MARKETING MANAGEMENT

COURSE NO. CP: 204     Max. Marks (Ext. Exam) : 80
Min. Pass Marks : 32

OBJECTIVES:

The purpose of this course is to develop an understanding of the underlying concepts, strategies and issues involved in the marketing of products and services.

COURSE CONTENTS:

Unit –I Nature and scope of marketing, Corporate orientations towards the marketplace. The Marketing Environment and Environment Scanning;
Unit –II Marketing information system and Marketing research, Understanding consumer and Industrial markets, market segmentation, Targeting and positioning;
Unit –III Product decisions, product mix, product life cycle, new product development, branding and packaging decisions, Pricing methods and strategies, Promotion decision- promotion mix, advertising, sales promotion, publicity and personal selling;
Unit –IV Channel management-selection, co-operation and conflict management, vertical marketing implementation and systems, Organizing and implementing Marketing in the organization;
Unit–V Evaluation and control of marketing efforts; New issues in marketing- Globalization, Consumerism, Green marketing, Legal issues.

SCHEME OF EXAMINATION:

Total Marks : (Internal 20, External 80) = 100 marks

PATTERN FOR EXTERNAL EVALUATION:

Sec. A: (Short Answers)  4 out of 8  4 x 8  = 32 Marks.
Sec. B: (Essay type & case)  3 out of 5  3 x 16  = 48 Marks.

SUGGESTED READINGS :

UNIT – I

Introduction to Marketing

Production and marketing of goods and services are the essence of economic life in any society. All organizations perform these two basic functions to satisfy their commitments to their stakeholders – the owners, the customers and the society, at large. They create a benefit that economists call utility which is the want-satisfying power of a good or service. There are four basic kinds of utility – form, time, place and ownership utility. Form utility is created when the firm converts raw materials and component inputs into finished goods and services. Although marketing provides important inputs that specify consumer preference, the organization’s production function is responsible for the actual creation of form utility. Marketing function creates time, place and ownership utilities. Time and place utility occur when consumers find goods and services available when and where they want to purchase them. Online retailers with 24*7 format emphasize time utility. Vending machines focus on providing place utility for people buying snacks and soft drinks. The transfer of title to goods or services at the time of purchase creates ownership utility.

<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
<th>Examples</th>
<th>Responsible function</th>
</tr>
</thead>
<tbody>
<tr>
<td>Form</td>
<td>Conversion of raw materials and components into finished goods and services</td>
<td>Pizza made from several ingredients</td>
<td>Production</td>
</tr>
<tr>
<td>Time</td>
<td>Availability of goods and services when consumers want them</td>
<td>Dial-a-pizza; delivery guaranteed in 30 min.</td>
<td>Marketing</td>
</tr>
<tr>
<td>Place</td>
<td>Availability of goods and services where consumers want them</td>
<td>Delivery at your doorstep</td>
<td>Marketing</td>
</tr>
<tr>
<td>Ownership</td>
<td>Ability to transfer title to goods or services from marketer to buyer</td>
<td>Pizza sales (in exchange for rupees or credit card payment)</td>
<td>Marketing</td>
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<td>(possession)</td>
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To survive, all organizations must create utility. Designing and marketing want- satisfying goods, services and ideas is the foundation for the creation of utility.

**What is marketing?**

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

Table 1.1.1 Selling Vs. Marketing

<table>
<thead>
<tr>
<th>Point of difference</th>
<th>Selling</th>
<th>Marketing</th>
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<tbody>
<tr>
<td><strong>Starting point</strong></td>
<td>Factory</td>
<td>Marketplace</td>
</tr>
<tr>
<td><strong>Focus</strong></td>
<td>Existing products</td>
<td>Customer needs</td>
</tr>
<tr>
<td><strong>Means</strong></td>
<td>Selling and promoting</td>
<td>Integrated marketing</td>
</tr>
<tr>
<td><strong>End</strong></td>
<td>Profits through volume</td>
<td>Profits through satisfaction</td>
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The difference between selling and marketing can be best illustrated by this popular customer quote: ‘Don’t tell me how good your product is, but tell me how good it will make me’.

**Definition of Marketing**

The American Marketing Association, the official organization for academic and professional marketers, defines marketing as: “Marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational objectives”

According to Kotler (2000) – “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.”
Another definition goes as ‘... process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others’.

Simply put: Marketing is the delivery of customer satisfaction at a profit.

**Nature of Marketing**

1. **Marketing is an Economic Function**
   Marketing embraces all the business activities involved in getting goods and services, from the hands of producers into the hands of final consumers. The business steps through which goods progress on their way to final consumers is the concern of marketing.

2. **Marketing is a Legal Process by which Ownership Transfers**
   In the process of marketing the ownership of goods transfers from seller to the purchaser or from producer to the end user.

3. **Marketing is a System of Interacting Business Activities**
   Marketing is that process through which a business enterprise, institution, or organisation interacts with the customers and stakeholders with the objective to earn profit, satisfy customers, and manage relationship. It is the performance of business activities that direct the flow of goods and services from producer to consumer or user.

4. **Marketing is a Managerial function**
   According to managerial or systems approach – “Marketing is the combination of activities designed to produce profit through ascertaining, creating, stimulating, and satisfying the needs and/or wants of a selected segment of the market.”
   According to this approach the emphasis is on how the individual organisation processes marketing and develops the strategic dimensions of marketing activities.

5. **Marketing is a social process**
   Marketing is the delivery of a standard of living to society. According to Cunningham and Cunningham (1981) societal marketing performs three essential functions:
   - Knowing and understanding the consumer’s changing needs and wants;
• Efficiently and effectively managing the supply and demand of products and services; and
• Efficient provision of distribution and payment processing systems.

6. Marketing is a philosophy based on consumer orientation and satisfaction

7. Marketing had dual objectives – profit making and consumer satisfaction

**Scope of Marketing**

1. **Study of Consumer Wants and Needs**
   Goods are produced to satisfy consumer wants. Therefore study is done to identify consumer needs and wants. These needs and wants motivates consumer to purchase.

2. **Study of Consumer behavior**
   Marketers perform study of consumer behavior. Analysis of buyer behavior helps marketer in market segmentation and targeting.

3. **Production planning and development**
   Product planning and development starts with the generation of product idea and ends with the product development and commercialization. Product planning includes everything from branding and packaging to product line expansion and contraction.

4. **Pricing Policies**
   Marketer has to determine pricing policies for their products. Pricing policies differs form product to product. It depends on the level of competition, product life cycle, marketing goals and objectives, etc.

5. **Distribution**
   Study of distribution channel is important in marketing. For maximum sales and profit goods are required to be distributed to the maximum consumers at minimum cost.

6. **Promotion**
   Promotion includes personal selling, sales promotion, and advertising. Right promotion mix is crucial in accomplishment of marketing goals.
7. Consumer Satisfaction
The product or service offered must satisfy consumer. Consumer satisfaction is the major objective of marketing.

8. Marketing Control
Marketing audit is done to control the marketing activities.

Corporate orientation towards market place / Evolution of Marketing

As noted earlier, exchange is the origin of marketing activity. When people need to exchange goods, they naturally begin a marketing effort. Wroe Alderson, a leading marketing theorist has pointed out, 'It seems altogether reasonable to describe the development of exchange as a great invention which helped to start primitive man on the road to civilization'. Production is not meaningful until a system of marketing has been established. An adage goes as: Nothing happens until somebody sells something.

Although marketing has always been a part of business, its importance has varied greatly over the years. The following table identifies five eras in the history of marketing: the production era, the product era, the sales era, the marketing era and the relationship marketing era.

In the production era, the production orientation dominated business philosophy. Indeed business success was often defined solely in terms of production victories. The focus was on production and distribution efficiency. The drive to achieve economies of scale was dominant. The goal was to make the product affordable and available to the buyers.

In the product era, the goal was to build a better mouse trap and it was assumed that buyers will flock the seller who does it. However, a better mousetrap is no guarantee of success and marketing history is full of miserable failures despite better mousetrap designs. Inventing the greatest new product is not enough. That product must also solve a perceived marketplace need. Otherwise, even the best-engineered. Highest quality product will fail.

In the sales era, firms attempted to match their output to the potential number of customers who would want it. Firms assumed that customers will resist purchasing goods and services not deemed essential and that the task of selling and advertising is to convince them to buy. But selling is only one component of marketing.
Next came the **marketing era** during which the company focus shifted from products and sales to customers’ needs. The marketing concept, a crucial change in management philosophy, can be explained best by the shift from a seller’s market – one with a shortage of goods and services – to a buyer’s market – one with an abundance of goods and services. The advent of a strong buyer’s market created the need for a customer orientation. Companies had to market goods and services, not just produce them. This realization has been identified as the emergence of the marketing concept. The keyword is customer orientation. All facets of the organization must contribute first to assessing and then to satisfying customer needs and wants.

The **relationship marketing era** is a more recent one. Organization’s carried the marketing era’s customer orientation one step further by focusing on establishing and maintaining relationships with both customers and suppliers. This effort represented a major shift from the traditional concept of marketing as a simple exchange between buyer and seller. Relationship marketing, by contrast, involves long-term, value-added relationships developed over time with customers and suppliers. The following table summarizes the differences between transaction marketing (i.e. exchanges characterized by limited communications and little or no on going relationship between the parties) and relationship marketing.

### Marketing Concepts

Having defined marketing in the previous lesson as a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others, this lesson examines the important concepts that are included and implied in this definition. These concepts are indicated in Figure 1.2.1 and it is important to note that they are linked, with each one building on the one before it.

Figure; Marketing concepts
Needs, Wants and Demands

The most basic concept underlying marketing is that of human needs. A need is a state of felt deprivation. It is a part of the human makeup. Humans have many needs, viz., physical needs, social needs, spiritual needs and so on. Wants are the form taken by needs as they are shaped by the one’s culture and personality. Wants are thus shaped by both the internal and external factors. Wants are described in terms of objects that will satisfy needs. For example, thirst is a need. To quench this thirst, a person may consider a number of options – drink water or a soft drink or a fruit juice. These objects (which represent the different choices for a person to fulfill his/her need) comprise the potential want-list. As people are exposed to more objects that arouse their interest and desire, marketers try to provide more choices, that is, more want-satisfying products. People have almost unlimited wants but limited resources. Therefore, they want to choose products that provide the most satisfaction for their money. When backed by buying power (ability), a want becomes a demand.

Products

A product is anything that can be offered to a market to satisfy a need or want. People satisfy their needs and wants with products. Though the word suggests a physical object, the concept of product is not limited to physical objects. Marketers often use the expressions goods and services to distinguish between physical products and intangible ones. These goods and services can represent cars, groceries, computers, places, persons and even ideas. Customers decide which entertainers to watch on television, which places to visit for a holiday, which ideas to adopt for their problems and so on. Thus the term ‘product’ covers physical goods, services and a variety of other vehicles that can satisfy customers’ needs and wants. If at times the term ‘product’ does not seem to be appropriate, other terms such as market offering, satisfier are used.

Value and Satisfaction

When the customers have so many choices to choose from to satisfy a particular need, how do they choose from among these many products? They make their buying choices based on their perceptions of a product’s value. The guiding concept is customer value. A customer will estimate the capacity of each product to satisfy his need. He/She might rank the products from the most need-satisfying to the least need-satisfying. Of course, the ideal product is the one which gives all the benefits at zero cost, but no such product exists.
Still, the customer will value each existing product according to how close it comes to his/her ideal product and end up choosing the product that gives the most benefit for the rupee – the greatest value.

**Exchange, Transactions and Relationships**

Marketing occurs when people decide to satisfy needs and wants through exchange. Exchange is the act of obtaining a desired object from someone by offering something in return. Thought it is only one of the many ways people can obtain a desired object, it allows a society to produce much more than it would with any alternative system. For an exchange to take place, several conditions must be satisfied. Of course, at least two parties must participate, and each must have something of value to the other. Each party also must want to deal with the other party and each must be free to accept or reject the other’s offer. Finally, each party must be able to communicate and deliver. These conditions simply make exchange possible. Whether the exchange actually takes place depends on the parties’ coming to an agreement. If they agree, we must conclude that the act of exchange has left both of them better off or at least not worse off. After all, each was free to reject or accept the offer. In this sense, exchange creates value just as production creates value. It gives customers more consumption possibilities.

**Markets**

The concept of transactions leads to the concept of a market. A market is the set of actual and potential buyers of a product. It may exist in a physical environment as a marketplace or in a virtual environment (on the internet platform) as a marketspace. To understand the nature of a market, imagine a primitive economy consisting of only four people – a farmer, a fisherman, a potter and a hunter. Figure 1.2.2 shows the different ways in which these traders could meet their needs. In the first case, self-sufficiency, they gather the needed goods for themselves. In the second case, decentralized exchange, each person sees the other three as potential buyers who make up a market. In the third case, centralized exchange, a new person called a merchant appears and locates in a central area called a marketplace. Each trader brings goods to the merchant and trades for other needed goods. Merchants and central marketplaces greatly reduce the total number of transactions needs to accomplish a given volume of exchange. As economies grow, exchange becomes even more centralized, as seen in the growth of huge companies. Large supermarkets now serve millions of people who formerly shopped in smaller outlets.
Marketing in a connected world

The internet and the resultant connected world has posed some special challenges and opportunities for marketers. Prof. Mohanbir Sawhney (Kellogg School of Management) has used two interesting metaphors (hunting Vs. gardening) to describe marketing hither-to and marketing hence-forth.

<table>
<thead>
<tr>
<th>Marketing Hither-to:</th>
<th>Marketing Hence-forth:</th>
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<tbody>
<tr>
<td>Marketing as hunting</td>
<td>Marketing as gardening</td>
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<tr>
<td>Market as a jungle</td>
<td>Customer relationships as garden to be tended</td>
</tr>
<tr>
<td>Customers as targets</td>
<td>Marketer as gardener</td>
</tr>
<tr>
<td>Marketers as hunters</td>
<td>Partners as players in the ecosystem</td>
</tr>
<tr>
<td>Segmentation as rifle Vs. shotgun Approach</td>
<td>Customer loyalty as roots</td>
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<tr>
<td>Products as mousetraps</td>
<td>Lifetime profits as harvest</td>
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<tr>
<td>Salespeople as baiyers and switchers</td>
<td>Marketing process as seed, feed and yield</td>
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<tr>
<td>Promotions as campaigns</td>
<td>Relationships as conquests/acquisitions</td>
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<td>Relationships as conquests/acquisitions</td>
<td>Loyalty as lock-in and retention</td>
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<tr>
<td>Loyalty as lock-in and retention</td>
<td>Customer visits as eyeballs and traffic</td>
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The underlying reason for this shift is the rise of information democracy made possible by the internet. For information symmetry (characterized by scarce information, ill-informed customers, monologue kind-of exchanges and ‘command-and-control’ marketing) the society is moving towards information
democracy (characterized by ubiquitous information, well-informed customers, conversations kind-of exchanges and ‘connect-and-collaborate’ marketing). The Cluetrain Manifesto (www.cluetrain.org) describes markets as conversations in the following manner: Markets are conversations. Their members communicate in language that is natural, open, honest, direct, funny and often shocking… Most corporations, on the other hand, only know how to talk in the soothing, humorless monotone of the mission statement, marketing brochure, and your-call-is-important-to-us busy signal. Same old tone, same old lies. No wonder networked markets have no respect for companies unable or unwilling to speak as they do.

In the connected world, the empowered customers can: (1) Get objective information for multiple suppliers without relying on the manufacturer or the retailer (e.g., Edmunds.com); (2) Initiate requests for information and advertising from manufacturers (e.g., DealTime.com); (3) Design and configure customized offerings (e.g., Dell.com); (4) Use buying agents to pit sellers against each other (e.g., Freemarts Online); (5) Unbundle offerings and arbitrage across channels (e.g. Ritz Camera); (6) Pay by the minute, by the month, by the mile (e.g., IBM e-business on demand) and (7) Communicate with peers and experts for feedback on products and brands (e.g. Amazon.com and Epinions.com)

**Marketing Environment**

No business operates in a vacuum. Decisions are made within a context of competition, customer characteristics, behaviour of suppliers and distributors, and of course within a legislative and social framework. People working within organisations are contributing to the welfare of society and of each other, and obtaining satisfaction of their own needs in return: this complex network of exchanges results in a better standard of living for everybody. From a marketing viewpoint, managing the exchange process between the firm and its customers comes highest on the list of priorities, but it would be impossible to carry out this function without considering the effects of customer-based decisions on other people and organisations. A stakeholder is any individual or organisation affected by the firm’s activities – neighbours, suppliers, competitors, customers, even governments – and all of these will have some input into marketing decisions, either directly or indirectly. Some environmental factors are easily controlled by managers within the firm, whereas others cannot be changed and must therefore be accommodated in decision-making. In general, the larger the firm, the greater the control over its environment: on the other hand, large firms often find it difficult to adapt to
sudden environmental changes in the way that a small firm might. In order to assess the impact of different environmental factors, managers first need to classify them.

Different authors have classified the marketing environment differently. But basically marketing environment can be classified in two categories which are as follow:

- The **Micro environment**
- The Macro environment

**Micro environment**
The microenvironment can be separated into the internal environment and the external environment. The internal environment consists of the firm’s own management structure, the organization’s strategies and objectives, and the departments within the company. The characteristics of the firm’s internal environment affect its ability to serve its customers. The external environment comprises suppliers, marketing intermediaries, customers, competitors and publics. As well as obvious groups such as shareholders, publics can also include local interest groups who may have concerns about the marketer’s impact on the environment or on local employment. The microenvironment consists of following factors.

1. Intermediaries.
2. Customers.
3. Public.
4. Competitors.
5. Company.
1. **Intermediaries** - They are the people who assist the flow of products from the producers to the consumers; they include wholesalers, retailers, agents, etc. These people create place & time utility. A company must select an effective chain of middlemen, so as to make the goods reach the market in time. The middlemen give necessary information to the manufacturers about the market. If a company does not satisfy the middlemen, they neglect its products & may push the competitor’s product.

2. **Customers** - The main aim of production is to meet the demands of the consumers. Hence, the consumers are the center point of all marketing activities. If they are not taken into consideration, before taking the decisions, the company is bound to fail in achieving its objectives. A company’s marketing strategy is influenced by its target consumer. Eg: If a manufacturer wants to sell to the wholesaler, he may directly sell to them, if he wants to sell to another manufacturer, he may sell through his agent or if he wants to sell to ultimate consumer he may sell through wholesalers or retailers. Hence each type of consumer has a unique feature, which influences a company’s marketing decision.

3. **Public**: A Company’s obligation is not only to meet the requirements of its customers, but also to satisfy the various groups. A public is defined as “any group that has an actual or potential ability to achieve its objectives”. The significance of the influence of the public on the company can be understood by the fact that almost all companies maintain a public relation department. A positive interaction with the public increase its goodwill irrespective of the nature of the public. A company has to maintain cordial relation with all groups, public may or may not be interested in the company, but the company must be interested in the views of the public.

4. **Competitors** - A prudent marketing manager has to be in constant touch regarding the information relating to the competitor’s strategies. He has to identify his competitor’s strategies, build his plans to overtake them in the market to attract competitor’s consumers towards his products. Any company faces three types of competition:
   a) **Brand Competition**: It is a competition between various companies producing similar products. Eg: The competition between BPL & Videcon companies.
b) **The Product Form Competition:** It is a competition between companies manufacturing products, which are substitutes to each other. Eg: Competition between coffee & Tea.

c) **The Desire Competition:** It is the competition with all other companies to attract consumers towards the company. Eg: The competition between the manufacturers of TV sets & all other companies manufacturing various products like automobiles, washing machines, etc.

Hence, to understand the competitive situation, a company must understand the nature of market & the nature of customers. Nature of the market may be as follows:

I. Perfect Market
II. Oligopoly
III. Monopoly
IV. Monopolistic Market
V. Duopoly

5. **Company.** A Company’s marketing system is influenced by its capabilities regarding production, financial & other factors. Hence, the marketing management/manager must take into consideration these departments before finalizing marketing decisions. The Research & Development Department, the Personnel Department, the Accounting Department also have an impact on the Marketing Department. It is the responsibility of a manager to company-ordinate all department by setting up unified objectives.

6. **Suppliers.** They are the people who provide necessary resources needed to produce goods & services. Policies of the suppliers have a significant influence over the marketing manager’s decisions because, it is laborers, etc. A company must build cordial & long-term relationship with suppliers.

**Macro Environment**

Larger societal forces that affect the whole microenvironment are known as the macro environment. These forces are of uncontrollable variables which the company must take care of and to respond it quickly because the global forces have huge impact on consumers and companies. The macro environment consists of following major forces which affect the whole micro environment of a company.

1. Demographic.
2. Economic.
3. Natural.
4. Technological.
5. Political and legal.
6. Cultural.

1. The demography. The study of human populations in terms of size, density, location, age, gender, race, occupation and other statistics comes under the demographic environment. The demographic environment itself is affected by changes in the mix of age groups in the population. If the population becomes older, this will lead to rising demand for products and services consumed by older people and a similar fall in demand for products consumed by younger people.

2. Economic. The economic environment is important to marketers because it affects the amount of money people have to spend on products and services. One of the components of the economic environment is the distribution of income. Economies around the world not only vary in their absolute or total level of wealth but also in how their wealth is spread within the population. For example, poor countries may be classified either as those which have a highly unequal spread of wealth or those where it is more evenly shared. The former group of countries may be markets for luxury goods, despite the level of poverty. In contrast, the second type of country may be more attractive to marketers of inexpensive goods for the mass market.

3. Natural. Natural resources needed as inputs by marketers or that are affected by marketing activities. This is important to marketers insofar as it is the source of many raw materials and fluctuation in supply can affect the prices paid for purchases. There is increasing pressure from public opinion as to where raw materials are sourced from, and their effect on the natural environment.

4. Technological. Technological developments offer marketers both opportunities and threats. Although firms can offer customers a wider array of advanced products, changes in technology also mean that there may be more than one technical solution to a customer’s needs. Increased technological development accelerates the speed of obsolescence. Marketers have to consider how their product may need to be developed over time, if it is to remain competitive.

5. Culture. People’s opinions and tastes are shaped by the society in which they live. It should be noted that societies are not made up of homogeneous
populations. They contain sub-cultures, which are beliefs and values shared by smaller groups of people. Such groups may arise out of a common race, religion, social activity or hobby. Sub-cultures are important to marketers insofar as they may have different consumption habits from the rest of the population.

6. Political and legal. Marketers are influenced by the regulatory environment. This has implications for their obligations to customers and the wider public. Customers are increasingly able to seek redress for faulty products, and those who live near manufacturing plants are able to claim compensation for pollution. The political environment around the world has recently favored the privatization of public companies. Such companies have also been able to compete more freely in the private sector. Political changes in Eastern Europe have also meant that these markets are now open to marketers from around the world.

Environmental Scanning

Marketers must carefully and continually monitor crucial trends and developments in the business environment. Environmental scanning is the process of collecting information about the external marketing environment to identify and interpret potential trends. This activity then seeks to analyze the collected information and determine whether identified trends represent opportunities or threats to the company. This judgment, in turn, allows a firm to determine the best response to a particular environmental change.

Environmental scanning is a vital component of effective environmental management. Environmental management is the effort to attain organizational objectives by predicting and influencing the firm’s competitive, political-legal, economic, technological and social-cultural environments. The development of a global marketplace has complicated environmental scanning and environmental management. These processes may now need to track political developments, economic trends and cultural influences anywhere in the world.

While the marketing environment may exceed the confines of the firm and its marketing mix components, effective marketers continually seek to predict its impact on marketing decisions and to modify its conditions whenever possible.
Unit – II

Marketing information system

A marketing information system (MkIS) is a management information system (MIS) designed to support marketing decision making. Jobber (2007) defines it as a "system in which marketing data is formally gathered, stored, analysed and distributed to managers in accordance with their informational needs on a regular basis." In addition, the online business dictionary defines Marketing Information System (MkIS) as "a system that analyzes and assesses marketing information, gathered continuously from sources inside and outside an organization or a store." Furthermore, "an overall Marketing Information System can be defined as a set structure of procedures and methods for the regular, planned collection, analysis and presentation of information for use in making marketing decisions." (Kotler, at al, 2006)

"Without good marketing information, managers have to use intuition or guesses and in today's fast-changing and competitive markets, this invites failure." (McCarty and Perreault, 1993). There are some firms which lack information sophistication, and others do not have Marketing Research Department, and others do their work on a routine basis. Moreover, there are some managers who complain about the lack of information, getting the needed information late, and getting too much information that they can't use. All the firms around the globe should organize the information and disseminate in a timely manner continuously.

Definitions

Cox (1964) defined MKIS as a structured, interacting complex of persons, machines and procedures designed to generate an orderly flow of pertinent information, collected from both intra- and extra-firm sources, for use as the basis for decision making in specified responsibility areas of marketing management.

O'Brien et al., (1995) "An MKIS is an organized set of data that is analyzed through reports and statistical routines and models on an ongoing basis. The data are transformed into information that allows the marketing manager to make better decisions and perform better planning and budgeting".

A computer-based system that works in conjunction with other functional information systems to support the firm’s management in solving problems that relate to marketing the firm’s products.
Components of Marketing Information System (MIS)
The four main components of Marketing Information System (MIS) are:

- Internal Records,
- Marketing Intelligence,
- Marketing Research (MR), and
- Marketing Decision Support System.

1. Internal records: The first component of MIS is ‘Internal Record’. Marketing managers get lots of information from the internal-records of the company. These records provide current information about sales, costs, inventories, cash flows and account receivable and payable. Many companies maintain their computerized internal records. Inside records help marketing managers to gain faster access to reliable information.

2. Marketing intelligence:
   a. The second component of MIS is ‘Marketing Intelligence’. It collects information from external sources. It provides information about current marketing-environment and changing conditions in the market. This information can be easily gathered from external sources like; magazines, trade journals, commercial press, etc. The salesmen’s report also contains information about market trends.
   b. The information which is collected from the external sources cannot be used directly. It must be first evaluated and arranged in a proper order. It can be then used by the marketing manager for taking decisions and making policies about marketing.
c. So, marketing intelligence is an important component of MIS.

3. Marketing research: The third important component of MIS is ‘Marketing Research’. MR is conducted to solve specific marketing problems of the company. It collects data about the problem. This data is tabulated, analyzed and conclusions are drawn. Then the recommendations are given for solving the problem. Marketing research also provides information to the marketing managers. However, this information is specific information. It can be used only for a particular purpose. MIS and MR are not substitutes of each other. The scope of MIS is very wide. It includes ‘MR’. However, the scope of MR is very narrow.

4. Marketing decision support system: The fourth component of MIS is ‘Marketing Decision Support System’. These are the tools which help the marketing managers to analyze data and to take better marketing decisions. They include hardware, i.e. computer and software programs. Computer helps the marketing manager to analyze the marketing information. It also helps them to take better decisions. In fact, today marketing managers cannot work without computers. There are many software programs, which help the marketing manager to do market segmentation, price fixing, advertising budgets, etc.

MARKET SEGMENTATION

Introduction
Markets consist of buyers who differ in one or more respects. They may differ in their wants, resources, geographical locations, attitudes and buying practices. It is therefore necessary for a marketer to segment his/her market.

Meaning of Market Segmentation
The process of grouping customers in markets with some heterogeneity into smaller, more similar or homogeneous segments. The identification of target customers groups in which customer groups in which customers are aggregated into groups with similar requirements and buying characteristics.

Market segment – A group of individuals, groups or organizations sharing one or more similar characteristics that cause them to have relatively similar product needs and buying characteristics.

Benefits of Market Segmentation
There are a number of reasons organizations undertake segmentation
- Products are designed to be responsive to the needs of the marketplace. – segmenting markets facilitates a better understanding of customer’s
needs, wants and other characteristics. The sharper focus that segmentation offers, allows those personal, situational and behavioral factors that characterize customers in a particular segment can be considered. By being closely in touch with segments, marketers can respond quickly to even the slight changes in what target customers want. i.e by monitoring the trends towards healthier eating and lifestyles, Mc Donald’s was able to respond by introducing a wider range of salads and healthy eating options – including grilled chicken, fruit and yoghurt on its menus.

- Increase profits – different consumer segments react in contrasting ways to prices, some are far less price sensitive than others. Segmentation allows an organization to gain from the best price it can in every segment, effectively raising the average price and increasing profitability.
- Effective Resource Allocation - organizations are more capable of making products that customers want and can afford.
- There is product differentiation – Various products are made to meet the needs of each customer segment.

Requirements of Good Market Segments

In addition to having different needs, for segments to be practical they should be evaluated against the following criteria:

* **Identifiable** -The marketer should be able to identify which consumers are members of a particular market segment. The consumers in the segment should respond in the same way to a particular marketing mix. There must be some common characteristics that the consumers have.
* **Measurable** - The characteristics that are common to the groups of consumers should be measured in terms of size, purchasing power and other characteristics.
* **Substantial** -The segment should be large enough to generate sales volume that ensures profitability; otherwise it will not be economical to design a unique marketing mix for it. Is the market worth the effort?
* **Accessible**; the segments must be reachable through communication and distribution channels.
* **Durable**: the segments should be relatively stable to minimize the cost of frequent changes.
* **Responsive** - Market segments must be defined in their willingness to purchase a product in response to variations in the marketing mix.
* **Compatible with corporate image** -The market must be compatible with the firm’s objectives and corporate image.

A good market segmentation will result in segment members that are internally homogenous and externally heterogeneous; that is, as similar as possible within the segment, and as different as possible between segments.

**Variables / Bases For Segmenting Consumer Markets**
The following variables are commonly used to segment consumer markets.

1) **Geographic segmentation** -This calls for dividing the market into different geographical units such as Nations, States, Regions – West, North, Central, South, e.t.c.
   - Countries, Cities or Neighborhoods
   Attention should be paid to variations in geographical needs and preferences. Geographical segmentation assists the seller to position retail outlets in most appropriate locations as well as simply identifying the needs on the basis of the consumers own location.

2) **Demographic segmentation** -This consists of dividing the market into groups on the basis of demographic variables such as:- Age, sex, family size, family life cycle, income, education, occupation, religion, race and nationality. These variables are the most popular for distinguishing customer groups because,
   - Consumers’ wants and preferences are closely related to them.
   - They are easier to measure than most other types of variables.
   a) Age -Consumer needs and wants change with age. Hence the market should be segmented as young, old, e.t.c.
   b) Gender -This can be employed to segment such markets for clothes deodorants, lotions, magazines, e.t.c. Thus the markets can be for either men or women, male or female
   c) Family life cycle (FLC) -The product needs for a household vary according to marital status and the present ages of children. Thus family life cycle can be divided into:-
      - Single,
      - Young, married with no children,
      - Young, married with young children,
      - Older married with children, e.t.c.
   d) Income -Marketers can segment the market according to the distribution of income e.g. under 1000 shillings per month, 2000/=, 4000/= per month, e.t.c.
e) Occupation -Variables include; bankers, teachers, farmers, clerks, students, housewives, secretaries, e.t.c. A marketer can choose to specialize in the needs of one occupation group.
f) Education - Some primary education, Some high school education, College education
- University education e.t.c.
g) Religion - e.g. Muslims, Christians e.t.c.
h) Race - e.g. white, black e.t.c.
   i. Nationality – e.g. Asians, Africans e.t.c.
   ii. Social class -Social class has a strong influence on people’s preferences,
Marketers designing products and/or services for specific social classes build in those features that appeal to the target social class.
i) Ethnic groups
j) Generation - Consumer is profoundly influenced by the generation in which it grows up. This influences one’s inclination to Music, politics, e.t.c.

3) Psychographic segmentation -Psychographics are psychological profiles of different consumers developed from research, sometimes referred to as A.I.O. (Attitudes, interests and opinion profiles)
In psychographic segmentation, buyers are divided into different groups on the basis of their:- Motives, Lifestyle and/or Personality characteristics.
People within the same demographic group can exhibit very different psychographic profiles.
Consumers can thus be sub-divided on the basis of the following psychographic variables.
   i. Lifestyle -Consumers’ lifestyles are derived from their activities, interests and opinions. Each life style group is influenced by different marketing mixes.
   ii. Personality -Type of personality groups may include;
- Authoritarian
- Ambitious
- Assertive
- Self-confident
- Prestige conscious
- Extrovert/Introvert

4) Behavioral segmentation -Buyers are divided into groups in the basis of their, Knowledge, Attitude, Use or Response to a product.
In this respect, behavioral variables that are used to segment consumer markets include:-

i) Occasions benefits - Buyers can be distinguished according to occasions when they
   - Purchase a product or
   - Use a product

E.g. Occasions when public transport is used mostly. Occasion segmentation can help firms expand product usage.

ii) Benefits - Buyers are classified according to different benefits they seek from the product. Variables here include:-
   - Economy (Low price)
   - Medical (Decay prevention)
   - Bright teeth
   - Good taste, e.t.c. for toothpaste.

Benefit segmentation requires determination of:
   - The major benefits that people seek from the product
   - The kind of people who look for such benefit
   - The major brands that deliver each benefit.

iii) User status - Many markets can be segmented into
   - Non-users.
   - Ex-users,
   - Potential users,
   - First time users and
   - Regular users of a product

All these people require different marketing approaches.

iv) Usage rate - Markets can be segmented into
   - Light,
   - Medium and
   - Heavy user group of products.

v) Loyalty status - A market can be segmented by customer loyalty patterns. According to the loyalty status, the buyers can be divided into:-
   - Hard core loyals – Consumers who buy one brand all the time
   - Soft core loyals – Consumers who are loyal to two or three brands
   - Shifting loyals – Consumers who shift from favoring one brand to another.
   - Switchers – Consumers who show no loyalty to any brand

A company should
   - Study the characteristics of its hard-core customers e.g. whether middle class, larger families, e.t.c.
   - By studying soft-core loyals, the company can pinpoint which brands are most competitive with its own.
- By looking at customers who are shifting away from its brands, a company can learn about its marketing weaknesses.
- The company should be aware that what appears to be brand loyalty purchase may reflect.
  - Habits,
  - Indifference,
  - A low price or
  - Non-availability of other brands.
vi) Buyer readiness stage - At any given time, people are in different stages of readiness to buy a product;
  - Some people are aware,
  - Some are informed,
  - Some are interested,
  - Some are desirous of buying,
  - Some intend to buy.
All these make a big difference in designing the marketing programme.
vii) Attitude - People in a market can be classified according to their degree of enthusiasm for a product.
Five attitude classes can be distinguished e.g.
  - Enthusiastic,
  - Positive,
  - Indifferent,
  - Negative and
  - Hostile.
viii) Volume segmentation - Involves grouping businesses by size and Purchase patterns

**Market Targeting**
This is the evaluation of the various segments identified during segmentation and deciding how many and which ones to serve.

Evaluating The Market Segments
In evaluating different market segments, the firm must look at the following factors
1) Segment size and growth
   - Marketing segment has to be ‘right size’. Size can be measured in terms of sales volume.
   - Companies should not only concentrate on sales volume but also on the growth potential of the segment.
2) Segments structural attractiveness – Using Porter’s Five Forces Analysis.
A segment might have desirable size and growth characteristics and still not profitable. The company should evaluate the long-run profitability of the market segment. Michael Porter has identified five forces that determine the intensive long-run attractiveness of the whole market or any other segment within it. These five forces are:

- Threat of intense segment rivalry - A segment is unattractive if it already contains strong or aggressive competitors.
- Threat of new entrants - A segment is unattractive if it is likely to attract new competitors who will bring in new capacity, substantial resources and a drive for market share growth.
- Threats of substitute products - A segment is unattractive if there exists actual or potential substitutes for the product.
- Threats of growing bargaining powers of buyers - A segment is unattractive if the buyer’s possess strong or increasing bargaining power. Interested in low prices but high quality.
- Threat of growing bargaining power and suppliers - A segment is unattractive if the suppliers possess a strong or increasing bargaining power. They can raise prices or reduce the quality and quantity of products and services offered.

- Even if the segment has positive size and growth and it is attractive, the company has to consider its own objectives and resources.
- The segment can be dismissed because it does not fit in the company’s long-run objectives.
- Even if segments fit the company’s objectives, it must consider whether it has the required skills and resources to succeed in that segment.

3) Segment interrelationships
Segments selected should be inter-related in terms of costs, performance and technology for effectiveness.

**Target Market Strategies**
There are several different target-market strategies that may be followed. Targeting strategies usually can be categorized as one of the following:

- Single-segment strategy - also known as a concentrated strategy. One market segment (not the entire market) is served with one marketing mix. A single-segment approach often is the strategy of choice for smaller companies with limited resources.
- Selective specialization - this is a multiple-segment strategy, also known as a differentiated strategy. Different marketing mixes are offered to

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different segments. The product itself may or may not be different - in many cases only the promotional message or distribution channels vary.

- Product specialization - the firm specializes in a particular product and tailors it to different market segments.
- Market specialization - the firm specializes in serving a particular market segment and offers that segment an array of different products.
- Full market coverage - the firm attempts to serve the entire market. This coverage can be achieved by means of either a mass market strategy in which a single undifferentiated marketing mix is offered to the entire market, or by a differentiated strategy in which a separate marketing mix is offered to each segment.

With differentiated or multi-segment approach, the marketer targets a variety of different segments with a series of differentiated products. This is typical in the motor industry which has a variety of products such as diesel, four-wheel-drive, sports saloons, and so on.

A firm that is seeking to enter a market and grow should first target the most attractive segment that matches its capabilities. Once it gains a foothold, it can expand by pursuing a product specialization strategy, tailoring the product for different segments, or by pursuing a market specialization strategy and offering new products to its existing market segment.

Another strategy whose use is increasing is individual marketing, in which the marketing mix is tailored on an individual consumer basis. While in the past impractical, individual marketing is becoming more viable thanks to advances in technology.

**Market Positioning**

This is the act of designing a company’s offering and image to occupy a distinctive place in the target market’s mind. I.e. The act of creating a difference between a company’s offer from those of competitors.

Positioning is the process of establishing and maintaining a distinctive place in the market for the organizations’ product or brands. Positioning starts with the product, but positioning is not what you do to a product. Positioning is what you do to the mind of the customer. You should concentrate on the perception of the customer and not the reality of the product. Positioning then is how the product is perceived and evaluated by the target market, relative to competing products. To the consumer perception is reality. That is why it is said that a
marketing battle is fought in the minds of consumers. Marketers who attain a superior position in customers’ minds have won the marketing battle.

A difference is worth establishing to the extent that it satisfies the following criteria.
1) Important: - The difference delivers a highly valued benefit to a sufficient number of buyers.
2) Distinctive: - The difference is delivered in a distinctive way
3) Superior: The difference is superior to other ways of obtaining the benefit.
4) Pre-emptive: The difference cannot be easily copied by competitors.
5) Affordable - The buyer can afford to pay for the difference.
6) Profitable - The Company will find in profitable to introduce the difference.

Positioning strategies:
1) Attribute positioning - A company positions itself on an attribute e.g. size, number of years in existence.
2) Benefit positioning - The product is positioned as the leader in a certain benefit.
3) Use or application positioning - Positioning a product as the best for some use or application.
4) User positioning - Positioning a product as the best for some user group e.g. Bic pen, food for consumption.
5) Competitor positioning - The product claims to be better in some way than a named competitor.
6) Product category positioning - The product is positioned as the leader in a certain product category
7) Quality or price positioning - The product is positioned as offering the best value

As companies increase their number of claims for their brands, they risk disbelief and loss of clear positioning. Companies must avoid four major positioning errors.
1. Under Positioning - When buyers have only a vague idea of the brand The brand is seen as just another entry in a crowded marketplace. E.g. When Pepsi introduced its clear crystal Pepsi in 1993 (U.S.A.) customers were distinctively unimpressed. They didn’t see ‘clarity’ as an important benefit of a soft drink.
2. Over Positioning - Buyers may have too narrow a image of the brand. These buyers might think that suits at Sir Henry’s start at 15000/= when in fact it offers affordable suits started at 3000/=.
3. Confused Positioning - Buyers might have a confused image of the brand resulting from the company making too many claims or changing the brands positioning too frequently e.g. Omo, Zain
4. Doubtful Positioning - Buyers might find it hard to believe the brand claims in view of the products features, price or manufacturers.

UNIT-III

PRODUCT DECISIONS

CONCEPT OF A PRODUCT

The term ‘product’ is widely used to refer a market offering of any kind. In its broadest sense this may be anything from the physical to the abstract – an idea or a moral issue. Generally, however, most products are made up of a combination of physical elements and services. This is true in services marketing, where the service offering can include tangible features, such as food in a restaurant, or be a ‘pure’ service, intangible in nature.

A service product refers to an activity or activities that a marketer offers to perform, which results in satisfaction of a need or want of predetermined target customers. It is the offering of a firm in the form of activities that satisfies needs such as hair styling done by a barber. Consumers will buy only what suits them. As customers, we buy different kinds of products and services to satisfy our various needs. We buy toothpaste, butter, shaving cream, pen, scooter, and ticket for the U.S.A and many other such items in our daily life. As we understand, our decision to buy an item is based not only on its tangible attributes but also on psychological attributes such as services, brand, package, warranty, image, and etc. discussions about the marketing of goods apply to services as well. Services have special characteristics that make them different than products.

According to Alderson, W., “Product is a bundle of utilities consisting of various product features and accompanying services” according to Schwarte, D.J., “A product is something a firm markets that ill satisfy a personal want or fill a business or commercial need”.

At the time of product planning, the marketer has to think about FIVE types of benefits.
From Generic to Potential product - Most of you would be aware that a product has a personality of several components-like the physical products, the brand name, the package, the label etc. all of us know that most of the products are undergoing a constant change and the marketing man has been constantly engaged in enriching his product offer. In his attempt to score over competition, he has been bringing about refinement on his basic product offer, but managing the product was becoming more and more difficult. Hence the product traveled various levels:

- The Core Product
- The Generic product
- The branded Product
- The Differentiated product
- The customised product
- The augmented product
- The potential product

The Core benefits: what does the product mean to the customer? For example, a car offers generic benefits of convenience in traveling.

The Generic product Is the unbranded and undifferentiated commodity like rice, bread, flour or cloth.

The Branded Product The branded product gets an identity through a 'name'. Modern bread, Harvest are branded products. We would study in detail about brand name in the brand section.

The differentiated product The differentiated product enjoys a distinction from other similar products/brands in the market. The differential claimed may be ‘real’, with a real distinction on ingredient, quality, utility, or service, or it may be ‘psychological’ brought about through subtle sales appeals.
The **customised product** - Customer specific requirements are taken into account while developing the product. Commonly practised in the industrial product marketing, where the manufacturer and the user are in direct contact and the product gets customised to the requirements of the customer.

**The augmented product** - The augmented product is the result of voluntary improvements brought about by the manufacturer in order to enhance the value of the product, which are neither suggested by the customer nor expected by them. The marketer on his own augments the product, by adding an extra facility or an extra feature to the product.

**The potential product** - The potential product is tomorrow’s product carrying with it all the improvements and finesse possible under the given technological, economic and competitive condition. There are no limits to the ‘potential product’. Only the technological and economic resources of the firm set the limit.

**Product differentiation** - Is the act of designing a set of meaningful differences to distinguish the companies offering from competitor’s offerings? The number of differentiation opportunities varies with the type of industry. The Boston consulting group has distinguished four types of industries based on the number of available competitive advantages and their size.

**PRODUCT CLASSIFICATION**

The nature of product is found to have considerable impact on the method of product positng. There are two classes of products consumer goods, and industrial goods, and this classification is useful in product positioning. The table given below shows the categories of consumer and industrial goods. Marketers have traditionally classified products on the basis of there characteristics: durability, tangibility and use. The following figure shows the products classification:

<table>
<thead>
<tr>
<th>PRODUCTS CLASSIFICATION</th>
<th>1. Durability and Tangibility</th>
<th>2. Consumer goods</th>
<th>3. Industrial goods</th>
</tr>
</thead>
<tbody>
<tr>
<td>b. Durable goods</td>
<td>b. Shopping goods</td>
<td>b. Capital items</td>
<td></td>
</tr>
<tr>
<td>c. Services</td>
<td>c. Speciality goods</td>
<td>c. Supplies and business services</td>
<td></td>
</tr>
<tr>
<td></td>
<td>d. Unsought goods</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>
Tangible / Intangible Attributes – key points
Tangible, Touch, See, Taste, Smell
Intangible - Can’t see, Can’t touch, Can’t smell, Can’t tast

DURABILITY AND TANGIBILITY

(A) Non – durable goods: non-durable goods are tangible goods normally consumed in one or a few uses, for example, soap, salt and biscuits.

(B) Durable goods: for example, colour TV, Refrigerator, washing machine and Vacuum cleaners.
Services: services rate intangible, inseparable, variable and perishable products, for example, airline and banking services

CONSUMER GOODS CLASSIFICATION

a. Convenience Goods: these are goods that the customer usually purchases frequently immediately and with a minimum of efforts, example includes soaps and newspapers.
Convenience goods can be further classification into three categories:
• Stable goods: consumer purchase on regular basis.
• Impulse goods: consumer purchase without any planning or search efforts.
• Emergency goods: consumer purchase on urgent need.

b. Shopping Goods: these are goods that the customer, in the process of selection and purchase characteristically compare on such bases as suitability and quality. Example: furniture, electrical appliances etc.

c. Specialty goods: these are goods with unique characteristic or brand identification for which a sufficient number of buyers are willing to make a special purchasing effort. For example, cars.

Unsought goods: these are goods the consumer does not know about or does not normally think of buying. The classic example of known but unsought goods is life insurance.

INDUSTRIAL GOODS CLASSIFICATION
**Material and Parts:** these are goods that enter the manufacturer’s product completely. They fall into two classes. Raw material and manufactured material part

**Capital Items:** these are long lasting goods that facilitate developing or managing the finished products. They include two groups: installation and equipments.

**Supplies and Business Services:** these are short-listing goods and services that facilitate developing or managing the finished products.

**Product Mix Decisions**

**Product Mix**
A product mix (also called product assortment) is the set of all product lines and items that a particular seller offers to sale.
A company’s product mix can be described as having a certain width, length, depth, and consistency.

**Product Mix width** – The width of the product mix refers to how many product lines the company carries.

**Product Mix length** – The length of product mix refers to the total number of items in its product mix.

**Product Mix depth** – The depth of product mix refers to how many product variants are offered of each product item in the line.

**Product Mix consistency** – The consistency of the product mix refers to how closely related the various product lines are in end use, product requirements, distribution channels or some other way.

When we say a firm’s product mix we are actually discussing about all product items it offers.
Hindustan Lever’s product mix includes agro-chemical products, soaps, detergents, toothpaste, shampoos, Talcum powders, cosmetics and now, frozen foods. Just suppose any organization is marketing more than one product then it has a product mix.

Product item—a single product
Product line—all items of the same type
Product mix—total group of products that an organization markets
Now if I say a product line what do you understand from this?

**Product line**- It is basically a group of products that are related because of customer, marketing and or production considerations. I hope all of you know that Rin, Wheel, Rin Solarox, Rin detergent powder, Surf, and Surf Ultra are part of Lever’s detergents line and Le Sancy, Lux, Rexona, Lifebuoy, are part of its soaps line. When we are discussing about a typical large multi-product firm’s product mix includes new, growing, maturing and declining products.

**Width of product mix**

*Lever’s Product Mix and Product Lines (partial listing)*

<table>
<thead>
<tr>
<th>Detergent</th>
<th>Soap</th>
<th>Toothpaste</th>
<th>Talcum Powder</th>
<th>Cosmetic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rin bar</td>
<td>Le sancy</td>
<td>Close up</td>
<td>Ponds</td>
<td>Fair &amp; lovely</td>
</tr>
<tr>
<td>Wheel bar</td>
<td>Lux</td>
<td>Pepsodent</td>
<td>Liril</td>
<td>Lakme</td>
</tr>
<tr>
<td>Rin Powder</td>
<td>Rexona</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wheel Powder</td>
<td>Lifebuoy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Surf</td>
<td>Liril</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Surf Ultra</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

You would have noticed that so many companies market just one or two product lines, and hence their product mix is narrow. **Do you know in which all areas General Electric operates?** It basically operates in diverse fields, and has broad product mix. You can see in Fig that each product mix has a depth, which is given by models, colours, sizes, available in each individual product lines.

All the decisions related to product lines offers are from company’s strategic plan and marketing plan. It considers the segmentation of the market and targeting. Just suppose an organization wishes to target young’ children, it can add a whole new product line for it. New product lines are either a matter internal development or can be acquire. Each product line also can be expanded. The important idea is that the product line of a company reflects the
objectives of the organization, the targeting decided upon and the buyer behaviour in a given market.

You can modify existing Product lines:

We have a number of reasons to alter either an existing product or a product line. The reasons could be to support marketing strategy, to improve sales, to improve profits, to expand market share. We can also consider what the product as such contributes to the product portfolio. We can modify a product line by altering either one or more than one of the following attributes:

Composition of the product line
Expansion or contraction of product line
Value addition process
Brand
Packaging
Physical characteristics
Positioning

The first two attributes are relevant to a set of products in the product line. The rest are relevant to either individual products or product lines.

Product line length:

A line is too long if after eliminating a product is results into increased profits. A line is too short when any addition to it results into increased profits.

One thing should be clear to you that the Company’s overall objectives do affect the length of its product line. For instance, a company may have the objective of expanding its market share. It will then have a longer product line. Contribution of individual products to profits may be ignored. However, a company whose objective is to have larger profits will have a shorter product line consisting of those items, which contribute to profits substantially. Product lines have a tendency, to lengthen over a period of time. Many a time, a firm may, have extra capacity, which is used for developing new items. Sales people and trade put pressure on management to keep on adding items to a product line so as, to satisfy their customers.

Line stretching

Most of the companies have range of products in its existing product lines, like Videocon has a range of TVs in its product line, right from budget TVs to
premium TVs. Line stretching occurs when this range is lengthened. This stretching could be upward, downward or both ways.

**Upward stretching:**

Here a company operates in the lower end of the market. By upward stretch, it proposes to enter the higher end. Perhaps, it is motivated by higher margin of profits, higher growth rate or a position of a full-range marketer. This decision has its own risks. A well-established high-end marketer might assault the stretcher by stretching downwards. Besides, it is a question of credibility of a lower-end marketer -whether he will be able to produce high quality products. There is one more risk. The existing infrastructure of a low-end marketer may not be competent to deal with the high-end market.

**Downward stretch:**

Let's start with an example: like all of you know parker, parker started with pens only at high price but if we look at parker today we can see products available in the range of 50 Rupees which no one could have thought of in older times.

Many companies start with high-end products, but later stretch downwards by adding low-priced products. The down-end products are advertised heavily so as to pull customers to the whole line on the basis of price. Videocon advertises its budget line 14" inches TV at Rs. 8,000. Once the customer is pulled, he may decide to buy a higher priced model- he trades up. This strategy needs careful handling. The budget brand being promoted should not dilute the overall brand image. Besides, the budget brand must be available.

**Two way stretch**

Beside upward and downward stretch you can even stretch in two ways like several companies serve the middle-end market. They can stretch their product line in both the directions. A hotel company operating hotels in the comfort category where each room has a tariff 2000-3000 a day might decide to have elite upper-end hotels with tariffs of Rs. 5000-7000 a lower-end budget hotels with tariffs of Rs. 600-1500 a day. Ashoka group of ITC has thus elite 5-Star hotels, at the upper-end comfort hotels at the middle-end and budget hotels like Ashoka Yatri Niwas at lower end.
PRODUCT LIFE CYCLE

The innovation of a new product and its degeneration into common products is termed as the life cycle of products. There are five distinct stages in the life of products as shown below:

- **a. Introduction:** Research or engineering skill leads to product development. The product is put on the market; awareness and acceptance are minimal. There are high promotional costs. Sometimes a product may generate a new demand, for example, Maggi. Volume of sales is low and there may be heavy losses.

- **b. Growth:** The product begins to make rapid sales gains because of the cumulative effects of introductory promotion, distribution, and word of mouth influence. High and sharply rising profits may be witnessed. But to sustain growth, consumer satisfaction must be ensured at this stage.

- **c. Maturity:** Sales growth continues, but at a diminishing rate, because of the declining number of potential customers who remain unaware of the product or who have taken no action. Also, the last of the unsuccessful competing brands will probably withdraw from the market. For this reason,
sales are likely to continue to rise while the customers for the withdrawn barads are mopped up by the survivors. There is no improvement in the product but changes in selling effort are common. Profit margins slip despite rising sales.

The following table shows the product life cycle and its different stages and the various characteristics, which they reflect, in the varying stages:

<table>
<thead>
<tr>
<th>PCL Elements</th>
<th>Introduction</th>
<th>Growth</th>
<th>Maturity</th>
<th>Decline</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHARACTERISTICS</td>
<td></td>
<td>Fast Growth</td>
<td>Slow Growth</td>
<td>Declining</td>
</tr>
<tr>
<td>1. Sales</td>
<td>Low</td>
<td>Fast Growth</td>
<td>Slow Growth</td>
<td>Declining</td>
</tr>
<tr>
<td>2. Profits</td>
<td>Negligible</td>
<td>Peak Level</td>
<td>Declining</td>
<td>Low</td>
</tr>
<tr>
<td>3. Cash inflow</td>
<td>Negative</td>
<td>Moderate</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>4. Competitors</td>
<td>Few</td>
<td>Growing</td>
<td>Many</td>
<td>Declining</td>
</tr>
</tbody>
</table>

Source: Peter Dayle, “The Realities of the product life cycle”, Quarterly Review of marketing, summer 1976

NEW PRODUCT PLANNING AND DEVELOPMENT

The products and services are the most visible assets of the organizations and the new products are, hence considered to be the corner stone of the long term survival and prosperity of many organizations. The rapid technological changes, shifting patterns of world market opportunities and the intense competition compel the business firms to continuously develop new products and services for their survival. But failure too in new product development is not uncommon. Apparently, new product development is an unstable activity, inherent in most organizations. But when market conditions pressurize there is no other go except to take the risk of introducing new products.
NEW PRODUCTS DEFINITION
Defining a new product is not a simple task. In an absolute sense, it is something new which has not existed before. When considered in a relative sense, it is something new which has not been experienced before and perceived as new. In defining new products, the relative view is considered more useful because whether or not something is absolutely new, the interested persons who have not yet experienced it may represent opportunities or problems for consideration.

STEPS IN THE NEW PRODUCT DEVELOPMENT PROCESS
1. Generation of New Product Ideas
2. Screening of Ideas
3. Concept Development and Testing
4. Marketing Strategy Development
5. Business Analysis
6. Development of the Product
7. Market Testing
8. Commercialization

1. GENERATION OF NEW PRODUCT IDEAS
The new product development process starts with the search for ideas. The objective of this stage is to obtain (a) ideas for new products, (b) new attribute for the existing products, and (c) new uses of the existing products.

Sources of New Product Ideas
Major sources of new product ideas include sources, customer competitors, distributors and suppliers, and others.

Internal Sources: One study found that more than 55 percent of all new-product ideas come from within the company. The company can find new ideas through formal research and development. It can get ideas from its scientists, engineers and manufacturing people. The company’s sales people are another good source because they are in daily contact with customers.

Customers: Almost 28 percent of all new-product ideas come from watching and listening to customers. The company can conduct surveys or focus groups to learn about consumer needs and wants. The company can analyses customer problems.

Competitors: About 30 percent of new-product ideas come from analyzing competitor’s products. The company can watch competitors’ advertisements and other and other communications to get clues about their new products.

Distributors, Suppliers and Others: Resellers are close to the market and can pass along information about consumer problems and new-product
possibilities. Suppliers can tell the company about new concepts, techniques and materials that can be used to develop new products. Other idea sources include trade magazines, shows and seminars; government agencies; new-product consultants; advertising agencies; marketing research firms; university and commercial laboratories.

2. **SCREENING IDEAS**
The purpose of idea generation is to create a large number of ideas. The purpose of screening is to reduce that number. The first idea-reducing stage is ideas screening. The purpose of screening is to spot good ideas and drop poor ones as soon as possible. In this stage managers use their knowledge and experience to weed out the poor ideas and will eliminate those ideas which are inconsistent with the firm’s product policies and objectives, existing skills and resources and so on.

3. **CONCEPT DEVELOPMENT AND TESTING**
   **Concept Development** An attribute idea must be develop into a product concept. A product concept is distinguished form a product idea and product image. While a product idea is a possible product that the company might offer to the market, its elaborated version expressed in meaningful customer terms is a product concept. At this stage, it is important to define the boundaries of the concept rather than the details. The target market, customers, their applications, major technical requirement etc. have to be defined and issues like these are addressed in a concept level business plan. The new product concept, more specific in description than an idea, should include the customer, the major consumer benefits and features defining the new product. Ideas and concepts are often combined and are considered to be part of one creative process. **Concept Testing:** Concept testing calls for testing new-product concepts with groups of target consumers. The concept maybe presented to consumer symbolically or physically. For some concept tests, a word or picture description might be sufficient. However, a more concrete and physical presentation of the concept will increase the reliability of the concept. **Objectives of Concept Testing** The major objectives of concept testing are: (1) To get the reaction of consumer’s views of the new product idea. (2) To give direction regarding the development of the project. (3) To choose the most promising concepts for development and (4) To ascertain whether the product in question has adequate potential for its commercialization. Today, marketers are finding innovative ways to make product concepts more real to concept-test subjects. Customer feed back can be critical in providing insights into how potential customers will use and evaluate the new product.
4. **Marketing strategy development**

After developing and testing the new product concept, a new product manager should proceed to develop a marketing strategy plan for introducing the product into the market. The marketing strategy statement consists of three parts: The first part describes the size, structure and behaviour of the target market, the planned product positioning and the sales, market share and profit goals sought in the first three years. The second part outlines the product’s planned price, distribution strategy and marketing budget for the first year. The third part describes the planned long-run sales and profit goals and marketing-mix strategy over time.

5. **BUSINESS ANALYSIS** - Business analysis is a stage where a new product idea is subjected to more sophisticated and detailed analysis. It involves a review of the sales, costs and profit projections for a new product to find out whether they satisfy the company’s objectives. If they do, the product can move to the product-development stage. In a majority of new product development processes, three major interrelated questions emerge. They are regarding. 1. The estimate size and growth rate of the market segment, that is, the market opportunity for the new product concept. 2. The estimate sales and market share for the new product concept in the selected market or market segment. 3. The values of the new product program in terms of its expected financial performance. Apparently these imply three types of new product forecasting, viz., market opportunity forecasting, sales forecasting and financial forecasting. These forecasting processes address different sets of problems and their forecasts must be integrated to provide a complete picture of the commercial viability of the new product. Market opportunity forecasting assesses market size and growth for a new product in a potential market under various assumptions. Specific marketing research and modeling techniques are employed to measure sales response to alternative product concepts, prototypes and products and also price, distribution, promotion etc. it ensures that key product design decisions are made interactively with the market. For Sales forecasting the company should look at the sales history of similar products and should survey market opinion. It should estimate minimum and maximum sales to assess the range of risk. After preparing the sales forecast, management can estimate the expected product cost and profits, including marketing, R&D, manufacturing accounting, and finance costs. Financial forecasting addresses the important question about the value of the new product and its launch program. It reconciles market potential, market penetration, sales costs and investment forecasts to support decision making.
Estimates of profitability, cash flow, and other proforma financial measures over a planning period can be established. The new product forecasting address major decision problems and in effect, provide a framework for a control system to track new product lunch and make necessary revisions and modifications to achieve desired results.

5. PRODUCT DEVELOPMENT
Product development is done after forecasted sales and budgeted costs promise a satisfactory return on investment and after the company is satisfied that it can gain access to the target market. At this juncture, the objective is to establish if it is physically possible to product an object with the desired performance characteristics within the cost constraints indicated by the forecast demand schedule. Usually this phase is the longest in the whole process, and it is vitally important that, throughout development, the innovator should continue critically to observe events and changes in the proposed target markets. In addition to updating the product concept to reflect changes in the market. In addition to updating the product concept to reflect changes in the market, the development phase should also provide for testing the product under real usage condition to ensure that it will deliver the promise satisfactions. The more complex the product and the more radical the behavioral change required of the end user, the more important this stage becomes. In the case of many capital material and consumer durable innovation, the development stage frequently continues well into the market launch stage on the ground that deficiencies and defects in the final product will only become apparent once it is exposed to a broad spectrum of usage situation.

6. MARKET TESTING
After developing a prototype, they must be put through vigorous functional and consumer tests. The functional tests are conducted in order to make sure that the product performs safely and effectively and they are conducted under laboratory and field conditions. Consumer testing is done in a variety of ways. They may be done by bringing consumers into laboratory or they may be given samples to use in their homes. In-home product placement tests are common in products like new home appliances, Consumer preference testing draws on variety of techniques, like simple ranking, paired comparisons, and rating scales, each with its own advantages and disadvantages. Market testing methods differ in testing different types of goods. While testing consumer products, four variables are sought to be estimated. They are, trial, first repeat,
adoption and purchase frequency. In testing the trade, a company seeks to learn how many and what types of retailers will handle the product, under what terms, and with what shelf position commitments. Although test marketing can take a variety of forms, the three popular types used in practice in consumer goods markets are simulated, controlled and conventional test marketing. Kotler classifies them according to the cost testing, from the least to the most costly, are (1) Sales-wave research, (2) Simulated test marketing, (3) Controlled test marketing, and (4) conventional test marketing. Sales Wave Research In this method the consumers are initially offered to try the product at no cost and subsequently they are reoffered the product, or a competitor’s product, at slightly reduced prices. These reoffering, referred to as sales waves, may be restored to as many as three to five times in order to find out how many customer selected the product again and their reported level of satisfaction. This method may also include exposing customers to one or more advertising concept in rough form to ascertain its effects on repeat purchase. The sales wave research can be implemented quickly. Simulated Test Marketing (STM) It is a research method that facilitates the measurement of market response to a new product and its marketing program among potential buyers in a pseudo market environment. It can be implemented in a laboratory setting, in the homes or places of business of potential buyers or in other places that will simulate the buying process as closely as possible. The value of STMs is relatively low cost, quick execution, and secrecy from competitors.

8. COMMERCIALIZATION
Commercialization can be considered as a final phase in the new product development when the product is launched into the market place, thus initiating its life cycle. Supplies can be made available to the distribution channel, intensive selling must take place to ensure widespread availability at the point of sale or to canvass order from prospective buyers. Maintenance and servicing facilities will be necessary and a large promotional investment will be needed to create awareness of the new product’s existence. While commercializing a product, market entry decisions can be critical Market entry tends to be a highly situation specific decision. The dynamics of the environment, the market, the organization, and its new product developments process must be assessed by the decision maker. Through rules are lacking, the following guidelines will help to make a sound decision. (1) Recognize the situational aspects of market entry; (2) Clarify the strategic importance of the market entry decision; and (3) Formulate the market entry decision problem. The launch marketing program at market entry
represents the point of execution of a business strategy. The company launching a new product must first decide on introduction timing. Next, the company must decide where to launch the new product – in a single location, a region, the national market, or the international market. Few companies have the confidence, capital, and capacity to launch new products into full national or international distribution. They will develop a panned market rollout over time. In particular, small companies may enter attractive cities or regions one at a time. Larger companies, however, may quickly introduce new models into several regions or into the full national market.

**BRAND DECISION**

Many consumers’ products their basic feature, need attractive packing and a ‘brand name’. A brand is a symbol or a mark that helps customers in instant recall, differentiating it thereby roam the competing products of a similar nature.

**What is the brand?**

The dictionary of business and management defines a brand *Asia name, sign or symbol used to identify items or services of the seller(s) and to differentiate the from goods of competitors*

Signs and symbols are parts of what a brand is, but to us this is a very incomplete definition. According to the American marketing association, “A brand name is a part consisting of a word, letter, groups of words or letters to identify the goods or services of a seller or a group of seller and to differentiate them from those of the competitors.”

A brand distinguishes a product or service from similar offerings on the basis of names are: LUX, LIRIL, REXONA, EVITA, PROTEX, HAMAM AND LE SANSI in case of toilet soaps; SUR, ARIEL, and NIRMA in case of detergents and NIVEA, FEM, OIL OF OLEY, CHARMIS AND VASELINE in case of vanishing creams.

**Branding Decision: To Brand or Not to Brand?**

**BRANDS – VALUABLE TRADABLE ASSETS**

![Brand Decision Diagram]

**Brand Decision**

- **Brand**
  - Manufacturer brand
  - Distributor brand
  - Private brand
  - Licensed brand

**Brand Sponsor Decision**

- **Brand**
  - Company
  - Individual

**Brand Name Decision**

- **Brand**
  - Individual names
  - Blanket family name
  - Separate family names
  - Company—individual names

**Brand Strategy Decision**

- **Brand**
  - Line extensions
  - Brand extensions
  - Multibrands
  - New brands
  - Subbrands

**Brand Repositioning Decision**

- **Brand**
  - Repositioning
  - No repositioning

**Brand Sponsor Decision**

- **Brand**
  - Manufacturer brand
  - Distributor brand
  - Private brand
  - Licensed brand
Brands provide a strong competitive advantage to the companies owning them and hence they are increasingly becoming important tradable assets. In 1993, Coca-Cola paid about Rs.175 crore to buy Thums-up, Limca, Citra and Gold Spot brands. In 1994 Godrej soaps paid Rs.12 crore to acquire the Rs.67 crore translectra.

In 1995, Smithkline Beecham paid Rs.42 crore to acquire the Crocin brand from Duphar Interfan. In 1997, Knoll Pharma sold Coldarin and Burnol for Rs.34 crore Ranbaxy paid Rs.80 crore to Gufic Labs for Mox, Zole Excel and Suprimox. In 1997, Hindustan Lever paid Rs.110 crore for Lakme’s basket of brands and only Rs.29 crore for Lakme’s two plants.

In 1999, Marico industries bought parachute and Suffola brands from Bombay oil industries for Rs.30 crore. The Gramophone company of India acquired Sangeetha, a leading audio producer of classical and devotional songs in the South. Acquiring a brand is a better, superior option over purchasing the entire operations of the company owing them for 3 months. The buyer buys only the brand name. The brand name could be used to sell anything, which comes under the established brand personality. For example, the Burnol brand name could be used to sell an antiseptic like Dettol. Buying a brand provides a ready-made market. Apparently, Ranbaxy bought Mox because its own brand in the name family, Amoxycillin was not doing too well. Buying a brand saves a lot of brand building time and cost. Drug companies are known to recoup the cost of acquiring a brand in less than four years.

PACKAGING

Earlier, packaging was considered a major expense in marketing. For some toiletries, packaging costs actually exceeded the costs of contents. Today, it is however, fully recognized that packaging helps in branding and promoting brand loyalty. It also enables the buyers to handle and carry their products with ease. Moreover, packaging may cut marketing costs thus adding to profit.

QUALITIES OF GOOD PACKAGING

Attractive appearance
Convenient for storage and display
Shield against damage or spoiling
Product description shown on the package

FUNCTION OF PACKAGING ESPECIALLY FOR CONSUMER GOODS

- Protection and presentation are the basic functions of a packaging
Modern marketing methods demand that, package be convenient to handle transport requirements.

A package must be made to consistent and rigid quality standards. The consumer demands uniformity each time he purchases a product.

Transport economics

Every package must be recognizable and

Every package must have eye appeal

**ROLE OF PACKAGING**

- It helps increase sales
- It adds to the use of a product
- It helps promote a product
- It contributes to the safety of a product
- It helps in storage
- It helps in product differentiation

**PACKAGING DECISIONS**

**Packaging Design**

It is not easy to design a package for various items. For example, all shaving creams come in tubes, but different brands of shaving cream have different packaging. Because of the high cost of packaging some companies have resorted to refill packs.

**Color**

Color is an important factor for determining customer acceptance or rejection of a product. The use of right colors in packaging may help marketers reap huge advantage. Packaging color should be attractive so that it may help promote sales.

**Packaging the Product Line**

A company must decide whether to develop a family resemblance in the packaging of its several products. Families packaging involves the use of identical packages for all products or the use of packages with some common feature.

**Pricing Decisions**

A price is an expression of value. The value rests in the usefulness and quality of the product itself, in the image that is conveyed through advertising and promotion, in the availability of the product through wholesale and retail
distribution systems, and in the service that goes with it. A price is the seller’s estimate of what all of this is worth to potential buyers, recognizing the other options buyers will have for filling the need the product is intended to satisfy. A way to think about making a pricing decision is that price should be set somewhere between what the product costs to make and sell and its value to the customer. If price exceeds the perceived value of the product to potential purchasers, it has no market. If the price is below what the product costs to produce, the business cannot survive for very long. Where a price should be set between cost and customer value is a strategic decision.

**Factors affecting price decisions:**
There are a number of factors which influence the pricing decisions of marketers. While some of these are external or environmental factors (such as competition, demand conditions and so on), others are internal factors (like marketing objectives, cost conditions and so on).

**Internal factors:** The internal factors, as the term implies, are mostly internal to the organization and therefore, largely controllable by the organization. They also have a direct bearing on the firm’s pricing decision. The following are the important internal factors that must considered in pricing a firm’s product/service.

Marketing objectives – Before setting price, the firm must decide on its strategy for the product. This reiterates the idea that the corporate strategy must precede the marketing strategy and then marketing strategy must precede the pricing strategy.

Marketing-mix strategy – Price is only one of the marketing-mix elements that a firm uses to achieve its marketing objectives. Therefore, logically pricing decisions must be coordinated with product design, distribution and promotion decisions to form a consistent and effective marketing program.

Costs – Costs set the floor for the price that the firm can charge for its product. A firm’s costs may be an important element in its pricing strategy. The firm wants to charge a price that both covers all its costs for producing, distributing and selling the product and delivers a fair rate of return for its effort and risk.

Organisation for pricing – Management must decide who within the organization should set prices. Firms handle pricing in a variety of ways. In small firms, prices are often set by top management rather than by the
marketing or sales departments. In large firms, pricing typically is handled by product line managers.

**External factors**: The external factors, as the term implies, are external to the organization and therefore, treated as uncontrollable by the organization. They have an indirect, but definite bearing on the firm’s pricing decision. The following are the important external factors that must considered in pricing a firm’s product/service.

Nature of the market and demand – While costs set the lower limit of prices, the market and demand set the upper limit. Buyers balance the price of a product or service against the benefits of owning it. Therefore, before setting prices, the marketer must understand the relationship between price and demand for his product.

Competition – Another external factor affecting the company’s pricing decisions is competitors’ costs and prices and possible competitor reactions to the company’s own pricing moves. For so-called commodities (i.e. virtually undifferentiated products), all competitors generally charge identical prices. If one goes above the market price, sales will drop off sharply; if one goes below, all others are likely to follow or risk significant reductions in market share.

Other environmental factors – When setting prices, the firm also must consider other factors in its external environment. Economic conditions can have a strong impact on the firm’s pricing strategies. Economic factors such as inflation, boom or recession, and interest rates affect pricing decisions because they affect both the costs of producing a product and consumer perceptions of the product’s price and value. The firm also must consider what impact its prices will have on other parties in its environment.

**Pricing Methods**

Firms translate pricing objectives into pricing decisions in two major steps. First, someone must accept responsibility for making pricing decisions and administering the resulting pricing structure. Second, someone must set the overall pricing structure – that is, basic prices and appropriate discounts for channel members, quantity purchases, and geographic and promotional considerations.

The company adjusts product prices to reflect changes in costs and demand and to account for variation in buyers and situations.

**New Product Pricing Strategies**

Pricing strategies usually change as the product passes through its life cycle as illustrated in the previous lesson. The introductory stage is especially
challenging. Firms bringing out an innovative patent-protected product can choose between two options, viz. market-skimming pricing and market-penetration pricing.

**Market-skimming pricing**: Many firms that invent new products initially set high prices to ‘skim’ revenues layer by layer from the market. At product introduction in the marketplace, the firm may charge the highest price it could given the benefits of its new product over competing products. The firm sets a price that made it just worthwhile for some affordable segments of the market to adopt the new product. After the initial sales slowdown, the firm may lower the price to draw in the next price sensitive layer of the customers. In this way, a firm skims a maximum amount of revenue from the various segments of the market.

**Market-penetration pricing**: Rather than setting a high initial price to skim off small but profitable market segments, some firms set a low initial price in order to penetrate the market quickly and deeply – to attract a large number of buyers quickly and win a large market share. A penetration pricing strategy may also extend over several stages of the product life cycle as the firm seeks to maintain a reputation as a low-price competitor. Since many firms begin penetration pricing with the intention of increasing prices in the future, success depends on generating many consumer trial purchases.

**Product-Mix pricing**: The strategy for setting a product’s price often has to be changed when the product is part of a product mix. In this case, the firm looks for a set of prices that maximizes the profits on the total product mix. This pricing is difficult because the various products have related demand and costs and face different degrees of competition. The following section outlines the five product-mix pricing situations depicted in Figure 3.4.1
PRODUCT-MIX PRICING STRATEGIES

Ceiling price
Customers’ assessment of unique product features

Orienting point

OPTIONAL-PRODUCT PRICING
Pricing optional or accessory products sold with the main product

CAPTIVE-PRODUCT PRICING
Pricing products that must be used with the main product

BY-PRODUCT PRICING
Pricing low-value by-products to get rid of them

PRODUCT-BUNDLE PRICING
Pricing bundles of products sold together
**Product-line pricing**: Since most firms market multiple product lines, an effective pricing strategy must consider the relationships among all of these products instead of viewing each in isolation. In product line pricing, management must decide on the price steps to set between the various products. The price steps should take into account cost differences between the products, customer evaluations of their different features and competitors’ prices.

**Optional-product pricing**: Many firms use this strategy by offering to sell optional or accessory products along with their main product. These firms have to decide which items to include in the base price and which to offer as options. Often the basic model which is stripped of many comforts and conveniences sought by the customers gets rejected.

**Captive-product pricing**: Firms that make products that must be used along with a main product are using this pricing strategy. Producers of the main products often price them low and set high markups of the supplies.

**By-product pricing**: In producing certain products, there are by-products. If these by-products have no value and if getting rid of them is costly, this will affect the pricing of the main product. Using by-product pricing, the manufacturer will seek a market for these by-products and should accept any price that covers more than the cost of storing and delivering them.

**Product-bundle pricing**: Using this strategy, marketers combine several of their products and offer the bundle at a reduced price. Price bundling can promote the sales of products consumers might not buy otherwise, but the combined price must be low enough to get them to buy the bundle.
Firms usually adjust their basic prices to account for various customer differences and changing situations. Figure 3.4.2 summarizes seven price-adjustment strategies.

**Discount and allowance pricing**: Most firms adjust their basic price to reward customers for certain responses, such as cash payment, early payment of bills, volume purchases and off-season buying. Some of those adjustments are described below: Cash discounts, Quantity discounts, Functional discounts, Seasonal discounts, Allowances etc.
**Discriminatory pricing:** Firms will often adjust their basic prices to allow for differences in customers, products and locations. In discriminatory pricing, the firm sells a product or service at two or more prices, even though the difference in prices is not based on differences in costs.

**Psychological pricing:** It applies the belief that certain prices or price ranges make products more appealing to buyers than others. In using psychological pricing, sellers consider the psychology of prices and not simply the economics.

**Value pricing:** During slow-growth times, many firms adjust their prices to bring them into line with economic conditions and with the resulting fundamental shift in consumer attitudes toward quality and value. Value pricing is offering just the right combination of quality and good service at a fair price.

**Promotional pricing:** In promotional pricing, a lower-than-normal price is used as a temporary ingredient in a firm’s selling strategy. Some promotional pricing arrangements form part of recurrent marketing initiatives. Some may be to introduce a promotional model or brand with special pricing to begin competing in a new market. Promotional pricing takes several forms and some of them are described below.

**Geographical pricing:** Geographical considerations strongly influence prices when costs must cover shipping heavy, bulky, low-unit-cost materials. Buyers and sellers can distribute transportation expenses in several ways: (1) The buyer pays all transportation charges; (2) The seller pays all transportation charges; or (3) the buyer and the seller share the charges. This choice has particularly important effects for a firm seeking to expand its geographic coverage to distant markets. The seller’s pricing can implement several alternatives for handling transportation costs.

**International pricing:** A wide variety of internal and external conditions can affect a marketer’s global pricing strategies. Internal influences include the firm’s goals and marketing strategies, the costs of developing, producing and marketing its products, the nature of the products and the firm’s competitive strengths.
PROMOTION DECISION

Marketing communications is one of the four major elements of the company’s marketing mix. Marketers must know how to use advertising, sales promotion, direct marketing, public relations, and personal selling to communicate the product’s existence and value to the target customers.

The communication process itself consists of nine elements: sender, receiver, encoding, decoding, message, media, response, feedback, and noise. Marketers must know how to get through to the target audience in the face of the audience’s tendencies toward selective attention, distortion, and recall.

Developing the promotion program involves eight steps. The communicator must first identify the target audience and its characteristics, including the image it carries of the product. Next the communicator has to define the communication objective, whether it is to create awareness, knowledge, liking, preference, conviction, or purchase. A message must be designed containing an effective content, structure, format, and source. Then communication channels both personal and non-personal must be selected. Next, the total promotion budget must be established. Four common methods are the affordable method, the percentage-of-sales method, the competitive-parity method, and the objective-and-task method.

PROMOTION MIX

Product promotion is critical for every business due to the lasting impact promotion has on the clients. The promotion mix is essentially what promoting entails as well as how promoting is effectively done. It comprises personal selling, advertising, public relations, sales promotion, and direct marketing. Using the right blend of the promotional mix ensures that a business will continue gaining customers and achieving success in both the short and long run.

1. Personal Selling
This is usually the most costly tool but is one of the most effective tools in the promotional mix. It is effective since it builds a long-term relationship between the client and employee that will continue coming back. This is of great benefit especially when dealing with clients that spend large amount of cash. The client could want a hotel for fifty people or he or she might be buying vehicles for each of
his 30 businesses. Cultivating this relationship will increase the chances of future opportunities if his or her expectations are met.

2. Direct Marketing
Direct marketing uses technology to target clients individually. Examples include telephone calls, apps, e-mail, and catalogs. Direct marketing is useful since it targets individuals that spend small amounts of money at different times since they do not spend as much cash as frequently. Different companies use e-mail to send out specials and deals to clients. Some companies such as Amazon use previous purchases to offer recommendations. Others just send out recommendations to everyone on their mailing list. Direct marketing is great especially when marketing to the masses but personalizing the message for every recipient.

3. Public relations
Every business needs public relations but many businesses often overlook it since they typically associate it with dealing with negative situations that can affect a company. A good Public Relations manager for a business should be dynamic to handle both positive and negative situations.
On the positive side, a Public Relations campaign is implemented through newsletters, social media, press releases, grand openings, and major events. Social media is particularly a useful tool for public relations since the masses use it and love it. On the negative side, dealing with those negative situations is something that a public relations director should be in a position to handle effectively.

4. Sales Promotions
These provide a great way to get customers to buy a particular service or product. Sales promotions are particularly useful in the service industry since many people are not willing to pay full price for a vacation package. However, once they get a promotion of 20% off they become attracted to the offer immediately. Restaurants can also make use of sales promotions to boost sales by bringing more people into the restaurant. Sales promotions work for other industries too. You can find stores offering 20% discounts on selected items and so on.

5. Advertising
Advertising plays a key role when promoting a business. Newspapers, Radio, TV, and Social Media advertising all play an important role in determining how to target customers as well as how they will respond to the advertising message. Social Media marketing
Social media is currently taking over from the traditional forms of advertising. Focus on social media is critical especially when communicating with clients. The
reason for this is that Facebook is one of the most visited website globally on a
daily basis. Furthermore, it is instantaneous. As soon as a company posts
something on its Facebook page it immediately becomes available for all to see. In
addition, Facebook offers the option of targeting users based on their interests,
gender, location, age, and any other demographics that you can think of. In the 21
Century, Social Media marketing is simply the way to go.

Advertising
Meaning of Advertising - Advertising is an activity of attracting public attention to
a product, service, or business as by paid announcements in the print, broadcast,
or electronic media.

Definition of Advertising - "Advertising is the non-personal communication of
information usually paid for and usually persuasive in nature about products,
services or ideas by identified sponsors through the various media." Now let’s take
this statement apart and see what it means.

Objectives of Advertising - The real objective of advertising is effective
communication between producers and consumers with the purpose to sell a
product, service, or idea. The main objectives of advertising are as follows:

1. Informative
Objective of advertising is to inform its targeted audience/customers about
introduction of new product, update or changes in existing products or product
related changes, information regarding new offers and schemes. Informative
advertising seeks to develop initial demand for a product. The promotion of any
new market entry tends to pursue this objective because marketing success at
this stage often depends simply on announcing product availability. Thus,
informative advertising is common in the introductory stage of the product life
cycle.

2. Persuasive
Objective of advertising is to increase demand for existing product by persuading
new customer for first time purchase and existing customers for repurchases.
Persuasive advertising attempts to increase demand for an existing product.
Persuasive advertising is a competitive type of promotion suited to the growth
stage and the early part of the maturity stage of the product life cycle.

3. Reminder
The objective of advertising is to remind customers about existence of product,
and ongoing promotional activities. Reminder advertising strives to reinforce
previous promotional activity by keeping the name of a product before the public. It is common in the latter part of the maturity stage and throughout the decline stage of the product life cycle.

**Functions of Advertising** - Following are the basic functions of advertising:

1. **To distinguish product from competitors' products**: There are so many products of same category in the market and they competes with each other, advertising performs the function of distinguishing advertiser's product from competitors.

2. **To communicate product information**: Product related information required to be communicated to the targeted customers, and advertisement performs this function.

3. **To urge product use**: Effective advertisement can create the urge within audience for a product.

4. **To expand product distribution**: When the market demand of a particular product increases, the number of retailer and distributor involved in sale of that product also increases, hence product distribution get expanded.

5. **To increase brand preference**: There are various products of different bands are available, the brand which is effectively and frequently advertised is preferred most.

6. **To reduce overall sale cost**: Advertising increases the primary demand in the market. When demand is there and the product is available, automatically the overall cost will decrease, simultaneously the cost of sales like distribution cost, promotional cost also get decreased.

**Classification of Advertising** - Advertising can be classified on the basis of **Function, Region, Target Market, Company demand, Desired response, and Media**.

**A) Classification on the basis of function**

- Advertisement informs the customers about a product
- Advertisement persuades the consumers to buy a product
- Advertisement reminds existing customers about the presence of the product in the market

Let us discuss some important types of advertising based on the functional aspect of advertising.

**Informative advertising**: This type of advertising informsthe customers about the products, services, or ideas of the firm or organization.
**Persuasive advertising:** This type of advertising persuades or motivates the prospective buyers to take quick actions to buy the products or services of the firm. Example: “Buy one, get one free”.

**Reminder advertising:** This genre of advertising reminds the existing customers to become medium or heavy users of the products or services of the firm that have been purchased by them at least once. This type of advertising exercise helps in keeping the brand name and uses of the products in the minds of the existing customers.

**B) Classification on the basis of region**
Advertisements can also be classified on the basis of the region, say:

**Global advertising:** It is executed by a firm in its global market niches. Reputed global magazines like Time, Far Eastern Economic Review, Span, Fortune, Futurist, Popular Science. Cable TV channels are also used to advertise the products throughout the world. Supermodels and cinema stars are used to promote high-end products. Examples: Sony, Philips, Pepsi, Coca Cola, etc.

**National advertising:** It is executed by a firm at the national level. It is done to increase the demand of its products and services throughout the country. Examples: BPL (Believe in the best). Whirlpool Refrigerator (Fast Forward Ice Simple) etc.

**Regional advertising:** If the manufacturer confines his advertising to a single region of the country, its promotional exercise is called Regional Advertising. This can be done by the manufacturer, wholesaler, or retailer of the firm. Examples: Advertisements of regional newspapers covering those states or districts where these newspapers are circulated. Eg. The Assam Tribune (only for the NE region) etc.

**Local advertising:** When advertising is done only for one area or city, it is called Local Advertising. Some professionals also call it Retail Advertising. It is sometime done by the retailer to persuade the customer to come to his store regularly and not for any particular brand. Examples: Advertisements of Ooo la la, Gupshup (Local FM channels) etc.

**C) Classification on the basis of target market**
Depending upon the types of people who would receive the messages of advertisements, we can classify advertising into four subcategories:
**Consumer product advertising:** This is done to impress the ultimate consumer. An ultimate consumer is a person who buys the product or service for his personal use. This type of advertising is done by the manufacturer or dealer of the product or service. Examples: Advertisements of Intel, Kuttons (shirt), Lakme (cosmetics) etc.

**Industrial product advertising:** This is also called Business-to-Business Advertising. This is done by the industrial manufacturer or his distributor and is so designed that it increases the demand of industrial product or services manufactured by the manufacturer. It is directed towards the industrial customer.

**Trade advertising:** This is done by the manufacturer to persuade wholesalers and retailers to sell his goods. Different media are chosen by each manufacturer according to his product type, nature of distribution channel, and resources at his command. Hence, it is designed for those wholesalers and retailers who can promote and sell the product.

**Professional advertising:** This is executed by manufacturers and distributors to influence the professionals of a particular trade or business stream. These professionals recommend or prescribe the products of these manufacturers to the ultimate buyer. Manufacturers of these products try to reach these professionals under well-prepared programmes. Doctors, engineers, teachers, purchase professionals, civil contractors, architects are the prime targets of such manufacturers.

**Financial advertising:** Banks, financial institutions, and corporate firms issue advertisements to collect funds from markets. They publish prospectuses and application forms and place them at those points where the prospective investors can easily spot them.

**D) Classification on the basis of desired responses**
An ad can either elicit an immediate response from the target customer, or create a favourable image in the mind of that customer. The objectives, in both cases, are different. Thus, we have two types of advertising under this classification.

**Direct action advertising:** This is done to get immediate responses from customers. Examples: Season’s sale, purchase coupons in a magazine.

**Indirect action advertising:** This type of advertising exercise is carried out to make a positive effect on the mind of the reader or viewer. After getting the advertisement he does not rush to buy the product but he develops a favourable image of the brand in his mind.
**Surrogate advertising:** This is a new category of advertising. In this type of promotional effort, the marketer promotes a different product. For example: the promotion of Bagpiper soda. The firm is promoting Bagpiper Whisky, but intentionally shows soda. They know that the audience is quite well aware about the product and they know this fact when the actor states, "Khoob Jamega Rang Jab Mil Baithenge Teen Yaar ... Aap ... Main, Aur Bagpiper").

**E) Classification on the basis of the media used in advertisement**

The broad classification based on media is as follows:

**Audio advertising:** It is done through radio, P A systems, auto-rickshaw promotions, and four-wheeler promotions etc.

**Visual advertising:** It is done through PoP displays, without text catalogues, leaflets, cloth banners, brochures, electronic hoardings, simple hoardings, running hoardings etc.

**Audio-visual:** It is done through cinema slides, movies, video clips, TV advertisements, cable TV advertisements etc.

**Written advertising:** It is done through letters, fax messages, leaflets with text, brochures, articles and documents, spacemarketing features in newspapers etc.

**Internet advertising:** The world wide web is used extensively to promote products and services of all genres. For example Bharat Matrimony, [www.teleshop.com](http://www.teleshop.com), [www.asianskyshop.com](http://www.asianskyshop.com) etc.

**Verbal advertising:** Verbal tools are used to advertise thoughts, products, and services during conferences, seminars, and group discussion sessions. Kinesics also plays an important role in this context.

**Sales Promotion**

Every businessman wants to increase the sale of goods that he deals in. He can adopt several ways for that purpose. You might have heard about “lakhpatsi bano”, “win a tour to Singapore”, “30% extra in a pack of one kg”, “scratch the card and win a prize” etc. You might also have seen gifts like lunch box, pencil box, pen, shampoo pouch etc. offered free with some products.

There are also exchange offers, like in exchange of existing model of television you can get a new model at a reduced price. You may have also observed in your neighbouring markets notices of “winter sale”, “summer sale”, “trade fairs”, “discount upto 50%” and many other schemes to attract customers to buy certain
products. All these are incentives offered by manufacturers or dealers to increase the sale of their goods. These incentives may be in the form of free samples, gifts, discount coupons, demonstrations, shows, contests etc. All these measures normally motivate the customers to buy more and thus, it increases sales of the product. This approach of selling goods is known as “Sales Promotion”. Thus, sales promotion consists of all activities other than advertising and personal selling that help to increase sales of a particular commodity.

**Objectives of Sales Promotion**

(i) **To introduce new products:** Have you ever heard about distribution of free samples? Perhaps you know that many companies distribute free samples while introducing new products. The consumers after using these free samples may develop a taste for it and buy the products later for consumption.

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

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

(iv) **To meet the challenge of competition:** Today’s business faces competition all the time. New products frequently come to the market and at the same time improvement also takes place. So sales promotion measures have become essential to retain the market share of the seller or producer in the product-market.

**Tools of Sales Promotion**

To increase the sale of any product manufactures or producers adopt different measures like sample, gift, bonus, and many more. These are known as tools or techniques or methods of sales promotion. Let us know more about some of the commonly used tools of sales promotion.

(i) **Free samples:** You might have received free samples of shampoo, washing powder, coffee powder, etc. while purchasing various items from the market. Sometimes these free samples are also distributed by the shopkeeper even without purchasing any item from his shop. These are distributed to attract
consumers to try out a new product and thereby create new customers. Some businessmen distribute samples among selected persons in order to popularize the product. For example, in the case of medicine free samples are distributed among physicians, in the case of textbooks, specimen copies are distributed among teachers.

(ii) **Premium or Bonus offer:** A milk shaker along with Nescafe, mug with Bournvita, toothbrush with 500 grams of toothpaste, 30% extra in a pack of one kg. are the examples of premium or bonus given free with the purchase of a product. They are effective in inducing consumers to buy a particular product. This is also useful for encouraging and rewarding existing customers.

(iii) **Exchange schemes:** It refers to offering exchange of old product for a new product at a price less than the original price of the product. This is useful for drawing attention to product improvement. ‘Bring your old mixer-cum-juicer and exchange it for a new one just by paying Rs.500’ or ‘exchange your black and white television with a colour television’ are various popular examples of exchange scheme.

(iv) **Price-off offer:** Under this offer, products are sold at a price lower than the original price. ‘Rs. 2 off on purchase of a lifebuoy soap, Rs. 15 off on a pack of 250 grams of Taj Mahal tea, Rs. 1000 off on cooler’ etc. are some of the common schemes. This type of scheme is designed to boost up sales in off-season and sometimes while introducing a new product in the market.

(v) **Coupons:** Sometimes, coupons are issued by manufacturers either in the packet of a product or through an advertisement printed in the newspaper or magazine or through mail. These coupons can be presented to the retailer while buying the product. The holder of the coupon gets the product at a discount. For example, you might have come across coupons like, ‘show this and get Rs. 15 off on purchase of 5 kg. of Annapurna Atta’. The reduced price under this scheme attracts the attention of the prospective customers towards new or improved products.

(vi) **Fairs and Exhibitions:** Fairs and exhibitions may be organised at local, regional, national or international level to introduce new products, demonstrate the products and to explain special features and usefulness of the products. Goods are displayed and demonstrated and their sale is also conducted at a reasonable discount. ‘International Trade Fair’ in New Delhi at Pragati Maidan, which is held from 14th to 27th November every year, is a wellknown example of Fairs and Exhibitions as a tool of sales promotion.

(vii) **Trading stamps:** In case of some specific products trading stamps are distributed among the customers according to the value of their purchase. The customers are required to collect these stamps of sufficient value within a particular period in order to avail of some benefits. This tool induces
customers to buy that product more frequently to collect the stamps of required value.

**(viii) Scratch and win offer:** To induce the customer to buy a particular product ‘scratch and win’ scheme is also offered. Under this scheme a customer ‘scratch’ a specific marked area on the package of the product and gets the benefit according to the message written there. In this way customers may get some item free as mentioned on the marked area or may avail of price-off, or sometimes visit different places on special tour arranged by the manufacturers.

**(ix) Money Back offer:** Under this scheme customers are given assurance that full value of the product will be returned to them if they are not satisfied after using the product. This creates confidence among the customers with regard to the quality of the product. This technique is particularly useful while introducing new products in the market.

**Publicity**

Publicity is also a way of mass communication. It is not a paid form of mass communication that involves getting favourable response of buyers by placing commercially significant news in mass media. Publicity is not paid for by the organisation. Publicity comes from reporters, columnists, and journalists. It can be considered as a part of public relations.

Publicity involves giving public speeches, giving interviews, conducting seminars, offering charitable donations, inaugurating mega events by film actors, cricketers, politicians, or popular personalities, arranging stage show, etc., that attract mass media to publish the news about them.

Publicity is undertaken for a wide range of purposes like promoting new products, increasing sales of existing product, etc. It also aimed at highlighting employees’ achievements, company’s civic activities, pollution control steps, research and development successes, financial performance, its progress, any other missionary activities, or social contribution.

**Philip Kotler**

“Non-personal stimulation of demand for the product or service, or business unit by placing commercially significant news about it in public medium or obtaining favourable presentation of it upon radio, television, or stage that is not paid for by the sponsor.”

**Characteristics of Publicity:**

**Key characteristics of publicity have been briefly described in following part:**

1. **Meaning:**
Publicity is not a paid form of mass communication that involves getting favourable response of buyers by placing commercially significant news in mass media. It involves obtaining favourable presentation upon radio, newspapers, television, or stage that is not paid for by the sponsor.

2. Non-paid Form:
Publicity is not a paid form of communication. It is not directly paid by producer. However, it involves various indirect costs. For example, a firm needs some amount for arranging function, calling press conference, inviting outstanding personalities, decorating of stage, other related costs, etc.

3. Various Media:
Mostly, publicity can be carried via newspapers, magazines, radio, or television. For example, in case a product is launched by popular personality in a grand function, the mass media like newspapers, television, radio, magazines, etc., will definitely publicize the event.

4. Objectives:
Sales promotion is undertaken for a wide variety of purposes. They may include promotion of new product, pollution control, special achievements of employees, publicizing new policies, or increase in sales. It is primarily concerns with publishing or highlighting company’s activities and products. It is targeted to build company’s image. In a long run, it can contribute to increase sales.

5. Control of Producer:
Company has no control over publicity in terms of message, time, frequency, information, and medium. It comes through mass media like radio, newspapers, television, etc. It is given independently by the third party. It is presented as a news rather than propaganda.

6. Credibility/Social Significance:
Publicity has high degree of credibility or reliability as it comes from mass media independently. It is given as news for social interest. It has more social significance compared to other means of market promotion.

7. Part of Public Relations:
Publicity is a part of broad public relations efforts and activities. Public relations includes improving, establishing, and maintaining direct relations with all publics. Publicity can help improve public relations.

8. Costs:
Publicity can be done at much lower cost than advertising. Company needs to spend a little amount to get the event or function publicized.

9. Effect:
Publicity message is more likely to be read, viewed, heard, and reacted by audience. It has a high degree of believability as it is given by the third party.

10. Repetition:
Frequency or repetition of publicity in mass media depends upon its social significance or the values for news. Mostly, it appears only once.
**Importance of Publicity:**
Like advertising and sales promotion, sales can be increased by publicity, too. Publicity carries more credibility compared to advertisement. Publicity is cost free; it doesn’t involve direct cost. Publicity offers a lot of benefits to the producers and distributors.

**Importance of publicity can be made clear from the below stated points:**
1. Publicity is an effective medium to disseminate message to the mass with more credibility. People have more trust on news given by publicity.
2. The credibility level of publicity is much higher than advertising and other means of market promotion. People express more trust on what the third party independently says. It appears directly through newspapers, magazines, television, or radio by the third party. It is free from bias.
3. It provides more information as the valuable information is free from space and time constraints. Similarly, publicity takes place immediately. No need to wait for time or space in mass media. It enjoys priority.
4. The firm is not required to pay for publicity. The indirect costs related to publicity are much lower than other means of promotion.
5. It is a part of public relations. It is free from exaggeration; it carries more factual information about company. It is more trustable. It helps establish public relations.
6. Generally, publicity covers the varied information. It normally involves name of company, its goods and services, history, outstanding achievements, and other similar issues. The knowledge is more complete compared to advertisement.
7. Publicity directly helps middlemen and sale persons. Their tasks become easy. Publicity speaks a lot about products on behalf of middlemen and salesmen. Sellers are not required to provide more information to convince the buyers.
8. It is suitable to those companies which cannot effort the expensive ways to promote the product.
9. Publicity increases credit or fame of the company. Publicity on company’s assistance in relief operations during flood, earthquake, draught, and other natural calamities highlights its name and social contribution in mass media. People hold high esteem to this company.
10. Publicity can be used by non-commercial organisations/institutes like universities, hospitals, associations of blinds or handicaps, and other social and missionary organisations. They can publicize their noble works by the medium of publicity.

**Objectives of Publicity:**
Publicity is aimed at a number of objectives.

The most common objectives of publicity have been discussed in brief as under:
1. Building Corporate Image:
Through publicity, a company can build or improve its corporate image. People trust more on what press reporters, columnists, or newsreaders say via mass media independently than what the company says. Publicity highlights the company’s name and operations. It popularizes the name of the company.

2. Economy:
It is a cost saving medium. Here, a company is not required to pay for message preparation, buying space and time, etc. The cost involved is much lower than other means of market promotion. Financially poor companies may opt for publicity.

3. Assisting Middlemen and Salesmen:
Publicity can help middlemen and salesmen in performing the sales-related activities successfully. Information conveyed through publicity speaks a lot of things on behalf of sellers. Publicity makes selling tasks much easier.

4. Information with High Creditability:
Sometimes, publicity is targeted to disseminate information more reliably. Customers do not express doubts on what publicity appeals. Customers assign more value to information supplied by mass media via publicity than by the advertisement.

5. Removing Misunderstanding or Bad Image:
Company can defend the product that has encountered public problems. In many cases, publicity is aimed at removing misunderstanding or bad impression. Whatever a publicity conveys is more likely to be believed.

6. Building Interest on Product Categories:
Publicity attracts attention of buyers. Due to more trusted news, people build interest in various products and activities.

7. Newsworthiness Information:
Publicity publicizes the fact in an interesting ways. Publicity is eye-catching in nature. People do not skip the news presented by publicity that more likely happens in case of advertising. For example, when a new product is launched by the distinguished personalities like film star, eminent artist, or cricketer in a grand function, the product becomes popular within no time.

**Personal selling**
The personal selling process consists of a series of steps. Each stage of the process should be undertaken by the salesperson with utmost care. The stages in personal selling are briefly explained below.

1. **Prospecting and qualifying**: ‘Prospecting and qualifying’ are the first steps the personal selling process. This is to identify and qualify prospects in order to help sales people in the process of selling. Companies generate leads in the following ways:
i. searching names by examining data sources such as newspapers, directories, CD-ROMs etc.

ii. establishing a booth at trade shows and exhibitions

iii. getting the names of the prospects from existing customers

iv. cultivating referral sources such as dealers, suppliers, sales reps, executives, bankers etc.

v. Getting the names of the prospects from organizations and associations

vi. Using the telephone, mail and the internet to find leads.

2. **Pre-approach**: Having found out the prospective customers, the salesperson should collect some important details about the prospects. For example, if the prospect is a company, then he should know what the company needs, who takes purchase decisions and who are its buyers.

After knowing the important particulars about the prospects, the salesperson should set call objectives. The salesperson should qualify the prospect, collect information and make an immediate sale. He should also decide on the best approach which may be a personal visit, a phone call or a letter. Besides he should also decide on the timing of approach, based on the convenience of the prospects.

3. **Approach**: The salesperson should properly approach the prospects. He should know how to greet the buyer before starting his conversation. The salesperson should be properly dressed which coincides with the temperament of the buyer. The opening line should be positive.

For example, “Mr. Jacob, I am Rahim from Jeevan Company. My company and I appreciate your willingness to see me. I will do my best to make this visit profitable for you”. The opening line must pay importance to the buyer’s needs.

4. **Presentation and demonstration**: The sales presentation should be based on **AIDA formula**. In other words, the presentation should gain attention, hold interest, arouse desire and obtain the action of the buyer. Moreover, the salesperson should adopt **FABV approach**. This is a “**features, advantages, benefits and value**” approach. Features narrate physical characteristics of a market. Advantages describe why the features provide an advantage to the customer. Benefits explain the economic, technical aspects and social benefits delivered by the offering. Finally, value describes the overall worth in terms of money.

Sales presentation varies in style. There are three styles of sales presentation, namely,

a. canned approach,

b. formulated approach and

c. need-satisfaction approach.
Canned approach is memorized sales talk covering the main points while formulated approach identifies the buyer’s needs and buying style and then uses an appropriate approach. The need-satisfaction approach starts with a search for customer’s real needs. It encourages the customer to talk of his own needs.

5. **Overcoming objections**: Customers when pressed for orders, voice their objections known as customer’s resistance. The resistance of the customers may either be psychological or logical. Psychological resistance includes resistance to interference, giving importance for well established brands, apathy, impatience, reluctance to participate in the talk, unpleasant situation created by the salesperson, aversion towards decision making, etc. Logical resistance is based on some reasons associated with price, delivery schedule; product or company characteristics, etc. Salesperson should overcome these objections by adopting a positive approach. He must convert the objections into reasons for buying. Handling and overcoming are the most important part of sales process.

6. **Closing the sale**: A goods sales talk results in clinching a sale. At this juncture, the salesperson closes the sale at the right moment. A salesperson can successfully close the sale by studying the body language and the statements made by the buyers. They can ask for the order by drawing the attention of the customers towards colour, size or type of the product. If the buyers remain undecided, they may be guided in making the choice of the product.

7. **Follow-up and maintenance**: Immediately after closing the sale, the salesperson should take some follow up measures. He may give details about delivery time, purchase terms and mode of payment of price, etc. The salesperson can ensure customer satisfaction by properly attending matters which are important to the customers. Thus, follow up is necessary if the salesperson wants to ensure repeat purchase.
UNIT – IV
Channel management-selection, co-operation and conflict management

Channel Management

**Definition:** The term Channel Management is widely used in sales marketing parlance. It is defined as a process where the company develops various marketing techniques as well as sales strategies to reach the widest possible customer base. The channels are nothing but ways or outlets to market and sell products. The ultimate aim of any organization is to develop a better relationship between the customer and the product.

Channel management helps in developing a program for selling and servicing customers within a specific channel. The aim is to streamline communication between a business and the customer. To do this, you need to segment your channels according to the characteristics of your customers: their needs, buying patterns, success factors, etc. and then customize a program that includes goals, policies, products, sales, and marketing program (1). The goal of channel management is to establish direct communication with customers in each channel. If the company is able to effectively achieve this goal, the management will have a better idea which marketing channel best suits that particular customer base. The techniques used in each channel could be different, but the overall strategy must always brand the business consistently throughout the communication

(2) A business must determine what it wants out of each channel and also clearly define the framework for each of those channels to produce desired results. Identifying the segment of the population linked to each channel also helps to determine the best products to pitch to those channels.

Channel management is the process by which manufacturers or suppliers create formalized relationships and programs to get their products to end customers. Distribution channels take many forms and can include many of the following channel partners: ODMs (original design manufacturers), contract manufacturers, distributors, wholesalers, manufacturer’s reps, resellers, VARs and traditional retailers.

Channel-management activities have historically been a challenge for the manufacturer. After all, information and data often originate outside of the company, spread among hundreds or even thousands of channel partners. Information relating to which products are selling—when, to whom, and at what price—inventory levels, incentive and promotional program engagement and
effectiveness, and sales forecasting and commissions, just to name a few. Historically, these processes were managed in-house using spreadsheets, databases and other ad hoc systems.

Increasingly, manufacturers are adopting purpose-built software and solutions to help gain control over complex channel relationships, drive pinpoint marketing programs and sales activities, and optimize inventory levels.

Channel management is a term we use to describe how companies gain control of multi-step, complex distribution channels to maximize revenues and reduce costs and cycle times. Optimizing distribution channels helps you build stronger and more profitable relationships while ensuring that revenue leaks are plugged.

Core tenets include:

- **Aggregate and transform complex multitier channel data** into actionable information that can be used by channel sales, marketing and finance to increase revenues and gain channel insight.
- **Streamline online partner collaboration** and eliminate ineffective and error-prone manual processes, making it easier for your channel partners to do business with you.
- **Ensure compliance at all levels**, from channel partner contracts and licensing agreements to revenue recognition and regulatory requirements from the SEC or the FASB.

Channel-management application areas include:

1. **Channel Data Management** - collection, cleansing, enrichment, and normalization of data.
2. **Channel Revenue Management** - valuation, channel incentives, inventory reconciliation, and revenue recognition activities.
3. **Sales Performance Management** - payment for sales performance, sales credit assignments and commission splits.
4. **Partner Relationship Management** - partner opportunity tracking, collaboration, and scorecards.
5. **Channel Business Intelligence and Business Discovery** - insights and analysis for reporting and strategic planning.

Channel management fundamentally transforms the way companies manage their channels and interact with their partners.

**Procedure for Selection of Effective Marketing Channels**

Channel strategy decisions involve (1) the selection of most effective distribution channel, (2) the appropriate level of distribution intensity and (3) degree of channel integration.

**Channel selection Procedure:**

A company has to consider factors related to the market and customers, its own situation, the product and the competitive environment.
All these factors have a strong bearing on the type of distribution channel selected.
A company should be very deliberate in deciding upon a distribution channel as it is expensive, cumbersome and can invite litigations to dismantle a distribution channel once it is established because interests of independent intermediaries are involved.

**Marketing factors:**

i. Buyers may mandate that products be sold to them only in a certain way. They may prefer to buy from a particular type of outlet, and only at a particular time, and a supplier needs to match customer expectations if it wants their business. A supplier also needs to be mindful of customer needs regarding product information, installation and technical assistance. Buyers’ level of need regarding such services has to researched.

The company has to decide whether the channel intermediary can meet these needs in terms of expertise, commitment and cost, or it has to set up its own infrastructure to serve customers’ needs effectively.

For instance, car service can be provided by dealers or independent authorized service providers, or by service centers run by the company. The company has to decide as to who will provide the service.

ii. The willingness of channel intermediaries to sell and distribute a company’s product strongly influences its decision to use one channel arrangement over another. A company has to resort to direct distribution if distributors refuse to distribute its product.

For an industrial product company, this will mean recruitment of salespeople, and for a consumer product company, this will mean selling through direct mail, telephone, or internet. This situation may arise if the brand or the product is not
well established, the intermediaries feel that there would not be enough buyers, selling the product is difficult and complicated, and there is not enough margin. For such products the manufacturer will have to increase margins for the intermediaries and provide them more support.

Alternatively, the manufacturer has to create demand among final consumers for the product, so that intermediaries get interested in keeping it. Investment in branding is a good option for marketers of consumer products and even the marketers of industrial products should not rule out the option of branding their products.

When customers will demand products, it will be in the self-interest of retailers to keep such products. In fact, manufacturers should look at branding as their weapon for the long term, against powerful intermediaries. Once they have made the initial investment in building a strong brand, they can reduce the margins of the intermediaries and plough back the money in more branding efforts.

iii. The profit margins demanded by wholesalers and retailers and the commission rates demanded by sales agents also affect their viability and attractiveness as a channel intermediary. These costs need to be assessed in comparison with those that will be incurred if the company decides to sell directly to customers. As the power of retailers has increased, they are demanding higher margins from manufacturers. While most manufacturers are complying due to retailers’ command over a huge base of customers and lack of alternate means of reaching customers, some companies are trying to bypass retailers by opening their own stores. If retailers’ dominance continues, some radical response to bypass the powerful retailers should be expected from manufacturers in the near future.

iv. The location and geographic concentration of customers strongly affects channel selection. Direct distribution is feasible if the customer base is clustered, and is local. Direct distribution is also feasible when customers are few in number and buy in large quantities, as in the case of industrial customers. When a company has large number of customers who buy in small lots, and are widely dispersed, it has to use channel intermediaries to reach them—direct distribution would be prohibitively expensive, and can be justified only if unit price is high and the company is able to customize the product in the time between the customer placing an order and the company delivering the product, as Dell does.

**Manufacturer factors:**

i. Most manufacturers are good at designing and producing products, and hence want to delegate the task of selling and distributing to channel intermediaries. Some manufacturers lack the financial and managerial resources to take on the tasks of selling and distributing.
Therefore, the company does not open its own stores or hires its own salespeople, and uses distributors or agents to sell and distribute its product. A manufacturer of consumer products will need huge investment in setting up infrastructure for distribution because the number of customers is large and are geographically dispersed.

The distribution channels of consumer products are long, and managing such a wholly-owned distribution infrastructure will be an arduous task even for the mightiest manufacturers. Also, most manufacturers do not have customer-based skills to sell and distribute their products, and hence have to rely on intermediaries.

ii. A wide mix of products makes direct distribution feasible, as the cost of setting up and operating a common distribution infrastructure is distributed over a larger number of products.

Narrow or single product companies find the cost of direct distribution prohibitive unless the product is expensive and its customers buy in bulk. Therefore, they have to use channel intermediaries to sell and distribute their products.

iii. When a company uses independent channel intermediaries, it loses control over the way the product is sold to customers. The company loses control of the price charged to customers and the way the product is stocked and presented to customers.

There is no guarantee that the channel intermediary will stock its new products or its full range of products. It may just be interested in stocking products which sell more or on which it earns higher margins. Manufacturers of electronic products are opening wholly-owned megastores to showcase their full range of products.

Channel intermediaries are obliged to perform certain tasks like in-store promotion in retail stores, promotion in the local media by retailers, or appointing a minimum number of salespersons in a region by a wholesaler. It is very important for manufacturers to constantly monitor whether channel members are performing the agreed functions.

**Product factors:**

i. Design and production of large and complex products need personal contact between the manufacturer and customer. These products are also expensive, and hence direct selling and distribution of such products is economically viable. The manufacturer and customer remain in active contact during the lifetime of the equipment, as both need to collaborate during its installation, operation and service.

ii. Perishable products require short channels to supply the customer with fresh stock. Bulky or difficult to handle products may require direct distribution because distributors may refuse to carry them in their stores due to space constraint or because expensive provisions will have to be made to handle and store them. Intermediaries may have difficulty in displaying such bulky products.
**Competitive factors:**
If competitors control traditional channels of distribution, for instance, through exclusive dealership arrangements, a company has to decide to sell directly or set up its own distribution network. It recruits salespeople to sell directly or builds its own distribution infrastructure in terms of setting up distribution centers and opening retail outlets, to reach customers.

Players of an industry sell and distribute in a particular way, but a manufacturer should not assume that channels of distribution used by competitors are the only way to reach their customers. It should explore alternate means of reaching customers i.e., use distributors and retailers not used by competitors to reach customers.

It should also explore the possibility of using direct marketing and distribution. Alternate distribution channels may be used as a means of attaining competitive advantage. For instance, Dell uses direct marketing to gain a substantial competitive advantage by customizing personal computers to suit customer requirements.

Deciding the number of outlets in a region or for a population, i.e., the intensity of outlets is a critical decision. If the number of outlets is more than required, the cost of serving a customer goes up.

If the number of outlets are less than required, customers will face difficulty in accessing the outlets and they may buy an alternate brand or product or forgo purchase altogether. There are three options for a company:

**Intensive distribution:**
The product is inexpensive and customers can choose from large number of equally good brands. Intensive distribution is required for such products, which provides maximum coverage of the market by using all available outlets.

Sales are a direct function of the number of outlets penetrated in case of mass market products such as cigarettes, food and confectionaries. This happens because customers have a range of acceptable brands from which they choose. If a brand is not available in an outlet, an alternative is bought.
The convenience aspect of purchase is paramount in such products, and the customer will buy an alternate brand if his preferred brand is not stocked in the store he is shopping. Some such purchases are also unplanned and impulsive in nature. They are bought because the products happen to be in sight. If the product or the brand not spotted by the customer, sales are lost. New outlets should be sought which have not stocked the product or brand so far. The retailers who have been stocking the product do not mind when the manufacturer signs up more retailers to carry the product because the revenue generated from each customer for such products are low. Wider availability and display of such products across many outlets act to make them popular, which increases the sale of the product in every outlet. Also, most of these purchases happen in grocery stores for which customers show high amount of loyalty. Therefore it is important that the store has all the products that its customers may want and expect the store to stock. It is not very worrying if the next store has them, too.

**Selective distribution:**
For products like electronics goods and home appliances, a manufacturer uses a limited number of outlets in a geographical area. It selects the best outlets in the area in terms of their location, space, decor and the owners’ enthusiasm to carry its products. It develops close relationships with the outlets and trains their salespeople. It ensures that the salespeople are motivated to sell its products and that they are well compensated. Retail outlets and industrial distributors prefer such an arrangement as it reduces competition amongst them. Selective distribution works well when the product’s characteristics are such that the customers are willing to spend time to learn about the product and evaluate alternatives. The company cannot make its products available in all possible outlets because customers expect a minimum amount of assistance in making the purchase. They may also expect the product to be delivered and installed at their homes. They may also expect the retailer to arrange loans and insurance for the product that they plan to buy. Therefore only the retailers who can provide such services can be signed up to carry the product. And when these retailers have made such investments, they do not expect the next shop to be selling the same product. They expect some territory to themselves. Retailers would be aggrieved if the manufacturer tried to add more outlets in their region as the new outlets would eat into their sales.

The customer makes such purchases after deliberation and is purposeful about buying a brand from a set of brands. He will be willing to travel some distance to find his preferred brand or brands, and therefore, storing the brand in stores which are very close to each other is really not required.
**Exclusive distribution:**
The product is important to the customer and he is willing to travel to buy his preferred brand. The product is expensive and hence the company will incur high inventory holding costs if it is stocked at too many locations.
Only one wholesaler, retailer or industrial distributor is used in a geographical area. Car dealers are an example. Customers cannot negotiate prices between dealers since to buy in a neighboring town or from a dealer in a distant location, may be inconvenient when repairing and servicing are required. It allows close cooperation between the manufacturer and the retailer over servicing, pricing and promotion.
The right to exclusive distribution may be demanded by a distributor as a condition for stocking a manufacturer’s full product line. The manufacturer may agree for exclusive dealing where the distributor agrees not to stock competing lines.
But before granting exclusive dealership to a retailer in a region, the manufacturer should deliberate if his brand has strength enough to be able to make the customers face the inconvenience of traveling some distance to buy the brand. In categories like automobiles where the manufacturers have strong brands and customers have strong preferences, exclusive dealership should be granted.
Since establishing such dealerships involves big investments, it is wise not to fritter away resources in having too many dealers. Not many customers buy a particular brand of car because its dealer happens to be next door.
The purchase is too expensive for customers to engage in such whims. But the same arguments do not hold in categories like apparel where exclusive dealerships are provided. Customers’ choice criteria are not crystallized in such categories and customers do not have strong preferences.
It is unrealistic to expect a customer to travel to the other end of the city to buy his favorite shirt. But super premium brands, even in such categories command high brand loyalty and exclusive dealership can be granted for such high-end brands.
Exclusive dealing can reduce competition and make the dealer lackadaisical. This may be against the customer’s interest as he has no alternate recourse.
There is another danger in an exclusive channel arrangement. Since the level of commitment of both the channel member and the manufacturer are higher, in case of estrangement, both are likely to fight bitterly.

**Channel integration:**
Degree of channel integration varies widely. The manufacturer or any particular intermediary has minimal control when independent wholesalers, dealers and agents are part of the distribution channels.
At the other extreme, in the wholly-owned distribution infrastructure, the channel members are owned by the manufacturer who exercises complete control over them. Somewhere in between are arrangements like franchise operation where
both franchiser and franchisee exercise power and discretion in their areas of jurisdiction.

**Conventional marketing channels:**

Channel intermediaries are independent businesses with their individual profit goals. The channel intermediaries are independent business entities, and they would look after their own interests. Therefore, manufactures cannot unilaterally force them to do their bidding.

Independence of channel intermediaries makes it imperative that relationship between the manufacturer and its channel intermediaries be based on fairness and equitable distribution of rewards. Manufacturers have to put money-value on the tasks that the channel intermediaries perform for them, and then compensate them adequately.

It is also important that they jointly decide as to what tasks will be performed by whom—one party may be in a better position to perform an activity, and hence that party should be assigned to perform that activity. For example, retailers are expected to hold inventory for most durable products, resulting in large amount of safety inventory being held at multiple locations.

A manufacturer can hold inventory for all its retailers of a particular region, and the product can be sent to customers directly from manufacturer’s storage area—retailers can concentrate on selling.

A manufacturer who dominates a market through its size and strong brands may exercise considerable power over intermediaries though they are independent. Traditionally, manufacturers exercised control over intermediaries because their brands drove business in retail stores and retailers felt dependent on them. The manufacturer rationed the supply of hot brands, forced the retailers to carry their full range, and made them participate and contribute in their promotional programmes. But with consolidation and emergence of retail chains, the balance of power has shifted dramatically. They know the preference of customers, and know which brands are selling and how much.

The retail chains enjoy enormous clout with customers and they have huge buying power. The retail chains also have strong brands of their own in most categories. The manufacturers now are dependent on the retailers and the latter are extracting their pound of flesh.

The retailers demand slotting fees for new products, carry only the hot selling brands, require frequent replenishment from manufacturers, and expect the manufacturer to participate and contribute in the store’s promotion programmes.

The relationship between the manufacturer and the intermediaries is governed by balance of power between the two parties. Both manufacturers and retailers have been guilty of exploiting the vulnerable party whenever they have been strong. Manufacturers did it earlier, retailers are doing now. But this is not a good ploy.

The economics of a supply chain dictates that an activity should be done at a point in the chain where it can be done most efficiently and effectively, so that the
cost structure of the supply chain is improved and there is more profit for every player. The extra profit should be divided among the partners depending on the efforts expended by the players.

A supply chain operated by dictum of the more powerful party will be inherently inefficient compared to the one based on co-operation between the parties. The powerful player will shift activities to the more vulnerable player even when the powerful player could do that particular activity more efficiently and effectively.

The result is an inefficient supply chain with less profit for all the players. And a large part of the smaller profit is appropriated by the powerful player, leaving the weaker players disgruntled and less willing to co-operate. And more dangerously, the vulnerable players are always looking at ways to get back at their tormentors.

It is time the manufacturer and the independent channel intermediaries shifted the basis of relationship from power to rational distribution of activities in the supply chain and equitable distribution of profit amongst themselves.

**Franchising:**

A franchise is a legal contract in which the manufacturer or the producer and the intermediary agree to each member’s rights and obligations. The intermediary receives marketing, managerial, technical and financial services from the producer in return for a fee. For instance, McDonald’s combines strengths of a large sophisticated marketing oriented organization with energy and motivation of a locally owned outlet.

Franchise operations give the manufacturer a certain degree of control over its intermediaries. A franchise agreement is a vertical marketing system in which there is a formal co-ordination and integration of marketing and distribution activities between the manufacturer and its intermediaries. Roles and functions of each party are clearly defined, and each is expected to look after the interest of the other.

**Franchising occurs at four levels:**

**A. Manufacturer and retailer:**

The retailer sets up outlets in which manufacturer’s cars are sold, and it also sets up repair and service facilities for the car. The retailer is motivated. The manufacturer gets retail outlets for its car and repair facilities without the capital outlay required with ownership.

**B. Manufacturer and wholesaler:**

The wholesaler gets the right to produce, bottle and distribute Coke’s product in a defined geographical area.

**C. Wholesaler and retailer:**

The wholesaler acquires the right to distribute manufacturer’s products or purchases its product, and then signs up retailers to sell the product to final consumers. This arrangement is common in hardware stores.

**D. Retailer and retailer:**
A retailer expands geographically by means of franchise operations. For instance, Benetton and McDonald’s have used this approach to expand their operations geographically.

In all franchising arrangements, it is imperative that profits are distributed equitably among both parties. The structure of the agreement between the two parties should be such that profits are divided equitably.

When intermediaries are required to pay a fat upfront fee and the manufacturer takes only a small or no share of the profit generated at the intermediaries’ end, the manufacturer has no major financial motivation to ensure that the intermediaries earn profits.

But when the intermediaries pay small or no upfront fees and the manufacturer shares the profit generated at the intermediaries’ end, the manufacturer becomes interested in the profitability of the intermediaries. McDonald’s follows this practice and ensures that its franchisees earn profits and takes a share in the profits.

**Channel ownership:**
Total control over distributor activities comes with channel ownership by the manufacturer or an intermediary. Channel ownership results in creation of a corporate vertical marketing system. When a manufacturer purchases a chain of retail outlets, it begins to control the purchasing, production and marketing activities of these outlets.

In particular, the manufacturer’s control over purchasing means a captive outlet for its product. For example, Purchase of Pizza Hut by Pepsi has tied these outlets to Pepsi’s soft drink brands. Retailing, is a specialized business, and most manufacturers may find it difficult to manage retail operations.

**Relationship between Manufacturer and Channel Partners:**
It is important that the manufacturer and his channel partners understand and appreciate each other’s requirements.

Most manufacturers believe that if they get more help and support from their distribution channels, they could substantially increase volumes and have even greater impact on profits. But manufacturers too must understand the needs of the channel members and must respond to them.

The prime objective of each member of the channel is to generate profits through a combination of turnover i.e., sales per time period, and gross margin as a percent of sales. Supermarkets operate on a low gross margin but high turnover. Specialty stores and industrial distributors work on high margins and low turnover.

Each channel member must be compensated by the manufacturer for his efforts in selling the manufacturer’s products. The manufacturer will expect to receive greater sales and greater channel motivation. It will be useful for the manufacturer to determine what he should do for the channel members and what he should receive from them.
The manufacturer should take care on two counts. The manufacturer should not ask the channel members to do things that they cannot do. A retailer can try to push the manufacturer’s products but he cannot generate demand for his products.

The manufacturer should accept that it is primarily his responsibility to generate consumer demand for his products. Secondly, the manufacturer should perform those tasks which are important to the channel members but is difficult for them to do on their own.

For example, the manufacturer can develop literature for his products, to be used by all his distributors, much more cheaply than his distributors could do it individually.

It is important that the manufacturer differentiates between selling to the channels and selling through the channels. A manufacturer can fill the distribution pipeline for a limited amount of time. Then the products must flow through the channel, not just into it.

It is wrong and fatal to assume that the sale is consummated when the product moves from the manufacturer to the wholesaler.

The manufacturer must exert leadership throughout the chain of the product moving from its stores to wholesalers to retailers to customers. Not many products have been successful without strong support from channel members.

**What is Channel Conflict?**

Channel conflict can be defined as any scenario where two different channels compete for the same sale with the same brand. Conflict can take the form of a direct sales force competing with an independent distributor, two different types of competing distributors, two like distributors competing for the same sale, or all of the above.

A few facts about achieving an appropriate balance between coverage and conflict:

- Lack of any channel conflict in a marketing strategy usually indicates gaps in market coverage
- Conflict cannot be eliminated. The goal of marketing management must be to optimize market coverage and manage a healthy level of channel conflict so that it does not become destructive
- Market share erosion and declining street prices are evidence that channel conflict is becoming destructive. Channels are responding to excessive competition by de-emphasizing the brand or by giving away too much in order to keep an account
- Every manufacturer will likely face destructive channel conflict at some point. As markets evolve and mature, many manufacturers will be required to add new, lower-cost channels in order to cover all major market segments. Often, destructive conflict arises because changes in the manufacturer's go to market strategy lags the market changes associated with market evolution.
Recognizing Destructive Channel Conflict
Channel "noise" regarding conflict always exists. (In fact, a lack of channel noise is often an early indicator of coverage gaps in the manufacturer’s channel strategy.) However, it does not mean that your company is experiencing destructive channel conflict just because different internal factions or channel members are complaining about lack of manufacturer commitment or are uncomfortable with competition for some sales.
Increasing levels of noise or evidence of declining channel support for your product line would be indicators to pay attention to. It is a tough call, however, since destructive conflict tends to creep into a channel system over time.

External Indicators of Destructive Channel Conflict

Border Wars
These occur when multiple members of the channel network compete for the same sale in the same account. A limited number of border wars should be expected and are, in fact, one indication that you have good market coverage. A soft market creates the environment for increased border wars as channels get more aggressive to deliver revenue. Generally, channels will begin to react to channel conflict when incidence of border wars exceeds 10% to 20% of that channel's total business with a manufacturer’s products.

Emotion
A necessary component of good channel management strategy is controlling the degree of emotion from the channel. However, as emotion builds, the channels will begin to react by reducing support of the product line or by switching out that line wherever possible. Emotion will often cause the channel to de-emphasize a brand even when it is not in the best interest of the channel. We have found that channels often have this discretion to control brand choice in as much as 40% of sales—they typically don’t choose to exercise this discretion.

Customer Satisfaction
Conflict can erode customer satisfaction for two reasons:
- Customers will start to experience redundant buying costs when forced to deal with multiple channels offering essentially the same solutions in sales situations
- Competing channels focus on easy ways to win the sale in a conflict situation (such as dropping price) and begin to ignore less evident customer buying requirements

Channel Conflict Solutions
Channel conflict is an integral part of your channel strategy, so you must examine your market position and channel strategy before attempting to manage it. Taking a closer look at the problem often reveals that the perceived channel conflict issue masks a larger channel strategy issue. So prior to executing solutions to address
channel conflict, the manufacturer is encouraged to examine all elements of its overall channel strategy, including pricing, end user segmentation, channel support programs, company policies, etc. Have you created a conflict situation through the design or implementation of these other components of channel strategy?

Destructive channel conflict is managed through economics and structural controls. Economics motivate the channels to avoid conflict. Structural controls lay the ground rules within which conflict is managed. With each tactic, communication before conflict arises is critical.

The right economic solution is dictated by the type of conflict being faced, the manufacturer’s market and channel position, and the company’s strategic goals. Economic approaches include:

- **Dual compensation**—applied when conflict exists between direct and indirect channels. The goal is to move the indirect channel from a position of potential adversary for the direct sales force to one of "partner" for the direct sales force.

- **Activity based compensation or discount**—used to manage cross-channel conflict or conflict between channels of differing cost structures and capabilities. Activity based discounts are applied by paying a channel a specific discount if it performs a measurable task or function. These discounts allow the "high-cost" channel to compete against "low-cost" channels for those customers who value the high support.

- **Shared costs**—the key difference between this concept and functional discounts is that functional discounts compensate the channel for incremental tasks via a discount on product sold, while shared costs pay directly for the task.

- **Compensation for market share**—usually applied to direct versus indirect conflict, the direct sales rep is compensated based on total market share in a territory. The goals of the sales rep are based on direct and indirect volume, thus motivating the direct rep to "partner" with indirect channels to maximize territory volume.

Structural controls are only as effective as their enforcement. There is no value unless you are willing to clearly spell out the controls at the outset of the channel agreement and enforce the stated penalties to all channel members. The structural controls are typically applied to:

- **Accounts**—you specify "named" or "house" accounts where indirect channels can expect to compete with your direct channels. Named accounts are usually specified based on end-user sourcing capabilities, channel ability to meet end-user buying requirements, and volume and strategic value.

- **Products**—channels can qualify for franchising by product line/category across your company’s offering. Product qualification is usually based on end-user product support needs, channel support capabilities, "fit" or
positioning of the product category in the channel’s overall business, and strategic considerations

- Geography—as a manufacturer, you can specify those geographies/account types in which you will provide sales support to the channel. These geographies are usually defined by granting the channel a primary area of responsibility.

The successful marketer combines the elements of economic and control-related solutions that best address conflict challenges—framing them in an understanding of market position, channel position, and strategic goals.

**Vertical marketing systems**

Vertical marketing systems is a kind of cooperation that exists between the distribution channels that are available in various levels with different members working together for promoting the efficiency and also the scale of economies in the way that the products can be promoted towards customers, products get inspected, credit can be provided to the customers and also can be delivered to the customers.

**Types of Vertical Marketing System**

The Vertical Marketing System is further divided into the following three types on the basis of different means of power and leadership in the channel.

  - Corporate Vertical Marketing System
  - Contractual Vertical Marketing System
  - Administered Vertical Marketing System

Each one is discussed below.

1. **Corporate Vertical Marketing System:**

A type of Vertical Marketing System, in which sequential stages of production and distribution are combined under single ownership is called a corporate vertical marketing system. There are regular organizational channels through which coordination and conflict between different structures are managed for the smooth working of the overall chain.

2. **Contractual Vertical Marketing System:**

In contractual VMS, different independently working firms of production and distribution are combined with each other through certain contracts, so that larger economies of scale or increase in sales can be obtained. These advantages cannot be obtained by working independently, therefore they make contracts to work together as a unified channel. Coordination and conflicts among members are managed by the contractual agreements. Contractual VMS is further divided into the following three types.
1. Wholesaler Sponsored Voluntary Chains
2. Retailer Cooperatives
3. Franchise Organizations

- **Wholesaler Sponsored Voluntary Chains**
  In this type of contractual VMS, voluntary chains of independent retailers are organized by the wholesalers to get help for competing large chain companies. For this purpose, a program is initialized by the wholesaler in which the independent retailers are agreeing to buy their purchases from that wholesaler at discounted rates and standardize their selling practices, so that the whole group can compete with the large chain companies effectively.

- **Retailer Cooperatives:**
  Retailer Cooperative is such kind of contractual VMS in which a new business is organized by the retailers for the wholesaling purposes and even for production also. All members of the contracting group purchase their goods through the retailer cooperatives and advertising is made jointly through a common plan. All the profits are distributed back to the retailers, according to their proportion of purchases.

- **Franchise Organization:**
  In franchise organization, stages of production and distribution process are linked by a channel member called franchiser.
  The franchise is further divided into the following three forms.
  - Manufacturer Sponsored Retailer Franchise System
  - Manufacturer Sponsored Wholesaler franchise System
  - Service Firm Sponsored Retailer Franchise System

**Manufacturer Sponsored Retailer Franchise System:**
Automobile industry is composed of this form of the franchise system.

**Manufacturer Sponsored Wholesaler franchise System:**
Soft drink industry adopts this form of the franchise system.

**Service Firm Sponsored Retailer Franchise System:**
In this form of franchises, certain retailers are given license by the service firm to provide the services of that firm to the consumers.

The most important fact in the success of the contractual VMS is that many customers cannot make a difference between contractual and corporate system.

3. **Administered Vertical Marketing System:**
In administered vertical marketing system sequential stages of production and distribution are coordinated not only on the basis of ownership or contracts, but also on the reality of the power and size of the member in a chain. Leadership is considered by one or few dominant members of the channel. Resellers provide strong trade cooperation and support to the manufacturer of a top brand.
UNIT – V
The evaluation and control section contains performance standards against which to measure the marketing plan and company performance. This section also provides information on what action should be taken if the marketing goals and objectives are not met.

**STEPS IN THE CONTROL PROCESS**

1. GOAL SETTING
2. PERFORMANCE MEASUREMENT
3. PERFORMANCE DIAGNOSIS
4. CORRECTIVE ACTION STEPS IN THE CONTROL PROCESS

**Methods of Marketing Control**
1. ANNUAL PLAN CONTROL
2. PROFITABILITY CONTROL
3. EFFICIENCY CONTROL
4. STRATEGIC CONTROL
1. ANNUAL PLAN CONTROL

1. Sales analysis - It is the analysis by a company of whether it has met its sales goals within a certain time period. Sales analysis is a straightforward business term. It refers to the process of reviewing different aspects of a company's sales, including trends in the market and the effectiveness of certain sales strategies and personnel - comparing sales targets to actual sales and accounting for discrepancies.

It includes all the government's managerial objectives and (numerical) goals. It is actually a breakdown of the aforementioned pro-forma financial statements into monthly and quarterly figures of "sales" (in terms of foreign direct investment, income from tourism, trade figures, etc.) and profitability. Steps that an organization takes to ensure that its marketing plans are successful.
2. Market-share analysis - Comparing the country's "sales" with those of its competitors. The country should also compare its own sales to the total sales in the global market and to sales within its "market segment" (neighboring countries, countries which share its political ambiance, same-size countries, etc.).

Market share analysis shows a business how well it is reaching customers in each neighborhood across its sales region. Market share analysis shows how well the organization is doing vis-a-vis competitors. The first step is to determine market share, either by absolute measures (overall market share) or relative to main competition (relative share), or to leading competitor (relative to market leader share).

3. Marketing Expense-to-sales analysis - Demonstrates the range of costs - both explicit and hidden (implicit) - of achieving the country's sales goals. It assess the appropriate levels of marketing expenses based on their return on investment and industry standards. Marketing expenses should be evaluated and measured across common expense to sales ratios to determine their effectiveness. For example, business owners can calculate ratios such as advertising to sales ratio, sales promotion to sales ratio, and sales force cost to sales ratio. By keeping a close eye on these ratios and variations over time and comparing them with industry benchmarks, business owners can confirm they are not overspending on marketing costs.

4. Financial Analysis - Refers to the assessment of a business to deal with the planning, budgeting, monitoring, forecasting, and improving of all financial details within an organization. It is the process of evaluating businesses, projects, budgets and other finance-related entities to determine their suitability for investment.

5. Market based scorecard analysis
Use Market based Scorecard to:
Report on your performance
• Differentiate your weak vs. key players to assist with target training.
• Instantly identify and report on your core market share.
• Identify your main threats and lost opportunities at a granular level (mapped in a suburb).
• Benchmark individual sales representatives.
• Highlight where training is required.
• Establish strategic partnerships by identifying agencies with strong market share.

Identify market opportunity and areas of low activity
• Locate new market opportunities.
• Identify areas with high pre-listing activity, highlighting:
  o future opportunities; and
  o Target marketing activity.
• Monitor activity close to future projects.
• Plan for loan process expectations in the up and coming months.
• Monitor activity in property hotspots.
• Identify development opportunities.

2. **PROFITABILITY CONTROL**

Companies should measure the profitability of their products, customer groups, segments, trade channels, and order size to help determine whether to expand, reduce or eliminate any products or marketing activities.

**Market Profitability Analysis**

This consists of starting from the target profit plan and then applying the control measure - marketing profitability analysis. Assume the manager of a line of baked products is setting his/her annual plan. Further assume that it is believed that:

• demand conditions will be the same next year as this year
• there will be no change in marketing strategy
• the price set will reflect only changes in input costs and not competitive activity
• The manager's interest is in making “satisfactory” not “optimal” profits.

Profitability analysis mainly has a focus on three criteria

• Customer profitability analysis (CPA)
• Customer product profitability analysis
• Increasing company profitability
• Implementing TQM

3. **Efficiency Control:**

**Efficiency control**

Sales Force Efficiency
1. Average number of calls per salesperson per day. Sales managers need to monitor the following key indicators of efficiency in their territories:
2. Average sales call time per contact.
3. Average revenue per sales call.
4. Average cost per sales call.
5. Entertainment cost per sales call.
6. Percentage of orders per 100 sales calls.
7. Number of new customers per period.
8. Number of lost customers per period.
9. Sales force cost as a percentage of total sales.

Sales Promotion Efficiency
To improve sales promotion efficiency, management should record the costs and sales impact promotion. Management should watch the following statistics:
1. Percentage of sales sold on deal.
2. Display costs per sales.
3. Percentage of coupons redeemed.
4. Number of inquiries resulting from a demonstration.

Distribution Efficiency
Management needs to search for distribution economies in inventory control, warehouse locations, and transportation modes. It should track such measures as:
1. Logistics costs as a percentage of sales.
2. Percentage of orders filled correctly.
3. Percentage of on-time deliveries.
4. Number of billing errors.

4. Strategic Control:
What is Green Marketing?
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.
Other similar terms used are Environmental Marketing and Ecological Marketing. Thus "Green Marketing" refers to holistic marketing concept wherein the production, marketing consumption and disposal of products and services happen in a manner that is less detrimental to the environment with growing awareness about the implications of global warming, non-biodegradable solid waste, harmful impact of pollutants etc., both marketers and consumers are becoming increasingly sensitive to the need for switch in to green products and services. While the shift to "green" may appear to be expensive in the short term, it will definitely prove to be indispensable and advantageous, cost-wise too, in the long run.

GREEN PRODUCTS AND ITS CHARACTERISTICS
The products those are manufactured through green technology and that caused no environmental hazards are called green products. Promotion of green technology and green products is necessary for conservation of natural resources and sustainable development. We can define green products by following measures:
• Products those are originally grown,
• Products those are recyclable, reusable and biodegradable,
• Products with natural ingredients,
• Products containing recycled contents, non-toxic chemical,
• Products contents under approved chemical,
• Products that do not harm or pollute the environment,
• Products that will not be tested on animals,
• Products that have eco-friendly packaging i.e. reusable, refillable containers etc.

CHALLENGES IN GREEN MARKETING

1. Need for Standardization
It is found that only 5% of the marketing messages from “Green” campaigns are entirely true and there is a lack of standardization to authenticate these claims. There is no standardization to authenticate these claims. There is no standardization currently in place to certify a product as organic. Unless some regulatory bodies are involved in providing the certifications there will not be any verifiable means. A standard quality control board needs to be in place for such labeling and licensing.

2. New Concept
Indian literate and urban consumer is getting more aware about the merits of Green products. But it is still a new concept for the masses. The consumer needs to be educated and made aware of the environmental threats. The new green movements need to reach the masses and that will take a lot of time and effort. By India’s ayurvedic heritage, Indian consumers do appreciate the importance of using natural and herbal beauty products. Indian consumer is exposed to healthy living lifestyles such as yoga and natural food consumption. In those aspects the consumer is already aware and will be inclined to accept the green products.

3. Patience and Perseverance
The investors and corporate need to view the environment as a major long-term investment opportunity, the marketers need to look at the long-term benefits from this new green movement. It will require a lot of patience and no immediate results. Since it is a new concept and idea, it will have its own acceptance period.

4. Avoiding Green Myopia
The first rule of green marketing is focusing on customer benefits i.e. the primary reason why consumers buy certain products in the first place. Do this right, and motivate consumers to switch brands or even pay a premium for the greener alternative. It is not going to help if a product is developed which is absolutely green in various aspects but does not pass the customer satisfaction criteria. This will lead to green myopia. Also if the green products are priced very high then again it will lose its market acceptability.

EXAMPLES OF GREEN MARKETING IN INDIA:-
1. **Digital Tickets by Indian Railways.** :- Recently IRCTC has allowed its customers to carry PNR no. of their E-Tickets on their laptop and mobiles. Customers do not need to carry the printed version of their ticket anymore.

2. **No Polythene carry bags for free** :-Forest & Environmental Ministry of India has ordered to retail outlets like BigBazar, More, Central, D-Mart etc that they could provide polythene carry bags to customers only if customers are ready for pay for it.

3. **Green IT Project: State Bank of India**: -By using eco and power friendly equipment in its 10,000 new ATMs, the banking giant has not only saved power costs and earned carbon credits, but also set the right example for others to follow. SBI is also entered into green service known as “Green Channel Counter”. SBI is providing many services like; paper less banking, no deposit slip, no withdrawal form, no checks, no money transactions form all these transaction are done through SBI shopping & ATM cards. State Bank of India turns to wind energy to reduce emissions. The wind project is the first step in the State Bank of India’s green banking program dedicated to the reduction of its carbon footprint and promotion of energy efficient processes, especially among the bank’s clients.

4. **Lead Free Paints from Kansai Nerolac**: - Kansai Nerolac has worked on removing hazardous heavy metals from their paints. The hazardous heavy metals like lead, mercury, chromium, arsenic and antimony can have adverse effects on humans. Lead in paints especially poses danger to human health where it can cause damage to Central Nervous System, kidney and reproductive system. Children are more prone to lead poisoning leading to lower intelligence levels and memory loss.

5. **Wipro's Green Machines**: - Wipro Infotech was India’s first company to launch environment friendly computer peripherals. For the Indian market, Wipro has launched a new range of desktops and laptops called Wipro Greenware. These products are RoHS (Restriction of Hazardous Substances) compliant thus reducing e-waste in the environment.

**What is Consumerism?**

Consumer is regarded as the king in modern marketing. In a market economy, the concept of consumer is given the highest priority, and every effort is made to encourage consumer satisfaction. However, there might be instances where consumers are generally ignored and sometimes they are being exploited as well. Therefore, consumers come together for protecting their individual interests. It is a peaceful and democratic movement.
for self-protection against their exploitation. Consumer movement is also referred as consumerism.

Features of Consumerism

Highlighted here are some of the notable features of consumerism –

- **Protection of Rights** – Consumerism helps in building business communities and institutions to protect their rights from unfair practices.

- **Prevention of Malpractices** – Consumerism prevents unfair practices within the business community, such as hoarding, adulteration, black marketing, profiteering, etc.

- **Unity among Consumers** – Consumerism aims at creating knowledge and harmony among consumers and to take group measures on issues like consumer laws, supply of information about marketing malpractices, misleading and restrictive trade practices.

- **Enforcing Consumer Rights** – Consumerism aims at applying the four basic rights of consumers which are Right to Safety, Right to be Informed, Right to Choose, and Right to Redress.

Advertising and technology are the two **driving forces of consumerism** –

- The first driving force of consumerism is advertising. Here, it is connected with the ideas and thoughts through which the product is made and the consumer buys the product. Through advertising, we get the necessary information about the product we have to buy.

- Technology is upgrading very fast. It is necessary to check the environment on a daily basis as the environment is dynamic in nature. Product should be manufactured using new technology to satisfy the consumers. Old and outdated technology won’t help product manufacturers to sustain their business in the long run.