company moves to Beta testing with customers, which ranges from bringing customers into a laboratory to giving them samples to us in their homes.

Product Development is important in 3 ways:

(1) It gives a concrete form
(2) It speaks of investment
(3) It provides a definite answer

(G) Market Testing

After the management is satisfied with the functional and psychological performance, the product is ready to be dressed up with a brand name and packaging and put into a market test. In an authentic setting, marketers can learn how large the market is and how the consumers and dealers react to handling, using and re-purchasing the product. Test marketing is the controlled experiment done in a limited but carefully selected part of the market place. Test marketing is an ultimate test to experience and experiment with actual selling and purchase of the product. Test marketing is the actual conduct of a marketing campaign within a limited market, for a period that is hoped to be long enough to indicate its probable success on a large scale and indefinite basis. Test marketing is the stage where the entire product and marketing program is tried out for the first time in a small number of well chosen and authentic sales environments. Market testing can yield valuable information about buyers, dealers, marketing program effectiveness and market potential. The amount of market testing is influenced by the investment cost and risk on one hand, and the time pressure and research cost on the other hand. High investment high risk products, where the chances of failure are high, must be market tested; the cost of the market tests will be an insignificant percentage of total project cost. High risk products - those that create new product categories - warrant more market testing than modified products. The amount of market testing may be severely reduced if the company is under great time pressure because the season is just starting, or because the competitors are about to launch their product as well. The company may prefer the risk of a product failure to the risk of losing distribution or market penetration on a highly successful product.

Following benefits can be listed of test marketing:

(1) It improves the knowledge of potential product sales
(2) It pretests the alternative marketing plans.
(3) It predicts the product faults
(4) It helps in knowing the competitor's reactions.

(H) Commercialization

Only a handful of new product ideas originating at the idea generation stage survive the successive stages of product development, and each product that does is finally considered ripe and ready for commercialization. Commercialization is the actual introduction of the product into the market place, with all of the related decisions and resource commitments. Commercialization is to implement the decision taken at earlier stage and committing to the resources to implement new product strategy. The company decides to go in for large scale manufacturing and marketing of the products. In other words, raw materials and component parts contracts are to be made with the supplier; channels of distribution are to be selected; manufacturing facilities - equipment, processes must be set in operation; sales people to be hired and trained; advertising program is to be okayed. Thus, it is a commitment in terms of finance and people also. All these steps involve huge expenditure which may amount to 60 to 75 percent of the sales revenue. In view of the investment and risk, the actual experience is that nearly 30 to 35 percent of the companies fall flat during the first year and rises during the successive years to 40 to 45 percent. 3 factors should be kept in consideration while commercialization:

(1) WHEN (Timing)
(2) WHERE (Geographic Strategy)
(3) TO WHOM (Target Market Prospects)
(4) HOW (Introductory Market Strategy)

7.3.2 WHY NEW PRODUCTS FAIL?

The riskiest part of marketing management is the development and distribution of new products. It is safe to say that most of the new products are sure to fail. But failure is a relative term, applicable to the product which has not lived upto its expectations of the marketers or the makers of it. Very often, a question crops up as to why so many products fail inspite of clearing the idea screening and all the subsequent stages. Some of the reasons may be listed as :

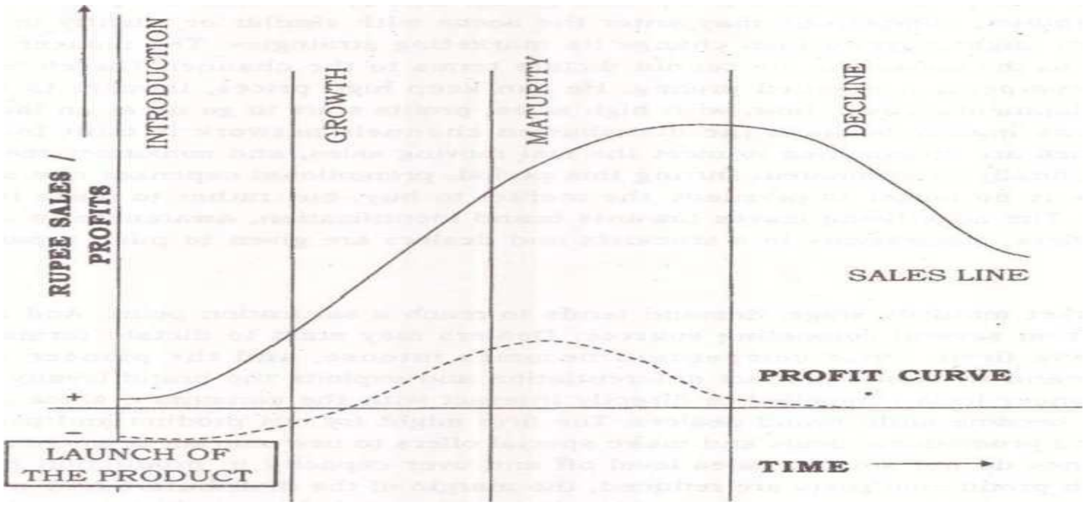
(1) Lack of Product Uniqueness
(2) Poor planning
(3) Poor timing
(4) Misguided enthusiasm
(5) Product deficiencies

7.4 PRODUCT LIFE CYCLE

The product life cycle or the PLC is one of the most frequently encountered concepts in Marketing Management. The Product Life Cycle is a conceptual representation. It is a product aging process. Just as human beings have a typical life cycle going form childhood, adolescence, youth and old age, similarly products also follow a analogous route. To say that a product has a life cycle is to assert 4 things:

(1) Products have a limited life.
(2) Product sales pass through distinct stages, each posing different challenges opportunities and problems to the sales.
(3) Profits rise and fall at different stages of the product life cycle.
(4) Products require different marketing, financial, marketing, manufacturing, purchasing and human resource strategies in each life cycle stage.

The Stages of Product Life Cycle (PLC) are shown in the following figure:



7.4.1 STAGES OF PRODUCT LIFE CYCLE

Most Product Life Cycle stages are portrayed as bell shaped curves. This curve is typically divided into 4 stages: Introduction, Growth, Maturity, and Decline.

A detailed analysis of each stage, in terms of basic features and implications, is interesting and thought provoking, and is described as follows:

(1) Introduction

Here, as the name suggests, the product is in the introductory stage, where there may not be a ready market for the product. Sales are low; the product undergoes teething troubles; profits seem a remote possibility; demand has to be created and developed; and customers have to be prompted to try out the product. Obviously, this stage poses several problems for the marketer. The complexity of the problems and the duration of the stage depend upon the nature of the product, its price, its technological newness and the consumer's view of the product. This stage of the PLC is characterized by low and slow sales. The basic reasons can be attributed to: (i) delays in expansion of production capacity (ii) delays in making available the product to consumers due to lack of retail outlets (iii) consumers' resistance to changeover form the established consumption behavioral pattern.

Also during this period of development, the promotional expenses bear the highest proportion of sales. The prices charged at the beginning are also the highest due to the reasons of lower output and technological problems might not have been mastered fully.

(2) Growth

During this market growth stage, the demand for the product increases and the size of the market grows. The pioneer's sales and profits go up. But by the time the pioneer settles down with his product, competition may enter the scene with similar or slightly improved versions. The firm might have to then change its marketing strategies. The pioneer cannot dictate the price to the consumer, he cannot dictate terms to the channel. Therefore, he is forced to follow competition-oriented pricing. He can keep high prices, though, to recover some of the developmental costs. Now, with high sales, profits start to go up at an increased rate. This happens mainly because the distribution channels network is built to needs, production facilities sire streamlined to meet the fast-moving sales, and consumer resistance to the product is finally exterminated. During this period, promotional expenses rise sharply. The problem now is no longer to persuade the market to buy, but rather to make it buy a particular brand. The advertising moves towards brand identification, awareness to a brand image. Special offers, concessions to a stockists and dealers are given to push a particular brand.

(3) Maturity

In the market maturity stage, demand tends to reach a saturation point. And there is enough supply from several competing sources. Dealers may start to dictate terms to the various competing firms. Price competition becomes intense, and the pioneer tries to distinguish his brand by subtle product differentiation and exploits the brand loyalty he has built up. The pioneer feels compelled to directly interact with the consumer, since by now, the dealers have become multi brand dealers. The firm might try out product and packaging modifications, and promotional deals and make special offers to new market segments so that their sales volumes do not shrink. Sales level off and over capacity in production becomes apparent. Though production costs are reduced, the margin of the distributors may not taper off. Sales now grow at falling rates, competition intensifies and there is little growth in the market as there is deceleration in sales growth leading to market saturation. Therefore, demand mostly consists of repeat sales. Selling efforts become aggressive and profits are squeezed. Firms try to advocate newer uses of the product, develop new markets, and develop wider range of products, and promote style changes. Most of the competitors spend very little on promotion and efforts are made to rationalize the budgets. The prices charged by the producers are quite lower and with a very narrow difference.

(4) Decline

In the market decline stage, the sales begin to fall. The demand for the product shrinks, probably due to new functionally advanced products becoming available in the market, or the market becoming apathetic to the product. In any case, prices and margins get depressed, total sales and profits diminish. Some firms at this stage may try to link up the sales of these products with some other premium products they have developed and thus try to stretch the life of the declining product. In this terminal stage, sooner or later actual sales begin to fall under the impact of new product competition and changing customer tastes and preferences. It is a stage where the market for the product has been superseded by a technological or style change which replaces the existing demand altogether. Sales fall sharply, which creates a fear, leading to intense competition to liquidate the stock at the earliest. Distribution network is reduced to a minimum with thorough rationalization, which is an advantage as product is known for good many years. It may enable the manufacturer to milk the product with profit though sales are scanty.

SUMMARY OF PRODUCT LIFE CYCLE VIS-A-VIS CHARACTERISTICS, OBJECTIVES AND STRATEGIES

Characteristics	**Introduction**	**Growth**	**Maturity**	**Decline**
Sales	Low Sales	Rapidly rising sales	Peak Sales	Declining Sales
Costs	High Cost per Consumer	Average Cost per Consumer	Low Cost per Consumer	Low Cost per Consumer
Profits	Negative	Rising Profits	High Profits	Declining Profits
Customers	Innovators	Early Adopters	Middle Majority	Laggards
Competitors	Few	Growing number	Stable Number	Declining Number
Marketing Objectives	Create product awareness and trial	Maximize market share	Maximize profit while defending market share	Reduce expenditure and milk the brand

Strategies Product	Offer a basic product	Offer product extensions, service & Warranty	Diversify brands and items models	Phase out weak products
Price	Charge Cost plus	Price to penetrate market	Price to match competitor	Cut price
Distribution	Build selective distribution	Build intensive distribution	Build more intensive distribution	Go selective; phase out unprofitable outlets
Advertising	Build product awareness in early adopters and dealers	Build awareness in mass market	Stress brand differences and benefits	Reduce to level needed to retail hard core loyals
Sales promotion	Use heavy sales promotion to entice trial	Reduce to take advantage of heavy consumer demand	Increase to encourage brand switching	Reduce to minimal level

Source: Chester R Wasson, Dynamic Competitive Strategy and Product Life Cycle; John Weber, "Planning Corporate Growth with Inverted Life cycles", Long Range Planning; Peter Doyle, "The Realities of the Product Life Cycle", **Quarterly Review of Marketing.**

PLC theory has its share of critics. They claim that life cycle patterns are too variable in shape and duration to be generalized, and that marketers can seldom tell what stage their product is in. A product may appear to be mature when actually it has reached a plateau prior to another upsurge. Critics also charge that, rather than an inevitable course that 'sales must follow, the PLC pattern is the self-fulfilling result of the marketing strategies and that skillful marketing can in fact lead to continued growth.

7.5 PRODUCT MIX

A product mix (also called as a product assortment) is the set of al products and items a particular seller offers for sale. A product mix consists of various product lines. Seagate makes 29 different types of Hard Drives for Computers and other electronic products such as Video Games, DVRs and Cameras. In General, Electric Consumer Appliance Division, there are product line managers for refrigerators, stoves and washing machines. NECs (Japan) product mix consists of communication products and computer products. The Godrej Agrovet division has a wide range of animal feeds, agriculture inputs, horticulture, tissue culture and retailing. In each of these categories, the companies' have different brand and variants.

A company's product mix has a certain width, length, depth and consistency. These concepts are illustrated in the following table for the consumer-product division of Hindustan Unilever Limited (HUL).

- The width of a product mix refers to how many different product lines the company carries. The table shows a product mix of eleven lines.
- The length of a product mix refers to the total number of items in the mix. The table shows it to be 28.
- The depth of a product mix refers to how many variants are offered of each product in the line. If Lux comes in 4 different variants and in 2 sizes then it has a depth of 8.
- The consistency of the product mix refers to how closely related the various product lines are in end use, production requirements, distribution channels, or some other way. HUL's

product lines are consistent in so far as they are consumer goods that go through the same distribution channels.

These 4 product mix dimensions permit the company to expand its business in 4 ways. It can add new product lines, thus widening its product mix. It can lengthen each of its product lines. It can add more product variants to each product and deepen its product mix. Finally, a company can pursue more product line consistency. To make these products and brand decisions, it is useful to conduct product line analysis.

Product Line Length	**Personal Wash**	**Laundry**	**Skin Care**	**Hair Care**	**Oral Care**	**Deodorants**	**Ayurvedic Personal fit Health**	**Colour Cosmetic:**	**Tea**	**Coffee**	**Foods**	**Ice Cream**
	Lux	**Surf Excel**	**Fair & Lovely**	**Sunsilk Naturals**	**Pepsodent**	**Axe**	**Ayush**	**Lakrne**	**Brooke Bond**	**Brooke Bond**	**Kissan**	**Kwality Walls**
	Lifebuoy	**Rin**	**Pond's**	**Clinic**	**Close-up**	**Rexona**			**Lipton**		**Knorr**	
	Liril	**Wheel**	**Vaseline**								**Annapurna**	
	Hamam											
	Breeze											
	Dove											
	Pears											
	Rexona											

Source : Philip Kotler, Kevin Keller, Abraham Koshy, M. Jha, "Setting Product Strategy", Marketing Management, Prentice Hall / Pearson Education, 2009.

SELF CHECK EXERCISE

V. Which of this is not a method of Idea screening?

(a) Check List Method (b) Idea Rating Method (c) Concept Testing

VI. What is the third stage of Product Life Cycle?

(a) Decline (b) Maturity (c) Growth

VII. What is the other name of Product Mix?

(a) Product Assortment (b) Product Development (c) Product Line

VIII. In the maturity stage the demand for the product increases and the size of the market grows. (True / False)

IX. Commercialization is the actual introduction of the product into the market place, with all of the related decisions. (True / False)

7.6 SUMMARY

New product development shapes the company's future. Improved or replacement products and services can maintain or build sales; new-to-the-world products and services can transform industries and companies and change lives. The product life cycle or the PLC is one of the most frequently encountered concepts in Marketing Management. It is a product aging process. Just as human beings have a typical life cycle going form childhood, adolescence, youth and old age, similarly products also follow a analogous route. A product mix (also called as a product assortment) is the set of all products and items a particular seller offers for sale. A company's product mix has a certain width, length, depth and consistency which permits the company to expand its business in 4 ways. More and more companies are doing more than just talking about innovation. They are fundamentally changing the way they are developing their new products and services. New product research is becoming increasingly significant because a huge amount is being spent on developing new products.

7.7 KEY WORDS

- **Product:** A product may be defined as "a complex of tangible and intangible attributes, including packaging, colour, price and manufacturer's prestige and manufacturer's and retailer's services, which the buyer may accept as an offering for satisfaction of wants or needs."
- **Drop Error:** Which occurs when the company dismisses a good idea.
- **Go Error:** Which occurs when the company permits a poor idea to move into the development and commercialization stage.

7.8 PRACTICE QUESTIONS

7.8.1 SHORT ANSWER QUESTIONS

Q.1 Explain Concept Development and Testing

Q.2 Explain the concept of Product Mix decisions with illustrations?

7.8.2 LONG ANSWER QUESTIONS

Q.3 Describe the various Stages in development of a new product?

Q.4 Illustrate with examples the reasons why new products fail to take off inspite of being technically sound.

Q.5 Enumerate the Product Life Cycle of a product vis-a-vis sales, costs, profits, Marketing Strategies and Objectives

7.9 REFERENCES

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- Ramaswamy, V. S. and Namakumari, S.; **Marketing Management: Planning, Implementation**&**Control,** Macmillan, Delhi, 2007, 3rd Ed.
- Sontakki, C. N.; **Marketing Management,** Kalyani Publishers, Delhi, 2002.

7.10 ANSWER KEY

I. False	**II. True**	**III. True**	**IV. (a)**	
V. (c)	**VI. (b)**	**VII. (a)**	**VIII. False**	**IX. True**

Semester – II **MARKETING MANAGEMENT**
Lesson No. 8 **AUTHOR- TARANNUM MOHAN**

PRODUCT, SERVICES, AND BRANDING STRATEGIES

8.0 OBJECTIVES

After studying this chapter, you should be able to:

1. Define product and the major classifications of products and services.
2. Describe the decisions companies make regarding their individual products and services, product lines, and product mixes.
3. Discuss branding strategy-the decisions companies make in building and managing their brands

8.1 PRODUCTS, SERVICES, AND EXPERIENCE

A **product** as anything that can be offered to a market for attention, acquisition, use, or consumption and that might satisfy a want or need. Products include more than just tangible goods. Broadly defined, products include physical objects, services, events, persons, places, organizations, ideas or mixes of these entities.

Services - Something is considered a service if it is an offering a customer obtains through the work or labor of someone else. Services can result in the creation of tangible goods (e.g., a publisher of business magazines hires a freelance writer to write an article) but the main solution being purchased is the service. Unlike goods, services are not stored, they are only available at the time of use (e.g., hair salon) and the consistency of the benefit offered can vary from one purchaser to another (e.g., not exactly the same hair styling each time).

Today, as products and services become more and more commoditized, many companies are moving to a new level in creating value for their customers. To differentiate their offers, they are developing and delivering total **customer experiences.** Whereas products are tangible and services are intangible, experiences are memorable. Whereas products and services are external, experiences are personal and take place in the minds of individual customers.

8.2 LEVELS OF A PRODUCT

On the surface it seems a product is simply a marketing offering, whether tangible or intangible, that someone wants to purchase and consume. In which case one might believe product decisions are focused exclusively on designing and building the consumable elements of goods, services or ideas. For instance, one might think the key product decision for a manufacturer of floor cleaners is to focus on creating a formula that cleans more effectively. In actuality, while decisions related to the consumable parts of the product sire extremely important, the Total Product consists of more than what is consumed. The total product offering and the decisions facing the marketer can be broken down into three key parts:

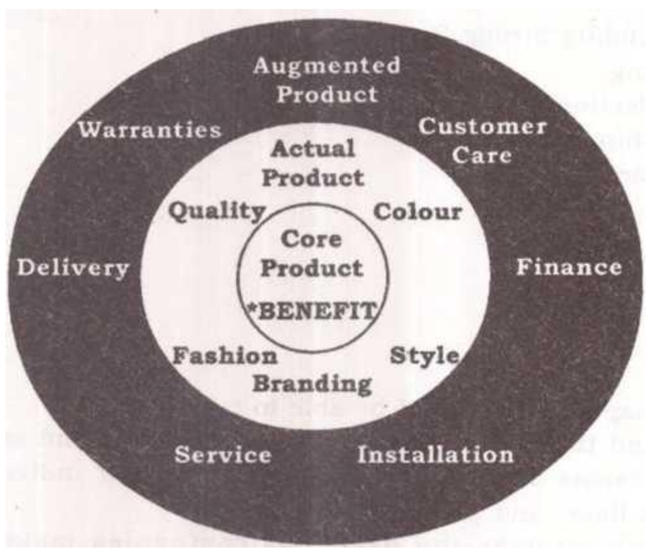

Figure 1: Three levels of product
1. Core Benefits 2. Actual Product 3. Augmented Product

1. Core Benefits

People make buying decisions that satisfy their needs. While many needs are addressed by the consumption of a product or service, some needs are not. For instance, customers may need to be perceived highly by other members of their group or need a product that is easy to use or need a risk-free purchase. In each of these cases, and many more, the core product itself is the benefit the customer receives from using the product. In some cases, these core benefits are offered by the product itself (e.g., floor cleaner) while in other cases the benefit is offered by other aspects of the product (e.g., the can containing the floor cleaner that makes it easier to spread the product).

Consequently, at the very heart of all product decisions is determining the key or core benefits a product will provide. From this decision, the rest of the product offering can be developed.

2. Actual Product

The core benefits are offered through the components that make up the actual product the customer purchases. For instance, when a consumer returns home from shopping at the grocery store and takes a purchased item out of her shopping bag, the actual product is the item she holds in her hand. Within the actual product is the consumable product, which can be viewed as the main good, service or idea the customer is buying. For instance, while toothpaste may come in a package that makes dispensing it easy, the Consumable Product is the paste that is placed on a toothbrush. But marketers must understand that while the consumable product is, in most cases, the most critical of all product decisions, the actual product includes many separate product decisions including product features, branding, packaging, labeling, and more.

3. Augmented Product

Marketers often surround their actual products with goods and services that provide additional value to the customer's purchase. While these factors may not be key reasons leading customers to purchase (i.e., not core benefits), for some the inclusion of these items strengthens the purchase decision while for others failure to include these may cause the customer not to buy. Items considered part of the augmented product include:

- **Guarantee** - This provides a level of assurance that the product will perform up to expectations and if not the company marketing the product will support the customer’s decision to replace, have it repaired or return for a refund.
- **Warranty** - This offers customers a level of protection that often extends past the guarantee period to cover repair or replacement of certain product components.
- **Customer Service** - This consists of additional services that support the customer's needs including offering training and assistance via telephone or online.
- **Complementary Products** - The value of some product purchases can be enhanced with add-on products, such as items that make the main product easier to use (e.g., laptop carrybag), enhance styling (e.g., cellphone face plates) or extend functionality (e.g., portable keyboard for PDAs).
- **Accessibility** - How customers obtain the product can affect its perceived value depending on such considerations as how easy it is to obtain (e.g., stocked at nearby store, delivered directly to office), the speed at which it can be obtained, and the likelihood it will be available when needed.

8.3 CATEGORIES OF CONSUMER PRODUCTS

In addition to categorizing by type of offering, most products intended for consumer use can be further categorized by how frequently and where they are purchased.

- **Convenience Products** - These are products that appeal to a very large market segment. They are generally consumed regularly and purchased frequently. Examples include most household items such as food, cleaning products, and personal care products. Because of the high purchase volume, pricing per item tends to be relatively low and consumers often see little value in shopping around since additional effort yields minimal savings. From the marketer’s perspective the low price of convenience products means that profit per unit sold is very low. In order to make high profits marketers must sell in large volume. Consequently, marketers attempt to distribute these products in mass through as many retail outlets as possible.

- **Shopping Products** - These are products consumers purchase and consume on a less frequent schedule compared to convenience products. Consumers are willing to spend more time locating these products since they are relatively more expensive than convenience products and because these may possess additional psychological benefits for the purchaser, such as raising their perceived status level within their social group. Examples include many clothing products, personal services, electronic products, and household furnishings. Because consumers are purchasing less frequently and are willing to shop to locate these products, the target market is much smaller than that of convenience goods. Consequently, marketers often are more selective when choosing distribution outlets to sell their products.

Convenience Products Buy frequently & immediately > Low priced > Many purchases locations > Includes • Staple goods • Impulse goods • Emergency goods	**Shopping Products** Buy less frequently > Gather product information > Fewer purchase locations > Compare for: • Suitability & Quality • Price & Style
Specially Products Special purchase efforts > Unique characteristics > Brand identification > Few purchase locations	**Unsought Products** New innovations > Products consumers don't want to think about > Require much advertising & personal

Figure 2: Types of Consumer Products

- **Specialty Products** - These are products that tend to carry a high price tag relative to convenience and shopping products. Consumption may occur at about the same rate as shopping products but consumers are much more selective. In fact, in many cases consumers know in advance which product they prefer and will not shop to compare products. But they may shop at retailers that provide the best value. Examples include high-end luxury automobiles, expensive champagne, and celebrity hair care experts. The target markets are generally very small and outlets selling the products are very limited to the point of being exclusive.

In addition to the three main categories above, products are classified in at least two additional ways:

- **Emergency Products** - These are products a customer seeks due to sudden events and for which pre-purchase planning is not considered. Often the decision is one of convenience (e.g., whatever works to fix a problem) or personal fulfillment (e.g., perceived to improve purchaser's image).
- **Unsought Products** - These are products whose purchase is unplanned by the consumer but occur as a result of marketer's actions. Such purchase decisions are made when the customer is exposed to promotional activity, such as a salesperson's persuasion or purchase incentives like special discounts offered to certain online shoppers. These promotional activities often lead customers to engage in Impulse Purchasing.

8.4 CATEGORIES OF BUSINESS PRODUCTS

Products sold within the b-to-b market fall into one of the following categories:

- **Raw Materials** - These are products obtained through mining, harvesting, fishing, etc., that are key ingredients in the production of higher-order products.
- **Processed Materials** - These are products created through the processing of basic raw materials. In some cases, the processing refines original raw materials while in other cases the process combines different raw materials to create something new. For instance, several crops including corn and sugar cane can be processed to create ethanol which has many uses including as a fuel to power car and truck engines.
- **Equipment** - These are products used to help with production or operations activities. Examples range from conveyor belts used on an assembly line to large buildings used to house the headquarters staff of a multi-national company.
- **Basic Components** - These are products used within more advanced components. These are often built with raw material or processed material. Electrical wire is an example.
- **Advanced Components** - These are products that use basic components to produce products that offer a significant function needed within a larger product.

  Yet by itself an advanced component does not stand alone as a final product. In computers the motherboard would be an example since it contains many basic components but without the inclusion of other products (e.g., memory chips, microprocessor, etc.) would have little value.
- **Product Component** - These are products used in the assembly of a final product though these could also function as stand alone products. Dice included as part of a children's board game would be an example.
- **MRO (Maintenance, Repair and Operating) Products** - These are products used to assist with the operation of the organization but are not directly used in producing goods or services. Office supplies, parts for a truck fleet and natural gas to heat a factory would fall into this category.

SELF CHECK EXERCISE

I. Shopping products are products consumers purchase and consume on a less frequent schedule (True / False)

II. Marketers often surround their actual products with goods and services that does not provide additional value to the customer's purchase. (True / False)

III. __________ products whose purchase is unplanned by the consumer.

(a) Convenience (b) Shopping

(c) Specialty (d) Unsought

IV. Complementary Products adds value of some product purchases can be enhanced with add-on products. (True / False)

8.5 PRODUCT AND SERVICE DECISIONS

Marketers make product and services decisions at three levels: individual product decisions, product line decisions and product mix decisions.

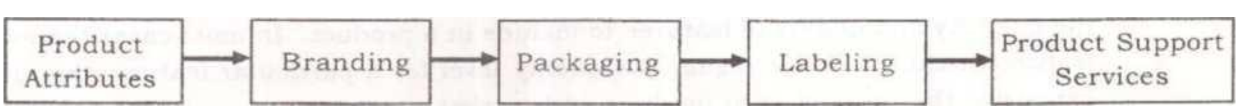

Figure 3 : Individual Product and Service Decisions

8.5.1 Individual Product and Service Decisions

Below are some important decisions in the development and marketing of individual products and services. These decisions include

- Product attributes
- Branding
- Packaging
- Labeling
- Product support services

8.5.1.1 Consumable Product Features

Features are characteristics of a product that offer benefits to the customer. In most cases, the most important features are those associated with the consumable product since they are the main reason a customer makes a purchase. The benefits of consumable product features can be grouped into two: functional and psychological.

Feature	**Functional Benefit**
screen size	offers greater detail and allows for more distant viewing
screen resolution	viewing provides clear, more realistic picture
surround sound	immerses all senses in the viewing experience
remote control	allows for greater comfort while viewing

Functional Benefits

Are benefits derived from features that are part the consumable product. For instance, a plasma television includes such features and benefits as:

These features are called functional because they result in a benefit the user directly associates with the consumable product. For marketers' functional benefits are often the result of materials, design and production decisions. How the product is built can lead to benefits such as effectiveness, durability, speed, ease-of-use, and cost savings to name just few.

Psychological Benefits

Are benefits the customer perceives to receive when using the product though these may be difficult to measure and may vary by customer. These benefits address needs such as status within a group, risk reduction, sense of independence, and happiness. Such benefits are developed through promotional efforts that target customers' internal makeup. In addition to determining the type of features to include in a product, the marketer faces several other decisions related to features:

- **Quantity & Quality vs. Cost** - For the marketers an important decision focuses on the quantity and quality of features to include in a product. In most cases the more features included or the higher the quality level for a particular feature, the more expensive the product is to produce and market.
- **Is More Better?** - Even if added cost is not a major concern, the marketer must determine

if more features help or hurt the target market's perception of the product. A product with too many features could be viewed as too difficult to use. This was often the case when video cassette recorders (VCR) were the principle device for taping television programs and watching rented movies. Many of the higher-level features introduced in the 1990s as the product matured, such as advanced television recording, proved too difficult for the average consumer to master.

- **Who Should Choose the Features?** - Historically marketers determined what features to include in a product. However, technology, and especially the Internet, offer customers the opportunity to choose their own features to custom build a product. For instance, companies offering website hosting services allow website owners to choose from a list of service options that best suits their needs. Also, for traditional products, such as clothing, companies allow customers to stylize their purchases with logos and other personalized options.

8.5.1.2 Branding

A brand is a name, term, sign, symbol, or design, or a combination of these, that identifies the maker or seller of a product or service. Branding involves decisions that establish an identity for a product with the goal of distinguishing it from competitors' offerings. In markets where competition is fierce and where customers may select from among many competitive products, creating an identity through branding is essential. It is particularly important in helping position the product in the minds of the product's target market.

Advantages of Brands

- Advantages to buyers:
  — Product identification
  — Product quality
- Advantages to sellers:
  — Basis for product's quality story
  — Provides legal protection
  — Helps to segment markets

8.5.1.3 Packaging

Packaging involves designing and producing the container or wrapper for a product. The package includes a products primary container (the tube holding Colgate Total toothpaste). It may also include secondary package that is thrown away when the product is about to be used (the cardboard box containing the tube of Colgate). Finally, it can include a shipping package necessary to store, identify and ship the product (a corrugated box containing six dozen tubes of Colgate). Companies are realizing the power of good packaging to create instant consumer recognition of the company or brand. In this highly competitive environment, the package may be the seller's last chance to influence buyer.

Innovative packaging can give company an advantage over competitors. Developing a good package for a new product requires making many decisions. First, the company must establish the packaging concept, which states what the package should be or do for the product. Decisions should be made on specific elements of the package, such as size, shape, materials, color, text and brand mark.

Packaging decisions must also include an assessment of its environmental impact especially for products with packages that are frequently discarded. Packages that are not easily bio-degradable could draw customer and possibly governmental concern. Also, caution must be exercised in order to create packages that do not infringe on intellectual property, such as copyrights, trademarks or patents, held by others.

8.5.1.4 Labeling

Most packages, whether final customer packaging or distribution packaging, are imprinted with information intended to assist the customer. For consumer products, labeling decisions are extremely important for the following reasons.

- Labels serve to capture the attention of shoppers. The use of catchy words may cause strolling customers to stop and evaluate the product.
- The label is likely to be the first thing a new customer sees and thus offers their first impression of the product.
- The label provides customers with product information to aid their purchase decision or help improve the customer's experience when using the product (e.g., recipes).
- Labels generally include a universal product code (UPC) and, in some cases, radio frequency identification (RFID) tags, that make it easy for resellers, such as retailers, to checkout customers and manage inventory.
- For companies serving international markets or diverse cultures within a single country, bilingual or multilingual labels may be needed.
- In some countries many products, including food and pharmaceuticals, are required by law to contain certain labels such as listing ingredients, providing nutritional information or including usage warning information.

8.5.1.5 Product Support Services

Customer service is another element of product strategy. A company's offer to the marketplace usually includes some support services, which can be a major or minor part of the total offering.

The first step is to survey customers periodically to assess the value of current services and to obtain ideas for new ones. Once the company has assessed the value of various support services to customers, it must next assess the costs of providing these services. It can then develop a package of services that will both delight customers and yield profits to the company.

Many companies are now using the internet and other marketing technologies to provide support services that were not possible before. Using the Web, 24-hour telephone help lines, these companies are now empowering consumers to tailor their own service and support experience.

8.5.2 Product Line Decisions

A product line is a group of products that are closely related because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlets, or fall within given price ranges. For example, Nike produces several lines of athletic shoes and apparel.

- The major product line decisions involve product line length - the number of items in the product line. The line is too short if the manager can increase profits by adding items; the line is too long if the manager can increase profits by dropping items. A company can lengthen its product line in two ways: by line stretching or by line filling.
- Line stretching: adding products that are higher or lower priced than the existing line.
- Line filling: adding more items within the present price range

8.5.3 Product Mix Decisions

- An organization with several product lines has a product mix. A product mix consists of all the product lines and items that a particular seller offers for sale. Avon's product mix consists of four major product lines: beauty products, wellness products, jewelry. Each product line consists of several sublines. For example, the beauty line breaks down into makeup, skin care, bath and beauty, fragrance and outdoor protection products. A Company's Product mix has some important dimensions:

- product line width: number of different product lines carried by company
- product line depth: Number of different versions of each product in the line
- product line consistency.

SELF-CHECK EXERCISE

V. Branding involves decisions that establish an identity for a product with the goal of distinguishing it from competitors' offerings. (True / False)

VI. ___________ benefits the customer perceives to receive when using the product though it may vary by customer.

(a) Functional (b) Psychological
(c) Behavioral (d) Individual

VII. Packaging involves imprinting the information that captures the attention of shoppers. (True / False)

VIII. Product Mix decisions has line stretching and line filling as dimensions. (True / False)

8.6 BRANDING STRATEGY: BUILDING STRONG BRANDS

Brands are powerful assets that must be carefully developed and managed. The key strategies for branding and managing brands will be discussed now.

Brand Equity

Brands vary in the amount of power and value they have in the marketplace. A powerful brand has high brand equity. Brand equity is the positive differential effect that knowing the brand name has on customer response to the product or service. A measure of a brand's equity is the extent to which customers are willing to pay for the brand.

High brand equity provides a company with many competitive advantages. A powerful brand enjoys a high level of consumer brand awareness and loyalty.

Major Brand Strategy Decisions

Major Brand strategy decisions involve brand positioning, brand name selection, brand sponsorship and brand development.

8.6.1 Brand Positioning

Marketers need to position their brands clearly in target customer' minds. They can position brands at any of three levels: Product attributes, Product benefits and Beliefs and values. Thus, marketers of Dove soap can talk about the products attributes of one-quarter cleansing cream. However, attributes can be easily copied. A brand can be better positioned by associating its name with a desirable benefit. Thus, dove marketers can go beyond the brands cleansing cream attribute and talk about the resulting benefits of softer skin. The strongest brands go beyond attributes or benefit positioning. They are positioned on strong beliefs and values. Thus, Dove marketers can talk about how these attributes and benefits will make you more attractive.

8.6.2 Brand Name Selection

Desirable qualities for a brand name include:

- It should suggest product's benefits and qualities
- It should be easy to pronounce, recognize, and remember
- It should be distinctive
- It should be extendable
- It should translate easily into foreign languages
- It should be capable of registration and legal protection

8.6.3 Brand Sponsorship

A manufacturer has four sponsorship options.

- **Manufacturer's brand (National brand):** A brand created and owned by the producer of a product or service, e.g., Kellogg and IBM sell their output under their own manufacturer's brand names.
- **Private brand (or middleman, distributor, or store brand):** A brand created and owned by a reseller of a product or service, e.g. Sears has created several names- Diehard batteries, Craftsman tools, Kenmore appliances, Weatherbeather paints.
- **Licensing:** Some companies license names or symbols previously created by other manufacturers, names of well-known celebrities or characters from popular movies or books. For a fee, any of these can provide an instant and proven brand name.
- **Co-brand:** the practice of using the established brand names of two different companies on the same product. Because each brand dominates in a different category the combined brands create broader consumer appeal and greater brand equity.

8.6.4 Brand Development

When a company manages its brands, it has a number of strategies it can use to further increase its brand value. These are:

- **Line extension:** This is where an organization adds to its current product line by introducing, versions with new features, an example could be a Crisp manufacturer extending its line by adding more exotic flavors.
- **Brand extension:** If your current brand name is successful, you may use the brand name to extend into new or existing areas. For example, Virgin extending its brand from records, to airlines, to mobiles.
- **Multi Branding:** The Company decides to further introduce more brands into an already existing category. Kellogg's for example having a number of brands in the cereal market and the cereal bar market. Multi-branding can allow an organization to maximize profits, but a company needs to be weary over their own brands competing with each other over market share.
- **New Brands:** An organization may decide to launch a new brand into a market. A new brand may be used to compete with existing rivals and may be marketed as something 'new and fresh'.

8.7 MANAGING BRANDS

Companies must carefully manage their brands. First the Brand's positioning must be continuously communicated to consumers. Major brand marketers often spend huge amount on advertisement to create brand awareness and to build preference and loyalty. It should also be considered that brands are not maintained by advertising but by the brand experience. Today, customers come to know a brand through a wide range of contacts and touch points. The company must put as much care into managing these touch points as it does into producing its ads. The brand's positioning will not take hold fully unless everyone in the company lives the brand. Therefore, the company needs to train its people to be customer-centered.

Companies can carry on internal brand building to help employees to understand, desire, and deliver on the brand promise. All of this suggests that managing a company's brand assets can no longer be left only to brand managers. Thus, some companies are now setting up brand assets management teams to manage their major brands. Finally, companies need to periodically audit their brands' strengths and weaknesses. They should ask: does our brand excel at delivering benefits that consumers truly value? Is the brand properly positioned? The brand audit may turn up brands that need to be repositioned because of changing customer preferences or new competitors. Some cases may call for completely rebranding a product, service or company.

8.8 SUMMARY

In this chapter we took at ways to classify products in consumer and business markets. Then we discuss important decisions that marketers make regarding individual products, product lines and product mixes. Next, we look into the critically important issues of how marketers build and manage brands.

8.9 KEY WORDS

Augmented Product: Marketers often surround their actual products with goods and services that provide additional value to the customer's purchase.

Packaging: Packaging involves designing and producing the container or wrapper for a product.

Brand Equity: Brand equity is the positive differential effect that knowing the brand name has on customer response to the product or service.

8.10 PRACTICE QUESTIONS

8.10.1 SHORT ANSWER QUESTIONS

Q.1 Define Shopping products.

Q.2 What do you mean by brand positioning?

Q.3 Explain the product line decisions.

8.10.2 LONG ANSWER QUESTIONS

Q.4 Describe the decisions companies make regarding their individual products and services, product lines, and product mixes.

Q.5 Discuss branding strategy- the decision companies make in building and managing their brands.

8.11 REFERENCES

- Kotler, Armstrong, **Principles of Marketing,** Tenth Edition, Prentice-Hall of India, New Delhi, 2004.
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8.12 ANSWER KEY

I. True II. False III. (d) IV. True
V. True VI. (b) VII. False VIII. False

Semester II **MARKETING MANAGEMENT**

Lesson No. 9 **AUTHOR: DR. VIKAS SINGLA**

PRICING METHODS

9.0 OBJECTIVE

1. To understand how companies set price.
2. To know about price adapting and various forces.

9.1 SETTING THE PRICE

A firm must set a price for the first time when it develops a new product, when it introduces its regular product into a new distribution channel or geographical area, and when it enters bids on new contract work. The firm must decide where to position its product on quality and price. The firm has to consider many factors in setting its pricing policy. We will describe a six-step procedure: (1) selecting the pricing objective; (2) determining demand; (3) estimating costs; (4) analysing competitors' costs, prices, and offers; (5) selecting a pricing method; and (6) selecting the final price.

1. SELECTING THE PRICING STRUCTURE

The company first decides where it wants to position its market offering. The clearer a firm's objectives, the easier it is to set price. A company can pursue any of five major objectives through pricing: survival, maximum current profit, maximum market share, maximum market skimming, or product-quality leadership. Companies pursue survived as their major objective if they are plagued with over capacity, intense competition, or changing consumer wants. Profits are less important than survival. As "long as prices cover variable costs and some fixed costs, the company stays in business. However, survival is a short-run objective; in the long run, the firm must learn how to add value or face extinction. Many companies try to set a price that will maximize current profits. They estimate the demand and costs associated with alternative prices and choose the price that produces maximum current profit, cash flow, or rate of return on investment. This strategy assumes that the firm has knowledge of its demand and cost functions; in reality, these are difficult to estimate. By emphasizing current financial performance, the company may sacrifice long-run performance by ignoring the effects of other marketing-mix variables, competitors' reactions, and legal restraints on price.

Some companies want to maximize their market share. They believe that a higher sales volume will lead to lower unit costs and higher long-run profit. They set the lowest price, assuming the market is price sensitive. The following conditions Favor setting a low price: (1) The market is highly price sensitive, and a low price stimulates market growth; (2) production and distribution costs fall with accumulated production experience; and (3) a low price discourages actual and potential competition. Many companies favour setting high prices to "skim" the market. Market skimming makes sense under the following conditions: (1) A sufficient number of buyers have a high current demand; (2) the unit costs of producing a small volume Eire not so high that they cancel the advantage of charging what the traffic will bear; (3) the high initial price does not attract more competitors to the market; (4) the high price communicates the image of a superior product.

2. DETERMINING DEMAND

Each price will lead to a different level of demand and therefore have a different impact on a company's marketing objectives. The relation between alternative prices and the resulting current demand is captured in a demand curve. In the normal case, demand and price are inversely related: the higher the price, the lower the demand. In the case of prestige goods, the demand curve sometimes slopes upward. A perfume company raised its price and sold more perfume rather than less. Some consumers take the higher price to signify, a better product. However, if too high a price is charged, the level of demand may fall.

Price Sensitivity: The demand curve shows the markets probable purchase quantity at alternative prices. It sums the reactions of many individuals who have different price sensitivities. The first step in estimating demand is to understand what affects price sensitivity. Nine factors have been identified:

1. **Unique-value effect:** Buyers are less price sensitive when the product is more distinctive.
2. **Substitute-awareness effect:** Buyers are fewer prices sensitive when they are less aware of substitutes.
3. **Difficult-comparison effect:** Buyers are less price sensitive when they cannot easily compare the quality of substitutes.
4. **Total expenditure effect:** Buyers are less price sensitive the lower the expenditure is as a part of their total income,
5. **End-benefit effect:** Buyers are less price sensitive the smaller the expenditure is to the total cost of the end product.
6. **Shared-cost effect:** Buyers are less price sensitive when part of the cost is borne by another party.
7. **Sunk investment effect:** Buyers are less price sensitive when, the product is used in conjunction with assets previously bought.
8. **Price quality effect:** Buyers are less price sensitive when the product is assumed have more quality, prestige, or exclusiveness.
9. **Inventory effect:** Buyers are less price sensitive when they cannot store the product.

Estimating Demand Curves: Most companies make some attempt to measure their demand curves. They can use different methods. The first involves statistically analyzing past prices, quantities sold, and other factors to estimate their relationships. The data can be longitudinal (over time) or cross-sectional (different locations at the same time). Building the appropriate model and fitting the data with the proper statistical techniques calls for considerable skill. The second approach is to conduct price experiments. Bennett and Wilkinson systematically varied the prices of several products sold in a discount store and observed the results. An alternative approach is to charge different prices in similar territories to see how sales are affected. The third approach is to ask buyers to state how many units they would buy at different proposed prices. But buyers might understate their purchase intentions at higher prices to discourage the company from setting higher prices.

Price Elasticity of Demand: Marketers need to know how responsive, or elastic, demand would be to a change in price. If price increases from $10 to $15 leads to a relatively small decline in demand from 150 to 133 then we say demand is inelastic. If the same price increase leads to a substantial drop in demand from 150 to 50 then we say demand is elastic. Demand is likely to be less elastic under the following conditions: (1) There are few or no substitutes or competitors; (2) buyers do not readily notice the higher price; (3) buyers are slow to change their buying habits- and search for lower prices; (4) buyers think the higher prices are justified by quality differences, normal inflation; and so on.

If demand is elastic, sellers will consider lowering the price. A lower price will produce more total revenue. This makes sense as long as the costs of producing and selling more units does not increase disproportionately. Price elasticity depends on the magnitude and direction of the contemplated price change. It may be negligible with a small price change and substantial with a large price change. It may differ for a price cut versus a price increase. Finally, long- run. price elasticity may differ from short-run elasticity. Buyers may continue to buy from their current supplier after a price increase, because they do not, notice the increase, or the increase is small, or they are distracted by other concerns, or they find choosing a new supplier takes time. But they may eventually switch suppliers. Here demand is more elastic in the long run than in the short run.

3. ESTIMATING COST

Demand sets a ceiling on the price the company can charge for its product. Costs set the floor. The company wants to charge a price that covers its cost of producing, distributing, and selling the product, including a fair return for its effort and risk.

Types of Costs and Levels of Production

A company's costs take two forms, fixed and variable. Fixed costs (also known as overhead) are costs that do not vary with production or sales revenue. A company must pay bills each month for rent, heat, interest, salaries, and so on, regardless of output. Variable costs vary directly with the level of production. For example, each hand calculator produced by Texas Instruments involves a cost of plastic, micro processing chips, packaging, and the like. These costs tend to be constant per unit produced. They are called variable because their total varies with the number of units produced. Total costs consist of the sum of the fixed and variable costs for any given level of production. Average cost is the cost per unit at that level of production; it is equal to total costs divided by production. Management wants to charge a price that will at least cover the total production costs at a given level of production. To price intelligently, management needs to know how its costs vary with different levels of production.

Accumulated Production: Suppose TI runs a plant that produces 3,000 hand calculators per day. As TI gains experience producing hand calculators, its methods improve. Workers learn shortcuts, materials flow more smoothly, and procurement costs fall. The result is that average cost falls with accumulated production experience. Thus, the average cost of producing the first 100,000 hand calculators is $10 per calculator. When the company has produced the first 200,000 calculators, the average cost has fallen to $9. After its accumulated production experience doubles again to 400,000, the average cost is $8. This decline in the average cost with accumulated production experience is called the experience curve or learning curve.

Differentiated Marketing Offers: Today's companies try to adapt their offers and terms to different buyers. Thus, a manufacturer will negotiate different terms with different retail chains. One retailer may want daily delivery (to keep stock lower) while another retailer may accept twice a week delivery in order to get a lower price. As a result, the manufacturer's costs will differ with each chain, and its profits will differ. To estimate the real profitability of dealing with different retailers, the manufacturer needs to use activity-based cost (ABC) accounting instead of standard cost accounting. ABC accounting tries to identify the real costs associated with serving different customers. Both the variable costs and the overhead costs must be tagged back to each customer. Companies that fail to measure their costs correctly are not measuring their profit correctly. They are likely to misallocate their marketing effort. Identifying the true costs arising in a customer relationship also enables a company to explain its charges better to the customer.

Target Costing: We have seen that costs change with production scale and experience. They can also change as a result of a concentrated effort by the company's designers, engineers, and purchasing agents to reduce them. The Japanese use a method called target costing. They use market research to establish a new product's desired functions. Then they determine the price at which the product will sell given its appeal and competitors' prices. They deduct the desired profit margin from this price, and this leaves the target cost they must achieve. They then examine each cost element-design, engineering, manufacturing, sales - and break them down into further components. They consider ways to reengineer components, eliminate functions, and bring down supplier costs. The objective is to bring the final cost projections into the target cost range. If they can't succeed, they may decide against developing the product because it couldn't sell for the target price and make the target profit. When they can succeed, profits are likely to follow.

4. ANALYSING COMPETITORS' COST, PRICES, AND OFFERS

Within the range of possible prices determined by market demand and company costs, the firm must take the competitors' costs, prices, and possible price reactions into account. If the firm's offer is similar to a major competitor's offer, then the firm will have to price close to the competitor or lose sales. If the film's offer is inferior'' the firm will not be able to charge more than the competitor. If the firm s offer is superior, the firm can charge more than the competitor. The firm must be aware, however, that competitors might change their prices in response.

5. SELECTING A PRICING METHOD

Given the three C's-the customers' demand schedule, the cost function and competitors' prices-the company is now ready to select a price. We will examine six price-setting methods: markup pricing, target-return pricing, perceived-value pricing, value pricing, going-rate pricing, and sealed-bid pricing.

Markup Pricing: The most elementary pricing method is to add a standard markup to the product's cost. Construction companies submit job bids by estimating the total project cost and adding a standard markup for profit. Lawyers and accountants typically price by adding a standard markup on their time and costs. Defense contractor charge their cost plus a standard markup. Suppose a toaster manufacturer has the following costs and sales expectations:

Variable cost per unit $10

Fixed cost 300,000
Expected unit sales 50,000
The manufacturer's unit cost is given by:
Unit cost = variable cost + fixed costs/unit sales = $10 + $300,000/50,000 = $16. Now assume the manufacturer wants to earn a 20 percent markup on sales. The manufacturer's markup price is given by:
Markup price = unit cost/(1 -desired return on sales) = $16/(1 -0.2) = $20
The manufacturer would charge dealers $20 per toaster and make a profit of $4 per unit. The dealers in turn will mark up the toaster. If dealers want to earn 50 percent on their selling price, they will mark up the toaster to $40. This is equivalent to a cost markup of 100 percent.

Target-Return Pricing: In target-return pricing, the firm determines the price that would yield its target rate of return on investment (ROI). Target pricing is used by General Motors, which prices its automobiles to achieve a 15 to 20 percent ROI. This pricing method is also used by public utilities, which need to make a fair return on their investment. Suppose the toaster manufacturer has invested $1 million in the business and wants to set price to earn a 20 percent ROI, specifically $200,000. The target-return price is given by the following formula:
Target-return price = (unit cost + desired return x invested capital)/unit sales = $16 + .20 x $1,000,000/50,000 = $20 The manufacturer will realize this 20 percent ROI provided its costs and estimated sales turn out to be accurate.

Perceived-Value Pricing: An increasing number of companies base price on the customer’s perceived value. They see the buyers' perceptions of value, not the seller’s cost, as the key to pricing. They use the other marketing-mix elements, such as advertising and sales force, to build up perceived value in buyers’ minds. DuPont is a major practitioner of perceived-value pricing. When DuPont developed its new synthetic fiber for carpets, it demonstrated to carpet manufacturers that they could afford to pay DuPont as much as $1.40 per pound for the new fiber and still make their target profit. DuPont calls the $1.40 the value- in-use price. But pricing the new material at $1.40 per pound would leave the carpet manufacturers indifferent. So it set the price lower than $1.40 to induce carpet manufacturers to adopt the new fiber. DuPont did not use its manufacturing cost to set the price but only to judge whether there was enough profit to go ahead in, the first place.

Value Pricing: In recent years, several companies have adopted value pricing, in which they charge a fairly low price for a high-quality offering. Value pricing says that the price should represent a high-value offer to consumers. The computer industry has gone from seeking top dollar for computers with the most technology to putting out computers with basic features for lower prices. An important type of value pricing is everyday low pricing (EDLP), which takes place at the retail level. A retailer who holds to an EDLP pricing policy 'charges a constant, everyday low price with no temporary price discounts. These constant prices eliminate week-to-week price uncertainty and can be contrasted to the "high-low" pricing of promotion-oriented competitors. In high-low pricing, the retailer charges higher prices on an everyday basis but then runs frequent promotions in which prices are temporarily lowered below the EDLP level.

6. SELECTING THE FINAL PRICE

Pricing methods narrow the range from which the company must select its final price. In selecting that price, the company must consider additional factors, including psychological pricing, the influence of other marketing-mix elements on price, company pricing policies, and the impact of price on other parties.

Psychological Pricing: Many consumers use price as an indicator of quality. Price and quality perceptions of cars interact. Higher-priced cars are perceived to possess high quality. Higher-quality cars are likewise perceived to be higher priced than they actually are. When alternative information about true quality is available, price becomes a less significant indicator of quality. When this information is not available, price acts as a signal of quality. When looking at a particular product, buyers carry in their minds a reference price formed by noticing current prices, past prices, or the buying context. Sellers often manipulate these reference prices. For example, a seller can situate its product among expensive products to imply that it belongs in the same class. Department stores will display women's apparel in separate departments differentiated by price; dresses found in the more expensive department are assumed to be of better quality. Reference-price thinking is also created by stating a high manufacturer s suggested price, or by indicating that the product was priced much higher originally, or by pointing to a competitor's high price.

The Influence of Other Marketing-Mix Elements: The final price must take into account the brand's quality and advertising relative to competition. Brands with average relative quality but high relative advertising budgets were able to charge premium prices. Consumers apparently were willing to pay higher prices for known products than for unknown products. Brands with high relative quality and high relative advertising obtained the highest prices. Conversely, brands with low quality and low advertising charged the lowest prices. The positive relationship between high prices and high advertising held most strongly in the later stages of the product life cycle for market leaders.

SELF-CHECK EXERCISE

I. **If companies face intense competition and faced with over-capacity, the pricing objective is**
a) Survival b) Maximum current profit
c) Maximum market share d) Maximum market Skimming

II. **A strategy that involves setting an artificially high price and afterwards offering the product at substantial savings is known as**
a) Differentiated Pricing b) Mark-up Pricing
c) Psychological discount Pricing d) Festive event Pricing

III. **While setting the Price of a Product, marketers**
a) Select the pricing objective b) Estimate demand
c) Analyse competitors' cost, offers and prices d) All of the above

IV. **A ____________________ is a set of interdependent organizations involved in the process of making products or services available for end-users.**
a) retailer b) wholesaler c) distribution channel d) middleman

V. **__________________means and underlies one agent in one territory, specified and assigned by the manufacturer**
a) Sole-selling Agent b) C & F Agent
c) Wholesaler d) Direct Marketing Agent

VI. **The pricing objectives are**
a) Maximum current profit, market share and market skimming
b) Survival c) Product quality leadership d) All of the above

VII. Distribution Channel Management overcomes the major time, place, and ______________ gaps between the producers of goods and services and those who would use them.
a) possession b) profit c) image d) psychological

VIII. ………………… includes all direct variable costs and aims at maximizing the contribution towards fixed costs
a) Mark-up Pricing b) Absorption Cost Pricing
c) Demand Based Pricing d) Marginal Cost Pricing

IX. Economic Order Quantity can be determined by
a) Procurement Costs b) Carrying Costs
c) Both the above d) None of above

X. _________________ is the actual, physical movement of goods between two points
a) Logistics b) Transportation
c) Materials handling d) Materials management

9.2 ADAPTING THE PRICE

Companies usually do not set a single price but rather a pricing structure that reflects variations in geographical demand and costs, market-segment requirements, purchase timing, order levels, delivery frequency, guarantees, service contracts, and other factors. As a result of discounts, allowances, and promotional support, a company rarely realizes the same profit from each unit of a product that it sells. Here we will examine several price-adaptation strategies: geographical pricing, price discounts and allowances, promotional pricing, discriminatory pricing, and product-mix pricing.

9.2.1 Geographical pricing (cash, countertrade, barter)

Geographical pricing involves the company in deciding how to price its products to different customers in different locations and countries. For example, should the company charge higher prices to distant customers to cover the higher shipping costs or a lower price to win additional business? Another issue is how to get paid. This issue is critical when buyers lack sufficient hard currency to pay for their purchases. Many buyers want to offer other items in payment, a practice known as countertrade. Countertrade may account for 15 to 25 percent of world trade and takes several forms: barter, compensation deals, buyback agreements, and offset.

- **Barter:** The direct exchange of goods, with no money and no third party involved.
- **Compensation Deal:** The seller receives some percentage of the payment in cash and the rest in products.
- **Buyback Arrangement:** The seller sells a plant, equipment, or technology to an-other country and agrees to accept as partial payment products manufactured with the supplied equipment.
- **Offset:** The seller receives full payment in cash but agrees to spend a substantial amount of that money in that country within a stated time period.

9.2.2 Price discount and allowance

Most companies will adjust their list price and give discounts and allowances for early payment, volume purchases, and off-season buying. Companies must do this carefully or find that their profits are much less than planned.

- **Cash Discounts:** A cash discount is a price reduction to buyers who pay their bills promptly. Quantity Discounts: A quantity discount is a price reduction to those buyers who buy large volumes. Quantity discounts must be offered equally to all customers and must not exceed the cost savings to the seller associated with selling large quantities.
- **Functional Discounts:** Functional discounts (also called trade discounts) are offered

by a manufacturer to trade-channel members if they will perform certain functions, such as selling, storing, and record keeping.

- **Seasonal Discounts:** A seasonal discount is a price reduction to buyers who buy merchandise or services out of season.
- **Allowances:** Allowances are extra payments designed to gain reseller participation in special programs. Trade-in allowances are price reductions granted for turning in an old item when buying a new one. Trade-in allowances are most common in durable-goods categories.

9.2.3 Promotional pricing

Companies can use several pricing techniques to stimulate early purchase.

- **Loss-leader pricing:** Supermarkets and department stores often drop the price on well-known brands to stimulate additional store traffic. The manufacturers of these brands typically disapprove of their products being used as loss leaders because this practice can dilute the brand image and bring complaints from other retailers who charge the list price.
- **Special-event pricing:** Sellers will establish special prices in certain seasons to draw in more customers. Every August, there are back-ta-school sales.
- **Cash rebates:** Auto companies and other consumer-goods companies offer cash rebates to encourage purchase of the manufacturers' products within a specified time period. Rebates can help clear inventories without cutting the stated list price.
- **Low-interest financing:** Instead of cutting its price, the company can offer customers low-interest financing.
- **Longer payment terms:** Sellers, especially mortgage banks and auto companies, stretch loans over longer periods and thus lower the monthly payments. Consumers often worry less about the cost (i.e., the interest rate) of a loan and more about whether they can afford the monthly payment.
- **Warranties and service contracts:** Companies can promote sales by adding a free or low-cost warranty or service contract.
- **Psychological discounting:** This strategy involves setting an artificially high price and then offering the product at substantial savings.

9.2.4 Discriminatory Pricing:

Discriminatory pricing occurs when a company sells a product or service at two or more prices that do not reflect a proportional difference in costs. Discriminatory pricing takes several forms:

- **Customer-segment pricing:** Different customer groups are charged different prices for the same product or service.
- **Product-form pricing:** Different versions of the product are priced differently but not proportionately to their respective costs.
- **Image pricing:** Some companies price the same product at two different levels based on image differences.
- **Location pricing:** The same product is priced differently at different locations even though the cost of offering at each location is the same. A theatre varies its seat prices according to audience preferences for different locations.
- **Time pricing:** Prices are varied by season, day, or hour. Public utilities vary energy rates to commercial users by time of day and weekend versus weekday. A special form of time pricing is yield pricing, which is often used by hotels and airlines to ensure high occupancy.

9.2.5 **Product-mix pricing**

Price-setting logic must be modified when the product is part of a product mix. In this case, the firm searches for a set of prices that maximizes profits on the total mix. Pricing is difficult because the various products have demand and cost interrelationships and are subject to different degrees of competition. We can distinguish six situations involving product-mix pricing: product-line pricing, optional-feature pricing, captive-product pricing, two-part pricing, by-product pricing, and product-bundling pricing.

- **Product-Line Pricing:** Companies normally develop product lines rather than single products and introduce price steps. In many lines of trade, sellers use well- established price points for the products in their line. A men's clothing store might carry men's suits at three price levels: $200, $350, and S500. Customers will associate low, average, and high-quality suits with 'he three price points. The seller's task is to establish perceived-quality differences that justify the price differences.
- **Optional-Feature Pricing:** Many companies offer optional products, features, and services along with their main product. The automobile buyer can order electric window controls, defoggers, light dimmers, and an extended warranty. Pricing these options is a sticky problem, because companies must decide which items to include in the standard price and which to offer as options.
- **Captive-Product Pricing:** Some products require the use of ancillary, or captive, products. Manufacturers of razors and cameras often price them low and set high markups on razor blades, and film, respectively. There is a danger in pricing the captive product too high in the aftermarket (the market for ancillary supplies to the main product).
- **Two-Part Pricing:** Service firms often engage in two-part pricing, consisting of a fixed fee plus a variable usage fee. Telephone users pay a minimum monthly fee plus charges for calls beyond a certain area. Amusement parks charge an admission fee plus fees for rides over a certain minimum. The fixed fee should be low enough to induce purchase of the service; the profit can then be made on the usage fees.
- **By-product Pricing:** The production of certain goods-meats, petroleum products, and other chemicals often results in by-products, If the by-pr6ducts have value to a customer group, they should be priced on their value. Any income earned on the by-products will make it easier for the company to charge a lower price on its main product if competition forces it to do so.
- **Product-Bundling Pricing:** Sellers often bundle their products and features at a set price. An auto manufacturer might offer an option package at less than the cost of buying all the options separately. A theatre company will price a season subscription at less than the cost of buying all the performances separately. Because customers may not have planned to buy all the components, the savings on the price bundle must be substantial enough to induce them to buy the bundle.

SELF-CHECK EXERCISE

XI **The promotional pricing technique adopted by retailers and lowering selling prices of well-known brands is classified as**

a) Loss leader pricing b) cash rebate
c) special customer pricing d) special event pricing

XII **The techniques involved in promotional pricing are**

a) loss leader pricing b) cash rebates
c) low interest pricing d) all of the above

XIII **The pricing technique used by sellers while selling individual products in bundles is**

a) optimal-feature pricing b) pure bunding pricing
c) mixed bundling pricing d) pure bundling pricing

XIV **The pricing technique in which variable fee is charged with a fixed fee, are classified as**

a) product line pricing
b) two-part pricing
c) by-product pricing
d) optimal-feature pricing

9.3 SUMMARY

The firm must decide where to position its product on quality and price. The firm has to consider many factors in setting its pricing policy. We will describe a six-step procedure: (1) selecting the pricing objective; (2) determining demand; (3) estimating costs; (4) analyzing competitors' costs, prices, and offers; (5) selecting a pricing method; and (6) selecting the final price. Companies usually do not set a single price but rather a pricing structure that reflects variations in geographical demand and costs, market-segment requirements, purchase timing, order levels, delivery frequency, guarantees, service contracts, and other factors.

9.4 KEYWORD

1. **Price Sensitivity:** The demand curve shows the markets probable purchase quantity at alternative prices.
2. **Target Costing:** Deduction of desired profit from the price at which good is sold is called target costing.
3. **Target-Return Pricing:** In target-return pricing, the firm determines the price that would yield its target rate of return on investment (ROI).
4. **Value Pricing:** Value pricing says that the price should represent a high-value offer to consumers.
5. **Psychological Pricing:** When looking at a particular product, buyers carry in their minds a reference price formed by noticing current prices, past prices, or the buying context.

9.5 PRACTICES QUESTIONS

9.5.1 Short answer question:

1. How do you determine demand?
2. What things we have to consider while finalizing the prices?
3. Define promotional pricing.
4. Explain promotion mix pricing in detail.

9.5.2 Long answer question:

1. How should the price be adapted to meet varying circumstances and opportunities?
2. How should a price be set on a product or service for the first time?
3. Examine various price-setting methods that companies select in deciding the price of a product or service.

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9.7 ANSWER KEY

I (a) **II** (c) **III** (d) **IV** (c) **V** (a) **VI** (d) **VII** (a) **VIII** (d) **IX** (c) **X** (b **XI** (a)
XII (b) **XIII** (c) **XIV** (b)

Semester II **MARKETING MANAGEMENT**
Lesson No. 10 **AUTHOR: DR. VIKAS SINGLA**

PROMOTION MIX DECISIONS

10.0 OBJECTIVES

1. To know about advertising, deciding the best media and its effectiveness.
2. To understand sales promotion and major decisions involve in it.
3. To know major decision of marketing public relation.
4. To identify major channels of direct marketing.
5. To understand personal selling.

10.1 ADVERTISING

Advertising is any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor. Advertisers include not only business firms but also museums" charitable organizations and government agencies that direct messages to target publics. Ads are a cost effective way to disseminate messages, whether to build brand preference for Coca-Cola or to educate people to avoid hard drugs. Organizations handle their advertising in different ways. In small companies, advertising is handled by someone in the sales or marketing department, who works with an advertising agency. A large company will often set up its own advertising department, whose manager reports to the vice president of marketing. The advertising department's job is to propose a budget; develop advertising strategy; approve ads and campaigns; and handle direct-mail advertising, dealer displays, and other forms of advertising. In developing a program, marketing managers must always start by identifying the target market and buyer motives. Then they can make the five major decisions in developing an advertising program, known as the five Ms — Mission : What are the advertising objectives? Money: How much can be spent? Message: What message should be sent? Media: What media should be used? Measurement: How should the results be evaluated?

Setting the advertising objective

Advertising objectives can be classified according to whether their aim is to inform, persuade, or remind.

- **Informative advertising** figures heavily in the pioneering stage of a product category, where the objective is to build primary demand. Thus, the yogurt industry initially had to inform consumers of yogurt's nutritional benefits.
- **Persuasive advertising** becomes important in the competitive stage, where a company's objective is to build selective demand for a particular brand. For example, Chivas Regal attempts to persuade consumers that it delivers more taste and status than other brands of Scotch whiskey.
- **Reminder advertising** is important with mature products. Expensive four-color Coca-Cola ads in magazines are intended to remind people to purchase Coca Cola. A related form of advertising is reinforcement advertising, which seeks to assure current purchasers that they have made the right choice.

Deciding on the Advertising Budget

How does a company know if it will be spending the right amount? If it spends too little, the effect will be negligible. If it spends too much, then some of the money could have been put to better use. Some critics charge that large consumer-packaged goods firms tend to overspend on advertising as a form of insurance against not spending enough and that industrial companies underestimate the power of company and product image building and tend to under spend on advertising.
There are five specific factors to consider when setting the advertising budget:

- **Stage in the product life cycle:** New products typically receive large advertising budgets to build awareness and to gain consumer trial. Established brands usually are supported with lower advertising budgets as a ratio to sales.
- **Market share and consumer base:** High-market-share brands usually require less advertising expenditure as a percentage of sales to maintain their share. To build share by increasing market size requires larger advertising expenditures. On a cost-per-impression basis, it is less expensive to reach consumers of a widely used brand than to reach consumers of low-share brands.
- **Competition and clutter:** In a market with a large number of competitors and high advertising spending, a brand must advertise more heavily to be heard. Even simple clutter from advertisements not directly competitive to the brand creates a need for heavier advertising.
- **Advertising frequency:** The number of repetitions needed to put across the brand s message to consumers has an important impact on the advertising budget.
- **Product substitutability:** Brands in a commodity class (cigarettes, beer, softdrinks) require heavy advertising to establish a differential image. Advertising is also important when a brand

can offer unique physical benefits or features.

Choosing the Advertising Message

Advertising campaigns vary in their creativity. Only after gaining attention can a commercial help to increase brand sales.

Advertisers go through four steps to develop a creative strategy: message generation, message evaluation and selection, message execution, and social responsibility review.

Message Generation: The product's "benefit" message should be decided as part of developing the product concept. Yet there is usually latitude for a number of possible messages. Over time, the marketer might want to change the message, especially if consumers seek new or different benefits from the product. Creative people use several methods to generate possible advertising appeals. Many creative people proceed inductively by talking to consumers, dealers, experts, and competitors. Some creative people use a deductive framework for generating advertising messages. Buyers expect one of four types of reward from a product: rational, sensory, social, or ego satisfaction. Buyers might visualize these rewards from results-of-use experience, product-in-use experience, or incidental-to-use experience. Crossing the four types of rewards with the three types of experience generates twelve types ofadvertising messages. For example, the appeal "gets clothes cleaner" is a rational-reward promise following results-of-use experience. The phrase "real gusto in a great light beer" is a sensory-reward promise connected with product-in-use experience.

Message Evaluation and Selection: A good ad normally focuses on one core selling proposition. The message should be rated on desirability, exclusiveness and believability. The advertiser should conduct market research to determine which appeal works best with its target audience.

Message Execution: The message's impact depends not only upon what is said but also on how it is said. Some ads aim for rational positioning and others for emotional positioning. U.S. ads typically present an explicit feature or benefit designed to appeal to the rational mind. Japanese ads tend to be more indirect and appeal to the emotions. The choice of headlines and copy can make a difference in impact. Consider two ads for the same car. The first ad carried the headline" A New Car "; the second, the headline "Is This Ute for You?" The second headline utilized an advertising strategy called labelling, in which the consumer is labelled as the type of person who is interested in that type of product. The two ads also differed in that the first ad described the car's features and the second described the car's benefits. In preparing an ad campaign, the advertiser usually prepares a copy strategy statement describing the objective, content, support, and tone of the desired ad. Creative people must also find a cohesive style, tone, words, and format for executing the message.

Format elements such as ad size, color, and illustration will affect an ad's impact as well as its cost. A minor rearrangement of mechanical elements can improve attention-getting power. Larger-size ads gain more attention, though not necessarily by as much as their difference in cost. Four-color illustrations increase ad effectiveness and ad cost. By planning the relative dominance of different elements, better delivery can be achieved.

Social Responsibility Review

Advertisers and their agencies must be sure their "creative" advertising doesn't over step social and legal norms. Most marketers work hard to communicate openly and honestly with consumers. Still, abuses occur, and public policy makers have developed a substantial body of laws and regulations to govern advertising. Advertisers must not make false claims, such as stating that a product cures something when it does not. They must avoid false demonstrations, such as using sand-covered plexiglass instead of sandpaper to demonstrate that a razor blade can shave sandpaper. To be socially responsible, advertisers must be careful not to offend ethnic groups, racial minorities, or special-interest groups.

10.1.1 Deciding on Media and Measuring Effectiveness

After choosing the message, the advertiser's next task is to choose media to carry it. The steps here are deciding on desired reach, frequency, and impact; choosing among major media types; selecting specific media vehicles; deciding on media timing; and deciding on geographical media allocation. Then the results of these decisions need to be evaluated.

1. Deciding on Reach, Frequency and Impact

Media selection involves finding the most cost-effective media to deliver the desired number of exposures to the target audience. What do we mean by the desired number of exposures? Presumably, the advertiser is seeking a certain response from the target audience- for example, a certain level of product trial. The rate of product trial will depend, among other things, on the level of audience brand awareness.
The effect of exposures on audience awareness depends on the exposures' reach, frequency, and impact:

Reach (R): The number of different persons or households exposed to a particular media schedule at least once during a specified time period.

Frequency (F): The number of times within the specified time period that an average person or household is exposed to the message.

Impact (I): The qualitative value of an exposure through a given medium.

The relationship between reach, frequency, and impact is captured in the following concepts:
Total number of exposures (E): This is the reach times the average frequency; that is, E = R x F. This measure is referred to as the gross rating points (GRP). If a given media schedule reaches 80 percent of the homes with an average exposure frequency of 3, the media schedule is said to have a GRP of 240 (80 x 3). If another media schedule has a GRP of 300, it is said to have more weight, but we cannot tell how this weight breaks down into reach and frequency.

Weighted number of exposures (WE); This is the reach times average frequency times average impact, that is WE = R x F x I.

The media planner has to figure out, with a given budget, the most cost-effective combination of reach, frequency, and impact. Reach is most important when launching new products, flanker brands, extensions of well-known brands, or infrequently purchased brands, or going after an undefined target market. Frequency is most important where there are strong competitors, a complex story to tell, high consumer resistance, or a frequent-purchase cycle.

2. Choosing Among Major Media Types

The media planner has to know the capacity of the major media types to deliver reach, frequency, and impact. The major advertising media along with their costs, advantages, and limitations are profiled in the following table.

Medium	Advantages	Limitations
Newspapers	Flexibility; timeliness; good local market coverage; broad acceptance; high believability	Short life; poor reproduction quality; small-pass-along-audience.
Television	Combines sight, sound, and motion; appealing to the senses; high attention; high reach	High absolute cost; high clutter; fleeting exposure; less audience selectivity
Direct Mail	Audience selectivity; flexibility; no ad competition within the same medium; personalization	Relatively high cost; junk mail-image
Radio	Mass use; high geographic and demographic selectivity; low cost	Audio presentation only; lower attention than television; non standardized rate structures; fleeting exposure
Magazines	High geographic and demographic selectivity; credibility and prestige; high-quality reproduction; long life	Long ad purchase lead time; some waste Circulation; no guarantee of position
Outdoor	Flexibility; high repeat exposure; low cost; low competition	Limited audience selectivity; creative limitations
Newsletter	Very high selectivity; full control; interactive opportunities; relative low costs	Costs could run away
Brochures	Flexibility; full control; can dramatize messages	Overproduction could lead to run-away costs
Telephone	Many users; opportunity to give a personal touch	Relative high cost unless volunteers are used
Yellow Pages	Excellent local coverage; high believability; wide reach; low cost	High competition; long ad purchase lead time; creative limitations

Media planners make their choice among media categories by considering the following variables :

- **Target audience media habits:** For example, radio and television are the most effective media for reaching teenagers.
- **Product:** Women's dresses are best shown in color magazines, and Polaroid cameras are best demonstrated on television. Media types have different potentials for demonstration, visualization, explanation, believability, and color.
- **Message:** A message announcing a major sale tomorrow will require radio, TV, or newspaper. A message containing a great deal of technical data might require specialized magazines.
- **Cost:** Television is very expensive, whereas newspaper advertising is relatively inexpensive.

3. Selecting Specific Vehicles

The media planner must search for the most cost-effective media vehicles within each chosen media type. The planner has to rely on media measurement services that provide estimates of audience size, composition, and media cost.

Audience size has several possible measures:

- **Circulation:** The number of physical units carrying the advertising.
- **Audience:** The number of people exposed to the vehicle.
- **Effective audience:** The number of people with target audience characteristics exposed to the vehicle.
- **Effective ad-exposed audience:** The number of people with target audience characteristics who actually saw the ad.

4. Deciding on Media Timing

In choosing media, the advertiser faces a macro scheduling problem and a micro scheduling problem.

The macro scheduling problem involves scheduling the advertising in relation to seasons and the business cycle. Suppose 70 percent of a product s sales occur between June and September. The firm can vary its advertising expenditures to follow the seasonal pattern, to oppose the seasonal pattern, or to be constant throughout the year.

The micro scheduling problem calls for allocating advertising expenditures within a short period to obtain maximum impact. Suppose the firm decides to buy 30 radio spots in the month of September. The advertising messages for the month can be concentrated ("burst" advertising), dispersed continuously throughout the month, or dispersed intermittently. The advertising messages can be beamed with a level, rising, falling, or alternating frequency.

The timing pattern should consider three factors. Buyer turnover expresses the rate at which new buyers enter the market; the higher this rate, the more continuous the advertising should be. Purchase frequency is the number of times during the period that the average buyer buys the product; the higher the purchase frequency, the more continuous the advertising should be. The forgetting rate is the rate at which the buyer forgets the brand; the higher the forgetting rate, the more continuous the advertising should be.

5. Deciding on Geographical Allocation

A company has to decide how to allocate its advertising budget over space as well as over time. The company makes "national buys” when it places ads on national TV networks or in nationally circulated magazines. It makes "spot buys" when it buys TV time in lust a few 'markets or in regional editions of magazines. These markets are called areas of dominant influence (ADIs) or designated marketing areas (DMAs), and ads reach a market 40 to 60 miles from a city center. The company makes "local buys" when it advertises in local newspapers, radio or outdoor sites.

10.1.2 Evaluating Advertising Effectiveness

Good planning and control of advertising depend on measures of advertising effectiveness. Most advertisers try to measure the communication effect of an ad - that is, its potential effect on awareness, knowledge or preference. They would also like to measure the ad's sales effect.

Communication-Effect Research

Communication-effect research seeks to determine whether an ad is communicating effectively. Called copy testing, it can be done before an ad is put into media and after it is printed or broadcast. There are three major methods of advertising pretesting. The direct rating method asks consumers to rate alternative ads. These ratings are used to evaluate an ad's attention, read-through, cognitive, affective, and behavior strengths. Although an imperfect measure of actual impact, a high rating indicates a potentially more effective ad. Portfolio tests ask consumers to view or listen to a portfolio of advertisements; taking as much time as they need. Consumers are then asked to recall all the ads and their content, aided or unaided by the interviewer. Recall level indicates an ad's ability to stand out and to have its message understood and remembered. Laboratory tests use equipment to measure physiological reactions-heartbeat, blood pressure, pupil dilation, perspiration-to an ad. These tests measure attention getting power but reveal nothing about impact on beliefs, attitudes, or intentions.

Sales-Effect Research

What sales are generated by an ad that increases .brand awareness by 20 percent and brand preference by 10 percent? Advertising's sates effect is generally harder to measure than its communication effect. Sales are influenced by many factors, such as the product s features, price, and availability, as well as competitors' actions. The fewer or more controllable these other factors are, the easier it is to measure effect on sales. The sales impact is easiest to measure in direct marketing situations and hardest to measure in brand or corporate image-building advertising. Researchers try to measure the sales impact through analyzing either historical or experimental data. The historical approach involves correlating past sales to past advertising expenditures using advanced statistical techniques.

SELF CHECK EXCERSICE

I. **Advertising is a powerful force, and it is also an important activity of:**
   a) Promotion mix b) Promotion controls
   c) Promotion group d) Promotion channel
II. **Which of the following is not true about objections to advertising?**
   a) Advertisement which makes similar claims confuse the buyer
   b) Advertising is a very economical mode of communication
   c) Advertising does not distinguish between superior and inferior goods
   d) Advertising undermines social values and promote materialism
III. **___________ advertisement is a small, graphic links placed on a web page.**
   a) Banner b) Buttons c) Websites d) E-mail
IV. **Inducing advertisement means comparing the attribute of two or more brands of advertising.** TRUE/FALSE

10.2 SALES PROMOTION

Sales promotion consists of a diverse collection of incentive tools, mostly short term, designed to stimulate quicker or greater purchase of particular products or services by consumers or the trade. Whereas advertising offers a reason to buy, sales promotion offers an incentive to buy. Sales promotion includes tools for consumer promotion (samples, coupons, cash refund offers, prices off, premiums, prizes, patronage rewards, free trials, warranties, tie-in promotions, cross-promotions, point-of-purchase displays, and demonstrations); trade promotion (prices off, advertising and display allowances, and free goods); and business- and sales force promotion (trade shows and conventions, contests for sales reps, and specialty advertising).

Sales-promotion expenditures have been increasing as a percentage of budget expenditure annually for the last two decades. Several factors contribute to the rapid growth of sales promotion, particularly in consumer markets. Internal factors include the following: Promotion is now more accepted by top management as an effective sales tool; more product managers are qualified to use sales-promotion tools; and product managers are under greater pressure to increase current sales. External factors include the following: The number of brands has increased; competitors use promotions frequently; many brands are seen as similar; consumers are more price-oriented; the trade has demanded more deals from manufacturers; and advertising efficiency has declined because of rising costs, media clutter, and legal restraints.

10.2.1 Purpose of Sales Promotion

Sales-promotion tools vary in their specific objectives. Sellers use incentive-type promotions to attract new triers, to reward loyal customers, and to increase the repurchase rates of occasional users. New triers are of three types-users of another brand in the same category, users in other categories, and frequent brand switchers. Sales promotions often attract the brand switchers, because users of other brands and categories do not always notice or act on a promotion. Brand switchers are primarily looking for low price, good value, or premiums. Sales promotions are unlikely to turn them into loyal users. Sales promotions used in markets of high brand similarity produce a high sales response in the short run but little permanent gain in market share. In markets of high brand dissimilarity, sales promotions can alter market shares permanently.

- Sales promotions yield faster and more measurable responses in sales than advertising does.
- Sales promotions do not tend to yield new, long-term buyers in mature markets because they attract mainly deal-prone consumers who switch among brands as deals become available.
- Loyal brand buyers tend not to change their buying patterns as a result of competitive promotion.
- Advertising appears to be capable of deepening brand loyalty.

10.2.2 Major Decisions in Sales Promotion

In using sales promotion, a company must establish its objectives, select the tools, develop the program, pretest the program, implement and control it and evaluate the results.

Establishing Objectives

Sales-promotion objectives are derived from broader promotion objectives, which are derived from more basic marketing objectives developed for the product. The specific objectives for sales promotion vary with the target market. For consumers, objectives include encouraging purchase of larger-size units, building trial among nonusers, and attracting switchers away from competitors' brands. For retailers, objectives include persuading retailers to carry new items and higher levels of inventory, encouraging off-season buying, encouraging stocking of related items, offsetting competitive promotions, building brand loyalty, and gaining entry into new retail outlets. For the sales force, objectives include encouraging support of a new product or model, encouraging more prospecting, and stimulating off-season sales.

Selecting Consumer-Promotion Tools

The promotion planner should take into account the type of market, sales-promotion objectives, competitive conditions, and each tool's cost effectiveness. The main consumer- promotion tools are summarized as follows:

1. **Samples:**Offer of a free amount of a product or service delivered door to door, sent in the mail, picked up in a store, attached to another product, or featured in an advertising offer.
2. **Coupons:**Certificates entitling the bearer to a stated saving on the purchase of a specific product: mailed, enclosed in other products or attached to them, or inserted in magazine and newspaper ads. Redemption rate varies with mode of distribution. Coupons can be effective in stimulating sales of a mature brand and inducing early trial of a new brand.
3. **Cash Refund Offers (rebates):**Provide a price reduction after purchase rather than at the retail shop: consumer sends a specified "proof of purchase" to the manufacturer who "refunds" part of the purchase price by mail.
4. **Price Packs (cents-off deals):**Offers to consumers of savings off the regular price of a product, flagged on the label or package. A reduced-price pack is a single package sold at a reduced price (such as two for the price of one). A banded pack is two related products banded together (such as a toothbrush and toothpaste).

5. **Premiums (gifts):**Merchandise offered at a relatively low cost or free as an incentive to purchase a particular product. A with-pack premium accompanies the product inside or on the package. The package itself can serve as a premium. A free in-the-mail premium is mailed to consumers who send in a proof of purchase, such as a box top or UPC code. A self- liquidating premium is sold below its normal retail price to consumers who request it.
6. **Prizes (contests, sweepstakes, games):**Prizes are offers of the chance to win cash, trips, or merchandise as a result of purchasing something. A contest calls for consumers to submit an entry to be examined by a panel of judges who will select the best entries. A sweepstake asks consumers to submit their names in a drawing. A game presents consumers with something every time they buy-bingo numbers, missing letters-which might help them win a prize.
7. **Patronage Awards:**Values in cash or in other forms that are proportional to patronage of a certain vendor or group of vendors.

Selecting Trade-Promotion Tools

Manufacturers use a number of trade-promotion tools

1. **Price-Off (off-invoice or off-list):**A straight discount off the list price on each case purchased during a stated time period. The offer encourages dealers to buy a quantity or carry a new item that they might not ordinarily buy. The dealers can use the buying allowance for immediate profit, advertising, or price reductions.
2. **Allowance:**An amount offered in return for the retailer's agreeing to feature the manufacturer's products in some way. An advertising allowance compensates retailers for advertising the manufacturer's product A display allowance compensates them for carrying a special product display.
3. **Free Goods:**Offers of extra cases of merchandise to intermediaries who buy a certain quantity or who feature a certain flavor or size. Manufacturers might offer push money or free specialty advertising items to retailers that carry the company's name.

Manufacturers award money to the trade for four reasons:

1. **To persuade the retailer or wholesaler to carry the brand:***Shelf space is so scarce* that manufacturers often have to offer prices off, allowances, buyback guarantees, free goods, or outright payments (called slotting allowances) to get on the shelf, and once there, to stay on the shelf.
2. **To persuade the retailer or wholesaler to carry more units than the normal amount:**Manufacturers will offer volume allowances to get the trade to carry more in warehouses and stores. Manufacturers believe the trade will work harder when they are "loaded" with the manufacturer's product.
3. **To induce retailers to promote the brand by featuring, display, and price reductions:**Manufacturers might seek an end-of-aisle display, increased shelf facings, or price reduction stickers and obtain them by offering the retailers allowances paid on "proof of performance."
4. **To stimulate retailers and their sales clerks to push the product:** Manufacturers compete for retailer sales effort by offering push money, sales aids, recognition programs, premiums, and sales contests.

Developing the Program

In planning sales-promotion programs, marketers are increasingly blending several media into a total campaign concept. In deciding to use a particular incentive, marketers have several factors to consider. First, they must determine the size of the incentive. A certain minimum is necessary if the promotion is to succeed. A higher incentive level will produce more sales response but at a diminishing rate. Second, the marketing manager must establish conditions for participation. Incentives might be offered to everyone or to select groups. Third, the marketer has to decide on the duration of promotion. If the period is too short, many prospects will not be able to take advantage of it. If the promotion runs too long, the deal will lose some of its "act now" force. Fourth, the marketer must choose a distribution vehicle. A fifteen-cents-off coupon can be distributed in the package, in stores, by mail, or in advertising. Each distribution method involves a different level of reach, cost, and impact. Fifth, the marketing manager must establish the timing of promotion. Finally, the marketer must determine the total sales-promotion budget. The budget can be built from the ground up, with the marketer choosing the individual promotions and estimating their total cost. The cost of a particular promotion consists of the administrative cost (printing, mailing, and promoting the deal) and the incentive cost (cost of premium or cents-off, including redemption costs), multiplied by the expected number of units that will be sold on the deal. In the case of a coupon deal, the cost would take into account the fact that only a fraction of the consumers will redeem the coupons. For an in-pack premium, the deal cost must include the procurement cost and packaging of the premium, offset by any price increase on the package.

Pretesting the Program

Although most sales-promotion programs are designed on the basis of experience, pretests should be conducted to determine if the tools are appropriate, the incentive size optimal, and the presentation method efficient. Strang maintains that promotions usually can be tested quickly and inexpensively and that large companies should test alternative strategies in selected market areas with each national promotion. Consumers can be asked to rate or rank different possible deals, or trial tests can be run in limited geographic areas.

Implementing and Controlling the Program

Marketing managers must prepare implementation and control plans for each individual promotion. Implementation planning must cover lead time and sell-in time. Lead time is the time necessary to prepare the program prior to launching it: initial planning, design, and approval of package modifications or material to be mailed or distributed; preparation of advertising and point-of-sale materials; notification of field sales personnel; establishment of allocations for individual distributors; purchasing and printing of special premiums or packaging materials; production of advance inventories in preparation for release at a specific date; and, finally, the distribution to the retailer.

Evaluating Results

Manufacturers can use three methods to measure sales-promotion effectiveness: sales data, consumer surveys, and experiments.

The first method involves using scanner sales data, which are available from companies such as Information Resources Inc. and Nielsen Media Research. Marketers can analyze the types of people who took advantage of the promotion, what they bought before the promotion, and how consumers behaved later toward the brand and other brands. In general, sales promotions work best when they attract competitors' customers to try a superior product and these customers switch as a result. If the company's product is not superior, the brand’s share is likely to return to its pre promotion level. The promotion may have covered its costs, but more likely did not. If more information is needed, consumer surveys can be conducted to learn how many recall the promotion, what they thought of it, how many took advantage of it, and how the promotion affected subsequent brand-choice behavior. Sales promotions can also be evaluated through experiments that vary such attributes as incentive value, duration, and distribution media

SELF CHECK EXCERCISE

V. **USP stand for Unique Sales Point.** TRUE/FALSE

VI. Which of them is selecting trade promotional tool?

a) Price off b) Allowance c) Free good d) All of these

VII. Selling the product only through a single wholesaler or retailer is called

a) Extensive distribution strategy

b) Selling distribution strategy

c) Exclusivedistribution strategy

d) Mass distribution strategy

VIII. _______________ involve a sales person who has a customer relationship

a) Direct selling b) Customer value selling c) Cross selling d) Link selling

10.3 **PUBLIC RELATIONS**

A public is any group that has an actual or potential interest in or impact on a company’s ability to achieve its objectives. Public relations (PR) involve a variety of programs designed to promote or protect a company's image or its individual products.

A public can facilitate or impede a company's ability to achieve its objectives. PR has often been treated as a marketing stepchild, an afterthought to more serious promotion planning. But the wise company takes concrete steps to manage successful relations with its key publics. Most companies operate a public-relations department. The PR department monitors the attitudes of the organization’s publics and distributes information and communications to build goodwill. When negative publicity happens, the PR department acts as a troubleshooter. The best PR departments spend time counselling top management to adopt positive programs and to eliminate question able practices so that negative publicity does not arise in the first place. They perform the following five functions:

1. **Press relations:** Presenting news and information about the organization in the most positive light.
2. **Product publicity:** Sponsoring efforts to publicize specific products.
3. **Corporate communication:** Promoting understanding of the organization through internal and external communications.
4. **Lobbying:**Dealing with legislators and government officials to promote or defeat legislation and regulation.
5. **Counselling:** Advising management about public issues and company positions and image. This includes advising in the event of a product mishap.

10.3.1 Marketing Public Relations

MPR plays an important role in the following tasks:

1. **Assisting in the launch of new products:**The amazing commercial success of toys such as Teenage Mutant Ninja Turtles, Mighty Morphin' Power Rangers, and Beanie Babies owes a great deal to clever publicity.
2. **Assisting in repositioning a mature product:**New York City had extremely bad press in the 1970s until the "I Love New York" campaign began.
3. **Building interest in a product category:**Companies and trade associations have used MPR to rebuild interest in declining commodities such as eggs, milk, beef, and potatoes and to expand consumption of such products as tea, pork, and orange juice.
4. **Influencing specific target groups:**McDonald’s sponsors special neighbourhood events in Latino and African American communities to build goodwill.
5. **Defending products that have encountered public problems:**Johnson & Johnson's masterly use of MPR was a major factor in saving Tylenol from extinction following two incidents in which poison-tainted Tylenol capsules were found.
6. **Building the corporate image in a way that reflects favourably on its products:**lacocca's

speeches and his autobiography created a whole new winning image for the Chrysler Corporation.

10.3.2 Major Decisions in Marketing PR

In considering when and how to use MPR, management must consider the following:

1. *Establishing the Marketing Objectives*

MPR can contribute to the following objectives:

- Build awareness
- MPR can add credibility by communicating the message in an editorial context.
- Stimulate the sales force and dealers
- Hold down promotion costs
- Build marketplace excitement before media advertising breaks
- Build a core consumer base
- Build a one-to-one relationship with consumers

2. *Choosing Messages and Vehicles*

The manager must identify or develop interesting stories to tell about the product. The challenge is to create news. PR ideas include hosting major academic conventions, inviting expert or celebrity speakers and developing news conferences. Each event is an opportunity to develop a multitude of stories directed at different audiences. Event creation is a particularly important skill in publicizing fund-raising drives for non-profit organizations. Various profit organizations also use events to call attention to their products and services.

3. *Implementing the Plan*

Implementing public relations requires care. A great story is easy to place, but most stories are less than great and might not get past busy editors. One of the chief assets of publicists is their personal relationships with media editors.

4. *Evaluating results*

The three most commonly used measures of MPR effectiveness are number of exposures; awareness, comprehension or attitude change; and contribution to sales and profits. The easiest measure of MPR effectiveness is the number of exposures carried by the media. The exposure measure is not very satisfying because it contains no indications of how many people actually read, heard or recalled the message and what they thought afterward. Nor does it contain information on the net audience reached, because publications overlap in readership. A better measure is the change in product awareness, comprehension or attitude resulting from the MPR campaign.

10.4 DIRECT MARKETING

The explosion of media enables many more companies to sell their products and services directly to customers without intermediaries. Companies are increasingly using media to make direct offers to existing customers and to identify new prospects. Direct marketing enables companies to target their offers and to measure their results more accurately.

Direct Marketing is defined as an interactive system that uses one or more advertising media to affect a measurable response and/or transaction at any location.

Direct marketing benefits customers in many ways:

- Home shopping is convenient and hassle free.
- It saves time and introduces consumers to a larger selection of merchandise.
- They can do comparative shopping by browsing through mail catalogs and on-line shopping services. They can order goods for themselves or others.

Direct marketing also benefits sellers in many ways:

- Direct marketers can buy a mailing list containing the names of almost any group.
- They can personalize and customize their messages.
- Direct marketers can build a continuous relationship with each customer.

Direct marketing can be timed to reach prospects at the right moment, and direct marketing material receives higher readership because it is sent to more interested prospects. Direct marketing permits the testing of alternative media and messages in search of the most cost-effective approach. It makes the direct marketer's offer and strategy less visible to competitors. Finally, direct marketers can measure responses to their campaigns to decide which have been the most profitable.

10.4.1 Major Channels for Direct Marketing

Direct marketers can use a number of channels for reaching prospects and customers.

1. **Face-to-face Selling:** Most companies rely heavily on a professional sales force to locate prospects, develop them into customers and grow the business. In addition, many consumer companies use a direct selling force: insurance agents, stockbrokers and distributors working for direct sales organization.

2. **Direct Mail:** Direct mail marketing involves sending an offer, announcement, reminder or other item to a person at a particular address. Using highly selective mailing lists, direct marketers send out millions of mail pieces each year. Direct mail is a popular medium because it permits target market selectivity, can be personalized, is flexible and allows early testing and response measurement. Although the cost per thousand people reached is higher than with mass media, the people reached are much better prospects.
   In constructing an effective direct mail campaign direct marketers must decide on following:
   - **Objectives:** Most direct marketers aim to receive an order from prospects. A campaign's success is judged by the response rate. Direct mail has other objectives as well, such as producing prospect leads, strengthening customer relationships and informing and educating customers for late offers.
   - **Target markets and prospects:** Direct marketers need to identify the characteristics of prospects and customers who are most able, willing and ready to buy. The best customer targets are those who bought most recently, who buy frequently and who spend the most. Prospects can also be identified on the basis of variables such as age, sex, income, education and previous mail order purchases. The company's best prospects are customers who have bought its products in the past. Additional names can be obtained by advertising some free offer. The best list of prospects includes overlays of demographic and psychographic information.
   - **Offer elements:** The offer strategy should consist of five elements: the product, the offer, the medium, the distribution method and the creative strategy. In addition to these elements the direct mail marketer has to decide on five components of the mailing itself: the outside envelope, sales letter, circular, reply form and reply envelope. In most cases a colourful circular accompanying the letter will increase the response rate by more than its cost. The inclusion of a postage free reply envelope will dramatically increase the response rate.
   - **Testing elements:** One of the great advantages of direct marketing is the ability to test, under real marketplace conditions, the efficacy of different elements of an offer strategy such as product features, copy, prices, media or mailing lists. Direct marketers must remember that response rates typically understate a campaign's long term impact. To

derive a more comprehensive estimate of the promotion's impact some companies are measuring direct marketing's impact on awareness, intention to buy and word of mouth.

3. **Catalog Marketing:** Catalog marketing occurs when companies mail one or more product catalogs to selected addressees. They may send full line merchandise catalogs, specialty consumer catalogs and business catalogs. The success of a catalog business depends on the company's ability to manage its customer lists so carefully that there is little duplication or bad debts, to control its inventory carefully, to offer quality merchandise so that returns are low and to project a distinctive image. Some companies distinguish their catalogs by adding literary or information features, sending materials, operating a special hot line to answer questions, sending gifts to their best customers and donating profits to good causes.

4. **Telemarketing:** Telemarketing describes the use of telephone operators to attract new customers, to contact existing customers to ascertain satisfaction levels or to take orders. In the case of routinely taking orders it is called telesales. Telemarketing is increasingly used in business as well as consumer marketing. It reduces the amount of personal selling needed for contacting the dealers. Telemarketing tends to replace though never eliminate more expensive field sales calls. Effective telemarketing depends on choosing the right telemarketers, training them well and providing performance incentives. Telemarketers should initially train with a script and then move toward more improvisation. The telemarketer needs to know how to end the conversation if the prospect seems to be a poor one. The call should be made at the right time. The telemarketing supervisor can build enthusiasm by offering prizes to the first one who gets an order or to the top performer. Given privacy issues and the higher cost per contact, precise list selection is critical.

SELF CHECK EXCERCISE

IX. ______________ is used to influence the way an organisation is perceived by various groups of stakeholders.

a) Direct marketing b) Public relations
c) Sales promotion d) Advertising

X. Selling is not a function of PR department. TRUE/FALSE

XI. Direct marketing plays a broader role, that of building ____________ with the customer by communicating with them regularly.

a) Short term b) Occasionally c) Long term relationship d) Generally

XII. Which of these is a form of marketing that attempts to send its messages directly to consumers, without the use of intervening media.

a) Advertising b) Direct marketing
c) Public relations d) Ambush marketing

10.5 PERSONAL SELLING

We saw how marketers can use advertising, sales promotion and public relations to reach a large number of customers. While these methods of promotion offer many advantages, they each share one major disadvantage: they are a non-personal form of communication. And whether a company is in retailing or manufacturing, sells goods or services, is a large multi-national or a local startup, is out to make a profit or is a non-profit, in all probability at some point they will need to rely on personal contact with customers. In other words, they will need to promote using personal selling. Unfortunately, personal selling is widely misunderstood. For instance, many customers think salespeople possess traits that include being manipulative, arrogant, aggressive and greedy. While many marketers believe salespeople are only out to make a quick sale intended to increase their income and that they often do this by making unscrupulous deals undermining the marketer's attempt to build strong brands.

Personal selling is a promotional method in which one party (e.g., salesperson) uses skills and techniques for building personal relationships with another party (e.g., those involved in a purchase decision) that results in both parties obtaining value. In most cases the "value" for the salesperson is realized through the financial rewards of the sale while the customer's "value" is realized from the benefits obtained by consuming the product. However, getting a customer to purchase a product is not always the objective of personal selling. For instance, selling may be used for the purpose of simply delivering information.

Because selling involves personal contact, this promotional method often occurs through face-to-face meetings or via a telephone conversation, though newer technologies allow contact to take place over the Internet including using video conferencing or text messaging (e.g., online chat).

,

10.5.1 Objectives

Personal selling is used to meet the five objectives of promotion in the following ways:

- **Building Product Awareness:** A common task of salespeople, especially when selling in business markets, is to educate customers on new product offerings. In fact, salespeople serve a major role at industry trades shows (see the Sales Promotion Tutorial) where they discuss products with show attendees. But building awareness using personal selling is also important in consumer markets. As we will discuss, the advent of controlled word-of-mouth marketing is leading to personal selling becoming a useful mechanism for introducing consumers to new products.
- **Creating Interest:** The fact that personal selling involves person-to-person communication makes it a natural method for getting customers to experience a product for the first time. In fact, creating interest goes hand-in-hand withbuilding product awareness as sales professionals can often accomplish both objectives during the first encounter with a potential customer.
- **Providing Information:** When salespeople engage customers a large part of the conversation focuses on product information. Marketing organizations provide their sales staff with large amounts of sales support including brochures, research reports, computer programs and many other forms of informational material.
- **Stimulating Demand:** By far, the most important objective of personal selling is to convince customers to make a purchase. In The Selling Process Tutorial we will see how salespeople accomplish this when we offer detailed coverage of the selling process used to gain customer orders.
- **Reinforcing the Brand:** Most personal selling is intended to build long-term relationships with customers. A strong relationship can only be built over time and requires regular communication with a customer. Meeting with customers on a regular basis allows salespeople to repeatedly discuss their company's products and by doing so helps strengthen customers' knowledge of what the company has to offer.

10.5.3 Advantages

One key advantage personal selling has over other promotional methods is that it is a two-way form of communication. In selling situations, the message sender (e.g., salesperson) can adjust the message as they gain feedback from message receivers (e.g., customer). So if a customer does not understand the initial message (e.g., doesn't fully understand how the product works) the salesperson can make adjustments to address questions or concerns. Many non-personal forms of promotion, such as a radio advertisement, are inflexible, at least in the short-term, and cannot be easily adjusted to address audience questions.

The interactive nature of personal selling also makes it the most effective promotional method for building relationships with customers, particularly in the business-to-business market. This is especially important for companies that either sell expensive products or sell lower cost but high-volume products (i.e., buyer must purchase in large quantities) that rely heavily on customers making repeat purchases. Because such purchases may take a considerable amount of time to complete and may involve the input of many people at the purchasing company (i.e., buying center), sales success often requires the marketer develop and maintain strong relationships with members of the purchasing company.

Finally, personal selling is the most practical promotional option for reaching customers who are not easily reached through other methods. The best example is in selling to the business market where, compared to the consumer market, advertising, public relations and sales promotions are often not well received.

10.5.3 Disadvantages

Possibly the biggest disadvantage of selling is the degree to which this promotional method is misunderstood. Most people have had some bad experiences with salespeople who they perceived were overly aggressive or even downright annoying. While there are certainly many salespeople who fall into this category, the truth is salespeople are most successful when they focus their efforts on satisfying customers over the long term and not focusing own their own selfish interests.

A second disadvantage of personal selling is the high cost in maintaining this type of promotional effort. Costs incurred in personal selling include:

High cost-per-action (CPA): As noted in the Promotion Decisions Tutorial, CPA can be an important measure of the success of promotion spending. Since personal selling involves person-to-person contact, the money spent to support a sales staff (i.e., sales force) can be steep. For instance, in some industries it costs well over (US) $300 each time a salesperson contacts a potential customer. This cost is incurred whether a sale is made or not. These costs include compensation (e.g., salary, commission, bonus), providing sales support materials, allowances for entertainment spending, office supplies, telecommunication and much more. With such high cost for maintaining a sales force, selling is often not a practical option for selling products that do not generate a large amount of revenue.

Training Costs: Most forms of personal selling require the sales staff be extensively trained on product knowledge, industry information and selling skills. For companies that require their salespeople attend formal training programs, the cost of training can be quite high and include such expenses as travel, hotel, meals, and training equipment while also paying the trainees' salaries while they attend.

A third disadvantage is that personal selling is not for everyone. Job turnover in sales is often much higher than other marketing positions. For companies that assign salespeople to handle certain customer groups (e.g., geographic territory), turnover may leave a company without representation in a customer group for an extended period of time while the company recruits and trains a replacement.

SELF CHECK EXCERCISE

XIII. Personal selling includes:

a) Oral communication
b) Face to face interaction
c) Conversation with customers
d) All of these

XIV. **Personal selling is not targeted towards mass audience.** TRUE/FALSE

XV. **___________ is the best means of increasing sales of an article.**

a) Exhibition b) Fairs c) Advertisement d) None of these

10.6 SUMMARY

Advertising is any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor. Advertising campaigns vary in their creativity. Only after gaining attention can a commercial help to increase brand sales. Sales promotion consists of a diverse collection of incentive tools, mostly short term, designed to stimulate quicker or greater purchase of particular products or services by consumers or the trade. A public is any group that has an actual or potential interest in or impact on a company's ability to achieve its objectives. Public relations (PR) involve a variety of programs designed to promote or protect a company's image or its individual products. Direct Marketing is defined as an interactive system that uses one or more advertising media to effect a measurable response and/or transaction at any location.

10.7 KEYWORDS

1. **Message Evaluation and Selection:**The message should be rated on desirability, exclusiveness and believability. The advertiser should conduct market research to determine which appeal works best with its target audience.
2. **Social Responsibility Review:** Advertisers and their agencies must be sure their "creative" advertising doesn't over step social and legal norms.
3. **Advertisement effectiveness:** Good planning and control of advertising depend on measures of advertising effectiveness
4. **Sales promotion:** Sales promotion consists of a diverse collection of incentive tools, mostly short term, designed to stimulate quicker or greater purchase of particular products or services by consumers or the trade.
5. **Public relations:** A public is any group that has an actual or potential interest in or impact on a company's ability to achieve its objectives.
6. **Direct marketing:** The explosion of media enables many more companies to sell their products and services directly to customers without intermediaries.
7. **Personal selling:** Personal selling is a promotional method in which one party uses skills and techniques for building personal relationships with another party results in both parties obtaining value

10.8 PRACTICE QUESTION

10.8.1 SHORT ANSWER QUESTION

1. How do we decide the advertising budget?
2. What are the advantages and disadvantages of various types of advertisement?
3. Define sales promotion and its purpose.
4. What do you mean by public relations?

10.8.2 LONG ANSWER QUESTION

1. What steps are involved in developing an advertising program?
2. What explains the growing use of sales promotion and how are sales-promotion decisions made?
3. How can companies exploit the potential of public relations and publicity?
4. What channels do direct marketers use to reach individual prospects and customers?
5. How can salespeople improve their skills in selling, negotiating and carrying on relationship marketing?

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10.10 ANSWER KEY

I (a) **II** (b) **III** (a) **IV (**F) **V (**F) **VI** (d) **VII** (c) **VIII** (c) **IX** (b) **X (**T) **XI** (c) **XII** (b) **XIII** (d) **XIV (**T) **XV** (c)

Semester II **MARKETING MANAGEMENT**
Lesson No. 11 **AUTHOR: LALIT SINGLA**

MANAGING THE SALES FORCE

11.0 OBJECTIVES

After reading this chapter, the student should be able to:

I. To understand about sales force management, its nature and importance
II. To understand the major purposes of personal selling
III. To describe the basic steps in the personal selling process
IV. To identify the types of sales force personnel
V. To understand sales management decisions and activities
VI. To get familiar with the winning tips for sales team

11.1 INTRODUCTION

Sale Force Management is a specialized version of personnel management. Sales force management, therefore, means procuring the qualified employees (Sales personnel) in sufficient number to meet the requirements of the enterprise from time to time. Sales force Management is also known as sales personnel planning or sales force planning. The success of the organization depends upon the right type of persons placed on the job in sufficient number. It is the responsibility of the sales management to see whether qualified requisite number of sales people have been recruited or placed on the job. It requires planning i.e., to assess the future needs of the organization, so that present action may be adjusted in view of the established goal. It analyses labor turnover, recruitment and promotion policies, development and maintenance of employees' programmes and assess the future needs of the organization so that sufficient number of personnel may be procured well in time. It is a process by which the organization ensures the right number of people, right type of people at the right place and at the right time doing the right things for which they are recruited for the achievement of the organization goals.

Definition of Sales force

The group of employees involved in the selling process.

11.2 NATURE OF THE SALES FORCE MANAGEMENT

Sales Force Management or Sales Personnel Planning is nothing but an application of personnel management planning in the field of sales. Whether personnel management focuses upon sales, production or office works, the same set of basic human problems needs considering, but each class of problem varies in nature and importance of the work- field. It is generally not practical, for instance, to exercise a close and constant supervision over sales personnel, as it is exercised in the production and office workers. Furthermore, it is also not an easy task to develop a spirit of identity with and loyalty to the company because they work at different places at distance from each of their co-workers and superiors.

1. These sales personnel are given free rein than production or office personnel.
2. Sales personnel are required to pay continual attention to motivational factors.
3. The sales force management work starts with job analysis i.e., determining the job objectives, the component duties and responsibilities, performance criteria and ‘ reporting relationships.
4. Compensation plans are designed and aimed to provide levels and methods of compensation appropriate for the job.
5. During the sales in the field, they require an analysis of selling and other records for evaluating sales performance and improving market coverage.
6. Sales force management activities mesh and collectively make up a system. Faulty execution of any activities results in complications for other activities.

11.3 SALES FORCE OBJECTIVES

The marketing department develops sales force objectives in coordination with the sales department. These objectives may be qualitative or quantitative. Qualitative objectives are long-term while quantitative objectives are short-term in nature.

11.3.1 The following are some qualitative objectives of a sales force:

1. Effective time management — managing sales calls, sales presentations and closing the sale within a reasonable time frame.
2. Possessing sufficient knowledge — about the company, its products, policies, competitors and customers.
3. Maintaining efficient customer relations — provide assistance and advice on product usage and give all such information that may be needed by the customer.
4. To project an attitude and appearance that will please customers.,
5. To secure all relevant market information that may be needed by the company.

11.3.2 The following are some quantitative objectives of a sales force:

1. Increase the market share of the company and subsequently manage and retain it.
2. The number of sales calls made per day and the number of days worked.
3. Sell the optimum mix of the company’s products, to achieve maximum profitability.
4. Generate a certain number of new accounts in as specified time.
5. Minimize sales expenses.
6. Procure a certain quantum of business from a certain number of clients.

It is essential for a sales force to achieve both qualitative and quantitative objectives. These objectives help the management assess the performance of the salespeople and identify weaknesses of individual salespersons and help to overcome them.

11.4 IMPORTANCE OF EFFECTIVE SALES FORCE MANAGEMENT

The best use of available sales force is the result of effective sales force management. It is possible only by sales personnel planning. The sales objectives cannot be properly achieved without the sales force planning. The sales force planning is required to achieve the following economies:

a) Reduction in selling cost
b) Effective Personnel Policies
c) Increase in Production
d) Maintaining Good relations with the sales force
e) Job Analysis
f) Preparation of Job Description
g) Identification of Job Specification

11.5 SALES FORCE STRATEGIES

11.5.1 Gaining market access strategy

Gaining market access strategy can take place by using distributors, telemarketing, independent sales agents, the internet, developing hybrid marketing systems and establishing alliances.

11.5.2 The account relationship strategy

The account relationship strategy deals with the management of sales accounts in an organizational set-up, apart from individual sales accounts.

11.6 TYPES OF SALES FORCE STRUCTURE

1) **Product-based Sales Force Structure:**In Product-based structure, sales force responsibilities and activities are divided according to the type of product sold. There can be a single (product/product line) sales force or a multiple (product/ product line) sales force. This structure is suited for companies that manufacture a variety of complex technical products or products that are dissimilar and unrelated.
2) **Geographic-based Sales Force Structure:**In a geographic sales force structure, the sales force is grouped by physical territories. It is the most widely used system in dividing responsibility and authority among sales forces. Each sales person is assigned a separate geographic territory and each territory is headed by a regional or a zonal manager. This structure is suited for companies that have mature product lines with several products targeted at the same market. It is also ideal for companies that manufacture products with a high degree of similarity. Generally, pharmaceutical, automotive & FMCG companies prefer this type of structure.
3) **Customer-based Sales Force Structure:**In this type of structure, the sales force is divided on the basis of customer needs. This structure is preferred when specific customer groups require special attention due to differences in their needs.
4) **Combination-based Sales Force Structure:**A structure that combines various types of structures and takes the best of each structure's individual merits, while eliminating the demerits associated with it, is called a combination- based structure.

SELF CHECK EXCERCISE

I. **Type of objective of sales force management?**
a) Quantitative b) Qualitative c) Both d) None

II. **Gaining market access is not a sales force strategy.** TRUE/FALSE

III. **Which of these are not importance of sales force management?**
a) Reduction in selling cost
b) Effective Personnel Policies
c) Decrease in Production
d) Job Analysis

IV. **______________ is teaching how to do the jobs.**
a) Sales personnel b) Sales target
c) Sales force training d) Induction

11.7 PERSONAL SELLING

11.7.1 Nature of Personal Selling

- Paid personal communication that informs customers and persuades them to buy products.
  - Most adjustable to customer information needs
  - Most precise (targeted) form of promotion methods
  - Most expensive element in promotion mix
- Personal selling as a career
  - The potential for high income
  - A great deal of freedom
  - A high level of training
  - A high level of job satisfaction

11.7.2 Elements of the Personal Selling Process

(a) Prospecting

- Developing a list of potential customers
  - Sales records, trade shows, commercial databases, newspaper announcements, public records, telephone directories, trade association directories
  - Reponses to advertisements with information request forms
  - Referrals-recommendations from current customers

(b) Pre-approach

- Finding and analysing information about the prospect
  - Specific product needs
  - Current use of brands
  - Feelings about available brands
  - Personal characteristics
- Additional research
  - Identifying key decision makers
  - Reviewing account histories and problems
  - Contacting other clients for information
  - Assessing credit histories and problems
  - Preparing sales presentations

— Identifying product needs

(c) Approach

- The manner in which a salesperson contacts a potential customer
  — Purpose is to gather information about the buyer's needs and objectives
  — Important to create a favourable first impression and build rapport with prospective customer
- Typical approaches
  — Referred by another customer to a prospective customer
  — "Cold canvass" call without prior introduction to the customer
  — Repeat contact based on prior meeting(s) with the potential customer

(d) Making the Presentation

- During the presentation:
  — Attract and hold the prospect's attention.
  — Stimulate interest in the product.
  — Spark a desire for the product.
  — Listen and respond to the prospect questions and comments.
- Ways to enhance the presentation's effects
  — Have the prospect touch, hold, or use the product.
  — Use audiovisual technology to heighten the impact of the presentation.

(e) Overcoming objections

- Anticipate objections and counter them during the presentation
- Generally, best to handle objections as they arise

(f) Closing the sale

- Closing is the stage in the selling process when the salesperson asks the prospect to buy the product.

(g) Closing strategies

- "Trial" closing: asking questions (what, how, or why) that assume the customer will buy the product
- Asking for a try-out order: low-risk way for customer to try out the product

(h) Following up

- Determining if the delivery and setup of order was completed to the customer's satisfaction
- Ascertaining the customer's future product needs

11.8 RECRUITMENT, SELECTION AND PLACEMENT OF SALES PERSONNEL

The main responsibility of Sales executives is to field sufficient number of right kind of Sales Personnel necessary for servicing the company's customers and prospects. In discharging this responsibility, sales executives must implement personal-selling strategy in terms of both the kind and number of sales personnel, the company decide to employ. The recruitment of sales personnel is a continuous process and keeping the right number of sales personnel is a continual concern of sales executive.

Recruiting and Selecting sales personnel are an important part of personal selling strategy, but it is not all. Having selected sales personnel, initial sales training is required to bring new sales personnel up to expected productivity level and continuing sales training is needed to maintain more experienced sales personnel to a high level of efficiency. It also requires motivational and supervisory efforts.

11.9 METHODS OF TRAINING AND DEVELOPMENT OF SALES PERSONNEL

1. Lecture method
2. Visual training
3. On-the job training
4. Group discussion
5. Personal conferences

11.10 TYPES OF SALES PEOPLE

- Order Getters
    - The salesperson who sells to new customers and increases sales to current one
    - Creative selling ‘
- Current-customer sales
- New-business sales
- Order Takers
    - who primarily seeks repeat sales
- Inside order takers
- Field order takers: Support Personnel: sales staff members who facilitate selling but usually are not involved solely with making sales
- Missionary salespeople: Support salespersons who assist the producer's customers in selling to their own customers
- Tade salespeople: Salespersons involved mainly in helping a producer's customers promote a product
- Technical salespeople: Support salespersons who give technical assistance to a firm's current customers

11.11 PROCESS OF SALES FORCE MANAGEMENT

Managing the sales force itself involves a number of key areas including, performance measurement, selection and training of salespeople, and motivational methods.

Following are the steps involved in Managing Sales Force:

a) Establishing Sales Force Objectives
b) Determining Sales Force Size
c) Recruiting and Selecting Salespeople
d) Training Sales Personnel
e) Compensating Salespeople
f) Motivating Salespeople
g) Managing Sales Territories
h) Controlling and Evaluating Sales Force Performance

(a) Establishing Sales Force Objectives

- Objectives tell salespeople what they are to accomplish during a specified time period.
- Objectives for the total sales force
    - Sales volume: total units or dollars of product sold for a period of time
    - Market share: unit or dollar percentage share of the total market for a product
    - Profit: dollars or percentage of return on investment (ROI)
- Objective for individual salespersons
    - Quotas: dollars or units sold, or average order size, average number of calls, or ratio of orders to calls by an individual salesperson

(b) Determining Sales Force Size

- Size of sales force affects
  - Compensation methods for salespersons.
  - Morale of salespersons.
  - Overall sales force management.
- Methods for determining optimal sale force size:
  - Dividing the number of sales calls necessary to serve customers by the number of sales calls a salesperson makes annually
  - Adding additional salespersons until the cost of adding one more salespersons equals the additional sales that would be generated by that person.

(c) Recruiting and Selecting Salespeople

- Recruiting: Developing a list of qualified applicants for sales positions
- Establish a set of qualifications that best match the firm's particular sales tasks
  - Prepare a job description listing specific tasks
  - Analyse successful salespeople among current employees
- Sources of applicants: Other departments in the company, other firms, employment agencies, educational institutions, job ad respondents, employee referrals

(d) Training Sales Personnel

- What to teach?: The company, its products, or selling methods
- Whom to train? Newly hired or experienced salespeople, or both
- When/where to train?
  - In the field, at educational institutions, in company facilities
  - Before or after initial field assignment
  - Frequency, sequencing, and duration of periodic training
- Who will train?Sales managers, technical personnel, outside consultants
- How to train?Materials and instructional methods

(e) Compensating Salespeople

Compensation objectives

- Attract, motivate, and retain effective salespeople
- Maintain the desired level of control
- Provide acceptable levels of income, freedom, and incentive
- Encourage proper treatment of customers

(f) Motivating Salespeople

- Motivation should be provided on a continuous basis.
- Motivational incentives
  - Enjoyable working conditions
  - Power and authority
  - Job security
  - Opportunities to excel
- Motivational methods
  - Sales contests
  - Recognition programs
  - Awards (travel, merchandise, and cash)

(g) Managing Sales Territories

- Creating sales territories
  - ➢ Based on similar sales potential or requiring about the same amount of work
  - ➢ Setting differential commission rates to compensate for differences in the characteristics of territories (density and distribution of customers)
- Routing and scheduling considerations
  - ➢ Geographic size and shape of the territory
  - ➢ Number and distribution of customers
  - ➢ Sequence of customer calls
  - ➢ Routes and distances travelled
  - ➢ Minimizing salesperson's travel and lodging costs

(h) Controlling and Evaluating Sales Force Performance

- Sales objectives, determined by the sales manager, stated in terms of
  - ➢ Sales volume
  - ➢ Average number of calls per day
  - ➢ Average sales per customer
  - ➢ Actual sales relative to sales potential
  - ➢ Number of new customer orders
  - ➢ Average cost per call
  - ➢ Average gross profit per customer

SELF CHECK EXCERCISE

V. Lecture method is not a method of training and development of sales personnel. TRUE/FALSE

VI. Which of these is a type of sales people?

a) Order Getters b) Creative selling

c) Current-customer sales d) All of these

VII. Process of sales force management has ____________ steps.

a) Five b) Six c) Eight d) Nine

VIII. Recruiting and Selecting sales personnel are an important part of

a) Personal selling strategy b) Sales promotion

c) Sales force d) None

11.12 WINNING TIPS FOR MANAGING SALES TEAM

11.12.1 Hire do-or-diehards:

When hiring salespeople, look beyond appearances. Dig for the truth. Here are some sample interview questions:

- What have you been doing since college (or high school)?
- How do you feel about talking to strangers?
- Why are you considering this type of sales?
- What is your opinion of salespeople in general?
- Why do you want to do this?

Create a hiring system that enables you to determine who stands the best chance of becoming an outstanding team player. To establish a profile of the type of candidate who would fit into your company, study the common threads of the sales stars who have succeeded for you in the past. Build your profile by asking yourself such questions as :

- What did these people have in their backgrounds that allowed them to succeed?
- What did they do differently that set them apart from the mediocre?

- What was their educational level?
- Could they work unsupervised?
- How much sales training did they require?

Then create an interview format that improves the odds of your hearing what you need to know.

11.12.2 Love them, or leave them

Many employers secretly dislike their sales force. A few years ago, a sales manager hired me to advise her on revitalizing her low-producing salespeople. After five minutes with her, I knew what the problem was: She had a terrible case of the terrible—her salespeople were terrible, the market was terrible, her job was terrible. After some in-depth questioning, she admitted to me that she truly did not believe her existing sales team had what it took to succeed.

I told her my hands were tied unless she took the time to do some soul-searching.

Was she willing to change her negative mind-set? Hire a new team? Did she have the willpower to stop judging? Was she ready to teach her team about playing to win?

Author of the sales book Stop Selling: Start Partnering (Omneo), Larry Wilson says, “Playing to win isn’t about beating someone or reaching a goal; it’s about going as far as you can using all you’ve got. It’s seeing change as a challenge.”

11.12.3 Cushion the blows

I spent many years observing that my own sales team did not fight change; they fought the pain of change. This pain showed up in the daily setbacks that could lead to victories and six-figure incomes or to anger and defeat. Each day, it was important for me to keep talking about the future and referring to all setbacks as temporary.

Sometimes short-term difficulties or a lost sale throw a player off, but the strong leader doesn’t jump into the quicksand and allow anyone on the team to be dragged down and immobilized by one unfortunate situation.

I’ve practiced my coaching skills on my children, too. When my daughter Beth first started graduate school, I knew there were days when she questioned her passion for acting. Sometimes she called me in tears complaining that she had been cut from another audition. How well I understood her feelings because of my experience with rejection in the sales field. So I told her it was just a matter of time before she got the part in a play she wanted—“You are getting closer, honey. This is just one step closer.”

Like a good coach, I faithfully kept administering strong doses of hope, minimizing the rejection. Finally, Beth made it to the Promised Land. The day she graduated; I took a picture of her receiving her diploma. Her right hand holds her cap raised in the air. Her left arm is wrapped around the president of the school, handing her the diploma. She is smiling so wide; it looks like her smile might reach her ears.

This photo is a reminder of what happens when someone is passionately motivated and carries through all the way. It’s a Kodak moment to be looked at and remembered on the darkest of days. This is the kind of encouragement everybody needs- salespeople most of all.

Remember, nobody can really motivate your team but themselves. However, you can create an environment that promotes success by dispensing strong doses of hope through your attitude and language, and by displaying encouraging reminders of a future filled with possibilities.

11.12.4 Fail together

Use failure as a teaching tool. Help your salespeople see that each failure is drawing them closer to their next success. I often build entire sales meetings around the theme of failure, not success. Success never teaches salespeople anything. Failure, on the other hand, is full of lessons.

Give some of your top salespeople a chance to open up and share their "war stories." Declare every Wednesday at noon "War Story Hour." Invite all experience levels to participate. New salespeople need to be around the superstars who are willing to share scary stories from the trenches. They need to understand that it's perfectly normal to spend most of their time moving through failure on the pathway to success. One of the best ways to get new salespeople started and ready to risk is to let them talk with a superstar who is willing to share past "growing pains."

11.12.5 Teach detachment

If your salespeople have been prospecting consistently, one lost customer will not be the end of the world. You can encourage constant prospecting by developing a results- oriented tracking system that makes your sales team accountable for their actions.

When bad news hits, the biggest favor you can do for your salespeople is to suggest that they forget about customers for a while and go see a silly movie, take a bubble bath or go work out. Get them out of the office so they can regain some perspective.

On the other hand, just as they shouldn't be encouraged to drown in the grief of a lost sale, salespeople should not be encouraged to coast on the fleeting glory of an impressive sales cycle. A sales force that runs the gamut from deeply depressed to highly arrogant is self-serving and ineffective.

Detachment, or learning not to put all your eggs in one basket, is the answer. I like the way great Chinese sage Tram Su explains it :

- When the archer shoots for nothing, he has all of his skill.
- When he shoots for a brass buckle, he is already nervous.
- When he shoots for a prize of gold, he goes blind, sees two targets. He is out of his mind.
- His skill has not changed, but the prize divides him. He cares. He thinks more of winning than shooting, and the need to win drains him of his power.
- The power—and the profit—of a sales team come from each player's ability to stay detached, resilient, focused and prepared to serve the customer at all times. Good sales coach not only teaches such virtues but possesses them.

SELF CHECK EXCERCISE

IX. Sales management is discipline of ________benefits a company and its customers receive from the efforts of its sales force.

a) Minimizing b) Maximizing c) Controlling d) None

X. The main objective of sales management

a) Decrease in profit and continuous growth
b) Increase in profit and stagnant growth
c) Decrease in profit and stagnant growth
d) Increase in profit and continuous growth

XI. Sales management achieves personal selling objectives through personal selling strategy. TRUE/FALSE

XII. Sales management is what kind of a sales staff, and the tracking and reporting of the company's sales.

a) Strategy b) Training and management
c) Management d) None of these

11.13 SUMMARY

Sales Force means the group of employees involved in the selling process. Sale Force Management is a specialized version of personnel management. Sales force management, therefore, means procuring the qualified employees (Sales personnel) in sufficient number to meet the requirements of the enterprise from time to time.

Sales force has two objectives one is qualitative & other quantitative. Managing the sales force itself involves a number of key areas including, performance measurement, selection and training of salespeople, and motivational methods.

11.14 KEY WORDS

1. **Sale Force Management:** It is a specialized version of personnel management. Sales force management, therefore, means procuring the qualified employees (Sales personnel) in sufficient number to meet the requirements of the enterprise from time to time.
2. **Sales force:** The group of employees involved in the selling process.
3. **Gaining market access strategy:** it can take place by using distributors, telemarketing, independent sales agents, the internet, developing hybrid marketing systems and establishing alliances.
4. **Recruitment of sales personnel:** The recruitment of sales personnel is a continuous process and keeping the right number of sales personnel is a continual concern of sales executive.

11.15 PRACTICE QUESTIONS

11.15.1 Short Answer Question

1. What do you mean by sales force management?
2. Explain types of sales force structure.
3. define personal selling.
4. What is the process of sales force management?

11.15.2 Long Answer Questions

l. Write short note on:
(a) Management
(b) Recruitment
(c) Selection
(d) Placement
(e) Types of Salespeople
2. What do you mean by Sales Force Management? Discuss its nature and importance.
3. Define Sales Force? Discuss the types of sales force, their objectives and strategies.
4. Explain Personal Selling. Explain its nature and elements?
5. What is the process of sales force management in modern marketing? Tell the winning tips of sales team.

11.16 SUGGESTED READINGS

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- Gilbert A. Churchil, Neil H. Ford &Orvillie C. Walker, Sales Force Management, 5th edition, Tata Me Graw Hill
- Mathur U.C., Sales Management, 1st edition, New Age International Publishers
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11.17 ANSWER KEY

I (c) **II** (F) **III** (c)**IV** (c) **V**)F) **VI** (d) **VII** (c) **VIII** (a) **IX** (b) **X** (d) **XI** (T) **XII** (b)

Semester II **MARKETING MANAGEMENT**

Lesson No. 12 **AUTHOR: DR. VIKAS SINGLA**

MARKETING ORGANIZATION

12.0 OBJECTIVE

1. To understand the various steps of marketing evolution.
2. To know about the organization of marketing departments
3. To identify the marketing relationship with various other departments
4. To understand the various marketing implementation and controls

Over the years marketing has grown from a simple sales department into a complex group of activities. We will examine how marketing departments have evolved in companies, how they are organized and how they interact with other company departments.

12.1 EVOLUTION OF THE MARKETING DEPARTMENT

Marketing departments have evolved through six stages.

Step 1: Simple Sales Department

Small companies typically appoint a sales vice-president who manages a sales force and also does some selling. When the company needs marketing research or advertising, the sales vice president hires help from the outside.

Step 2: Sales Department with Ancillary Marketing Functions:

As the company expands it need to add or enlarge certain functions. The sales vice president will hire a marketing research manager and an advertising manager to handle these activities. A marketing director is hired to manage these and other marketing functions.

Step 3: Separate Marketing Department

The continued growth of the company will warrant additional investment in marketing research, new-product development, advertising and sales promotion and customer service. The CEO will see the advantage of establishing a separate marketing department headed by a marketing vice president who reports along with sales vice president to the president. At this stage sales and marketing are separate functions that are expected to work closely together.

Step 4: Modern Marketing Department

The marketing manager's task is to identify opportunities and prepare marketing strategies and programs. Salespeople are responsible for implementing these programs. Marketers rely on marketing research, try to identify and understand market segments, spend time in planning, think long term and aim to produce profits and gains in market share. Salespeople, in contrast, rely on street experience try to understand each individual buyer, spend time in face-to-face selling, think short term and try to meet their sales quotas.

Step 5: Effective Marketing Company

A company can have an excellent marketing department and yet fail at marketing. Much depends on how the other departments view customers. Only when all employees realize that their jobs are created by customers does the company become an effective marketer.

Step 6: Process and Outcome based Company

Many companies are now refocusing their structure on key processes rather than departments. Departmental organization is increasingly viewed as a barrier to the smooth performance of fundamental business processes such as new product development, customer acquisition and retention, order fulfilment and customer service. In the interest of achieving customer-related process outcomes, companies are appointing process leaders who manage cross-disciplinary teams. The marketing department is also responsible for training its marketing personnel, assigning them to new teams and evaluating their overall performance.

12.2 ORGANIZING THE MARKETING DEPARTMENT

The marketing department may be organized by function, geographic area, products or customer markets.

12.2.1 Functional Organization

The most common form of marketing organization consists of functional specialists reporting to marketing vice president who coordinates their activities. The main advantage of a functional marketing organization is its administrative simplicity. However this form loses effectiveness as products and markets increase. First, a functional organization often leads to inadequate planning for specific products and markets. Products that are not favored by anyone are neglected. Second, each functional group competes with the other functions for budget and status. The marketing vice president constantly has to weigh the claims of competing functional specialists and faces a difficult coordination problem.

12.2.2 Geographic Organization

A company selling in a national market often organizes its sales force along geographic lines. Several companies are now adding area market specialists to support the sales efforts in high-volume, distinctive markets. Several factors have fuelled the move toward regionalization and localization. The mass market has slowly subdivided into a profusion of minimarkets along demographic lines: baby boomers, senior citizens and single mothers. Improved information and marketing research technologies have also spurred regionalization. Data from retail store scanners allow instant tracking of product sales, helping companies pinpoint local problems and opportunities.

12.2.3 Product or Brand Management Organization

Companies producing a variety of products and brands often establish a product management organization. The product management organization does not replace the functional management organization but rather serves as another layer of management. A product management organization makes sense if the company's products are quite different or if the number of products is beyond the ability of a functional marketing organization to handle. Product and brand managers have following tasks :

- Developing a long rang and competitive strategy for the product.
- Preparing an annual marketing plan and sales forecast.
- Working with advertising and merchandising agencies to develop copy, programs and campaigns.
- Stimulating support of the product among the sales force and distributors.
- Initiating product improvements to meet changing market needs.

12.2.4 Market Management Organization

Many companies sell their products to a diverse set of markets. When customers fall into different user groups with distinct buying preferences and practices a market management organization is desirable. The market managers draw upon functional services as needed. Market managers are staff people with duties similar to those of product managers. Market managers develop long range and annual plans for their markets. They must analyze where their market is going and what new products their company should offer to this market. Performance is judged by their market's growth and profitability. This system carries many of the same advantages and disadvantages of product management systems. Its strongest advantage is that the marketing activity is organized to meet the needs of distinct customer groups rather than focused on marketing functions, regions or products per se.

12.2.5 Product Management/Market Management Organization

Companies that produce many products flowing into many markets tend to adopt a matrix organization. A matrix organization would seem desirable in a multiproduct, multimarket company. The disadvantage is that this system is costly and often creates conflicts. There is the cost of supporting all the managers. There are also questions about where authority and responsibility should reside. The major companies provide the right context in which a matrix can thrive - an emphasis on flat, lean team organizations focused around business processes that cut horizontally across functions.

12.3 MARKETING RELATIONS WITH OTHER DEPARTMENTS

In practice, all business functions should interact harmoniously to pursue the firm's overall objectives. Under the marketing concept all departments need to think customer and work together to satisfy customer needs and expectations. The marketing vice president has two tasks: to coordinate the company's internal marketing activities and to coordinate marketing with finance, operations and other company functions to serve the customer.

1. **R&D**

   A balanced company is one in which R&D and marketing share responsibility for successful market oriented innovation. The R&D staff must take responsibility not only for innovation but also for a successful product launch. The marketing staff must take responsibility not only for new sales features but also for correctly identifying customer needs and preferences. R&D marketing cooperation can be facilitated by sponsoring joint seminars to build understanding and respect for each other's goals, by assigning each new project to functional teams including an R&D person and a marketing person who work together through the project's life, by encouraging R&D participation into the selling period and other marketing efforts.

2. **Engineering**

Engineering is responsible for finding practical ways to design new products and new production processes. They are interested in achieving technical quality, cost economy and manufacturing simplicity. They come into conflict with marketing executives when the latter want several models produced, often with product features requiring custom rather than standard components. They often think of marketing people as inept technically, as continually changing priorities and as not fully credible or trustworthy.

3. **Purchasing**

Purchasing executives are responsible for obtaining materials and components in the right quantities and quality at the lowest possible cost. They see marketing executives pushing for several models in a product line, which requires purchasing small quantities of many items rather than large quantities of a few items. They think that marketing insists on too high a quality of ordered materials and components.

4. **Manufacturing**

Manufacturing people are responsible for the smooth running of the factory to produce the right products in the right quantities at the right time for the right cost. In manufacturing driven companies everything is done to ensure smooth production and low costs. The company prefers simple products, narrow product lines and high-volume production. In marketing driven companies the company goes out of its way to satisfy customers. Marketing personnel call the shots and manufacturing people fall in line regardless of overtime costs or short runs. The result is high and fluctuating manufacturing costs as well as variable product quality. Companies need to develop a balanced orientation in which manufacturing and marketing jointly determine what is in the company's best interests.

5. **Operations**

The term operation is used for industries that create and provide services. Because marketing makes promises about service levels it is extremely important that marketing and operations work well together. Operations staff members may be inclined to focus on their convenience and give ordinary service, whereas the marketers want the staff to focus on customer convenience and provide extraordinary service. Marketing people must fully understand the capabilities and mind-set of those delivering the service and continuously try to improve attitudes and capabilities.

SELF CHECK EXCERCISE

I. **Evolution of marketing department is**

a) Continuous process b) Step by step process c) Both d) None

II. **____________ is not organizing the marketing department.**

a) Functional organizing b) Market management organization

c) Sales organization d) Geographic organization

III. **Which department is responsible for finding practical ways to design new product and production process?**

a) Engineering b) Purchasing c) Operations d) Manufacturing

IV. **What a company has to do to meet changing market needs?**

a) New product b) Same product c) Product improvement d) None

12.4 MARKETING IMPLEMENTATION

Marketing implementation is the process that turns marketing plans into action assignments and ensures that such assignments are executed in a manner that accomplishes the plan's stated objectives. Strategy and implementation are closely related in that one layer of strategy implies certain tactical implementation assignments at a lower level. The four sets of skills for implementing marketing programs:

- **Diagnostic skills:** When marketing programs do not fulfil expectations was the low sales rate the result of poor strategy or poor implementation.
- **Identification of company level:** Implementation problems can occur at three levels: the marketing function, the marketing program and the marketing policy level.
- **Implementation skills:** To implement programs successfully, marketers need other skills: allocating skills for budgeting resources, organizing skills to develop an effective organization and interaction skills to motivate others to get things done.
- **Evaluation skills:** Marketers also need monitoring skills to evaluate the results of marketing actions.

12.5 EVALUATION AND CONTROL

To deal with many surprises that occur during the implementation of marketing plans, the marketing department continuously has to monitor and control marketing activities. The four types of marketing control needed by companies are discussed as follows:

12.5.1Annual Plan Control

The purpose of annual plan is to ensure that the company achieves the sales, profits and other goals established in its annual plan. The heart of annual plan control is management by objectives. Four steps are involved. First, management sets monthly or quarterly goals. Second, management monitors its performance in the marketplace. Third, management determines the causes of serious performance deviations. Fourth, management takes corrective action to close the gaps between goals and performance. Managers use five tools to check on plan performance:

i. **Sales Analysis:** Sales analysis consists of measuring and evaluating actual sales in relation to sales goals. Two specific tools are used in sales analysis. Sales variance analysis measures the relative contribution of different factors to a gap in sales performance. Micro sales analysis looks at specific products, territories and so forth that failed to produce expected sales.

ii. **Market Share Analysis:** Company sales do not reveal how well the company is performing relative to competitors. For this purpose, management needs to track its market share. Market share can be measured in three ways: overall market share is the company's sales expressed as a percentage of total market sales. Served market share is its sales expressed as a percentage of the total sales to its served market. Its served market is all the buyers who are able and willing to buy its product. Relative market share can be expressed as market share in relation to its largest competitor.

iii. **Marketing Expense to Sales Analysis:** Annual plan control requires making sure that the company is not overspending to achieve sales goals. The key ratio to watch is marketing expense-to-sales. Management needs to monitor the ratios which will normally exhibit small fluctuations that can be ignored. Fluctuations outside the normal range are a cause for concern. The period-to-period fluctuations in each ratio can be tracked on a control chart.

iv. **Financial Analysis:** The expense-to-sales ratios should be analyzed in an overall financial framework to determine how and where the company is making its money. Marketers are increasingly using financial analysis to find profitable strategies beyond sales building. Management uses financial analysis to identify the factors that affect the company's rate of return on net worth. The marketing executive can seek to improve performance in two ways: increase the profit margin by increasing sales or cutting costs; and increase the asset turnover by increasing sales or reducing the assets that are held against a given level of sales.

v. **Market Based Scorecard Analysis:** Most company measurement systems amount to preparing a financial performance scorecard at the expense of more qualitative measures. A customer performance scorecard records how well the company is doing year after year on customer based measures such as new customers, dissatisfied customers, lost customers, target market, relative product quality etc. The second measure is called a stakeholder performance scorecard. Companies need to track the satisfaction of various constituencies who have a critical interest in and impact on the company's performance: employees, suppliers, distributors, retailers and stockholders.

12.5.2 Profitability Control

Companies need to measure the profitability of their products, customer groups and order sizes. This information will help management determine whether any products or marketing activities should be expanded, reduced or eliminated.

1. **Marketing Profitability Analysis:** The steps in this analysis are: identifying functional expenses, assigning functional expenses to marketing entities and preparing a profit and loss statement for each marketing entity.
2. **Determining Corrective Action:** Marketing profitability analysis indicates the relative profitability of different channels, products or other marketing entities. It does not prove that the best course of action is to drop the unprofitable marketing entities, nor does it capture the likely profit improvement if these marginal marketing entities are dropped.
3. **Direct versus Full Costing:** The issue is whether to allocate full costs or only direct and traceable costs in evaluating a marketing entity's performance. Three types of costs have to be distinguished: Direct costs that can be assigned directly to the proper marketing entities. Traceable common cost that can be assigned only indirectly, but on a plausible basis, to the marketing entities. Nontraceable common costs are costs whose allocation to the marketing entities is highly arbitrary. The major controversy concerns whether the nontraceable common costs should be allocated to the marketing entities. Such allocation is called the full-cost approach and its advocates argue that all costs must ultimately be imputed in order to determine true profitability.

12.5.3 Efficiency Control

Some companies establish a marketing controller position to improve marketing efficiency. Marketing controllers specialize in the marketing side of the business and perform a sophisticated financial analysis of marketing expenditures and results. They examine adherence to profit plans, help prepare brand managers' budgets, measure the efficiency of promotions and educate marketing personnel on the financial implications of marketing decisions.

i. **Sales Force Efficiency:** Sales managers need to monitor some key indicators of efficiency in their territory such as average number of calls per salesperson per day, average revenue per sales call, average cost per sales call, entertainment cost per sales call, number of new customers per period and sales force cost as a percentage of total sales. When a company starts investigating sales force efficiency it often finds areas for improvement.

ii. **Advertising Efficiency:** Management can take a number of steps to improve advertising efficiency, including doing a better job of positioning the product, defining objectives, pretesting messages, using computer technology to guide the selection of media, looking for better media buys and doing post testing.

iii. **Sales-Promotion Efficiency:** To improve sales-promotion efficiency, management should record the costs and sales impact of each promotion. Management should watch for percentage of sales sold on deal, display costs per sales dollar, percentage of coupons redeemed and number of inquiries resulting from a demonstration.

iv. **Distribution Efficiency:** Management needs to search for distribution economies in inventory control, warehouse locations and transportation modes. One problem is that distribution efficiency declines when the company experiences strong sales increases. This leads customers to bad-mouth the company and eventually sales fall. Management responds by increasing sales force incentives to secure more orders. Management needs to identify the real bottleneck and invest in more production and distribution capacity.

12.5.4 Strategic Control

From time-to-time companies need to undertake a critical review of overall marketing goals and effectiveness. They should periodically reassess its strategic approach to marketplace with marketing-effectiveness reviews and marketing audits.

(i) Marketing Effectiveness Review: A company's marketing effectiveness is reflected in the degree to which it exhibits the five major attributes of a marketing orientation: customer philosophy, integrated marketing organization, adequate marketing information, strategic orientation and operational efficiency.

(ii) Marketing Audit:A marketing audit is a comprehensive, systematic, independent and periodic examination of a company’s marketing environment, objectives, strategies and activities with a view to determining problem areas and opportunities and recommending a plan of action to improve the company's marketing performance. Following are the characteristics of marketing audit:

- **Comprehensive:** The marketing audit covers all the major marketing activities of a business, not just a few trouble spots. It would be called a functional audit if it covered only the sales force, pricing or some other marketing activities.
- **Systematic:** The marketing audit is an orderly examination of the organization's macro and micro marketing environment, marketing objectives and strategies, marketing systems and specific activities. The audit indicates the most needed improvements, which are then incorporated into a corrective action plan.
- **Independent:** A marketing audit can be conducted in six ways: self-audit, audit from across, audit from above, company auditing office, company task force audit and outsider audit. Self-audits, in which managers use a checklist to rate their own operations, lack objectivity and independence.
- **Periodic:** Companies are thrown into a crisis partly because they failed to review their marketing operations during good times. A periodic marketing audit can benefit companies in good health as well as those in trouble.

(iii) Ethical and Social Responsibility Review: Companies need to evaluate whether they are truly practicing ethical and socially responsible marketing. Business success and continually satisfying the customer and other stakeholders are intimately tied to adoption and implementation of high standards of business and marketing conduct. Ethical issues must be dealt with in many aspects of its business. There are selling issues such as bribery or stealing trade secrets, advertising issues such as false and deceptive advertising, channel issues such as exclusive dealing, product issues such as quality and safety, packaging issues such as accurate labeling, price issues such as price-fixing and competitive issues such as barriers to entry and predatory competition.

SELF CHECK EXCERCISE

V. **Which of these are marketing implementation?**

a) Diagnostic skills b) Implementation skills
c) Evaluation skills d) All of these

VI. **Heart of annual plan control is**

a) Management by objective b) Management by initiative
c) Management by sharing d) None

VII. **Marketing control is divided into three parts.** TRUE/FALSE

VIII. **Strategic control includes:**

a) Marketing audit b) Sales force efficiency
c) profitability analysis d) financial analysis

12.6 SUMMARY

There are basically six steps which a company has to follow for the evolution of marketing department. The marketing department may be organized by function, geographic area, products or customer markets. Under the marketing concept all departments need to think customer and work together to satisfy customer needs and expectations. Strategy and implementation are closely related in that one layer of strategy implies certain tactical implementation assignments at a lower level. There are four types of control; annual plan control, profitability control, efficiency control, and strategic control.

12.7 KEYWORDS

1. **Functional organizations:** Marketing organization consists of functional specialists reporting to marketing vice president who coordinates their activities.
2. **Market Management Organization:** Many companies sell their products to a diverse set of markets. When customers fall into different user groups with distinct buying preferences and practices a market management organization is desirable.
3. **Annual plan:** annual plan is to ensure that the company achieves the sales, profits and other goals established in its annual plan.
4. **Marketing implementation:** Marketing implementation is the process that turns marketing plans into action assignments and ensures that such assignments are executed in a manner that accomplishes the plan's stated objectives.
5. **Efficiency control:** Marketing controller position to improve marketing efficiency

12.8 PRACTICE QUESTION

12.8.1 SHORT ANSWER QUESTION

1. What do you mean by evolution of marketing department?
2. What are the various tasks of marketing vice president?
3. Explain product or brand management organisation.
4. What are various marketing implementation?

12.8.2 LONG ANSWER QUESTION

1. What is marketing evolution? Explain this step by step.

2. How to organize the marketing department? Give a detailed explanation.
3. How marketing is related with various other department?
4. How do we evaluate and control it?

12.9 REFERENCES

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12.10 ANSWER KEY

I (b) **II** (c) **III** (a) **IV** (c) **V** (d) **VI** (a) **VII** (F) **VIII** (a)

Semester II **MARKETING MANAGEMENT**
Lesson No. 13 **AUTHOR: DHIRAJ SHARMA**

CHANNEL MANAGEMENT

13.0 OBJECTIVES

After going through this lesson, you will be able to understand and analyze the meaning and role of channels of distribution; classification of channels; market intermediaries; factors governing the choice of channels and intermediaries; channel policies and strategies; conflict and cooperation in channels of distribution and other related aspects such as 'compensation, motivation, coordination and control. The lesson ends with a summary and chapter-based questions.

13.1 INTRODUCTION

In today's economic system, not all manufacturers and producers sell their output directly to the final users or industrial users. That is goods do not flow of their own directly to the owners or consumers. The producers and final users are linked by a bridge of intermediaries that make possible and profitable movement of goods and services from producers to users.

13.2 WHAT IS A CHANNEL OF DISTRIBUTION?

A channel of distribution is an organized network or a system of agencies and institutions which in combination perform all the activities required to link producers with users and users with producers to accomplish the marketing task.

Definitions

"The structure of intra-company organisation units and extra company agents and dealers, wholesale and retail, through which a commodity, product or service is marketed."

—American Marketing Association

"A set of independent organizations involved in the process of making a product or service available for use or consumption."— *Professor Philip Kotler*

In other words, it stands for the path or route traced in the direct or indirect transfer of title to a product; as it moves from a producer to the ultimate consumer or industrial users. Thus, a channel of distribution is a path-way directing the now of goods and services from producers to consumers composed of intermediaries through their functions and attainment of the mutual objectives.

13.3 THE ROLE OF MARKETING CHANNELS

The significance of the channels of distribution can be compared to the pipeline system or the routes that connect two points. They are the lifelines in the pal ill of the marketing system. That is why. Professor Peter Drucker once said "Channels are primary and products are secondary" and "deserve much more attention and study than they usually receive". It is the trade channel system that creates "value added" to all the products and services. If value utility is created by manufacturing. It is the distribution system that creates time and place utilities.

What a trade channel does is clear from the principles explained by Mr. W. Alderson. These principles elucidate the significance of channels.

1. The principle of minimum total transactions

In the process of exchange, the need for channels and intermediaries arises because they improve the efficiency of exchange process. Precisely, it is less costly and complicated to deal indirectly than directly with the final users.

This exercise is worked out on the assumptions namely,

1. The cost of any two lines of contact of transactions is the same.
2. Whenever, more than one wholesaler is employed by a manufacturer, each retailer avails the services of each of these wholesalers.
3. There is no difference between direct and indirect communication costs and the quality of service rendered by intermediaries in terms of effectiveness and efficiency.

2. The principle of smoothening gaps in assortment and sorting

The intermediaries are known for the smooth flow of products and services between the makers and the users by creating time, place and ownership utilities. These utilities increase the value of the consumers' assortments. The intermediaries sort out the goods and services in the light of consumer assortments thus bridging the gaps between assortments of goods offered and those demanded by the consumers. In other words, assortments are the outcome of sorting out work undertaken.

3. The principle of routine

The cost of any transaction can be minimized considerably if attempts are made to regularize or routinise them in terms of say a product or a service valuation, mode and time of payment. In the absence of routinization, things are left to sheer bargaining resulting possible reduction in efficiency and, hence, loss emerge. Routinization has other advantages too.

Among these, the most significant ones are:

(a) It encourages the standardization of goods and services that facilitates performance evaluation and comparison.

(b) It encourages the production of those items which are highly valued.
(c) It encourages a segmented flow of products and services.

4. The principle of searching

The marketing system represents an exchange process where the buyers and sellers are researching for them the matching sellers and buyers. Search is common to both parties which is uncertain. Thus, buyers want to search as to what is there for sale? Who is selling? Where? When? At what price? And under what conditions? On the other hand, sellers are eager to know about what buyers want? Who are the buyers? Where? When? At what price? And under what conditions? The distribution channels greatly facilitate this mutual search and bring the parties together for their mutual benefits.

5. The principle of amassed reserves

In the process of distribution, to move the goods from producers to consumers, the stocks are to be held at all the points of the pipeline. This is, what this principle says. However, it appears strange but true that the total goods held in storage at a time would be much larger in absence of these intermediaries because, the final buying units or the buyers outnumber these intermediaries. It is equally true because, the goods set in the pipeline are on the move than outside the pipeline.

6. The principle of proximity

The essence of this principle is that the intermediaries are much closer to the consumers than the producers or the manufacturers. That is, they have deeper involvement with consumers that helps them to understand the consumer needs and possible change and pass on the same to the producers or the manufacturers through orders and message. It does not mean that they are not at all involved with the producers. They pass on the information useful to the customers from the manufacturers too. However, they are more interested, and therefore, involved with the final users.

13.4 TYPES AND FUNCTIONS OF CHANNELS

The trade channels are classified into conventional and; non-conventional or nonintegrated and integrated with further ramifications.

A. Conventional Channels

Conventional or individualistic channels are the fragmented networks wherein the manufacturers and the consumers are loosely linked by intermediaries in the process of exchange. These intermediaries perform the usual conventional marketing functions.

The conventional channel alternatives can be:

1. Manufacturer to consumer.
2. Manufacturer to retailer to consumer.
3. Manufacturer to wholesaler to retailer to consumer.
4. Manufacturer to wholesaler to consumer and
5. Manufacturer to agents to wholesaler to retailer to consumer. Non-integrated or conventional channels take two shapes namely: direct and indirect.

A direct channel is one which is the shortest wherein the company chooses to sell directly to the consumer without engaging any intermediary. It is commonly seen in the case of mail-order sales, sales by travelling salesmen and multiple shops. On the other hand, an indirect' channel is one which employs the services of intermediaries in moving the goods to the consumers. As a result, in direct channels, there is an immediate change in the title of goods frommanufacturers to consumers while in the case of indirect channels, it gets delayed as the intermediaries go on increasing.

These direct and indirect channel options will be clearer with the practical illustrations given below.

1. **Manufacturer to the consumer**: This channel choice is the shortest and simplest as it is direct where goods move directly from producers to consumers. That is no intermediary is involved. This is the channel choice opted by manufacturers of industrial and consumer durable goods. The sales are affected by the company sales force. Take the case of vacuum cleaners, water coolers, oil engines, and generator sets. The same is the case with bakery products though they are consumer non-durables.

2. **Manufacturer to retailer to the consumer**: Between the producers and the consumers, this channel has one intermediary namely the retailer. This is the most common channel in the case of consumer durables such as textiles, shoes, ready-made garments and so on. In the case of textiles, most of the mills have their own retail outlets all over the country. In the case of shoes Bata, Carona and Flex have their retail outlets throughout the length and breadth of the country.

3. **Manufacturer to wholesaler to retailer to consumers**: This channel option has two intermediaries namely, wholesaler and retailer interposed between the producers and the consumers. This is the most popular form and is used by both small and big companies alike. The companies producing consumer non-durable items use this where the wholesalers stock the production in different parts of the nation or a region and from there, the products are supplied in smaller quantities to the retailers and who in turn, sell to the consumers.

4. **Manufacturer to wholesaler to consumer**: This channel option by passes the last link namely retailers. Therefore, goods move from producers to wholesalers and back to consumers directly without having recourse to retailers. This is the most acceptable practice when the consumers are not individual buyers but are institutional buyers such as hospitals, schools, colleges, government agencies, public enterprises, business houses, religious institutions, sports clubs and the like. However, the scope of this channel is limited to the number of institutional buyers. Though it is used in cases of those companies manufacturing consumer durable goods, it can be also used in the case of consumer non-durables.

5. **Manufacturer to agent to wholesaler to retailer to consumer**: It is the longest indirect channel option that a company has. The channel has the services of agents and middlemen only next to producers who in turn, sell to wholesalers and the wholesalers to retailers and back to final users by the retailers. These agent-middlemen may be commission agents, or export merchants who manage the affairs on behalf of the manufacturer who wants to concentrate totally on production. This is generally done by companies with multiple product portfolios and producing consumer non-durables on a large scale enjoying national and international markets.

It is worth pointing out at this level that the above five channel options are not exclusive.

Depending on the individual requirements, a firm may use combined options instead of only one channel. When a company uses only one channel for all its market segments and all products, it is a case of mono-channel or single-channel policy. When it uses two or more channels for its products and the market segments, it is called a dual or multi-channel policy.

B. Integrated Channels

As opposed to the conventional or non-integrated channels of distribution integrated channels of distribution are those networks that work with full coordination and cohesion rather than working in a loose manner.

These integrated channels can be 'vertical' and 'horizontal' in nature.

1. **Vertical channels**: Vertical or vertically integrated channels of distribution are those which are professionally managed and centrally programmed networks that are pre-engineered to achieve operating economies and maximum market impact. In other words, these are rationalized and capital-intensive networks designed to achieve, technical, managerial and promotional economies through integration, coordination and synchronization of marketing flows from the points of production to the final points of ultimate use.
   These vertically integrated channels are of three types namely, administered', ’contractual' and 'corporate'. The 'Administrative' channel is one in which coordination of marketing activities is achieved through the use of programs developed by one or a limited number of firms. Such an arrangement makes use of management facilities, modular merchandising, coordinated display and automatic' replacement programs and programmed merchandising agreements. This is generally followed by two-wheeler or three-wheeler or four-wheeler manufacturers who direct its dealers guarantee coordinated display and merchandising to win dealer support. A 'contractual' channel is one under which the independent channel components integrate their programme on contractual lines to attain economies and enhance the market impact. That is, the outside units specializing would do the work for a price. Thus, the manufacturers hire the services of other units on contract terms. This is the case with those companies which are confident of doing well on the distribution side due to financial and expertise laxities. A 'corporate' channel is one in which the channel components are owned and operated by the same organization. Though it involves huge investments, it has the advantage of full control. Thus, a manufacturing unit may float a selling or marketing unit of its own.

2. **Horizontal Channels**: A horizontal channel is one in which two or more companies join their hands to exploit a marketing opportunity or opportunities, either by themselves or by creating an independent unit. The example of tariff kind are the Sugar Syndicate of India and Associated Cement Company. The reasons for horizontal integration are the ever-changing markets, cut-throat competition, changing pace of technology, excess capacity, cyclical and seasonal changes in consumer demand and the inbuilt capacity to take financial risks single-handedly and so on.

SELF-CHECK EXERCISE

I. What is the primary role of distribution channels in the marketing system?

   a) Creating products

b) Directly selling to consumers
c) Linking producers with users
d) Handling advertising and promotions

II. What type of distribution channel is characterized by central coordination and programmed merchandising agreements?
a) Vertical administrative channel
b) Vertical corporate channel
c) Horizontal channel
d) Direct channel

III. The principle of minimum total transactions explains how the use of intermediaries can result in cost savings in the exchange process. (True/False).

IV. The principle of routine encourages the standardization of goods and services to facilitate performance evaluation and comparison. (True/False).

V. According to the principle of __________, the intermediaries are much closer to the consumers than the producers, helping them understand consumer needs and passing on information to the manufacturers.

VI. The most common channel for consumer durables, such as textiles and ready-made garments, is from the manufacturer to __________ to the consumer. (Retailer)

13.5 TYPES OF INTERMEDIARIES

'Intermediaries' are the middlemen and signify those individuals and institutions in the channel that either take title to the goods and sells at profit or do not take title to thegoods but sell for a commission. American Marketing Association defined the term "middleman" as "one who specializes in performing operations of rendering services that are directly involved in the purchase and sale of goods in the process of their flow from the producers to the users". Marketing intermediaries are the individuals and organizations that perform various functions to connect the producers with the end users. The individuals and institutions perform the functions of procurement, storage, packing, financing, transportation and counselling in linking the two ends. The significant thing to note is that these intermediaries perform these functions so well and so economically that it is possible neither for the producers nor for the end users to endure alone. These middlemen are classified as merchant' and agent middlemen.

13.6 CHANNEL MANAGEMENT

What does channel management involve? Do you have any idea? Channel management calls for selecting particular middlemen and motivating them with a cost-effective trade relations mix. The aim is to build a "partnership" feeling and joint distribution programming. Individual channel members must be periodically evaluated against their own past sales and other channel members' sales. Channel modification must be performed periodically because of the continuously changing marketing environment.

The company has to evaluate adding or dropping individual middlemen or individual channels and possibly modifying the whole channel system.

1. Selecting Channel Members
2. Training Channel Members
3. Motivating Channel Members

4. Evaluating Channel Members
5. Modifying Channel Arrangements

Let us discuss this in detail:

1. Selecting Channel Members

Companies need to select their channel members carefully. To customers, the channels are the company. Consider the negative impression you would get of McDonald's, or Hyundai if one or more of their outlets or dealers consistently appeared dirty, inefficient, or unpleasant.

Selection and cooperation would therefore involve

- evaluate experience,
- number of lines carried,
- growth and profit record
- solvency, cooperativeness, and reputation

2. Training channel members

Companies need to plan and implement careful training programs for their intermediaries because they will be viewed as the company by end users. They prepare the channel member employees to perform more effectively and efficiently. The company should provide training programs, market research programs, and other capability-building programs to improve intermediaries' performance.

3. Motivating channel members

A company needs to view its intermediaries in the same way it views its end users. It needs to determine intermediaries' needs and construct a channel positioning such that its, channel offering is tailored to provide superior value to these intermediaries.

Producers vary in their ability to attract intermediaries. They can exercise the following types of power

i. Coercive power
ii. Reward power
iii. Legitimate power
iv. Expert power
v. Referent power

More sophisticated companies try to form partnerships and can evolve into long-term distribution programming.

4. Evaluating channel members

Producers must periodically evaluate intermediaries' performance against such standards as sales-quota attainment, average inventory levels, customer delivery time treatment of damaged and lost goods, and cooperation in promotional and training programs. A producer will occasionally discover that it is paying too much to particular intermediaries for what they are actually doing. One manufacturer that was compensating a distributor for holding inventories found that the inventories were actually held in a public warehouse at its expense.

Producers should set up functional discounts in which they pay specified amounts for the trade channel's performance of each agreed-upon service. Underperformers need to be counselled, retrained, re-motivated, or terminated.

They are evaluated on the following parameters

- sales quota attainment,
- average inventory levels,
- customer delivery time,
- treatment of damaged and lost goods,
- and cooperation in promotional and training programs

5. Modifying channel arrangements

A producer must periodically review and modify its channel arrangement. Modification becomes necessary when the:

- distribution channel is not working as planned,
- consumer buying patterns change, the market expands
- new competition arises,
- innovative distribution channels emerge,
- and the product moves into a later stage in the product life cycle.

Therefore, the system will require periodic modification to meet new conditions in the marketplace.

13.7 CHANNEL DYNAMICS

It would be of great interest to know that distribution channels do not stand still. New wholesaling and retailing institutions emerge, and new channel systems evolve. We will look at the recent growth of vertical, horizontal, and multi-channel marketing systems. Marketing channels are characterized by continuous and sometimes dramatic change, especially with the changes brought by the growth of the Internet as a major marketing tool and channel of distribution. For example, the new competition in retailing no longer involves competition between individual firms but rather between retail systems. Three of the most significant trends are the growth of vertical, horizontal, and multi-channel marketing systems. All channel systems have a potential for vertical, horizontal, and multi-channel conflict stemming from such sources as goal incompatibility, unclear roles and rights, differences in perception, and high dependence.

Managing these conflicts can be sought through super ordinate goals, exchange of persons, cooptation, joint membership in trade associations, diplomacy, mediation, and arbitration. Marketers should continue to explore and respond to the legal and moral issues involved in channel development decisions.

13.7.1 CONVENTIONAL MARKETING SYSTEMS

A channel consisting of one or more independent producers, wholesalers, and retailers each a separate business seeking to maximize its own profits even at the expense of profits for the system as a whole.

13.7.2 VERTICAL MARKETING IMPLEMENTATION AND SYSTEMS

A distribution channel structure in which producers, wholesalers, and retailers act as a unified system. One channel member owns the others, has contracts with them, or has so much power that they all cooperate. VMSs arose as a result of strong channel members' attempts to control channel behavior and eliminate the conflict that results when independent members pursue their own objectives. VMS achieve economies through size, bargaining power, and elimination of duplicated services.

A. Vertical marketing system comprises of:

i. Corporate VMS

ii. Administered VMS
iii. Contractual VMS

i. Corporate VMS

A vertical marketing system that combines successive stages of production and distribution under single ownership-channel leadership is established through common ownership.

ii. Administered VMS

A vertical marketing system that coordinates successive stages of production and distribution, not through common ownership or contractual ties, but through the size and power of one of the parties.

iii. Contractual VMS

A vertical marketing system in which independent firms at different levels of production and distribution join together through contracts to obtain more economies or sales impact than they could achieve alone.

Contractual VMS could have the following forms:

a. Wholesaler-sponsored voluntary chains
b. Retailer cooperatives
c. Franchise organizations
d. Manufacturer-sponsored retailer franchise or manufacturer-sponsored wholesaler franchise

B. Horizontal Marketing Systems

A channel arrangement in which two or more companies at one level join together to follow a new marketing opportunity.

i. Two or more unrelated firms put together resources or programs.
ii. Each firm lacks the capital, technology, marketing resources or other variables to take on the venture alone
iii. Can be permanent or temporary

C. Multi-channel Marketing Systems

A distribution system in which a single firm sets up two or more marketing channels to reach one or more customer segments.

i. Multi-channel marketing-single firm uses two or more marketing channels to reach one or more customer segments-advantages: increased coverage, lower cost, customized selling
ii. Planning channel architecture (companies thinking through their channel architecture-which are efficient and not, and developing new means)
iii. Roles of individual firms in a multi-channel system: (insiders, strivers, complementors, transients, outside innovators).

SELF-CHECK EXERCISE

VII. What type of channel marketing system is characterized by independent producers, wholesalers, and retailers, each seeking to maximize their own profits even at the expense of profits for the entire system?

a) Vertical Marketing System (VMS)

b) Horizontal Marketing System (HMS)

c) Conventional Marketing System

d) Multi-Channel Marketing System

VIII. In the context of channel management, what is the primary goal of selecting channel members carefully?

a) Maximizing company profits

b) Offering better discounts to end users

c) Enhancing channel member profits

d) Building a strong partnership feeling with channel members

IX. Channel management involves selecting particular middlemen and motivating them with a cost-effective trade relations mix to build a __________ feeling and joint distribution programming.

X. Modification of channel arrangements becomes necessary when the market expands, new competition arises, innovative distribution channels emerge, and the product moves into a later stage in the __________.

13.8 CONFLICT MANAGEMENT

Disagreement among marketing channel members on goals and roles- who should do what and for what rewards.

Types of Conflict

Let us know why conflicts occur.

i. **Vertical channel conflict** - means conflict between different levels within the same channel

ii. **Horizontal channel conflict**- conflict involves conflict between members at the same i.e.: within the channel.

iii. **Multi-channel conflict**- exists when the manufacturer has established two or more channels that sell to the same market.

Causes of channel conflict: It is important to identify the causes of channel conflict. Some are easy to resolve, others are not. One major cause is goal incompatibility. For example, the manufacturer may want to achieve rapid market penetration through a low-price policy. Dealers, in contrast, may prefer to work with high margins and pursue short-run profitability. Sometimes conflict arises from unclear roles and rights.

Conflict can also stem from differences in perception. The manufacturer may be optimistic about the short-term economic outlook and want dealers to carry higher inventory. Dealers may be pessimistic. Conflict might also arise because of the intermediaries' dependence on the manufacturer.

The following highlights the common causes of conflict:

- Goal incompatibility
- Unclear roles and rights
- Differences in perception

- Over-dependence

How to manage channel conflict?

Some channel conflict can be constructive and lead to more dynamic adaptation to a changing environment, but too much is dysfunctional. The challenge is not to eliminate conflict but to manage it better. There are several mechanisms for effective conflict management. One is the adoption of superordinate goals. Channel members come to anagreement on the fundamental goal they are jointly seeking, whether it is survival, market share, high quality, or customer satisfaction. They usually do this when the channel faces an outside threat, such as a more efficient competing channel, an adverse piece of legislation, or a shift in consumer desires.

A useful step is to exchange persons between two or more channel levels Hopefully, the participants will grow to appreciate the other's point of view. Co-optation is an effort by one organization to win the support of the leaders of another organization by including them in advisory councils, boards of directors, and the like. As long as the initiating organization treats the leaders seriously and listens to their opinions, co-optation can reduce conflict, but the initiating organization may have to compromise its policies and plans to win their support.

Much can be accomplished by encouraging joint membership in and between trade associations. When conflict becomes acute or chronic, the parties may have to resort to diplomacy, mediation, or arbitration. Diplomacy takes place when each side sends a person or group to meet with its counterpart to resolve the conflict. Mediation means resorting to a neutral third party who is skilled in conciliating the two parties' interests.

Arbitration occurs when the two parties agree to present their arguments to one or more arbitrators and accept the arbitration decision. Sometimes, when none of these methods proves effective, a company or a channel partner may choose to file a lawsuit.

In brief, we can say the following can be used as conflict-resolving methods

i. Adoption of superordinate goals
ii. Exchange of people between channel levels
iii. Co-optation-winning support at different levels
iv. Joint membership in and between trade associations
v. Diplomacy, mediation, arbitration

SELF-CHECK EXERCISE

XI. Vertical channel conflict arises when conflict occurs between different levels within the same channel (True/ False).

XII. Diplomacy involves both parties presenting their arguments to a neutral third party who helps them reach a mutually agreeable solution to the conflict. (True/ False).

XIII. When conflict becomes acute or chronic and other methods fail, what might be the last resort for resolving channel conflict?

a) Diplomacy

b) Mediation

c) Arbitration

d) Lawsuit

XIV. What is a common cause of channel conflict related to differences in strategy between a manufacturer and its dealers?

a) Goal incompatibility

b) Unclear market trends

c) Seasonal demand fluctuations

d) Inventory management issues

13.9 LEGAL AND ETHICAL ISSUES IN CHANNEL RELATIONS

For the most part, companies are legally free to develop whatever channel arrangements suit them. In fact, the law seeks to prevent companies from using exclusionary tactics that might keep competitors from using a channel. Here we briefly consider the legality of certain practices, including exclusive dealing, exclusive territories, tying agreements, and dealers' rights.

i. **Exclusive Dealing: -** Many producers like to develop exclusive channels for their products. A strategy in which the seller allows only certain outlets to carry its products is called exclusive distribution, and when the seller requires that these dealers not handle competitors' products, this is called exclusive dealing. Both parties benefit from exclusive arrangements: The seller obtains more loyal and dependable outlets, and the dealers obtain a steady source of supply of special products and stronger seller support exclusive arrangements are legal as long as they do not substantially lessen competition or tend to create a monopoly, and as long as both parties enter into the agreement voluntarily.

ii. **Exclusive Territories: -** Exclusive dealing often includes exclusive territorial agreements.The producer management agrees not to sell to other dealers in a given area, or the buyer may agree to sell only in its own territory. The first practice increases dealer enthusiasm and commitment. It is also perfectly legal as the seller has no legal obligation to sell through more outlets than he wishes. The second practice, whereby the producer tries to keep a dealer from selling outside its territory, has become a major legal issue.

iii. **Tying Agreements: -** Producers of a strong brand sometimes sell it to dealers only if they will take some or all of the rest of the line. This practice is called full-line forcing. Such tying agreements are not necessarily illegal, but they do violate laws if they tend to lessen competition substantially.

Producers are free to select their dealers, but their right to terminate dealers is somewhat restricted. In general, sellers can drop dealers "for cause," but they cannot drop dealers if, for example, the dealers refuse to cooperate in a doubtful legal arrangement such as exclusive dealing or tying agreements.

13.10 SUMMARY

Value network and marketing channel decisions are among the most complex and challenging decisions facing the firm. Each channel system creates a different level of sales and costs. Middlemen typically are able to perform channel functions more efficiently than the manufacturers. The most important channel functions and flows are information, promotion, negotiation, ordering, financing, risk-taking, physical possession, payment and title. Manufacturers face many channel alternatives for reaching a market. They can choose to sell directly or use one, two, three or more intermediary channel levels. Channel design calls for determining the service outputs (lot size, waiting time, spatial convenience, and product variety), establishing the channel objectives and constraints, identifying the major channel alternatives (types and number of intermediaries, specifically intensive, exclusive, or selective distribution), and the channel terms and responsibilities. Each channel alternative has to be evaluated according to economic, control, and adaptive criteria. Retailing and wholesaling consist of many organizations designed to bring goods and services from the point of production to the point of use. Retailers can be classified in terms of store retailers, non-store retailing, and retail organizations. Store retailers include many types, such as specialty stores, department stores, supermarkets, convenience stores, superstores, combination stores, hypermarkets, discount stores, warehouse stores, and catalogue showrooms. Non-store retailing is growing more rapidly than store retailing. It includes direct selling (door-to-door, party selling), direct marketing, automatic vending, and buying services. Wholesaling includes all the activities involved in selling goods or services to those who are buying for the purpose of resale or for business use. Wholesalers help manufacturers deliver their products efficiently to the many retailers and industrial users across the nation. Wholesalers perform many functions, including selling and promoting, buying and assortment-building, bulk breaking, warehousing, transporting, financing, risk bearing, supplying market information, and providing management services and counselling.

Channel management calls for selecting particular middlemen and motivating them with a cost-effective trade relations mix. The aim is to build a "partnership" feeling and joint distribution programming. Individual channel members must be periodically evaluated against their own past sales and other channel members' sales. Channel modification must be performed periodically because of the continuously changing marketing environment. The company has to evaluate adding or dropping individual middlemen or individual channels and possibly modifying the whole channel system.

13.11 KEYWORDS

1. **Channel of Distribution:** A channel of distribution is an organised network or a system of agencies and institutions which in combination perform all the activities required to link producers with users and users with producers to accomplish the marketing task.
2. **Conventional Marketing System:** A channel consisting of one or more independent producers, wholesalers, and retailers each as a separate business seeking to maximize its own profits even at the expense of profits for the system as a whole.
3. **Vertical Marketing System:** A distribution channel structure in which producers, wholesalers, and retailers act as a unified system. One channel member owns the others has contracts with them, or has so much power that they all cooperate.

13.12 PRACTICE QUESTIONS

13.12.1 Short Answer Questions

Q 1. Define Diplomacy.

Q 2. What are the types of Integrated channels.

Q 3. Discuss The principle of amassed reserves.

Q 4. What are different types of conflict?

13.12.2 Long Answer Questions

Q 1. Discuss the alternatives available when deciding on the number of marketing intermediaries.

Q 2. Compare and contrast conventional and vertical marketing systems.

Q 3. What is the difference between the product assortment breadth and depth decision that retailers make?

Q 4. Wholesalers differ from retailers in a number of ways. State three ways in which they differ from retailers.

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13.14 ANSWER KEY (Self Check Exercises)

I. c, II. a, III. True, IV. True, V. Proximity, VI. Retailer, VII. C, VIII. a, IX. Partnership X. Product life cycle, XI. True, XII. False, XIII. d, XIV. a

Semester II **MARKETING MANAGEMENT**
Lesson No. 14 **AUTHOR: DR. SANDEEP VIRDI**

MARKETING LOGISTICS

14.0 OBJECTIVES

After reading this chapter, the reader should be able to:

- Importance of Marketing Logistics.
- Enumerate the Components and Functions of Marketing Logistics.

14.1 INTRODUCTION: MARKETING LOGISTICS

It covers physical distribution plus a part of the task of marketing channels. While physical distribution takes care of functions such as transportation, ware housing and inventory management and facilities the flow of the product, marketing channels actually connect the firm with its customers. Marketing logistics covers physical distribution in full measure, plus a part of the function of marketing channels. Marketing logistics bring in greater value addition in the delivery chain, beyond mere transportation or distribution.

14.1.1 SUPPLY CHAIN MANAGEMENT (SCM)

SCM is larger in scope than both physical distribution and marketing logistics. It encompasses materials management task as well. Supply chain actually refers to the whole business chain, encompassing procurement of inputs, in bound logistics, conversion of inputs into products, physical distribution/ marketing logistics and channel functions, which finally take the end product to the ultimate consumers.

14.1.2 IMPORTANCE OF MARKETING LOGISTICS

Market Logistics includes planning the infrastructure to meet demand, then implementing and controlling the physical flows of materials and final goods from points of origin to points of use, to meet the customer requirements at a profit.

Market Logistics planning has four important steps:

1. Deciding on the company's value proposition to its customers. (What on-time delivery standard should we offer? What levels should we attain in ordering andbilling accuracy?)
2. Deciding on the best channel design and network strategy for reaching the customers. (Should the company serve the customers directly or through intermediaries? What products should we source from which manufacturing facilities? How many warehouses should we maintain and where should we locate them?)
3. Developing operational excellence in Sales Forecasting, Warehouse Management, Transportation Management and Materials management.
4. Implementing the solution with the best information systems, equipment, policies and procedures.

Studying Marketing Logistics leads managers to find the most efficient way to deliver value. For example, a software company normally sees its challenge as producing and packaging software disks and manuals, then shipping them to wholesalers - who ship them to retailers who sell them to customers. Customers bring the software package to their homes or offices and download the software into their hard drive. Market logistics would look at two superior delivery systems:

The first includes ordering the software to be downloaded directly onto the customer's computer.
The second system allows the computer manufacturer to download the software onto its products.

Both solutions eliminate the need for printing, packaging, shipping and stocking millions of disks and manuals. The same solutions are available for distributing music, newspapers, video games, films, and other products that deliver voice, text, data or images.

Physical distribution / Marketing Logistics forms a pivotal part of the marketing task.

The following points shed light on this issue:

Confers Place and Time Utility on Products

It is physical distribution that confers place-utility and time-utility to a product by making it available to the user at the right place and at the right time. Thereby, it maximizes the chance to sell the product and strengthen the company's competitive position. If any product made in any place could be consumed in its entirety at the very place of production and at the very time of production, there would be no need for physical distribution of that product. But such products are very rare.

Where Production Locations and Markets are Distanced, Physical Distribution Becomes more crucial

In some cases, production locations are totally dictated by considerations, like proximity to sources of raw material. As a result, the points of production might be far away from the markets for the product.

In some cases, huge production capacities get established at given location on consideration of technology and economies of scale. In all such cases, the product has to be marketed over and extended territory, it has to be transported over long distances, stored for a considerable length of time and sold.

Help Build Clientele

It is the physical distribution that determines the customer service level to a large extent. As a result, it serves as a vital tool in building a clientele market for the product. And conversely, ineffective physical distribution leads to loss of customers and markets.

A Promising Area for Cost Reduction

Physical distribution is a fertile area for cost savings. Over the years, in most businesses, physical distribution costs have grown into a sizeable chunk of the total costs and now ranks second among all cost elements, next only to material costs. And surprisingly, it has remained one of the neglected areas of cost control.

IMPORTANCE OF MARKETING LOGISTICS IN A NUTSHELL

- Ensures the physical flow of the product from the producer to the consumer. Without this flow, marketing cannot take place*.
- Confers place and time utility on products
- Helps build clientele
- Where production locations and markets are distanced, physical distribution becomes all the more crucial.
- A promising area for cost reduction.

14.2 COMPONENT FUNCTIONS OF MARKETING LOGISTICS

The component functions of physical distribution/marketing logistics are shown in the following table:

Component Functions of Marketing Logistics

• Planning the overall physical distribution system	• Secondary transportation, secondary handling and sub distribution
• In plant ware housing	• Inventory management at each level in the chain
• Transportation	• Order processing/execution
• Field ware housing	• Accounting/record keeping
• Receiving	• Communication
• Handling	

14.3 STEPS INVOLVED IN DESIGNING A PHYSICAL DISTRIBUTION SYSTEM

The steps involved in designing a physical distribution system are as follows:

1. Articulating distribution objectives and specifying the minimum service level desired in product delivery.
2. Finding out what the customers want in product delivery.
3. Finding out what competitors do.
4. Keeping the costs of the system as low as possible, without sacrificing the guaranteed minimum service level.
5. Keeping the system sufficiently flexible.

SELF-CHECK EXERCISE

I. What is one of the main functions of marketing logistics?
  a) Product development
  b) Maximizing production
  c) Conferring place and time utility on products
  d) Setting prices

II. Supply Chain Management (SCM) encompasses which of the following?
  a) Only marketing logistics
  b) Only materials management
  c) The entire business chain from procurement to distribution
  d) Sales and marketing activities only

III. Marketing logistics is a promising area for cost reduction and has remained one of the neglected areas of ___________.

IV. Marketing logistics covers only physical distribution and doesn't connect the firm with its customers. (True/False)

V. Marketing logistics is not important for building a clientele market, especially when production locations and markets are distanced. (True/False)

VI. Marketing logistics covers physical distribution in full measure, plus a part of the function of marketing channels, bringing in greater _________ in the delivery chain.

14.4 FUNCTIONS OF MARKETING LOGISTICS

The three major functions of Marketing Logistics are:

- Transportation
- Warehousing
- Inventory Management

14.4.1 TRANSPORTATION

The importance of transportation in physical distribution emanates from a variety of factors. At the beginning of this chapter, we explained in detail the factors that contribute to the importance of the physical distribution job as a whole. This applies to transportation. Transportation confers "time utility" and 'place utility' to the product; it determines the company's customer service; it also has a crucial bearing on the other elements of physical distribution and marketing, like warehousing, inventory control and channel management. Finally, transportation is also a very important cost element in most businesses.

Basically, transportation management involves decisions on:
- How much to move?
- When to move?
- By what mode, or combination of modes to move?

The considerations in making these decisions are:
(a) The lead time for stock replenishment
(b) Sales expected in the territory in the intervening time
(c) The normal cycles of inventory buildup at the warehouse/dealer points.

14.4.1.1 Main Tasks in Transportation Management

The main tasks involved in transportation management are shown in the following table:

Main Tasks in Transportation Management	
1.	Assessment of the transportation requirement
2.	Choosing the 'mix' of transport modes
3.	Deciding the routing
4.	Development of operational plans
5.	Implementation/ review
6.	Control of transportation costs

Assessment of the Transportation Requirement

In the first place, a transport manager makes an assessment of the transport requirements based on the sales forecast, sales plan and schedules. He also watches the actual sales performance vis-a-vis the forecast and updates the transport requirements.

Choosing the Mix of Transport Modes

Depending on the product, the market and the cost factors, firms select the transport mode, or the combination/ 'mix' of modes. The name of the game is optimization. A number of considerations, as listed below, are involved in the determination of the optimal mix of modes:
- How do the different modes compare in speed' and costs?
- What is the extent of user orientation' of the modes?
- What is the 'availability' of the modes? Is it adequate? Is it timely?

Routing

Routing has two dimensions: First, systematic assignment of territories to each production/supply point; Second, the actual sequence in which a delivery vehicle should move and service the retail points. When a firm has more than one production location or supply point, it should clearly demarcate the marketing territory to be serviced by each location.

Developing Operational Plans

The transport manager must work out detailed operational plans from the overall transportation plan. Detailed plans/schedules must be developed for each product and each supply point / warehouse, month-by-month and week-by-week. The plans must indicate the model/combinations of modes. They must also be properly dovetailed with the warehouse plans.

Implementation of Plans

The transportation job does not end with the preparation of plans, the determination of optimal modal mix, the development of operational plans and putting in place the required service contracts. In fact, it begins there.

The smooth movement of the product and efficient execution of the whole plan, with minimum deviation, is the real task. Many practical problems may crop up in the process.

Controlling Transportation Costs

As mentioned earlier, transport cost is a major element of distribution costs in most businesses, and it has been increasing constantly in recent years. As such, it is essential that the transportation costs are controlled tightly. Also, this has to be done without sacrificing the minimum guaranteed distribution service level to the channel and consumers. Savings in transportation can be realized by; (a) optimizing the mix of the transport modes, (b) reducing the transport lead and the lead time through effective routing and other means, and (c) eliminating multiple and wasteful transfer, and handling of products.

14.4.2 WAREHOUSING

Warehousing is the second major component of physical distribution. Warehousing management has two distinct and equally important parts: (i) the physical job of creating and running the network of storage points, and (ii) the managerial task of controlling inventory levels without sacrificing service levels. Though interrelated, they require separate and detailed discussion. We -shall, therefore, devote two independent sections to the subject. In the first, we shall deal with the warehousing aspects and in the seconds, with the inventory management aspects.

14.4.2.1 Role and Importance of Warehousing

The following points explain the role and importance of warehousing:

- Like transportation warehousing too vests the product with time utility and place utility.
- In the case of some commodities, warehousing vests the product with 'form utility' as well.
- It is common knowledge that a certain level of storage is inescapable in marketing of most products.
- For products with high seasonality, storage is needed on a larger scale.
- In some cases, sub-distribution realities necessitate extra storage.
- Storage reduces the need for instant transportation, which is often difficult and costly.
- Storage is also a competitive advantage, as with better storage, better servicing of the channel and consumer is possible.
- Storage also helps in balancing demand and supply, and in stabilizing prices.
- In the case of some products, storage by itself acts as a stimulant of demand.

14.4.2.2 Designing a Warehousing System

In most cases, products flow from the factory to the consumer through a long winding chain, consisting of multiple tiers of warehouses and multiple tiers of marketing intermediaries. In designing a warehousing system, the following basic questions relating to this flow become significant.

- How many warehouses should we have?
- Where should we locate them?
- What should be the size or capacity of each of them?

The Cost-Service Tussle

When we look closely at these questions, two interesting, but conflicting, points emerge. Salesmen and channels always plead for greater convenience in delivery and consequently more warehouses. But, maintaining a large network of warehouses is a costly proposition.

Warehousing to be tackled as part of the physical Distribution System

While designing a warehousing system, the fact that warehousing is a part of the overall distribution job should be borne in mind. The warehousing design should fit smoothly into the overall distribution design, which includes physical distribution elements like transportation plus channel arrangements.

Warehousing, a Party fixed and Partly Adjustable Entity

In most cases, it may be apt to view demand in a given territory as consisting of a constant component and a transient component, which is to be added to or subtracted from (mostly added to) the constant component. Past sale corresponds to the constant component. Changes occurring in demand in the current period correspond to the transient component. The transient component is related to change in market demand per se, or company demand (a company may lose or gain relative market share)

The Warehousing Job can be Taken Care of in Different Ways

As regards the actual organizing of the warehousing system, different alternatives can be considered by the firm.

- Hire warehousing service from public warehousing agencies
- Own the go downs and manage warehousing through company staff
- Entrust warehousing to C & F agents/ stockiest/ distributors
- A combination of the above

Each alternative has its associated merits and drawbacks. Decisions have to be basically Situation specific. FMCG (Fast Moving Consumer Goods) firms usually transfer a large part of the warehousing task to their C& F agents.

Determining the Numbers, Location and Size of Warehouses

Determining the location and capacities of the warehouses is the crux of the task. On this depends the firm's customer service level, its competitive advantage in distribution and its inventory cost structure. While one might point out that it is the inventory turnaround that primarily determines inventory costs, the fact remains that the costs are also influenced by the locations and spread of the inventories, such as at how many places and in what sizes are stocks kept. Moreover, inventory turnaround itself is partly the outcome of the manner in which the inventory is spread.

Determining the Numbers : The optimum number will depend upon the nature of the product, the size and geographical spread of the market serviced by each warehouse, the current and potential sales in the territory, the extent of seasonality of demand if applicable the level of peak demand, the trade patterns, the number of distributors/ retail outlets to be serviced by each warehouse, the acceptable order execution time, the possible speed of replenishment of stocks and the cost involved in operating warehouses.

Choosing the size: The decision on the size of the warehouses must be taken in alignment with the decision on their total number. After a firm assesses the sales potential in each warehouse territory, the question to be decided is: What is the optimum inventory holding needed for realizing the sales projected for the territory?

Warehouse size and costs are inversely interrelated. So, as a general rule, small-sized warehouses are uneconomic compared to larger ones. At the same time, if the sales projected are a large number of small-sized warehouses spread extensively all over the marketing territory. There will also be the additional consideration of future requirements.

Choosing the exact locations: Choosing the exact locations of the warehouses is as important as choosing their number and capacity. The locations must be suitable in terms of market factors and availability of transport facilities. Rent rates, commercial suitability of the location, implications of local levies, etc., have also to be looked into. Above all, the availability of suitable godown space has to be considered.

Improving Warehousing Effectiveness

Warehousing effectiveness can be improved by adopting scientific methods and by taking the support of IT. In the larger context, however, warehousing effectiveness depends squarely on right policies of physical distribution.

Scientific warehouse layout in itself facilitates warehousing effectiveness. The layout/ design must be suitable for the product(s) concerned and the nature of storage and in-out operations.

Warehousing effectiveness also improves when the handling and movement of items within the warehouse is minimized. This applies especially to large warehouses and products involving extensive storage, receiving and issue operations. Every time an item is moved within the fatigues the package.

14.4.3 INVENTORY MANAGEMENT

Inventory management is the third major component of physical distribution task. It will be obvious that without effective management of finished product inventory, it is impossible to run any business efficiently and profitably.

Inventory is inescapable

Carrying inventories is inescapable in most businesses. This is because the producing and consuming activities take place at different times, in different locations and at different rates.

Inventories are made up of several elements: operational stocks kept at the point of sale/retail outlets for meeting ready demand is the first element: stocks in transit at any given point of time the second: then there will be stocks awaiting shipment; and finally, there will be buffer stocks for meeting emerging sales requirement.

14.4.3.1 Elements of Inventory Costs

The following list provides a list of the various costs that are normally incurred in carrying inventories.

- Interest on capital tied up in the inventory
- Warehouse rent
- Staff salaries
- Insurance
- Rates and taxes
- Stationery
- Postage and communication changes
- Administrative overheads
- Costs of handling, uploading and stacking
- Loss due to damage and deterioration while on storage
- Cost of order processing/record keeping/accounting

Interest on capital tied up in the inventory is a significant element of the total inventory carrying costs. This is particularly true in businesses in which the turnaround of inventories is rather slow.

14.4.3.2 Issues in Managing Inventory and Inventory Costs

The following are the main issues involved in the management of finished product inventory.

- Identifying the purposes served by the inventory.
- Establishing the correct relationship between inventory purpose and inventory level, and deciding the 'optimum inventory level'.
- Ensuring that the inventory s maintained at the 'optimum level.'

Inventory Control, a 'Balance Act'

It is quite easy for a physical distribution controller to completely avoid stock-out situations and consequent 'lost sales', if only he is allowed to maintain a very high level of inventory. But no firm will allow excessive inventory levels; it is not sound business; it involves a heavy cost. Sound business will call for optimization of inventory level/ inventory costs, ensuring at the same time that the forecasted sales are realized. Obviously, one must assess the probability of run-out, quantify the resultant loss of sales/ profit and offset it against the cost of holding additional stocks and realizing the sale. Inventor management, thus, is essentially a 'balancing act.

Optimum Inventory, a Compromise Between Cost and Service

Inventory is primarily a function of customer service level fixed by the firm. Here, customer service level primarily means the ability to meet demand at the retail level as and when it arises from available stocks, without having to generate a back-order. It is in view of this close interrelation between inventory level and customer service level that inventory control essentially becomes a compromise between 'cost' and service'.

SELF-CHECK EXERCISE

VII. Inventory control is essentially a _________between cost and service, optimizing stock levels for customer satisfaction and cost efficiency.

VIII. ____________ encompasses territory assignment and optimizing delivery vehicle sequences.

IX. Transportation plays a crucial role in _________ by providing time and place utility to products.

X. Optimum inventory levels are primarily determined by a firm's customer service level. (True/False).

XI. Large-sized warehouses are always more economical than smaller ones, irrespective of other factors. (True/False)

XII. What are the three major functions of Marketing Logistics?

a) Production, Distribution, Marketing
b) Transportation, Warehousing, Inventory Management
c) Sales, Promotion, Customer Service
d) Procurement, Quality Control, Packaging

XIII. Which factor is crucial when determining the number of warehouses?

a) Warehouse rent
b) Cost of order processing
c) Current and potential sales
d) Warehouse layout.

XIV. What does warehousing provide to products?

a) Time utility
b) Place utility
c) Form utility
d) All of the above

14.5 MARKETING LOGISTICS NEEDS A SYSTEMS APPROACH

The different functions of physical distribution/marketing logistics such as transportation, handling, warehousing and inventory management interact constantly with one another. As the functions are interdependent, the costs thereof are also closely interrelated. Very often, one function subsidies another.

Logistics Functions are Interrelated and Hence Need an Integrated Handling

It is evident that in the nature of things, the component functions of marketing logistics are interrelated and hence need coordinated handling. They cannot be handled in isolation, as they have no separate identities. If the functions are scattered in an arbitrary manner among different departments of the company without a common direction, control will get fragmented and effectiveness adversely affected. In fact, in such a situation, the very objectives of physical distribution get fragmented and distorted. The different functions will pull in different directions.

A Single Task and a Single Unified System

In brief, because of the interrelationship among the different functions and their costs, it would be necessary and desirable to look at the physical distribution job as a single unified system and optimize the efficiency of the system as a whole. This is precisely what a system's approach to physical distribution means. Such an approach will facilitate better coordination among the various component functions and remove sub-optimization of the system. A system approach' in effect means a 'total efficiency approach' and a 'total cost approach'. It means that the decisions on all functions of physical distribution are taken in an interrelated manner and in alignment with the other component functions.

14.6 OUTSOURCING OF MARKETING LOGISTICS

In recent times, firms have been taking to non-conventional approaches in the matter of physical distribution/management of marketing logistics. Complete outsourcing of marketing logistics is perhaps the most noteworthy of them all. Developments on the transportation and information technology fronts, and emergence of a new generation of air express companies have rendered such arrangements feasible. Outsourcing seems to confer two major benefits. First, it helps to achieve a higher service standard in distribution. Second, it helps cut distribution costs. In other words, it is proving more efficient as well as more cost-effective compared to the case wherein the companies were performing these functions by themselves.

CASE: VOLVO-GM OUTSOURCES MARKETING LOGISTICS, TYING UP WITH FEDEX

Volvo GM sells to its dealers a lot of spare parts meant for its commercial trucks. In the past, sales to these dealers used to take place through Volvo-GM regional warehouses. The dealers were experiencing frequent stock outs of critical spare parts. Customers needed spare parts for scheduled maintenance as well as emergency roadside repairs. In respect of scheduled maintenance, the regional warehouse-based distribution was working well. But, in respect of emergency repairs, the system was proving ineffective; as such spare parts could not be predicted and stocked at regional warehouses. Towards improving the Service level with regard to supply of spare parts for emergency repairs, Volvo-GM worked out an innovative step, tying up with the air express company, Federal Express (FedEx). It set up a central warehouse in Memphis, Tennessee, and stocked its entire line of spare parts in that warehouse. Now, when a dealer needed spares in an emergency, he would call FedEx through a toll free number and FedEx would supply the parts by flight the same night. Parts were either delivered at the dealer's shop, or even dropped at the roadside at the breakdown site. Once the new arrangement got going, Volvo-GM eliminated some of its traditional regional warehouses and reduced its overall inventory cost by 15 percent. Also, the dealer/customer satisfaction level went up.

14.7 TOWARDS MORE EFFECTIVE MARKETING LOGISTICS

Improvement in Marketing Logistics and Physical Distribution can be affected by either reducing the costs or delivery time or both. If delivery time is reduced by keeping costs at the same level, there is efficiency improvement. Similarly, the opposite is true. That is costs are reduced without lengthening the delivery time. Following are some areas where efficiency improvement is possible and profitable as pointed out by Prof. Robert Hartley.

1. **Simplifying the Distribution System:** every producer and marketer should be alert to any possibility of simplifying the distribution system. For instance, the firm can think of eliminating the field warehouses wherever possible in revising the channels of distribution.

2. **Revising The Channels of Distribution:** Many firms are wedded to the traditional channels of distribution that need periodic re-evaluation. For instance, if the firm has been relying on wholesalers only, it can gain if it is revamped by having the direct sale retailers by eliminating the wholesalers to reduce the costs.

3. **Reducing The Excess Inventories:** In case some warehouses are eliminated with the revamping of the distribution system, lesser inventories are needed. But inventories can be streamlined and possible imbalances can be corrected without eliminating warehouses if their proximity to the markets is judged as desirable.

4. **Packaging Considerations:** It goes without saying that any packaging design that considers the basic needs of transportation, shipping, storage and handling can bring about physical distribution efficiency. Thus, package sizes can be uniform; can be of smaller size for easy handling and storage and consumer convenience, product identification can be bettered. These reduce hidden costs and visible costs too.

5. **Receptivity to Innovation:** It is but natural that technological innovations make possible more efficient material handling, better use of available space in storage, quickening order processing and so on. However, it is worth noting here that going in for advanced technologies is not always justified. Not every business can afford the luxury of computerizing. Therefore, the wisdom lies in improving the efficiency by careful analysis of the existing system to revamp it to the maximum possible extent.

14.8 SUMMARY

Marketing Logistics is larger in scope to Physical Distribution; where Physical Distribution is the process of delivering the product to the marketing channels and the consumers. It encompasses the various activities involved in the physical flow of the product from the producer to the consumer, whereas Marketing logistics covers physical distribution in full measure, plus a part of the function of marketing channels. Marketing logistics bring in greater value addition in the delivery chain, beyond mere transportation or distribution. Supply Chain Management is another imperative dimension to Marketing Logistics and is larger in scope than both physical distribution and marketing logistics. It encompasses materials management task as well. Essentially, SCM can be viewed as the combination of materials management and end product distribution, which constitute the two vital components of the business process and form the key tasks at the front end and back ends of the process respectively, but that is beyond the purview of this chapter, and is suggested to be referred to, as a supplement to reading this chapter.

14.9 KEYWORDS

1. **Marketing Logistics:** It is a physical distribution system that confers place-utility and time-utility to a product by making it available to the user at the right place and at the right time.

2. **Supply Chain Management**: Supply chain refers to the whole business chain, encompassing procurement of inputs, inbound logistics, conversion of inputs into products, physical distribution/marketing logistics and channel functions, which finally take the end product to the ultimate consumers.

3. **Transportation Management**: Transportation Management involves decisions on "How much to move, when to move and by what mode or combination of modes to move"?

4. **Routing**: Routing is the systematic assignment of territories to each production/supply point and deciding on the actual sequence in which a delivery vehicle should move and service the retail points.

5. **Warehousing Management**: Warehousing management is the physical job of creating and running the network of storage points, and the managerial task of controlling inventory levels without sacrificing service levels.

6. **Inventory Management**: It is the science of deciding what to produce, when to produce, how much to produce and how much to have in stock for a given period of time.

14.10 PRACTICE QUESTIONS

14.10.1 Short Answer Questions

Q 1. Name the three major functions of Marketing Logistics.

Q 2. Identify two major benefits of outsourcing in the context of distribution.

Q 3. Explain how physical distribution confers both place-utility and time-utility to a product.

14.10.2 Long Answer Questions

Q 1. Describe the various components of Marketing Logistics.

Q 2. Illustrate with examples the importance of Transportation, Warehousing and Inventory Management in Marketing Logistics.

Q 3. Explain how Outsourcing of Logistics can be beneficial for a company?

14.11 REFERENCES

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14.12 Answer Key (Self check Exercise)

I. c, II. c, III. Cost control, IV. False, V. False, VI. Value Addition, VII. Balancing act, VIII. Routing, IX. Physical distribution, X. True, XI. False, XII. B, XIII. C, XIV. D.

Semester II **MARKETING MANAGEMENT**
Lesson No. 15 **AUTHOR: DR. DHIRAJ SHARMA**

GREEN MARKETING AND HOLISTIC MARKETING

15.0 OBJECTIVES

This comprehensive study has a multifaceted set of objectives. Firstly, it aims to define and establish the concept of green marketing in the context of contemporary business, recognizing its essential role in addressing environmental concerns. It also endeavors to explore the crucial components of holistic marketing, including relationship marketing, integrated marketing, and internal marketing, highlighting the importance of synchronization among marketing activities. Moreover, this study delves into the integration of social responsibility marketing, emphasizing the significance of ethical, environmental, legal, and social considerations within marketing strategies. Lastly, it seeks to provide practical insights and real-world examples to showcase the successful implementation of these marketing approaches in businesses, underscoring their potential to enhance overall organizational performance and contribute to societal well-being.

15.1 INTRODUCTION: GREEN MARKETING

Although environmental issues influence all human activities, few academic disciplines have integrated green issues into their literature. This is especially true of marketing. As society becomes more concerned with the natural environment, businesses have begun to modify their behavior in an attempt to address society's "new" concerns. Some businesses have been quick to accept concepts like environmental management systems and waste minimization, and have integrated environmental issues into all organizational activities. Some evidence of this is the development of journals such as "Business Strategy and the Environment" and "Greener Management International," which are specifically designed to disseminate research relating to business' environmental behavior.

One business area where environmental issues have received a great deal of discussion in the popular and professional press is marketing. Terms like "Green Marketing" and "Environmental Marketing" appear frequently in the popular press. Many governments around the world have become so concerned about green marketing activities that they have attempted to regulate them. For example, in the United States (US) the Federal Trade Commission and the National Association of Attorneys-General have developed extensive documents examining green marketing issues.

According to the *American Marketing Association*, green marketing is the marketing of products that are presumed to be environmentally safe. Thus, green marketing incorporates a broad range of activities, including product modification, changes to the production process, packaging changes, as well as modifying advertising. Yet defining green marketing is not a simple task. Other similar terms used are Environmental Marketing and Ecological Marketing.

The term green marketing came into prominence in the late 1980s and early 1990s. The American Marketing Association (AMA) held the first workshop on "Ecological Marketing" in 1975. The proceedings of this workshop resulted in one of the first books on green marketing entitled "Ecological Marketing" [Henion and Kinnear 1976a). A recent survey discovered that 94 percent of all consumers prefer to do business with companies that demonstrate that they care about the environment. Almost 80 percent said they would pay more for environmentally friendly products.

Unfortunately, majority of people believe that green marketing refers solely to the promotion or advertising of products with environmental characteristics. Terms like Phosphate Free, Recyclable, Refillable, Ozone Friendly, and Environmentally Friendly are some of the things consumers most often associate with green marketing. While these terms are green marketing claims, in general green marketing is a much broader concept, one that can be applied to consumer goods, industrial goods and even services. For example, around the world there are resorts that are beginning to promote themselves as "ecotourist" facilities, i.e., facilities that "specialize" in experiencing nature or operating in a fashion that minimizes their environmental impact.

Thus, green marketing incorporates a broad range of activities, including product modification, changes to the production process, packaging changes, as well as modifying advertising. Yet defining green marketing is not a simple task. Indeed, the terminology used in this area includes: Green Marketing, Environmental Marketing and Ecological Marketing. While green marketing came into prominence in the late 1980s and early 1990s, it was first discussed much earlier. The American Marketing Association (AMA) held the first workshop on "Ecological Marketing" in 1975. The proceedings of this workshop resulted in one of the first books on green marketing entitled "Ecological Marketing". Since that time a number of other books on the topic have been published.

The AMA workshop attempted to bring together academics, practitioners, and public policymakers to examine marketing's impact on the natural environment. At this workshop ecological marketing was defined as:

"The study of the positive and negative aspects of marketing activities on pollution, energy depletion and non-energy resource depletion."

This early definition has three key components: (1) it is a subset of the overall marketing activity; (2) it examines both the positive and negative activities; and 3) a narrow range of environmental issues are examined. While this definition is a useful starting point, to be comprehensive green marketing needs to be more broadly defined. Before providing an alternative definition, it should be noted that no one definition or terminology has been universally accepted. This lack of consistency is a large part of the problem, for how can anissue be evaluated if all researchers have a different perception of what they are researching. The following definition is much broader than those of other researchers and it encompasses all major components of other definitions. The definition is:

Green or Environmental Marketingconsists of all activities designed to generate and facilitate any exchanges intended to satisfy human needs or wants, such that the satisfaction of these needs and wants occurs, with minimal detrimental impact on the natural environment.

This definition incorporates much of the traditional components of the marketing definition i.e., "All activities designed to generate and facilitate any exchanges intended to satisfy human needs or wants". Therefore, it ensures that the interests of the organization and all its consumers are protected, as a voluntary exchange will not take place unless both the buyer and seller mutually benefit. The above definition also includes the protection of the natural environment, by attempting to minimize the detrimental impact this exchange has on the environment. This second point is important, for human consumption by its very nature is destructive to the natural environment. (To be accurate products making green claims should state they are "less environmentally harmful" rather than "Environmentally Friendly.") Thus, green marketing should look at minimizing environmental harm, not necessarily eliminating it.

15.2 WHY IS GREEN MARKETING IMPORTANT

The question of why green marketing has increased in importance is quite simple and relies on the basic definition of Economics :

Economics is the study of how people use their limited resources to try to satisfy unlimited wants.

Thus mankind has limited resources on the earth, with which she/he must attempt to provide for the worlds' unlimited wants. In market societies where there is "freedom of choice", it has generally been accepted that individuals and organizations have the right to attempt to have their wants satisfied. As firms face limited natural resources, they must develop new or alternative ways of satisfying these unlimited wants. Ultimately green marketing looks at how marketing activities utilize these limited resources, while satisfying consumers wants, both of individuals and industry, as well as achieving the selling organization's objectives.

15.3 PRINCIPLES OF GREEN MARKETING

AWEA has developed the following principles in an effort to foster a credible market in environmentally preferable electric services and one that results in meaningful changes in the electric system as a whole. AWEA will periodically revisit these principles, adding and modifying recommendations where appropriate, as the green market evolves and new information is gained. (Note: these guidelines apply to utility "green pricing" programs as well as green marketing that occurs in a competitive retail market).

15.3.1 Issues Related to Product Content and Related Claims

1. Include power from emerging renewable resources (wind, solar, biomass, geothermal).
2. Make a difference. Marketed renewables should be above and beyond any renewables requirements. Rate based resources should be marketed only under certain circumstances.
3. Avoid distinctions between "existing" and "new" renewables.
4. Fully disclose product contents and provide information to allow on-going product verification (in the absence of uniform disclosure requirements).
5. Document claims that power from undesirable sources is not being supported.
6. Do not charge excessive prices.
7. Do not collect premiums in advance and avoid donation programs.
8. Support a universal system of price, fuel mix and emissions disclosure.
9. Support public policies that advance sustainable energy goals.

15.3.2 Principles and their Rationales

1. Include power from emerging renewable resources (wind, solar, biomass, geothermal)

Green marketing can improve the environmental profile of the U.S. electricity supply if marketers sell a power product that includes a substantial fraction of wind, geothermal, biomass (including landfill gas) and/or solar resources. The generation of power from these renewable resource technologies produces few or no air emissions, no carbon (no net carbon, in the case of biomass), and do not cause irreparable damage to river ecosystems. They will be most vulnerable in competitive markets and can most benefit from consumer support. While "green" is difficult to define, and arguments can be made that natural gas and large hydropower are less environmentally harmful than coal, oil, and nuclear power, green-customer demand is unlikely to exceed the supply of large, existing quantities of gas and hydro resources. To make a difference in the amount of emerging renewable resources in the electric system, "green" endorsements should be limited to portfolios that include substantial amounts of wind, solar, biomass and geothermal resources. The balance of the product should contain no greater fraction of nuclear- or coal-fired power than would otherwise be provided by the system mix.

2. Make a difference

Marketed renewables should be above and beyond any renewable’s requirements. Rate based resources should be marketed only under certain circumstances.

Green marketing can make a difference by building total consumer demand for renewables and ultimately increasing the supply of renewables in the marketplace. This argues against creating artificial distinctions among renewable resources (see next principle). There are, however, some situations in which it would be inappropriate to market certain renewable resources. These situations may include those in which: (a) consumer purchases would clearly not make a difference in the total demand/supply picture, (b) consumers would be treated unfairly, or (c) an unfair advantage for existing power providers (i.e., utilities) would be created in competitive markets. All three could occur at once.

Example 1 — Mandated Renewables. Where a marketer is required by law to have a certain amount of renewable power in its resource portfolio, marketing that power separately at a premium would make no difference in the total amount of renewable energy in the system. Similarly, consumers should not be asked to pay extra for environmental practices that are already required by law (e.g., hydro spills required to protect fish). In these cases, green consumers would simply be picking up a larger share of the tab that would otherwise be shared by all consumers, and markets for other renewables would be dried up. If the marketer wishes to sell the mandated resources to consumers along with additional benefits (e.g., offering consumers a long-term fixed rate in exchange for their purchase), it should clearly inform consumers that the renewable power would be generated regardless of their purchase in order to avoid misleading them.

Example 2 — Renewables Already Paid for by Ratepayers. In some cases, the cost of renewable capacity and/or energy is included in the rates being paid by utility customers. This may occur when costs are included in a utility's rate base, when a utility passes contract costs through to ratepayers, or when ratepayers are paying the costs in a fixed stranded-asset charge, (a) Where renewable resource costs are already being paid for by consumers, they should be marketed at a premium only when the green sales result in additional generation from those resources and a commensurate price is charged. Otherwise, the green marketing would result in cost-shifting or double-charging, (b) Resources that are already being charged to consumers by a utility should not be sold in competitive markets outside of the utility's territory. A utility should be able to market renewable resources when they have been removed from rates and placed within an unregulated subsidiary. Otherwise, utility shareholders assume no risk and gain an unfair competitive advantage against companies that do not have access to ratepayer-subsidized resources and must take additional risks to participate in the green market. Absent a rate case or other adjustments to lower rates to reflect the green sales, utility shareholders would gain at the expense of ratepayers, who would no longer have access to the green resources they have paid for. In some cases, sale of the green resource could result in greater generation from local fossil fuel resources, leaving local consumers environmentally disadvantaged.

3. Avoid distinctions between "existing" and "new" renewables.

Markets work effectively by rewarding the lowest-cost producers, whether they are existing producers or new entrants. Building demand for renewable resources will attract competitors and influence incremental investment decisions made in the power industry in favor of a renewable resource (the investment may be in refurbishing existing equipment or in a new plant). Each purchasing decision can make a difference in pushing toward that next investment in renewable energy supply. Some believe that the total amount of renewables in the system can be increased the fastest by drawing a distinction between "existing" and "new" resources, and by favoring the latter. We believe this is inappropriate for a number of reasons.

First, a new project may not need support while an existing project might. For example, a new project whose "above market" costs are being fully covered by a government subsidy may not need additional consumer support, whereas an existing project receiving market prices that are inadequate to sustain operations may. Second, from an environmental perspective, it makes no sense to build a new project (new roads, power lines, etc.) while an existing project languishes, if it is possible to maintain or repower the existing project at the same or lower cost. Third, definitions of "new" are problematic (e.g., when does "new" become "old"?). Fourth, it is unfair to penalize early investors in renewable energy by classifying their product as somehow inferior. It is best to allow the market to displace existing renewable resources when new ones of greater value or lower cost are available.

This principle does not mean that marketers cannot tout a new project if that's what they are doing and selling. However, marketers should not imply that new is better simply because it is new, or that existing renewables are somehow unworthy of support simply because of the fact that they were built earlier.

4. Fully disclose product contents and provide information to allow on-going product verification (in the absence of uniform disclosure requirements).

In the absence of uniform public disclosure requirements, green marketers should voluntarily disclose portfolio contents to consumers, including percentages of emerging renewable resources, in all product advertisements and billing statements to the maximum extent practicable. Marketers should also provide all necessary information to government agencies and private organizations seeking to verify those claims. Otherwise, it will be difficult, if not impossible, for consumers to know what they are purchasing and for interested parties to verify green claims.

5. The document claims that power from undesirable sources are not being supported.

Where marketing and advertising claims involve the exclusion of nuclear- or coal-fired power, those resources must not be supported in any way by the green purchase (with the exception of incidental system power balancing requirements and ancillary services). Electrons and dollars are fungible, so the marketer must prove that consumer dollars do not in any way support the bad.

6. Do not charge excessive prices.

Reasonable prices for renewable energy products would be a natural outcome of a market that is vibrantly competitive and in which consumers have good information. And, where consumers have choices, informed consumers can be trusted to decide whether product benefits are worth the price. However, many consumers are unaware that the cost of renewable energy has fallen dramatically in the last decade, and if excessive prices are charged for renewable energy, it will give the public the impression that renewables cost more than they actually do, which could decrease support for public policies promoting renewables and reduce the size of the market for renewables. Green marketers that charge prices that are clearly out of proportion to the actual cost of renewable energy, after factoring in reasonable marketing costs and rewards for risks taken, should expect some criticism.

7. Do not collect premiums in advance, and avoid donation programs.

Collecting premiums in advance invites abuse. Consumers should not be asked to pay for someone else's investment when they get nothing in return. Green purchases that are product-oriented rather than donation or promise-oriented are likely to be more successful. Collecting expressions of interest or agreements to purchase power when it becomes available are more appropriate methods of securing consumers.

8. Support a universal system of price, fuel mix and emissions disclosure.

To encourage a market in "green," consumers must have information that allows them to compare shops among all suppliers on the basis of the costs and the environmental characteristics of their resource portfolio. This necessarily requires disclosure of price, fuel mix, and emissions on a consistent basis-not just for those claiming "greenness," but for all suppliers. Without uniform disclosure requirements, the burden will fall on green marketers to investigate their competitors' portfolios and educate consumers about them-a difficult and expensive task. Even then, consumers may be mistrustful of green claims. Any green marketer with a worthy product has an interest in disclosure requirements because it will give legitimacy and value to its product. In a truly competitive market with full disclosure, we can expect competitors to “bid up" the amount of renewables to attractenvironmentally-concerned consumers. Disclosure mechanisms should be designed to minimize public and private administrative costs, such as a "tradable tag" approach.

9. Support public policies that advance sustainable energy goals.

Encouraging individuals to take responsibility for the environmental impacts caused by their own personal electricity consumption is an important element of moving to a more sustainable electricity supply. Green marketing is also an important part of advancing renewable energy in the marketplace. However, green marketing it is not an adequate substitute for public policies that correct the market failures that will hinder renewables and cleaner fossil resources in the market and that set the electric industry on a sustainable course. Moreover, in order for consumers to have the choice of purchasing renewable energy, we must have strong renewable energy industries. Given the high entry barriers in the electric industry, we must ensure that a meaningful base of renewables is built into the system. The green marketer who is truly interested in significantly advancing renewables will:

- support transmission and system operation rules that treat intermittent renewable resources fairly,
- support strong renewable energy and environmental policies in the states and Congress,
- not represent green marketing as an adequate substitute for either of the above.

15.4 WHY ARE FIRMS USING GREEN MARKETING?

When looking through the literature there are several suggested reasons for firms increased use of Green Marketing. Five possible reasons cited are:

1. Organizations perceive environmental marketing to be an *opportunity* that can be used to achieve its objectives.
2. Organizations believe they have a moral obligation to be more *socially responsible.*
3. *Governmental bodies* are forcing firms to become more responsible.
4. *Competitors' environmental activities* pressure firms to change their environmental marketing activities and
5. *Cost factors* associated with waste disposal, or reductions in material usage forces firms to modify their behaviour.

15.5 REASONS BEHIND THE TREND TOWARDS GREEN MARKETING

Consumers (i.e., donors) like green (as long as it doesn't cost them, much).

- Green is a must for any environmentally-focused nonprofit. Your marketing strategy has to be designed around environmentally-sound approaches.
- Green's important for other nonprofits too. When you print on recycled paper or promote your transition from a print to e-newsletter, your organization shows audiences it cares about the world as a whole, not just its specific issue area.

Marketing folks are listening.

Anecdotal evidence points to a focus on green marketing, even for corporations marketing products and services that have nothing to do with protecting the environment. And agencies are popping up to serve these needs.

- Some nonprofits are hiring small shops that specialize in green issues, in addition to the pro bono marketing work filtered through the Ad Council.
- "These (Specialist) firms have a more sophisticated sense of the role groups like ours must play in embarrassing companies or in inspiring their customers to do so," says Michael J. Brune, ED of Rainforest Action Network.
- The larger, more established firms (like BBDO) are developing green expertise to maintain the business.

There's more competition out there for campaigns on environmental issues.

- Since corporations, as well as nonprofits, are starting to use focused images and messages, there's more competition for green ears and eyes.
- It's critical to develop unique ways to talk about your environmental issues and to position the work your organization does.

In the past decades, innovative environmental managers and product designers have made considerable progress toward reducing the environmental impacts of products. Driven by regulations, new technologies and consumer pressure, whilst designers have focused on particular eco-aspects of products such as increasing the amounts of recycled or recyclable materials; reducing in-use consumption of energy; reducing material intensity of products; and the impact of product take-back schemes. Experience with these and other concepts forms the basis of myriad guidelines, software and consultancy services covering 'Green Product Design'. However, there are only a few strategic tools for marketers of green products, and even these have evolved in an ad hoc manner. Furthermore, greener products should replace their 'dirtier' counterparts if they are to make significant inroads towards reducing environmental impacts. For example, Fox Fibre, a frequently cited example of a more sustainable business, has inspired the green design community with its naturally colored, certified organic and beautiful cotton fibres. However, this same innovative business is experiencing financial problems because of unreliable markets. Green designs, and more sustainable designs, will only survive if there is a market for the products that leading-edge companies have developed.

While strategies for successful marketing of greener products do exist, they are not widely known. How then, should businesses that have made strides in greener product design approach Green Marketing?

SELF CHECK EXERCISE

I. What is the primary objective of green marketing, as defined by the American Marketing Association?

a) Maximizing profits for businesses

b) Reducing the cost of advertising

c) Satisfying human needs and wants

d) Minimizing detrimental impact on the environment

II. What is the main driver for firms to engage in green marketing?

a) Increased profitability

b) Social responsibility

c) Regulatory compliance

d) Competitive pricing

III. Why do some organizations face financial problems despite having innovative green designs?

a) Lack of consumer interest in green products

b) Unreliable markets

c) Excessive government regulations

d) High production costs

IV. One of the challenges in green marketing is the lack of ___________regarding environmental claims, leading to confusion among consumers.

V. Green marketing is not limited to consumer goods; it can also apply to __________and services.

VI. Many consumers are willing to pay a premium for products that are considered __________.

15.6 HOLISTIC MARKETING: INTRODUCTION

Holistic marketing is a simple way of describing all the ways your company communicates. It means a business needs to consider everything from the signage on the company's door to the homepage of their website as well as the type of message that needs to be sent to the customers and how to do that same.

The more touch-points a company effectively uses to reach potential customers, the more likely they are to earn their respect and receive their business. A few of these touch-points are mentioned below:

- Brand strategy and development
- Image building
- Logos and identity
- Advertising
- Newsletters
- Direct mail
- Brochures and collateral
- Website
- Event marketing and trade shows
- Word-of-mouth tactics
- Public relations

"The aim of marketing is to make selling unnecessary." By: - Peter F. Drucker

"We know that in three years you will lose half your customers who are satisfied. Being just satisfied though doesn't hold on to customers," Mr. Philip Kotler explains.

"So maybe, the companies need to think about their marketing more holistically. There is no hard evidence that consumers will choose more ethical, socially responsible companies over others that for example offer a low price.

However, a holistic marketing approach can be a differentiator in a market where companies are similar in price, quality, utility, etc."

Since the web is a relatively new media, we need to know what a holistic marketing plan is all about. Holistic plans integrate the best of traditional marketing strategies and media buys with the more recent and fast-growing e-marketing components. In order to deliver a comprehensive marketing plan, one needs to know not only the traditional marketing metrics and criteria for visual aid testing, focus groups, demographic spreads, direct mail programs, etc., but it is equally and perhaps more important to understand that each of these elements is mirrored on the web - but with important differences that are

- The web is a different culture than traditional media; it is fluid i.e. it is always changing and fast. It is an interactive environment in which consumers have very different expectations than with traditional media. While it is true that conceptually there are similarities in marketing strategies in the two worlds, the execution, measurement and verification in the e-marketing world require a different set of understandings. This perspective provides the first step toward delivering a clear, well-executed holistic marketing plan.

Holistic marketing is a combination of selling with integrity, using your heart, mind, intuition and soul experience to promote your business. It sounds like another buzzword but the principle is an important one for any business.

Holistic marketing simply means a whole marketing process. That's everything from initial image to after-sales materials.

Holistic Marketing Concept

A whole set of forces that appeared in the last decade call for new marketing and business practices. Companies have new capabilities that can transform the way they have been doing marketing; they also need a more complete, cohesive approach that goes beyond traditional applications of the marketing concept.

The *holistic marketing* concept is based on the development, design, and implementation of marketing programs, processes, and activities that recognize their breadth and interdependencies. Holistic marketing recognizes that "everything matters" with marketing and that a broad, integrated perspective is often necessary. Four components of holistic marketing are relationship marketing, integrated marketing, internal marketing, and social responsibility marketing. Holistic marketing is thus an approach to marketing that attempts to recognize and reconcile the scope and complexities of marketing activities.

15.7 R ELATI

ONSHIP MARKETING

Relationship marketing has the aim of building mutually satisfying long term relationships with key parties-customers, suppliers, distributors, and other marketing partners in order to earn and retain their business. Relationship marketing builds strong economic, technical, and social ties among the parties. This involves cultivating the right kind of relationships with the right constituent groups. For marketing, key constituents are customers, employees, marketing partners (channels, suppliers, distributors, dealers, agencies), and members of the financial community (shareholders, investors, analysts).

The ultimate outcome of relationship marketing is the building of a unique company asset called a marketing network. A *marketing network* consists of the company and its supporting stakeholders (customers, employees, suppliers, distributors, retailers, ad agencies, university scientists, and others) with whom it has built mutually profitable business relationships. Increasingly, competition is not between companies but between marketing networks, with the prize going to the company that has built the better network. The operating principle is simple: Build an effective network of relationships with key stakeholders, and profits will follow.

The development of strong relationships requires an understanding of the capabilities and resources of different groups, as well as their needs, goals, and desires. A growing number of today's companies are now shaping separate offers, services, and messages to individual customers. These companies collect information on each customer's past transactions, demographics, psychographics, and media and distribution preferences. They hope to achieve profitable growth through capturing a larger share of each customer's expenditures by building high loyalty and customer lifetime value. Now that BMW, for example, allows buyers to design their own vehicles from 350 variations, 500 options, 90 exterior colors, and 170 trims, up to 30 percent of its U.S. customers and up to 80 percent of its European customers are doing so. Such rich, multifaceted relationships with key constituents create the foundation for a mutually beneficial arrangement for both parties.

15.8 INTEGRATED MARKETING

With integrated marketing, the marketer's task is to devise marketing activities and assemble marketing programs that maximize the ability to create, communicate, and deliver value for consumers. Marketing activities come in all forms. One traditional depiction of marketing activities is in terms of the marketing mix, which has been defined as the set of marketing tools the firm uses to pursue its marketing objectives. McCarthy classified these tools into four broad groups, which he called the four Ps of marketing: product, price, place, and promotion.

Marketing-mix decisions must be made to influence the trade channels as well as the final consumers. Figure given below shows that the company preparing an offering mix of products, services, and prices, and utilizing a communications mix of advertising, sales promotion, events and experiences, public relations, direct marketing, and personal selling to reach the trade channels and the target customers. The firm can change its price, sales force size, and advertising expenditures in the short run. However, it can develop new products and modify its distribution channels only in the long run. Thus, the firm typically makes fewer period-to-period marketing-mix changes in the short run than the number of marketing-mix decision variables might suggest.

The four Ps represent the sellers' view of the marketing tools available for influencing buyers. From a buyer's point of view, each marketing tool is designed to deliver a customer benefit. Robert Lauterborn suggested that the sellers' four Ps correspond to the customers' four Cs.

The Four P Components of the Marketing Mix

Four Ps	Four Cs
Product	Customer solution
Price	Customer cost
Place	Convenience
Promotion	Communication

Winning companies will be those that can meet customer needs economically and conveniently and with effective communication.

Two key themes of integrated marketing are that (1) many different marketing activities are employed to communicate and deliver value and (2) all marketing activities are coordinated to maximize their joint effects. In other words, the design and implementation of any one marketing activity is done with all other activities in mind. Businesses must integrate their systems for demand management, resource management, and network management.

SELF-CHECK EXERCISES

VII. Relationship marketing aims to build long-term relationships with key parties like customers and suppliers.

VIII. Holistic marketing does not consider e-marketing components.

IX. Integrated marketing aims to maximize the impact of each marketing activity independently.

X. Robert Lauterborn proposed the concept of the Four Cs in marketing, including customer solution, customer cost, _________, and communication.

XI. One goal of relationship marketing is to build a unique company asset called a ___________.

XII. The _________marketing concept recognizes that "everything matters" in marketing.

15.9 INTERNAL MARKETING

Holistic marketing incorporates internal marketing, ensuring that everyone in the organization embraces appropriate marketing principles, especially senior management. Internal marketing is the task of hiring, training, and motivating able employees who want to serve customers well. Smart marketers recognize that marketing activities within the company can be as important as, or even more so than, marketing activities directed outside the company. It makes no sense to promise excellent service before the company's staff is ready to provide it.

Internal marketing must take place on two levels. At one level, the various marketing functions-sales force, advertising, customer service, product management, marketing research-must work together and be coordinated from the customer's point of view. At another level, marketing must be embraced by the other departments, who must also "think customer." In fact, marketing thinking must be pervasive throughout the company. Xerox goes so far as to include in every job description an explanation of how that job affects the customer. Xerox factory managers know that visits to the factory can help sell a potential customer if the factory is clean and efficient.

Xerox accountants know that customer attitudes are affected by Xerox's billing accuracy and promptness in returning calls.

One of the most valuable skills marketers can have is the ability to select, educate, and rally people inside the organization so all employees enthusiastically help to build satisfying and profitable long-term relationships with customers. Internal marketing starts with the selection of managers and employees who have a positive attitude toward the company, its products, and its customers. The next step is to train, motivate, and empower the entire staff so they have the knowledge, tools, and authority to play their roles in delivering value to the customer base. After establishing standards for employee performance, the final step is to monitor employee actions and reward good performance-then continue the cycle of internal marketing through ongoing communication, motivation, and feedback.

Developing internal marketing skills takes planning, time, and perseverance Not every communication or motivation attempt will successfully influence every employee, just as not every advertisement or sales call will successfully influence every customer. Nor is internal marketing going to be effective if it is treated as a slogan or passing fad. When internal marketing really works, however, it can help propel a company to the top of itsindustry.

For example, internal marketing is a key strength at Southwest Airlines, where top management pays close attention to recruitment and training, internal communication, and workforce motivation. The CEO and president constantly visit different Southwest facilities, thank employees for their efforts, send birthday cards to employees, and share customer comments with employees. Southwest's employees deliver superior service with a smile, and they are so dedicated that some have worked without pay to keep the airline’s costs down during difficult periods. Clearly, Southwest’s managers are good role models for learning to apply the critical skill of internal marketing.

15.10 SOCIAL RESPONSIBILITY MARKETING

Holistic marketing incorporates social responsibility marketing and understanding broader concerns and the ethical, environmental, legal, and social context of marketing activities and programs. The causes and effects of marketing clearly extend beyond the company and the consumer to society as a whole. Social responsibility also requires that marketers carefully consider the role that they are playing and could play in terms of social welfare.

Are companies that do an excellent job of satisfying consumer wants necessarily acting in the best long-run interests of consumers and society? Fast-food chains, for instance, have been criticized for offering tasty but unhealthy meals. Recognizing these criticisms, companies like McDonald's have added healthier items, such as salads, to their menus and have introduced environmental initiatives, replacing polystyrene foam sandwich clamshells with paper wraps and recycled materials. McDonald's has even ordered its meat suppliers to eliminate the use of antibiotics that are also given to humans, specifically when those drugs are used to make animals grow faster. “We saw lots of evidence that showed the declining rate of effectiveness of antibiotics in human medicine," says McDonald's senior director of social responsibility. "We started to look at what we could do."

Situations like this one call for a new term that enlarges the marketing concept. We propose calling it the **societal marketing concept,** which holds that the organization's task is to determine the needs, wants, and interests of target markets and to deliver the desired satisfactions more effectively and efficiently than competitors in a way that preserves or enhances the well-being of both consumer and society. The societal marketing concept calls upon marketers to build social and ethical considerations into their marketing practices. They must balance and juggle the often-conflicting criteria of company profits, consumer want satisfaction, and public interest.

Yet a number of companies, including Ben & Jerry's, have achieved notable sales and profit gains by adopting and practicing a form of the societal marketing concept called cause-related marketing. Pringle and Thompson define this as activity by which a company with an image, product, or service to market builds a relationship or partnership with a "cause," or a number of "causes," for mutual benefit."28 Companies see cause-related marketing as an opportunity to enhance their corporate reputation, raise brand awareness, increase customer loyalty, build sales, and increase media coverage. They believe that customers will increasingly look for signs of good corporate citizenship that go beyond supplying rational and emotional benefits. Avon, for instance, is the largest corporate supporter of the drive to find a cure for breast cancer, having generated more than $350 million since its first program in 1992.

15.11 HOLISTIC MARKETING FRAMEWORK

The holistic marketing framework enables management to answer the following questions.

- How can a company identify new value opportunities?
- How can a company efficiently create more promising new value offerings?
- How can a company use its capabilities and infrastructure to deliver the new value offerings efficiently?

Because markets are dynamic and competitive, management needs a well-defined strategy for value exploration. Developing such a strategy requires understanding the connections and interactions among three spaces: the customer's space, the company's competency space, and the company's resource space. To exploit a value opportunity, the company needs value creation skills. Marketers need to identify new customer benefits from the customer's cognitive space, utilize core competencies from its business domain, and select and manage business partners from its collaborative network.

To be able to deliver value requires substantial investment in infrastructure and capabilities. The company must become proficient at customer relationship management, internal resource management, and business partnership management. Customer relationship management allows the company to discover who its customers are, how they behave, and what they need or want. It also enables it to respond appropriately. To respond effectively, the company requires internal resource management.

15.12 CRAFTING THE COMPETITIVE PLATFORMS

The four building blocks in the holistic marketing framework constitute a strategic foundation for crafting four key competitive platforms for establishing corporate and business strategies.

1. **Market offerings platform:** The first set of basic building blocks - cognitive space,

competency space, customer benefits and business domain - gives management strategic insight for developing market offerings.

2. **Business architecture platform:** The next set of basic building blocks - competency space, resource space, business domain and business partners - guides management in reconfiguring the business architecture, which is made up of several value chains.
3. **Marketing activities platform**: The next set of basic building blocks - customer benefits, business domain, customer relationship management and internal resource management - helps management formulate its marketing activities to support the market offerings.

15.13 DESIGNING HOLISTIC MARKETING ACTIVITIES

Brands are not built by advertising alone. Customer comes to a brand through a range of contacts and touch points: personal observation and use, word of mouth, interactions with company personnel, online or telephone experiences, and payment transactions. A brand contact can be defined as any information bearing experience a customer or prospect has with the brand, the product category, or the market that relates to the marketer's product or service. Any of these experiences can be positive or negative. The company must effort into managing these experiences as it does in producing its ads.

The strategy and tactics behind marketing programs have changed dramatically in recent years. Marketers are creating brand contacts and building brand equity through many avenues, such as clubs and consumer communities, trade shows, even marketing, sponsorship, factory visits, public relations and press releases, and social cause marketing.

To market its cereals, General Mills supplemented traditional advertising and promotion with, among other things, a family-themed entertainment-based retail destination, Cereal Adventure, inside Minneapolis's Mall of America, the world's largest shopping mall.Regardless of the particular tools or approaches they choose, holistic marketers emphasize three important new themes in designing brand-building marketing programs: personalization, integration, and internalization.

15.14 FACTORS CAUSING THE EMERGENCE OF HOLISTIC MARKETING

Integrated Marketing or Multi-channel Marketing is a growing trend in the Advertising Industry. This strategy plans marketing campaigns that use multiple mediums (i.e, Internet, TV, direct mail, etc.) with similar messages. The idea is for the target audience to see a consistent message through multiple vehicles. The Holistic Marketing Approach takes this concept a step further by planning how each of these mediums will interact as well as build upon each other.

Holistic Marketing grew from the basic marketing principles of business - each action by a company should contribute to the business goals. By approaching marketing, not as an isolated entity but as a synergic member of the company, marketing initiatives are more efficient and cost-effective allowing for the highest return on investment.

The days of a single campaign or medium standing alone is gone. A business cannot rely strictly on print, company collateral, or other media campaigns to successfully attract the target audience or prospective customers. In order to have a successful campaign, marketing professionals need to think from the top down, instead of the bottom up. At the highest level, marketing professionals need to strategize based on the business goals and tailor strategies and campaigns to use whatever medium that can best meet those goals with the highest return on investment at the lowest cost to the company.

15.15 ELEMENTS OF HOLISTIC MARKETING

The strategy evolved over a period of a year or two. These were:

- **Quality** - to be achieved in everything that BIPAC did. For example, BIPAC has long been known for thoroughly researched and well-written political analyses. High quality for BIPAC also means quick and complete responsiveness to supporters' requests and questions. Periodically, the chief staff executive and the staff review specific areas that need improvement.
- **Listen to customers** - This kind of marketing strategy requires staying in close touch with the supporters to learn what they want and need - and then finding the best ways to meet those needs. Also use focus groups and questionnaires to evaluate existing services and find out what else supporters want.

  Expand services - Based on what customers tell, begin to develop new services. One was the creation of a Web site that includes **a** breadth and depth of political intelligence available nowhere else. Increase visibility and prestige. Being quoted and cited in the press is a great boost to marketing.
- **Stratify services** - Stratifying services by level of financial contribution was another valuable sales technique. "Basic Supporters" received the publications, invitations to BIPAC's monthly political briefings, and access to the entry level of the Web site. "Major Support - r**3**" also got invitations to the Barometer Breakfasts, gain access to the databases on the Web site, and participate in Political Leadership Forum. "Premier Supporters" obtain still greater services, including an additional series of issue-oriented breakfast meetings.
- **Segment your market** - BIPAC segmented their current supporters and prospects by size and by scope of their Washington involvement, recognizing that different companies and associations have different needs and abilities to contribute.
- **Motivate the staff** - If the concept of holistic marketing is to work in an organization in which the staff bears the primary fund-raising responsibility, it has to be accepted by every staff member, not only those in marketing and sales. The staff requires support from the board and requires education and motivation from the chief staff executive.
- **Go all the way** - Holistic marketing turned out to be BIPAC's salvation. Holistic marketing permeated the entire staff and would not have worked in partial steps.

15.16 HOLISTIC MARKETING AND CHALLENGES

Holistic Marketing is the idea that marketing is everything. It is the idea that to truly be successful an organization must have a holistic approach to marketing where each facet of the organization is focused on how to add value to the customer and communicate that value.

Holistic Marketing is not just thinking about the customer strategically as in having a market orientation or achieving consistency of message, look and feel across all platforms as in integrated marketing communications but rather focusing on the principle that if value is not being created it is being destroyed.

The challenge is to focus on building value in everything that the organization does. Too often creating value is left to the innovators and strategists while marketers are tasked with communicating that value. This old paradigm is broken because it leaves out the folks in between who really drive value for any organization, the folks on the line who execute.

A business can have the best strategy and marketing communications in the world but if the people who deliver the product or service aren't interested in creating value for the customer then the entire equation will be undermined. The great challenge then is to get everyone within the organization pulling in the same direction.

One of the pillars of this new philosophy of business is the seminal work, Built to Last by Jim Collins and Jerry Porras. Collins and Porras postulate that one of the driving forces behind great organizations is a shared sense of purpose and a culture so strong it is almost cult-like. These two elements combine to give people within the organization something to believe in which results in them all pulling in the same direction.

When everyone in an organization feels empowered to create the next customer solution then you get value being added up and down the organization, even by those folks at the bottom of the pyramid. Holistic marketing is this concept; that value is not created in the corner office but by those on the line, delivering the product or service to the customer. The folks on the line will only continue to add value if they are engaged in the process and empowered to do so.

SELF-CHECK EXERCISE

XIII. Holistic marketing incorporates which essential component to ensure everyone in the organization embraces appropriate marketing principles?

a) Product Marketing

b) Social Marketing

c) Internal Marketing

d) Relationship Marketing

XIV. What is social responsibility marketing concerned with?

a) Maximizing short-term profits

b) Legal issues related to marketing

c) Ethical and environmental considerations in marketing

d) Reducing customer complaints

XV. Holistic marketing emphasizes the importance of personalization, integration, and _________ in designing brand-building marketing programs.

XVI. The societal marketing concept calls upon marketers to balance criteria, including company profits, consumer want satisfaction, and ________.

15.17 SUMMARY

Amid the evolving landscape of business practices, the emergence of green marketing signifies a pivotal shift toward environmental consciousness. As this endeavor gains traction, businesses are prompted to adapt and embrace concepts like environmental management, underlining the significance of societal and ethical considerations within marketing activities. At the core, green marketing involves efforts to meet human needs while minimizing negative environmental impacts. Its scope is broad, incorporating relationship building, coordinated marketing strategies, cultural integration within organizations, and an ethical responsibility towards the environment. This movement, rooted in economics and recognizing finite resources, compels firms to reevaluate their marketing approaches, striving for an integration of renewable energy, ethical practices, and transparent marketing disclosures. Concurrently, the holistic marketing concept encompasses relationship marketing, integrated marketing, internal marketing, and social responsibility marketing, focusing on mutual relationships with customers, cohesive marketing efforts, internal culture development, and broader societal and ethical implications within marketing strategies. This shift toward holistic marketing also emphasizes internal and social responsibility, highlighting the importance of a cohesive, integrated marketing approach that considers not just the company's bottom line but its impact on society and the environment.

15.18 KEYWORDS

- **Customer Lifetime Value:** The predicted net profit that a company can expect to earn over the entire relationship with a customer, taking into account their loyalty and repeat business.
- **Marketing Network:** A unique company asset created by building strong relationships with key stakeholders, such as customers, suppliers, distributors, and employees, which forms the foundation for mutually profitable business relationships.
- **Holistic Marketing:** A comprehensive marketing approach that considers all aspects of marketing activities, from product design to communication strategies, with a focus on integration and coordination.

15.19 PRACTICE QUESTIONS:

15.19.1 Short Answer Questions:

Q 1. What is the primary goal of relationship marketing?

Q 2. Define the four Ps of marketing according to McCarthy's classification.

Q 3. What is internal marketing, and why is it important for an organization?

Q 4. How does holistic marketing differ from traditional marketing approaches?

15.19.2 Long Answer Questions:

Q 1. Explain the concept of green marketing and its significance in today's business environment. Provide examples of green marketing practices.

Q 2. Discuss the role of integrated marketing and why it is crucial for achieving marketing objectives. Provide examples of how integrated marketing can be applied in practice.

Q 3. How does social responsibility marketing address ethical, environmental, and social concerns in marketing activities? Provide real-world examples of companies practicing social responsibility marketing.

Q 4. Describe the importance of internal marketing in creating a customer-focused organizational culture. Provide strategies that organizations can use to implement effective internal marketing.

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15.21 ANSWER KEY (Self Check Exercises)

I. d, II. b, III. b, IV. Standardisation, V. Industrial Goods, VI. Eco-friendly, VII. True, VIII. False, IX. False, X. Convenience, XI. Marketing Network, XII. Holistic, XIII. C, XIV. C, XV. Internalization, XVI. Public Interest

Semester II **MARKETING MANAGEMENT**
Lesson No. 16 **AUTHOR: DR. DHIRAJ SHARMA**

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NETWORK MARKETING AND EVENT MARKETING

16.0 OBJECTIVES

The objectives of this chapter are to introduce and explore the concepts of Network Marketing and Event Marketing. It aims to provide an understanding of the unique business model of Network Marketing, its significance in India, and the major players in the industry. Additionally, the chapter delves into the world of Event Marketing, highlighting its role in creating brand awareness, market segmentation, and the crucial aspects of marketing planning for successful event management. The chapter aims to equip readers with insights into these innovative marketing approaches and their potential impact on the marketing landscape.

16.1 INTRODUCTION TO NETWORK MARKETING

Network marketing is over 50 years old, yet is still being hailed as the wave of the future. This is because it combines technology and the power of free enterprise with the dynamics of people working together to help each other succeed.

It is a method of promoting goods and services through word of mouth advertising. It is a concept through which self-entrepreneurs can operate a business with minimal investments and virtually no risks. Network marketing has a world presence in 125 countries and is an $82 billion industry with a sales force of over 21 million self-entrepreneurs.

Network marketing is a variant of direct selling in which companies recruit independent business people who act as distributors for their products. These distributors in turn recruit and sell to sub distributors who eventually recruit others to sell their products. A distributor's compensation includes a percentage of the sales to the entire sales group that the distributor recruits as well as earnings of any direct sales to retail customers.

In network marketing one is not required to build and maintain a chain of retail outlets, have a well-equipped sales force or to spend enormous amount of money on advertising. The producer uses a multiple sales force of independent distributors who have the opportunity to earn income in two ways. First, the distributor earns profit based on the difference between the wholesale price and that charged to the consumer. As the direct seller is free to fix his own reselling price, margins vary. Second the distributor may also receive commissions based on volumes.

The network-marketing concept has recently gained traction in India and it is the current buzz in Indian marketing circles. In just few years, most of the major multinational network marketing companies have already started their operations in India. Oriflamme international was the first company to start the concept of network marketing in India, followed by Avon India in the late 1996. Amway corporation has also opened an Indian subsidiary, Amway India Enterprises. Other players include Tupperware which is famous for its high-quality plastic ware and lotus learning for educational books. E-Aladdin is also a new entrant in this field.

The growth potential of network marketing has also attracted Indian companies into this business. The pioneer in India for network marketing is Modicare, India's first network marketing company. Modicare was started in 1996 by K.K Modi group. The product range of Modicare includes personal care and home hygiene products.

16.2 SIGNIFICANCE OF THE STUDY

Network Marketing is a very fast-growing concept. As it is a low fuss, low cost, distribution system in which products funneled straight down to consumers and the collection comes right back the same way. Moreover, individuals from any background with some basic skills can enter into this field, hence, executives, housewives, lecturers, entrepreneurs all are enrolling to network marketing and are gaining from this.

Hence the study of Network marketing concept in India will be of much significance for individuals interested in joining networks of any Network marketing company, as well as the study will be helpful or the Network marketing company to look into for the various problem areas and their solutions. As the project involves both study of company as well as people in the network and out of network, the study can be helpful and beneficial to anyone interested in joining the network marketing in India.

Network Marketing is a business opportunity, which creates a steady flow of income, which could be small initially but can increase tremendously in proportion to one's effort. There is no limit to the potential earnings and miraculous amounts of extra income can be created. There are no large capital investments required, no employees, no bosses and best of all no risk. One needs not to incur costs like overheads, staff and hence, costs are reduced and benefits increased. It is one's personal business and one can decide whom to work with, where to work and how much to earn.

One needs not to function from an office or employ high pressure to door-to-door selling techniques. All one need to do is to recommend the products to people at social gatherings or personally to ones friends, relatives and acquaintances. Network marketing does not hamper ones life style and there are no constraints on time. It is a flexible business, which one can easily fit around his or her current lifestyle. One can take it up as a part time business to supplement income or a full time business venture. All it requires is the desire and drive to succeed and commitment to work.

16.3 THE BIRTH OF NETWORK MARKETING

The J.R. Watkins medical company was founded in plain view; Minnesota, in 1868 by Joseph R. Watkins. Watkins was established in 1868 as a family business. Purchased by Irwin jacobs in 1968, Watkins remains a family owned and operated business today.

Jacobs Rose from modest beginnings to the Forbes 400 list of wealthiest Americans. Watkins first product was "red liniment" a natural healer. At the time of his death in 1911, J.R. Watkins had more than 2500 people selling his liniment door- to-door. This is the first recorded network marketing endeavor. Network marketing industry has grown considerably since J.R Watkins first sold his wellness products through a network of independent representatives more than a century ago.

"By the year 2000 you'll own your own networking business or you'll be buying from people who do. Either way, you will be involved in NETWORK MARKETING."

- John Milton Fogg, author of the greatest net worker in the world.

16.4 WHY DO PEOPLE GET INVOLVED IN NETWORK MARKETING?

- To gain freedom financial and personal freedom.
- Freedom from people or situation one doesn't like or want to change.
- Freedom from being told what to do.
- Freedom to earn more money and create a better lifestyle.
- Freedom to pursue and achieve one's goals (not be part of someone else's)
- Freedom to make one's dreams a reality

There are some pretty strong reasons.

Network marketing, as it was called in the '60s and '70s, has evolved over the past 20 years because it appears to be the least expensive, lowest risk, fastest path to achieve he dreams. It is at the core of the exploding "home-based business" segment of the economy. The attractions of network marketing are five facts that can alter one's life and lifestyle forever.

1. One is in the business for his own self. And is his own boss with a control on his own destiny
2. One is at the top of his own organization. And always will be.
3. One gets help from others above in him because the more one (sells) earns, the more they earn.
4. The "playing field" is level. Anyone can win. Everyone has the same program and the same product. One's success is dependent on and is up to him.
5. One's earning potential is unlimited.

16.4.1 Who Does Network Marketing Appeal To?

- People who are dissatisfied with their present job or situation.
- People who want more or better than they've got.
- People who want their dreams to come true, but don't know how (or haven't made a plan) to achieve it.
- People who are already successful and want more.

16.4.2 Benefits of Network Marketing

Network marketing is about working in a smarter way than harder way. It's about maximizing results by channeling efforts. Network marketing is like a chain reaction or similar to the 'snow balling effect'. The power of network marketing is a network of people who can make or break a brand, product or a service.

(a) Traditional Marketing

Traditional marketing process involves a lot of intermediaries, from the start so the marketing process i.e. manufacturing of product till the end of it i.e. customer buying the product, there are individuals or agencies which take part in the process of marketing. All are referred to as intermediaries. These intermediaries are involved at different stages of the marketing process. At each and every step where a new intermediary is added into his chain, the commission gets added up thus ultimately raising the consumer price of the product. At an average a product whose cost is between Rs 1-3 reaches to the consumer at a price between Rs 5-8.

(b) Network Marketing

Network marketing on the other hand is a specialized way of marketing the products. The basic aim of it is to reduce the intermediaries involved in the traditional marketing process. This concept actually limits the number of intermediaries to just one, which is referred to as an independent distributor. The Network marketing Company either gets the products directly from the manufacturer or it manufactures them by itself. Reducing the number of intermediaries and ultimately the price of the product. The various unnecessary costs involved in the traditional setup are reduced to the maximum. The products through network marketing directly reach to the consumer through a single independent associate. The various costs saved are used to compensate the associates.

It is a low-risk high-return business, a proven and powerful tool of financial independence for the ordinary individuals. Network marketing is all about individuals. Individuals are the basic units of network marketing. All this needs is a low initial investment and a network of friends, which most of individuals actually have and can afford. In it one not only capitalizes on his own efforts but also earned dividends on the efforts of other people in his network. Although one works alone and independently, the profits carried are the cumulative profits of the network to which an individual belongs. This concept is about leveraging time and efforts.

It is not only good for an individual's prosperity and financial independence, but through its business house or a conglomerate also gets benefits. As a company while launching or introducing a product in the market, has an aim of reaching out to maximum number of customers, spread over a large country, has to simply introduce the product into the system. The product will automatically trickle down to the end users or consumers, through a network of channels and sub channels of people that the network marketing Company provides. It involves the most potent form of advertising but advertising by word-of-mouth. Everyone in the network is connected to one another by a bond of trust, faith; finance and credibility, which eventually becomes an attribute of the product passed down the network.

16.5 POTENTIAL OF NETWORK MARKETING IN INDIA

The concept of NETWORK MARKETING started in west in the late 20th century and since then has been very much popular there. This concept is growing at a very fast pace in the west, but as far as India is concerned this concept also holds huge scope. Reasons supporting the idea that this concept has tremendous scope are:

1. **Middle Men:** the Indian business chain involves large number of middle men which rather than benefiting manufacturer, producer or consumer just reap out major share of benefits. These middle men raise the price of the product that reaches to consumer. By Network marketing this chain of middle men will be reduced to a major extent. Thus, benefiting both consumers as well as manufactures.
2. **Population Base:** India has second largest population base in the world, which is another positive indicator. As network marketing basically involves lot and lots of people and with this much big population base the concept can really works wonders for the society.
3. **Unemployment:** Unemployment is one of the major present time problems in India. The network marketing provides an option to the individuals to start their own business with a very low investment as compared to starting another business. The unemployed youth can benefit highly from this concept.
4. **Alternatives:** In India, there are very few alternatives for earning the desired income. But network marketing offers a respectful job, with very less investment as compared to other businesses.
5. **Close Associations:** In India people have very close associations with each other. There are very strong circles of influence among various people. These strong associations and holdings between people can help a lot for the growth of concept of network marketing. As the concept is based on the idea of meeting one's associates, friends etc.

16.6 MAJOR PLAYERS

Realizing power of the network marketing concept, many companies have entered into Indian marketing scene. The concept has attracted attention of major business houses such as Modi and HLL. Modicare, a company with back up from Modi group is already doing well in Network marketing in India. HLL has entered into the NETWORK MARKETING. The major players of Network marketing in India are:

ORIFLAME, AMWAY, AVQN, TUPPERWARE, MODICARE, HERBALIFE, ALLADIN.COM.

16.7 RELEVENCE OF NETWORK MARKETING IN INDIA MARKET

The concept is especially relevant for India because of the highly fragmented retail structure, high brand proliferation that limits self-pace and massive brand ware both at the trade and advertising levels.

The concept of multilevel marketing in India is new and is still in its infancy stage but according to industrial sources, it is here to stay and grow. This concept is just recent and literally all major multinational companies in Network marketing are already present in Indian market. These companies include network giants such as AVON, ORIFLAME, AMWAY, TUPPERWARE etc.

The relevance of this concept in India can also be analyzed from the factor that only multinationals are successfully operating in India but major Indian business houses have also started their own network companies like Modicare, backed by K.K Modi group and there are other companies like HLL, TATA etc. with such a long population base, the Network marketing can work wonders for the individuals in India.

Realizing the response of Indian customers various multinationals have decided to make India as one of their manufacturing bases. Oriflamme has already started its plant in India and Amway is soon coming up with one.

16.8 PENETRATION LEVEL OF NETWORK MARKETING

The concept of Network Marketing is fastly penetrating into the Indian market. The power of concept has been well realized by the customer and hence it is becoming a success in the Indian marketing circles.

Although the concept is still in initial stages of growth, the pace with which it is penetrating has been very extraordinary. The it way started its operations few years ago has already signed up 28000 distributors in over 200 cities by the end of its first year in India.

The first Indian company MODICARE has also shown tremendous growth, it has also recruited above 20000 distributors started from just 400 in 1996, and in first year of its operations MODICARE's turnover was 3.5 crore and this year it plan to crore Rs 10 crore.

16.8.1 Attitude of Indian Customers Towards Directing Selling Distributors

In the present stage of Network marketing the emphasis is more on recruiting the people. As the policy of various companies is to firstly broaden their base into the market. The Indian customer has started realizing the option of Network marketing. Indian customer is a little suspicious about the products and the concept. Indian customers are bit reluctant and conservative in approach towards the concept due to the reasons that already a number of companies have come up with similar schemes and vanished. Hence the suspicion is bound to be there in the minds of the customer.

But as the concept is gaining popularity in Indian market, the customer has started taking it seriously, both the concept and direct selling distributor. Customers now feel that the products bought through the network marketing are cheap as compared to their counterparts available in the market. In certain cases, customers have also realized that the products available in the market through network marketing are of better quality and are otherwise not available in the open market.

16.8.2 Attitude of Indian Direct Selling Distributor Towards Concept of Network Marketing

The network is such a concept in which the earnings of an individual are directly dependent upon the amount of labour he puts in. The more time one devotes to this concept the more one earns from Network marketing. This is a business in which the results can vary from nil to any heights. The Indian direct selling distributors associated with it have started earning at a low scale, but on the other hand there are people who in just six months of their joining have started earning above Rs 20000 per month.

The Indian distributors also faces various difficulties while introducing the concept of new customers, as many of them feel that the products are expensive. The distributor's faces problem of convincing new people about the customer, as the customer become suspicious about the concept. In certain cases, distributors also face the problem of placing and getting orders from the company itself. Distributors also feel that it's hard to convince a person who is already known to you. So, the person who is already known is a little hard nut to crack.

16.9 AVERAGE RETURN ON INVESTMENT IN NETWORK MARKETING

The concept of network marketing is such a success in which the average returns are directly proportional to the amount of time one invests in it. In this what the person gets as return is the result of the time he dedicated to the concept.

The concept is very rewarding, but that does not mean whosever invests money will get the results automatically. In network marketing one has to devote himself wholeheartedly, and then one can expect some results. In initial stages the concept needs more dedication and time, but when people in ones down line get motivated and started working, the pressure is reduced for the up-line persons. The research reveals that 24% of the people are earning between Rs. 10000-15000 per month.

SELF CHECK EXERCISE

I. In network marketing, how do distributors earn profit from product sales?
   a) Fixed salary from the company
   b) Commissions based on volumes
   c) Hourly wages
   d) Tips from customers

II. What is the primary benefit of network marketing from a consumer's perspective?
   a) Higher product prices
   b) Access to better-quality products
   c) Fewer product options
   d) No discounts

III. What is the best description of network marketing?
   a) A pyramid scheme
   b) A traditional retail business
   c) A low-cost distribution system
   d) A high-risk investment opportunity

IV. Network marketing's potential for success depends on the number of people an individual recruits. (True/False)

V. The primary goal of network marketing is to recruit as many people as possible. (True/False)

VI. Network marketing is a low-risk business opportunity that requires a large capital investment. (True/False)

VII. Network marketing is a method of promoting goods and services through __________ advertising.

VIII. Network marketing reduces the number of _________ involved in the traditional marketing process, leading to cost savings.

16.10 INTRODUCTION TO EVENT MARKETING

Events are defined by Philip Kotler as occurrences designed to communicate particular messages to target audiences. An event can be considered as a live multi-media package organized and held with a preconceived concept, customized to achieve the client's objectives of reaching and influencing a specific target audience by providing an enjoyable and sensual experience, with provision for live interaction. Events are marketing offers in the context of experiential marketing.

Event management involves all activities pertaining to planning, organizing, staffing, implementation and evaluation of an event. Starting from selection of the venue, stage design, providing the required infrastructure facilities, liaison with artists, performers or speakers and networking with other activities like advertising, PR, ticket sales, promotion, etc. come under the purview of event management.

Event marketing involves canvassing for clients, understanding their requirements, preparing a customized event package for the client based on brand values and target audience, executing the concept and evaluating the same. It is a state of focused event strategy, managed consistently over a specified period of time, to create awareness about and reinforce various aspects of a brand or product.

Event marketing and management calls for five important activities:

- Conceptualization - Developing the creative idea relevant to a brand or product.
- Costing - Calculation of cost of production of the event and probable margins I returns
- Canvassing - Scouting for clients, sponsors, customers or audience and networking with media.
- Customization - Customizing the event in tune with the needs of customers and marketing objectives.
- Carrying-out - Execution of the event as per plan.

16.11 IMPORTANCE OF EVENT MARKETING

Events create high visibility experience for the target customers in the midst of the usual clutter of commercial messages that bombard them regularly in the present-day context. Events stand out among the crowd of promotions and help to create product or brand awareness among the target audience in an innovative and personally involving way. For example, to promote new art materials, Camlin conducted many sponsored painting competitions for school children all over India. Communication using the live media of an event helps to integrate the functions of advertising, sales promotion and public relations.

Events play an important role in addressing the diverse marketing needs of a company.

1. Events are Helpful in Brand Building

Since hundreds of new product or brands are being launched every month, an outstanding event will help to create awareness about the launch of new products or brands by catching the attention of the target audience. Events are ideal for re-launch of rejuvenated brands and to highlight the product's new and improved features. They are useful in communicating the repositioning of brands or products, creating and maintaining brand identity and image building.

2. Events Help the companyin Focusing the Target Market

They are effective means of being noticed by the target audience amidst the clutter of commercial communications.They provide an interactive mode of dialogue between buyers and sellers.

3. Events Help in Implementation of Marketing Plans

They bring the target audience together, and create opportunity for test marketing of products for authentic feedback.

They enable focused sales ad communication to a captive audience, without diversions. For newly opened retail outlets, events help to attract and increase customer footfalls in stores. They also facilitate sales promotion, relationship building and PR activities. Events also serve as tools for motivating sales persons, to generate immediate sales, generate instant publicity and developing new contacts with potential distributors.

4. Events Help Marketing Research

Surveys conducted during events can create a panel of consumers for further research, or creating a database. It facilitates instant feedback and opportunity for instant and authentic market research.

5. Events have an Important Role in Relationship Building

Free service and checkup held by Maruti and Hyundai lor their car customers and have helped building CRM to a great extent. Events also create a forum for career matchmaking. A good example is the Hindu Job-Fair where recruit companies and job seekers meet face-to- face for mutual advantage.

6. Events are Used for Surrogate Advertising

Tobacco and liquor advertising being banned by the Government of India, such companies use events as a promotional tool. Examples are ITC and United Breweries (UB) sponsoring cricket matches, rock shows, horse races and film premiums. By displaying their banners prominently at vantage points at the venue, such companies manage to get mileage through live telecast on TV, which has access to the mass national audience.

16.12 MARKET SEGMENTATION AND TARGETING

Successful event marketing calls for segmentation of the market and then targeting the desired group of consumers as is done for any other products or services.

Customers for any event, both clients and the target audience will differ in their characteristics. Segmentation involves identifying large groups of consumers within the total market with homogeneous characteristics - market segments. This helps to customize the communication to specific groups of consumers in a segment. Market segmentation also helps to make a compromising strategy between mass marketing and individualized marketing by event organizers. Mass marketing is involved in an event like a cricket match where anyone interested can buy tickets. Individual marketing will be a customized event suitable for a specific client and its customers only.

The event marketer has to segment the market with respect to the client as well as the target audience to ensure the client-concept-audience fit. This can be done on the basis of the core concept preferences of both types of customers. The (target audience can be segmented based of demographic, geographic, economic and psychographic traits. Benefit segmentation can be used for segmenting the clients (different levels for benefits offered by events, like reach and interaction).

After the market segmentation is done, the event organizer has to select one or more of the ideal segments to enter consolidate and grow. Market targeting will be based on the evaluation of each segment as to its attractiveness, company objectives and availability of resources. A segment's attractiveness is measured indirectly for monetary benefits, scope for business growth, ad influence in terms of potential reach and scope for interaction provided by the segment. If the reach and interaction are high, such segments will be very attractive for clients, and event organizers can expect growth profitability and scale economies, while ensuring low risks. Segments where the event organizers can provide superior value to the client are the most attractive ones.

Event specialization is another way of targeting. The organizer creates a particular concept within an event category; for catering to several segments. For example, music concerts, cricket, beauty pageants, etc.

Positioning involves establishing and communicating the event and its major benefits to the market. The brant identity associated with consumer products has its parallel concept in event marketing known as 'event property'. It is a feature creating an event concept that can be organized perpetually using different artists and venues for different client- and target audiences. The event property belongs to the event organizer and cannot be taken away or stolen by competitors The Miss

India beauty contest is an example, where Femina, (Times of India Group) owns the event and its property. The contestants, judges, venues, clients and target audience change every year. The event property of the Miss India pageant is its official recognition as a national contest to select the Indian representatives for the Miss Universe and Miss World contests. No other competitor can replicate this event. The event property remains constant like the brand name exclusive to the event organizer. According to requirements of the market, some modifications in the event could be incorporated by the organizers.

16.13 PRODUCT CONCEPT

An event is a product or a marketing offer customized for a specific client to satisfy a need. Different event categories offer different products that satisfy a variety of needs on different levels. The event infrastructure and the core benefit attached with each of the event categories are most important. The core benefit of an even will be the reach and interaction for brand building focused on a specific target audience.

Events, as products, can be classified as follows, based on variations in the core concept distinguishing them:

1. Competitive Events
2. Artistic Expressions
3. Cultural Celebrations
4. Exhibition Events
5. Charitable Events
6. Special Business Events

16.14 PROMOTION OF EVENTS

Promotion of events is an important activity in event marketing to achieve the desired reach. This calls for a well-planned publicity campaign by the event organizer, who has to network with all available media. The important networking media components available for promotion are as follows:

1. Print Media
2. Radio and TV
3. The Internet
4. Outdoor Media
5. Direct Marketing and Sales Promotion

16.15 MARKETING PLANNING

Development of an event marketing plan involves specific steps. The hierarchy of plans in the company has to looked into before going to the process of planning.

The highest level of planning is done by the top management, by defining the corporate mission, the goals and scope of its business. Converting the mission into a set of objectives creates the business plan, which is a written document. Business realities, capabilities, staff and resource availability are considered while doing this. The marketing plan provide a connectivity between the event organizer and the environment. It provides directions for future growth, while fix measurable goals. The marketing plan for an event should be simple, precise, realistic, flexible and executable. Individual event plans are incorporated into the marketing plan, where the event performance, its objectives, strategies and tact are defined to fit with the overall marketing plan. Next, the implementation strategy along with contingency strategy is prepared. A system for control and monitoring also needs to be developed, based on which updating of plans will be de periodically.

The steps in marketing planning process involves the following:

1. **Environmental Assessment:** This involves a SWOT analysis about internal factors and external factors.
2. **Competitive Assessment:** Here, the intensity of competitive activity is studied in detail, especially the threat of new entrants, bargaining power of suppliers and clients, etc. This study helps to plan for gaining competitive advantage.
3. **Business Potential Assessment**: The attractiveness of an event market is to be studied on the basis of investment needs, new competitive threat, risk, event life expectancy, price elasticity to demand, market growth, size, profitability, ROI, etc.
4. **Problem Analysis:** Operational level likely problems will have to be identified before implementation of the strategy.

The event planning needs to take care of many activities and services like travel arrangements, venue booking, audio-visual needs, decoration, entertainment, exhibitor needs, floor plans, food and beverages, transportation, invitations, lodging, on-site coordination, photography, registration, media coverage, security, etc.

SELF-CHECK EXERCISE

IX. What is the core benefit of an event in event marketing?
   a) Price discounts
   b) Product samples
   c) Reach and interaction for brand building
   d) Entertainment value

X. Which type of event marketing focuses on building brand identity and image?
   e) Competitive Events
   f) Charitable Events
   g) Cultural Celebrations
   h) Artistic Expressions

XI. Market segmentation involves identifying large groups of consumers with ___________characteristics within the total market.

XII. The core benefit of an event is the reach and interaction for brand building, and it is crucial for brand identity and _________ building.

XIII. Events are marketing offers in the context of experiential marketing. (True/False)

XIV. Individual event plans should not be incorporated into the marketing plan.(True/False)

16.16 SUMMARY

Network Marketing and Event Marketing are redefining the marketing landscape. Network Marketing, a well-established concept of over 50 years, marries technology and entrepreneurship, enabling self-entrepreneurs to operate businesses with minimal risk. With a presence in 125 countries and an $82 billion industry, it boasts a sales force of 21 million self-entrepreneurs. In India, this concept is gaining momentum with multinational companies like Oriflame, Avon, and Amway entering the market, along with Indian pioneers like Modicare. Network Marketing offers financial and personal freedom, the potential for substantial income, and a flexible business model adaptable to one's lifestyle.

In contrast, Event Marketing focuses on creating memorable experiences to communicate brand messages. Events offer a break from the advertising clutter, engaging target audiences uniquely. Events cater to various marketing needs, from brand building to product launches, serving as platforms for market research. Market segmentation and targeting play a pivotal role in event marketing. Event organizers must customize events to appeal to specific market segments, ensuring the right message reaches the right people. Effective promotion is essential, involving strategic networking with diverse media channels, from print and broadcast to digital and direct marketing. In marketing planning, a systematic approach is critical, involving environmental and competitive assessments, business potential evaluations, and problem analysis. Event organizers must consider various aspects, from travel arrangements to security. In essence, Network Marketing and Event Marketing offer innovative ways to reach target audiences, foster brand awareness, and achieve diverse business objectives, bridging the gap between brands and consumers in impactful ways.

16.17 KEYWORDS

- **Network Marketing**: Also known as multi-level marketing, it's a business model that allows individuals (self-entrepreneurs) to sell products directly to consumers through a network of distributors. The distributors recruit other distributors, earning commissions from their sales and those of the recruits, forming a hierarchical network.
- **Event Marketing**: This strategy involves creating and hosting events to promote products or brands, allowing companies to engage with their target audience in a memorable and interactive way. It's a part of experiential marketing and aims to communicate brand messages, conduct market research, and cater to various marketing needs through events.
- **Market Segmentation:** The process of dividing a broad target market into smaller, more defined categories or segments based on shared characteristics. This segmentation allows for customized marketing strategies that specifically address the needs and preferences of particular customer groups.
- **Brand Awareness:** The level of familiarity and recognition a brand has among its target audience. It signifies the extent to which potential consumers can identify a brand under various conditions and associate it with particular products or services.

16.18 PRACTICE QUESTIONS

16.18.1 Short Answer Questions

Q 1. What is Network Marketing?

Q 2. What is the primary goal of Event Marketing?

Q 3. How does market segmentation benefit event marketing?

Q 4. Can you name a few multinational companies involved in Network Marketing in India?

16.18.2 Long Answer Questions

Q 1. Explain the significance of Network Marketing in India and its potential for individuals and businesses in the Indian market.

Q 2. How does event marketing differ from other marketing strategies, and what are the main categories of events used in this marketing approach?

Q 3. Describe the steps involved in the marketing planning process for event management, highlighting the importance of each step.

Q 4. In the context of marketing, discuss the role of promotion and its various components in promoting events and building brand awareness.

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16.20 ANSWER KEY (Self Check Exercises)

I. b, II. b, III. c, IV. True, V. True, VI. False, VII. Word of Mouth, VIII. Intermediaries, IX. C, X. a, XI. Homogenous, XII. Image, XIII. True, XIV. False

Semester- II **MARKETING MANAGEMENT**
Lesson No. 17 **AUTHOR: DR. B. B. SINGLA**

EMERGING ISSUES IN MARKETING: III
(NUCLEUS MARKETING, VIRAL MARKETING)

17.0 NUCLEUS MARKETING : AN INTRODUCTION

The role of marketing in a contemporary business organization is indispensable. The success of any business organization depends upon the quality of its marketing and it influences the economy as well, which is the only revenue earning activity in the overall socio-economic set-up. Marketing as a body of knowledge has now emerged as a concept in social sciences, capable of steering any programme for economic as well as organizational development of any nation.

Any study of the Indian consumers is incomplete if it doesn't look at the pattern of an Indian family. Unlike in the west, we are a society of consensus-seekers. We rely a largely on our family. Even our purchase decisions are made jointly. Why is it so? It could be a hangover from the past when everyone stayed in large, extended families and was used to making decisions through consensus. Or, it could be because unlike in the west, we don't have social security to fall back upon. The family is the only support system we have.

Now, we witness a revolutionary shift in consumer behaviour and as a result new marketing strategies and approaches are being adopted by Indian producers and advertisement agencies. This is all due to the technological and socio-cultural environmental changes.

17.1 INDIAN CONSUMERS ARE NOT THE SAME ANY MORE

A decade ago, any detergent advertisement aimed at men would have meant the short cut to disaster. Now, Ariel runs an advertisement with a professionally attired young man washing his son's dirty clothes when his wife is out. Pillsbury Atta had run an advertisement portraying a man attempting to make the perfect roti. Whisper has girls urging their mothers against the use of cloth. "A young man and his mother together welcome a new-born baby and its mother." This is not an ad for 'chotaparivar-sukhiparivar' but an ad for Asian paints. These advertisements signify a shift in the consumer profile.

The past few years have changed the Indian market to a great extent. The most important among them is the ’changing consumer'. In most product categories, the customer's need has reached the augmented stage and above.

Some new approaches to marketing are :

- Network Marketing
- On-Line Marketing
- Direct Marketing
- Global Marketing

We strategize and resource globally, manufacture regionally, and market locally.... We leaverage brand strengths while keeping a tight focus on local customer preferences."

-Herbert Baum, Former President, Campbell's Soup

Another innovative marketing strategy is the 'Nucleus Marketing' or 'Selling to the New (Upward Mobile) Urban Family’. According to this approach for a modern marketer the customer is not a single/individual member of the household, but the whole family collectively. For the marketer who wants to seize the future, it is paradoxically, not the individual in India's increasing individualized society, which matters. It is the New Urban Family (NUF)-that strictly city bound bundle of wife/mother, husband/father and son/ daughter. People, in other words, who are defined less by their individual characteristics than by their positions, roles and relationships in the context of their families.

In the past, the father was the unquestioned head and in major buying decisions, he was supposed to consult his wife only. Today there is recognition that even parents don't have all the answers. Kids prefer to go to their peers or seniors for career advice, fashion trends etc. Although, there is still a greater appreciation of parental advice when it comes to areas like managing interpersonal relationships.

17.2 NEW URBAN FAMILIES

Thus, the new families as distinct units have emerged as the New Urban Families - the emerging microcosm of the marketplaces.

NUF: The new target audience of marketing managers is the new upwardly mobile Indian family or the New Urban Family (N.U.F.).

Ironically, when our society is heading towards individualism, the marketer is targeting the family. Why?

NUF has emerged when individual tastes are diverging; the fusion, however, is stronger due to two reasons:

- The consumption may be personal, but the choice is not.
- More and more products and services are being purchased for collective use and consumption.

The family structure in India has moved from a joint family to that of an NUF. Such a family in all probability shall have different buying behaviour.

SELF CHECK EXERCISE

I. The role of marketing in a modern business organization is dispensable.(True / False)

II. A contemporary marketer views the customer as the entire family rather than just one particular member of the household. (True / False)

III. The family structure in India has moved from a NUF to that of an joint family. (True / False)

IV. NUF has emerged when individual tastes are ________________

(a) Diverging (b) Joining

(c) Gathering (d) Individualized

17.3 THE MAIN CHARACTERISTICS OF AN NUF FAMILY:

- The members are highly individualistic.
- The members have divergent tastes.
- They have adequate spending power.
- They have unique needs that require unique solutions.

According to Harris, "Nuclear family is a set of people who play biological roles and institutionalized social roles to one another and in rod ding develop believes and values which inform set of expectations".

Despite the above characteristics, marketers are discovering that it's not just the man, woman or kid but the family that makes the purchase decisions. Herein lies the paradox.

Though the family members consume separate products, the choice is taken as one. Also more and more products are being purchased for collective consumption. If a family plans for an evening outing, each member's choice is taken into account and a collective decision taken. Thus, the family set-up is witnessing a distinct shift from a strict, authoritarian structure to a more democratic set-up.

The Indian woman is becoming more assertive, seeking a bigger role in life. Then, we find generational conflict inside the home. With the weakening of parental authority, family members are using more subtle tracts to get their own way.

The NUF generation has seen the woman graduate from a house-frau to a house manager. The man remains the breadwinner but is now more adaptable. Marketers have to target the family as a unit, ironically in an increasingly individualized society. The family as a unit is a complex and ever-evolving institution.

A whole new kids' world out there is growing rapidly:

1. **Relationships**
   - More participative and emphatic with the family.
   - The need for self-identity and fewer personal relationships.
2. **Attitude**
   - Confides in his parents.
   - Aware and susceptible to peer group influence.
   - Recognizes the importance of education.
3. **Consumer products and the kids**

How do kids view products? What do they buy? What influences their purchase? These are questions to which marketers want to find fast and quick answers. The fact is that almost half the ads have toddlers as models. Why? Brands are trapping into what's missing from a young person's life and filling that space.

Let's look at the transition in the kid's role for making the purchase decisions:

- **Personal Products:** Children now act as influencers/co-deciders for personal products (for instance soaps, skin creams, lotions, moisturizers and even clothes).
- **Family Toiletries:** Earlier, kids were mere users of family toiletries but had no say in the purchasing decisions. Today, children have become more articulate about their brands and also buy toiletries of their choice. For example," I want my own Pears Soap".
- **Consumables:** Earlier, kids were mere users of consumables. Now they are the influencers for any purchase of consumables. For example, when jam is purchased, the kid chooses the flavor.
- **Vacations:** Earlier, when a family decided to go for a vacation, children were mere influencers in the choice of destination. Now they have become co-deciders. For instance, if a family decides to go on vacation, children would decide which places to visit.
- **Educational Products**: Earlier, the kids were initiators in the purchasing of educational products, now they have become more aware than their parents and hence turned co- deciders. For instance, the parents and the child decide the choice of school or college together.
- **Role Models**: Kids as buyers are not what they used to be. The role models have changed to Sachin Tendulkar or Shahrukh Khan.
- **Motivators:** What derives the NUF kid? Success, fame, ambition, etc.

The family will always be the target of marketers, and today's new age consumer-the kid-is a vital part of it. Influencers' today, but breadwinners tomorrow, kids are a force to reckon with.

In the NUF, the role of The Transition of The NUF een redefined, as the nature of society has changed to democratic one from the authoritative/hierarchical set-up. The new media/communication plays an important role to influence the decision-making process. Thus, now NUF works/acts as a single unit in all purchase decisions.

	THEN	NOW
Father	Strict, Unemotional, Authoritarian	Caring, Concerned, Sensitive
Mother	Emotional, Caring, Nurturing	Informed, Independent, Enterprising
Children	Self-Indulgent, Irresponsible, Rebellious	Responsible, Disciplined, Career- Minded
Spousal Roles	Strictly, Hierarchical, Rigid	Egalitarian, Flexible
Parental Roles	Controlling, Hierarchical, Distant	Democratic, Companionable, Collegiate

Source :**Business Today,** February 22-March 6,1999, Vol. 8, No.4

As compared to earlier times, there is a big change in the knowledge, awareness, preferences, conviction and adoption of product /services/ideas for each member of the family. Now the focus is mainly the understanding each other and the children now can be put in the role of companions along with the woman as equal partners for the man in the family. The marketers use children as communication conduit to their parents. It can also be analyzed that the NUF marketing could be the passport to the growth of a marketer in the present environmental set-up.

The NUF & Product Adoption

		Awareness			**Knowledge**			**Preference**			**Conviction**			**Adoption**		
		D	**F**	**S**	**D**	**F**	**S**	D	**F**	**S**	D	**F**	**S**	**D**	**F**	**S**
Mother	Then		•			•			•			•			•	
	Now															
Father	Then	•		•	•		•	•		•	•			•	•	•
	Now															
Children	Then														•	
	Now	•	•	•	•	•	•	•	•			•		•	•	

Source :**Business Today,** February 22-March 6,1999, Vol. 8 , No. 4 D-Durables, F- FMCGs, S-Services)

NUFgen is the new (Upward Mobile) Urban Family generation of customer. Despite the individualism of members NUFgen chooses, buys, and uses its products together. The consumption behaviour of each of its constituents the man/husband/father, the woman/ wife/mother, and the son/daughter/child/companion - is being redefined in his/her relationships with the other members of the family.

Ms. **NUFFY:** The NUF Woman/Mother/Wife

She prefers to listen to her music on FM radio, and thriller late night movies. As a customer, she is willing to buy as long as the marketer can justify that the product helps to manage her family's health.

Mr. **NUFFY:** The NUF Man/Husband/Father

He is not the only earner of the NUFgen family. Hence, he shares the authority with the other members just as he shares the family earnings.

MASTER or MISS NUFFY: The NUF Child/Son/Daughter/Companion/Friend

Irrespective of gender, for 52 per cent of the NUF children the television viewing has become a regular activity and a pretty long time is devoted to this now. After cartoons, boys prefer sports followed by movies and girls prefer music followed by family serials. Computer and Internet usage is also on the increase among children. A seven year old, at this moment is helping his/her parents to decide on what brand to buy, what features to look for or colour to choose. In this mode, the family is shopping for breakfast cereals or music system or even a car. Kids in India are starting to influence family in all kinds of categories (Key finding of the Cartoon India Survey of Indian Kids).

17.4 ROLE OF FAMILY AS DECISION MAKING UNIT

A family is considered to be the basic decision making unit as regards purchases. The decision to purchase a commodity or service is generally combined but every family member is going to influence the decision equally. Marketers also acknowledge the fact that the consumer behaviour pattern is changing as the influence of the family members among themselves increases. The key roles of purchase process (in general) are :

• Initiator	• Influencer
• Information gatherer	• Decision maker or decider
• Purchaser	• Users
• Maintainers	• Disposers

Earlier the family was '**patriarchal**' in which husband/father played a dominant role or '**matriarchal**' in which wife/mother played a dominant role or a'**equalitarianism** in which both played combine equal role in family purchasing decisions. In the above discussion we have analyzed that the children could not influence any decision, but contrary to that in the 'nucleus marketing' the man, woman and children play equal roles for decision-making process. In this concept we find that no single person can take any decision in this type of democratic family structure. The media choice too gave a high weightage to the family- oriented programming, avoiding overtly male or female-targeted slots.

Family has been anything but static. It has been a witness to radical changes over the years and continues to surprise scholars in the discipline. A field such as this should be nothing less than a fertile domain offering researchers a continuous source of research questions, but marketing and consumer research communities need to pay more attention to this domain. Research in the future should also attempt to integrate the course of research on families into a meaningful whole so that research thereafter can strive toward integration into a theory of family consumer behaviour.

Research so far has focused mainly on decision outcomes (who makes the final decision) and to a much lesser degree on decision processes (how do they arrive at that). As the question of who makes the purchase decision has been explored extensively, findings became repetitive and interest in family decision-making began to wane. At the same time, research that attempted to resist this wave of reductionism and grappled with family consumption in terms of all its interpersonal nuances has been hampered by a dearth of appropriate metaphors to talk about such behaviour; e.g., most theories of behaviour and personality in psychology are at the individual level and, given that family is not a simple sum of two or more individuals, individual theories of behaviour and personality do not facilitate an explanation of behaviour observed in families.

It will become apparent from the following review that research so far has mostly focused on the following questions about family decision-making:

- Who decides?
- What are the consumption implications of women?
- Can the relative influence of husbands and wives be determined?
- Does the family life cycle matter?

One of the variables that retained the interest of researchers for its predictability of relative influence was gender-role (or what some have referred to as sex-role) orientation. Green and Cunningham (1970) were the first to examine this variable in the context of marketing and consumer behaviour. They examined the effect of the feminine role orientation of the wife and found that the occupational status of the wife was a better predictor than the feminine role orientation. They further examined differences in family decision making across different types of families (Green and Cunningham 1975) and found that upper income groups and younger couples were more sensitive to feminine role perceptions (or lack of them) among wives. They also found that when the wife carried non-traditional attitudes about feminine roles, husbands reported fewer solo decisions.

But now in the 21st Century, it is difficult to determine that who is your customeri.e. man, woman, child or the whole family and how. How there is change in the roles of family members in the buying behaviour process, even cause changes in the process itself. There is a thought that why NUF is considered the unit for marketer and how promotion is the important component of the marketing wire.

The relationship between the husband and wife is changing too. Back in the 1980s and 1990s, the ideal relationship was when the husband did something for the wife. Today it is all about mutuality. The woman does not want him to transfer her space, but wants him to be there with her in all those situations that signify togetherness, shared space and thinking. If they cook, he cooks with her, but he doesn't take away from her role. This gives the reflection of how women are back to be more feminine and less aggressive role stereotype. They don't want to express much aggression and independence. This all gives the implication that how women see themselves today - feminine, beautiful, expressive but with no trace of 'masculine qualities' that characterized the women of the 1980s.

Women seem to enjoy their work, and believe that the money is useful for their family. Not many want to put it up. However, they do worry about what's happening at home and some find it difficult to cope with the demands of other family members. In a nutshell it can be said that they are emerging equal partners in the family progress.

How can NUF be the most important entity for marketers when individualism rules the day? The people are increasingly leading their own lives, pursuing their own dreams and setting their own agendas. Every apartment has a separate T.V, a separate tube of toothpaste and a separate brand of chocolate? But despite these fissionary forces, the fusion is stronger.

It also reveals that despite the individualism of its members, it chooses, buys and uses its products together. The consumption behaviour of each of its constituents-the man/husband/father or the woman/wife/mother/equal partner and the son/daughter/ child/companion-is being redefined in the context of his/her/relationship with the other members of the family. "The various factors influence the consumer/purchasing behaviour in the family i.e. parents, child, spouse, sibling. The family communication process has also been changed due to the change in the family structures and patterns. Even the family can modify the effects of other influencing agents for the member of the family. The consumer behaviour and the role perception among the family members are also generally changed with the change in the family life cycle at its various stages i.e. childhood, adolescence, adulthood, late adulthood etc" (George Moschis, 1985).

Today, the children have more income than at any other point of time, and more importantly, exercise greater influence over family purchasing decisions. At the same time, as manufacturers come under increasing competitive pressure, both from rival brands and retailers, this consumer group offers the opportunity of developing fast growth brands that help to secure brand loyalty early on.

Modern Indian kids are serious-minded, singularly focused on studies, faithful to their parents, rejoicing in tradition, and aspiring to traditional career choices. Surely there are a few conflicting signals in the line of relative independence: kids long for the freedom to do what they want; and over half of them decide what to do with their pocket money. And about half of them involve their parents in deciding how to spend it. Due to their increasing spending power they are the major targets of the marketers and hence can influence the family's purchase decision in a big way, i.e., they are growing in their pester power also. However, the parents have managed to retain the edge over their kids on purchasing decisions. This equation may shift in favour of kids in the coming years, as marketers target the young more aggressively and their own awareness and independence grows.

The freedom of the children grows up as the post-liberalization generation is coming of age. There are about 100 million young people between the age of 17-21 years old in India, and six out of 10 households have a liberalization child. This is a generation that has grown up with no guilt about consumption.

17.4.1 Family: How Constituents (Members) Influence Mutual Decisions

The family is the most important consumer-buying organization in society, and it has been researched extensively. Family members constitute the most influential primary reference group. We can distinguish between two families in the buyer's life. The *family of orientation* consists of one's parents and siblings. From parents a person acquires an orientation towards religion, politics, and economics and a sense of personal ambition, self-worth, and love? Even if the buyer no longer interacts very much with his or her parents, their influence on the buyer's behaviour can be significant. In countries where parents live with their grown children, their influence can be substantial. A more direct influence on everyday buying behaviour is one's *family of procreation,* namely, one's spouse and children.

Marketers are interested in the roles and relative influence of the husband, wife, and children in the purchase of a large variety of products and services. These roles vary widely in different countries and social classes.

Family decisions provide an excellent training ground for thoughtful decision-making. Parents and children can pose the issue, generate a menu of choices and then apply careful research to compare, contrast and ultimately choose one. By sharing the discussion and review, family members increase the likelihood that the group will build consensus around the final decision. Edward DeBono (1991)[16] suggests an excellent system to review such alternatives or options. He calls it **PMI.** One list with three columns for each option under review will be made. The first column is the PLUS column **(P),** where the list of all benefits and advantages can be identified that belongs with that option. The second column is the MINUS column **(M)**, where the list of all the problems, concerns and disadvantages can be attached to that option. The third column is the INTEREST **(I)**, where the list of all questions, the unknowns that require research, the issues which are unclear and need more study.

The Nucleus Marketing concept can also be related to those studies, where there was slightest influence of the family in the buying decisions as collectively. This author also intended to determine the measurement modes for the consumer socialization along with the theoretical perspectives and influencing factors like media, demographic and most important socio-cultural environment.

The present study in question helps to determine various factors influencing the buying decisions of an NUFgen family under the influence of the above stated factors/ environment.

SELF CHECK EXERCISE

V.In ___________ marketing the man, woman and children play equal roles for decision-making process.

(a) Nucleus (b) Viral

(c) Direct (d) Niche

VI. The family communication process has also been changed due to the change in the ___________ and __________.

(a) preference, social status (b) family structure, patterns

(c) needs, preferences (d) buying decisions, patterns

VII. Family decisions provide an excellent training ground for thoughtful decision-making. (True/ False)

VIII. Marketers recognize that as family members' impact grows, customer behavior patterns are shifting. (True / False)

17.5 VIRAL MARKETING: INTRODUCTION

In 21[81] century, technology brought renaissance in the life style of people. The world has transformed to the Global Village. Communication subsides the physical barrier. Unique concepts in technology continued to surface and affect the lives in one way or other. Internet changed the scenario in all the aspects. Business too galloped in synchronization with technology. In the internet era, the company's competitiveness seems to depend on its velocity of thought and action. The companies can grow more rapidly than even before but soon they may suddenly die from obsolescence traditional techniques of marketing. Word of mouth and word of mouse marketing strategy became the new tool for marketing a product, new business also want to let the world know their name, thus the must provide the compelling reason for the customer to help spread the world. On the internet word of mouse marketing is called "viral marketing". Viral marketing is any marketing technique that indicates web sites or user to pass on a marketing message to other sites or user, creating a potentially exponential growth in messages visibility and effect. Markets today are changing fast. Price-sensitive customers, new competitors, new distribution channels, new communication channels, the Internet, wireless commerce, globalization, deregulation, privatization... the list goes on. And it is not only markets that are changing, but the technologies that support them: e-commerce, e-mail, mobile phones, fax machines, sales and marketing automation, cable TV, videoconferencing. It is imperative that companies think through the revolutionary impact of these new technologies. In simple words, two essential considerations for marketers are operating in the 21st century. Firstly, it emphasizes that in today's marketing world the way companies communicate with their customers as well as how customers interact with each other have changed significantly. Secondly, it points to a key implication of these changes - the necessity for companies to find innovative ways of embracing these new technologies and of dealing with the changes in a manner that supports their corporate objectives. These revolutionary changes are due to the advent of the Internet. Following the initial stages of its development in which it generated exuberant excitement and exaggerated expectations among companies and consumers alike, it has evolved into an important distribution and communication channel for a large number of companies. Great significance now attaches to the Internet as an integral part of many companies' promotional activities. At the same time consumers have become savvier in the use of the Internet; they appreciate that having more information at their fingertips puts them in a significantly better purchasing position: "Buyers today can compare prices and product attributes in a matter of seconds. They are only a click away from comparing competitors' prices and can even name the price they want to pay for a hotel room, airline ticket or a mortgage and see whether any willing suppliers respond. Furthermore, they can enter a chat room about an area of common interest and exchange information and opinions." Companies neglecting or underestimating the implications of this changing marketing environment, especially in the area of customer communication will almost certainly experience disadvantages when vying for customers' attention. Also, companies relying solely on established and conventional means of advertising will in all probability lose those customers who have moved on to use predominantly new communication channels. The reason they have done so may well be that these (conventional) advertisements assume a level of naivete on the part of the viewer or reader that no longer exists. Today's consumer is jaded and fed up with overt distortions and one size- fits-all attempts to influence. Finally, another root cause of the changing marketing environment is a phenomenon most commonly referred to as clutter. Consumers today are exposed up to an overwhelming 3,000 marketing messages a day. The attempts made by some marketers to deal with this phenomenon are astonishing: The ironic thing is that marketers have responded to this problem with the single worst cure possible. To deal with the clutter and the diminished effectiveness of interruption marketing, they are interrupting us even more. Nonetheless, some marketers are attempting to counteract this trend by exploring a number of new and alternative marketing techniques. Amongst them are innovative approaches to customer communication, such as permission marketing, guerrilla marketing and viral marketing. The latter has experienced tremendous growth since the remarkable success of free web-based e-mail service, Hotmail. Hotmail went from 0 to 12 million subscribers in just 18 months, largely because it included an advertisement link for the service at the bottom of every e-mail. Due to the incredible growth of Hotmail and of other high-profile examples, such as the instant messaging software, ICQ, and the free e-card provider, Blue Mountain Art, there are some who believe that viral marketing could function as a panacea to counteract the difficulties marketers are experiencing in targeting consumers with traditional advertising. The following quotation illustrates this point of view: "Think of a virus as the ultimate marketing program. When it comes to getting a message out with little time, minimal budgets, and maximum effect, nothing on earth beats a virus. Every marketer aims to have a dramatic impact on thinking and behaviour in a target market; every successful virus does exactly that." Furthermore, viral marketing currently seems to be eliciting more discussion among professionals and greater excitement among practitioners than any of the other new communication techniques that were mentioned.

17.6 WHAT DOES VIRAL MARKETING HAVE TO DO WITH MARKETING?

Viral marketing describes any strategy that encourages individuals to pass on a marketing message to others, creating the potential for exponential growth in messages exposure and influence. Like virus, such strategies take advantage of rapid multiplication to explode the messages to thousands, to million. In simple words viral marketing means creating messages. And making these messages compelling enough so that people pass them on and in this manner the marketing messages flows on and on. Viral marketing is replacing traditional marketing because it allows low-cost, rapid, highly targeted, personalized, and therefore extremely effective, communication and propagation of marketing messages to existing and potential customers, by leveraging relationships of trust.

Off the internet, viral marketing has been referred to as:

- Word of mouth

- Creating the buzz
- Leveraging the media
- Networking marketing

However, on internet it is called viral marketing

17.7 WHY VIRAL MARKETING

The proliferation of marketing and advertising, coupled with the onslaught of millions of media channels in today's world, has given cause for consumers to tune out and effectively avoid a great deal of traditional supplier driven messaging. The creation of technologies such as PVRs, satellite radio and Internet ad blocking software are driving a fundamental shift in the way the public consumes media and the advertising often tied to it. Television ads, radio spots, online ads and even emails are facing increasing competition for effectively capturing the viewer's attention and provide positive ROI for the marketer. This competition, coupled with the rising cost of media buys, has caused marketers to search for an alternative means to reach the customer. Viral marketing is an attractive solution because it utilizes the free endorsement of the individual rather than purchase of mass media to spread the word. Because the distribution model is free, viral can potentially be lower cost and more effective than traditional media.

17.7.1The Viral Effect

More than 90% of consumers said they told at least one other person about a Web site when the original recommendation came from a friend, according to Jupiter Research.

Viral Marketing Advantages

1. Cuts through the clutter of traditional advertising, allowing marketers to effectively reach the audience.
2. Doesn't require a product with a wow factor in order to raise awareness, generate buzz, and kick-start peer-to-peer spread. Instead, the viral campaign's communication agent is the element that needs a wow factor or element of interest.
3. Unlike traditional advertising viral is not an interruptive technique. Instead, viral campaigns work the Internet to deliver exposure via peer-to-peer endorsement. Viral campaigns, whether ultimately liked or disliked, are often welcomed by the receiver. The focus is on campaigns with material that consumers want to spend time interacting with and spreading proactively.

Viral Marketing Defined

The Wikipedia defines viral marketing as "marketing techniques that seek to exploit pre-existing social networks to produce exponential increases in brand awareness, through viral processes similar to the spread of an epidemic. It is word-of-mouth delivered and enhanced online; it harnesses the network effect of the Internet and can be very useful in reaching a Viral marketing has been the buzz word for businesses for the last ten years. Customers act as advertisers by promoting a product through word of mouse. It is synonymous with word of mouth where a high degree of trust is given to a personal recommendation. The communication networks of the customers are used to transmit promotional material thereby drastically lowering the costs of customer acquisition. Hoffman and Novak believe that the high cost of getting new customers often exceeds the average long term value of a customer. In the long run, no company can survive such costs. This can mean the end of a company. Businesses that can bring down these costs will be the winners. **Hotmail** expenditures of customer acquisition were practically nothing compared to other businesses. In 1999

Amazon.com spent $29 for each new customer and for DLJ Direct the customer was worth $185. The most dollars spent for each new customer was $257 by the brokerage company E*Trade. It is a grave misconception to think that viral marketing is the key to quick riches. Viral marketing looks easy but the contrary is true. There are always exceptions to the rule such as the free e-mail provider, but generally, careful planning is a prerequisite. Product analysis, market research and marketing strategies have to be considered before initiating a viral marketing campaign.

The switching to another site is only a mouse click away. It is the goal of every supplier to lure the Internet user to his Web site with attractive offers and arouse enough interest to warrant repeated visits to the company Web site. The challenge for every marketer is to acquire new customers, achieve customer satisfaction and loyalty as well as a degree of brand popularity. Several tools are at his disposal to fulfil set goals. In spite of high customer orders and sales increases, the momentum dwindles and eventually stagnates.

"Viral marketing can be understood as a communication and distribution concept that relies on customers to transmit digital products via electronic mail to other potential customers in their social sphere and to animate these contacts to also transmit the products." (Helm 2000b)

Jurvetson and Draper define viral marketing as **"network-enhanced word of mouth".** Viral marketing is the online counterpart of "word of mouth" and is often described as "word of mouse". Frey compares viral marketing to a pathogenic agent which, with the aid of a host cell, divides and multiplies. The customer is the central transmitter of the message. The receiver of the message is encouraged to pass it along to others. The strength of viral marketing lies in the **credibility of the carrier** of the virus and his willingness to share it with friends and relatives. This communication process escalates and reaches viral dimensions.

SELF CHECK EXERCISE

IX. What is the other name for word of mouse marketing?

(a) Nucleus Marketing (b) Viral Marketing

(c) Direct Marketing (d) Segmented Marketing

X. The *family of orientation* consists of

(a) One's parents and siblings (b) Spouse and children

(c) One's parents and children (d) One's parents and spouse

XI. The strength of viral marketing lies in thecredibility of the carrier. (True/ False)

XII. Viral marketing doesn't allow marketers to effectively reach the audience. (True / False)

17.8 VIRAL MARKETING STRATEGY

The marketing concept of every business is to first define the primary goals, for viral marketing it is to reach as many potential customers as quickly as possible and at the lowest possible cost. This goal can be reached by using the unique concept of word of mouse. The exponential spreading of the viral message is achieved with little or no cost to the marketer.
This way, future customers can be reached locally, nationally and internationally. A key element

responsible for the wide spread recognition of the product is the personal recommendation of the word of mouse contact. The conviction that the product has value increases the desire to communicate and to spread the viral message. The tipping point, when the virus becomes an epidemic, which is essential for viral marketing can be attained. The most important goal of viral marketing is to make contact with as many customers as possible with which businesses can connect. Fritz differentiates between two goals, the **economic goals** and **non-economic goals,** although the non-economic goals play a more dominant role at the beginning of a marketing campaign. Non-economic goals are :

1. Customer Acquisition
2. Customer Satisfaction
3. Customer Loyalty
4. Degree of Popularity

17.9 TARGET GROUP OF VIRAL MARKETING

A marketing campaign will not bring the desired results if the attempt is made to reach every possible customer in the Internet. In the early stages it is important to clearly define who the most potential customers of the product to be marketed will be. Before a product or service is put on the market with the use of viral marketing it is important to determine which segment of the population will profit the most from the marketing campaign. Bruhn defines target groups as people for whom the marketing message is planned. Not only is the singular potential buyer of interest but also the **reference** group with whom the buyer identifies. Individuals who have great influence on the customer such as **opinion leaders** and **social contacts** are part of the target group. The target group should not be evaluated after only one criterion. Their **socioeconomic** and **demographic** traits must be considered. The magic word for any customer is "**free**" and nothing can motivate a Web user more. With e-mails, Web sites, graphic and software download the spreading of the message is easy and cheap. For the message to spread quickly without falling into a hole, backup mail servers have to be provided for. The customer readily communicates with family, friends and people at his place of work when his basic behavior patterns such as greed and the desire to be cool are hooked into. In **Godin's** "Unleashing the Idea virus" the author calls the target group which carries the idea virus a **hive.** If the target group, hive, is not overwhelmed with the marketing message the wrong group has been targeted. Not every product is for everyone, therefore, careful analysis must establish who the users will be. In addition, Godin lists eight variables that influence the spreading of a virus.

Opinion Leaders

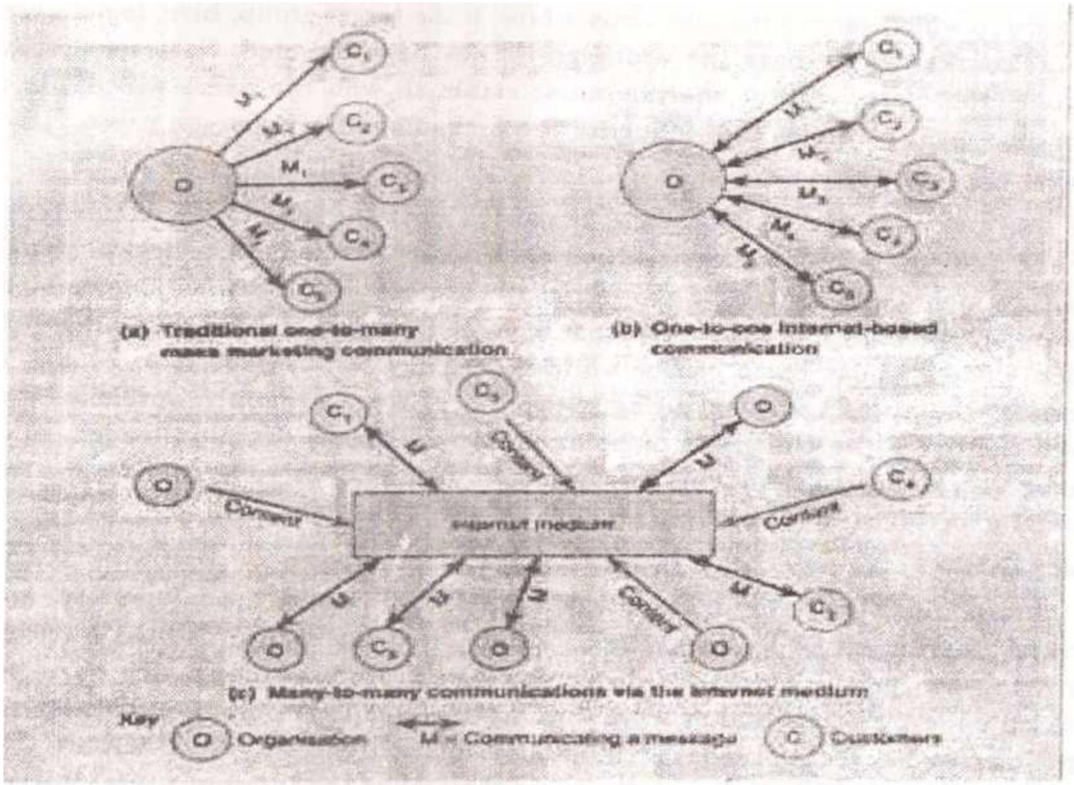
For a virus to spread it needs to be carried from one host to the next where it can lie dormant until the spreading has reached epidemic proportions. A biological virus is either spread through direct contact of one carrier to the next or it is carried long distances in the atmosphere. Certain individuals influence a greater circle of people than others. These are opinion leaders whose reach can be world wide. They can be experts or people with great influence who enjoy communicating with others. Word of mouth spreading by opinion leaders increases the chance of reaching the critical mass. Opinion leaders are effective because they either confirm what is said about a product or verify the faults. Their direct personal experience assures them credibility among listeners.

E-fluentials

Individuals who have an enormous influence on people, the influencers, are referred to in the Internet as Efluentials. They are opinions leaders who use the Internet word of mouth to form public opinion. One person has a profound influence on eight others. Research done by Roper Starch Worldwide for the company Burson-Marsteller shows that approximately 8 percent of today's 109 million Internet users in the U.S.A are E-fluentials. That is 9 million opinion makers influencing the rest of the Internet users. Marketers need to target the E-fluentials for their products. E-fluentials have a disproportionate reach in the Internet, spread negative experiences to 17 people and positive experiences to 11 and the selection of information passed along by a woman E-fluential differed from male E-fluential topics. They are meticulous in gathering varied sources and information about a product or service, access company Web sites for information and will only selectively respond to e-mails where the sender is known. Marketers need to gain the trust of E-fluentials. Their support is crucial for a brand. Tech-fluentials are a newly discovered group of opinion leaders who are the first to try technology products. The price of the product plays a secondary role in their purchasing decision. Important are quality and functionality. Their strong presence in the Internet can create a buzz about a new technology product and their recommendations accelerate wide product adoption. Marketers seek tech-fluentials' opinions about new product developments and respond to their company postings in the Internet.

Communication Channels

Non-personal communication channels can be seen as information which is passed on without any personal contact between the sender and the receiver. The use of e-mails, participation in virtual communities, chatrooms and forums is the present day version of non-personal communication. Communication in the Internet can be on a **One-to-One** or **Many to Many**basis. Previously marketing was a **One-to-Many** situation. A business spread information through the mass media such as television and newspapers to all customers. It was not a two way situation **(see figure)** large number of people rapidly."



The differences between one to many, one to one and many to many communications using the Internet

Communication Strategy

Pull Strategy:

In general, the trend in advertising strategies in the Internet has changed from **push to a pull communication strategy.** It is up to the customer himself to decide if and when he decides to send a message. The customer pulls friends and acquaintances to a Web site and becomes an indirect salesperson. The Internet user needs to be lured to the site with special incentives. This can be in the form of free services or products. Once the user has switched to the site, his attention and interest must be held upright with the special value of the incentive. As the word pull (pure pull) indicates, the user searches, also called surfing, in the Internet for the desired information. He literally pulls it from the Internet supplier. The active involvement of the user in pulling the desired information is basically not too different from the push principle depending on the amount of pull elements involved. To regularly receive updated information, the user registers with a channel of the supplier such as radio or television. However, the user pulls the information from the channel, although the impression is that the information is pushed to the user. The transition from a primarily push oriented marketing to a pull marketing in the Internet has drastically reduced the power of the supplier. There is stiff competition between companies offering their products in the Internet because the user needs to be aware of the offered products. Getting the attention of the Internet user is of primary concern for the supplier. A mouse click decides what the user wants to see and what not and if he is animated to act. The future of Internet marketing will not evolve into a pure pull or a pure push situation. A combination of both will exist, where push advertising is done over qualitative selective channels.

Push Strategy:

In contrast to the pull principle, information is pushed to the customer, voluntarily or involuntarily. Push advertisement is used by radio and television networks and in the printed media such as news papers, magazines and flyers. The customer has no influence on the pushed mass communication that he is inundated with. There is a negative side to push advertisement. Unwanted advertisements are sent to channel customers which can lead to an overload. Because of the massive bombardment the customer has difficulty in filtering out useful information. Since the channels are mainly used for commercial purposes and are geared for the customer, it is not advisable for scientific purposes. Data traffic increases due to large multimedia files that are transmitted. The networks become overloaded. To reduce the expenditure of resources only headlines and short summaries are now being transmitted.

17.10 SUMMARY

The role of marketing in a contemporary business organization is indispensable. Any study of the Indian consumers is incomplete if it doesn't look at the pattern of an Indian family. Another innovative marketing strategy is the 'Nucleus Marketing' or 'Selling to the New (Upward Mobile) Urban Family'. According to this approach for a modern marketer the customer is not a single/individual member of the household, but the whole family collectively, the new families as distinct units have emerged as the New Urban Families - the emerging microcosm of the marketplaces. The NUF generation has seen the woman graduate from a house-frau to a house manager. Word of mouth and word of mouse marketing strategy became the new tool for marketing a product, new business also want to let the world know their name, thus the must provide the compelling reason for the customer to help spread the world.

17.11 KEY WORDS

1. **New Urban Families:** The new families as distinct units have emerged as the New Urban Families - the emerging microcosm of the marketplaces.
2. Viral Marketing: Viral marketing is any marketing technique that indicates web sites or user to pass on a marketing message to other sites or user.
3. Push Strategy: The information is pushed to the customer, voluntarily or involuntarily.

17.12 PRACTICE QUESTIONS

17.12.1 SHORT ANSWER QUESTIONS

Q.1 What do you mean by Nucleus Marketing?
Q.2 State the characteristics of a New Urban Families.
Q.3 Define Viral Marketing.

17.12.2 LONG ANSWER QUESTIONS

Q.4 What are the various target groups of viral marketing and how they influence the spreading of a virus?
Q.5 State the difference between push and pull strategy.

17.13 REFERENCES

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17.14 ANSWER KEY

I. False	**II. True**	**III. False**	**IV. (a)**
V. (b)	**VI. (a)**	**VII. True**	**VIII. True**
IX. (a)	**X. (a)**	**XI. True**	**XII. False**