UNIT - III

KPB

Meaning and difference between Personnel Management and Human Resourse Management

Traditional **personnel management** often focuses on **managing** a workforce from an administrative standpoint. The function is to ensure people are hired, oriented, paid on time and have their complaints and needs addressed. On the other hand, **HRM** treats employees as a **resource** much like a factory, a machine or cash.

Human resource management is the new version of personnel management. There is no. any watertight difference between human resource management and personnel management. However, there are some differences in the following matters.

Definition of Personnel Management

Personnel Management is a part of management that deals with the recruitment, hiring, staffing, development and compensation of the workforce and their relation with the organisation to achieve the organisational objectives.

Definition of Human Resource Management

Human Resource Management is that specialised and organised branch of management which is concerned with the acquisition, aintenance, development, utilisation and coordination of people at work, in such a manner that they will give their best to the enterprise. It refers to a systematic function of planning for the human resource needs and demands, selection, training, compensation, and performance appraisal, to meet those requirements.

Human Resource Management is a continuous process of ensuring the availability of eligible and willing workforce i.e. **putting the right man at the right job. In a nutshell, it is an art of utilising the human resources of an organisation, in the most efficient and effective way.**

1. Personnel management is a traditional approach of managing people in the organization. Human resource management is a modern approach of managing people and their strengths in the organization.

2. Personnel management focuses on personnel administration, employee welfare and **labor relation**. Human resource management focuses on acquisition, development, motivation and maintenance of human resources in the organization.

3. Personnel management assumes people as a input for achieving desired output. Human resource management assumes people as an important and valuable resource for achieving desired output.

4. Under personnel management, personnel function is undertaken for employee's satisfaction. Under human resource management, administrative function is undertaken for goal achievement.

5. Under personnel management, job design is done on the basis of division of labor. Under human resource management, **job design function** is done on the basis of group work/team work.

6. Under personnel management, employees are provided with less **training and development**opportunities. Under human resource management, employees are provided with more training and development opportunities.

7. In personnel management, decisions are made by the top management as per the rules and regulation of the organization. In human resource management, decisions are made collectively after considering employee's participation, authority, decentralization, competitive environment etc.

8. Personnel management focuses on increased production and satisfied employees. Human resource management focuses on effectiveness, culture, productivity and employee's participation.

9. Personnel management is concerned with personnel manager. Human resource management is concerned with all level of managers from top to bottom.

10. Personnel management is a routine function. Human resource management is a strategic function.

The following are the major differences between Personnel Management and Human Resource Management:

1. The part of management that deals with the workforce within the enterprise is known as Personnel Management. The branch of management, which focuses on the best possible use of the enterprise's manpower is known as Human Resource Management.
2. Personnel Management treats workers as tools or machines whereas Human Resource Management treats it as an important asset of the organisation.
3. Human Resource Management is the advanced version of Personnel Management.
4. Decision Making is slow in Personnel Management, but the same is comparatively fast in Human Resource Management.
5. In Personnel Management there is a piecemeal distribution of initiatives. However, integrated distribution of initiatives is there in Human Resource Management.
6. In Personnel Management, the basis of job design is the division of work while, in the case of Human Resource Management, employees are divided into groups or teams for performing any task.
7. In PM, the negotiations are based on collective bargaining with the union leader. Conversely, in HRM, there is no need for collective bargaining as individual contracts exists with each employee.
8. In PM, the pay is based on job evaluation. Unlike HRM, where the basis of pay is performance evaluation.
9. Personnel management primarily focuses on ordinary activities, such as employee hiring, remunerating, training and harmony. On the contrary, human resource management focuses on treating employees as valued assets, which are to be valued, used and preserved.

BASIS FOR COMPARISON	PERSONNEL MANAGEMENT	HUMAN RESOURCE MANAGEMENT
Meaning	The aspect of management that is concerned with the work force and their relationship with the entity is known as Personnel Management.	The branch of management that focuses on the most effective use of the manpower of an entity, to achieve the organizational goals is known as Human Resource Management.
Approach	Traditional	Modern
Treatment of manpower	Machines or Tools	Asset
Type of function	Routine function	Strategic function
Basis of Pay	Job Evaluation	Performance Evaluation
Management Role	Transactional	Transformational
Communication	Indirect	Direct
Labor Management	Collective Bargaining Contracts	Individual Contracts
Initiatives	Piecemeal	Integrated
Management Actions	Procedure	Business needs
Decision Making	Slow	Fast
Job Design	Division of Labor	Groups/Teams

BASIS FOR COMPARISON	PERSONNEL MANAGEMENT	HUMAN RESOURCE MANAGEMENT
Focus	Primarily on mundane activities like employee hiring, remunerating, training, and harmony.	Treat manpower of the organization as valued assets, to be valued, used and preserved.

2. PERSONNEL MANAGEMENT

Personnel management is a dynamic function which aims at optimizing the effectiveness of human resources of the organization. In doing so it lays as much emphasis on individual and group goals as on organizational goals, and seeks to weld them together by integrating the individual with the organization.

OBJECTIVES OF PERSONNEL MANAGEMENT:

The objectives of personnel management are:

1. Effective utilization of human resources in the achievement of organizational goals.
2. Establishment and maintenance of an adequate organizational structure and desirable working relationships among all members of the organization.
3. Securing integration of the individual and informal groups with the organization, and there by, their commitment, involvement and loyalty.
4. Recognition and satisfaction of individual needs and group goals.
5. Provision of maximum opportunities for individual development and advancement.
6. Maintenance of high morale of human organization.
7. Continuous strengthening and appreciation of human assets.

2.1 THE PERSONNEL FUNCTION:

Personnel function is integral to the whole organization. Since all decisions in an organization are made by human beings and are put into operation by human beings, they are affected by all these decisions one way or the other. Thus all decisions, whether they relate to marketing, financing, production, research and development or quality control aspect of organizational activity, have a human aspect, and therefore, a personnel aspect. Personnel function is thus all pervasive, transcends all other managerial functions and is ambiguitious. In this sense, every manager is unavoidably a personnel manager. The staff personnel executive is there to assist, advise, counsel and guide the line executive in the performance of this delicate and complex personnel function. He is responsible for aiding and assisting the line management in the "preparation, adopting and continuing evaluation of a programme of personnel administration expressed in terms of definite company written policies". The personnel department is a specialized department at the executive level whose function is to encourage, advise and assist line management executives to adopt point of view, develop policies and methods, and apply skills which will release the productive energies of all supervisors and employees. The staff line responsibilities in personnel administration have been delineated as below:

Line management has the responsibilities and is held responsible for good personnel administration. The supervisor is the one who actually administers the most essential and important phase of company's personnel relations programme. By supervisor we mean every member of management who assign work to others, who achieves results through the support, cooperation and effort of others.

Staff management advises and assists line management in fulfillment of the latter's obligation. Staff management, therefore, is only responsible for the reliability of the services, advice and assistance it gives to line management.

2.2. ROLE OF TOP MANAGEMENT:

Since the personnel executive is a staff officer and acts only in an advisory capacity, he has no authority or right to command over other executives who implement personnel policies and procedures in work-a-day situations. Even in the formulation of personnel policies, he only develops personnel policies in consultation with line executives. These policies become enforceable only when approved by the top executive or his delegates. His success, therefore, depends not only on his expertise, competence and interpersonal skills, but also, to a significant extent, on the support that he gets from top executive. First, the top executive should recognize himself and emphasize on others that personnel function is an integral part of all other functions, and while every executive is unavoidably his own personnel executive, he should make full use of the expertise of personnel specialists. It may, however, be emphasized here that given the support of the top executive the success of personnel executive will significantly depend not only on his expertise but also on his ability to inspire confidence of line executives in himself as well as in his expertise and to motivate them to seek his advice, counsel guidance and assistance. Second, it should be recognized that personnel management, which aims at optimizing the effectiveness and efficiency of human resources, is capable of contributing at least as much or even more to the accomplishment of organizational goals as any other managerial function. Third, in order to enable the staff executive to discharge his advisory function effectively, he should be given appropriate status in organizational hierarchy. As recommended by Honnon, the chief personnel executive should report directly to the top executive of the organization. In case of multi-plant companies, plant personnel manager should report to the plant manager with functional responsibility to the chief personnel executive.

2.3. FUNCTIONS OF PERSONNEL MANAGEMENT: / Human Resource Mgmt

Personnel management performs a number of functions for the achievement of the above objectives. Broadly speaking, the functions of personnel management fall in the following areas: (i) organizational planning and development, (ii) staffing, (iii) training and development, (iv) wage and salary administration, (v) motivation, (vi) employee services, (vii) employee record, (viii) labor relations, and (ix) personnel research.

This is by no means an exhaustive list of personnel functions and sub-functions or a model thereof. These are the functions which are commonly regarded as personnel functions in advanced countries. It also takes note of the emerging personnel functions in the areas of organizational planning and development, and motivation. All these functions, their sub-functions and elements have been spelt out here in brief.

1. ORGANIZATIONAL PLANNING AND DEVELOPMENT:

Process of planning and developing an appropriate organizational structure which will ensure effective work performance, fruitful interpersonal relations and formation of homogeneous, cohesive, and interacting informal groups.

1) **Determining Organizational Needs:** Process of determining organizational needs in terms of company's short-and long-term objectives, technology of production, nature of product, external environment, public policy, etc.

2) **Designing Organizational Structure:** Process of planning, developing and designing an organizational structure which will permit the achievement of organizational goals.

3) **Designing Interpersonal Relationships:** Process of designing interpersonal relationships which will result into healthy and fruitful interpersonal relations, and formation of homogeneous, cohesive, and effectively interacting informal groups.

2. STAFFING:

Process of obtaining and maintaining capable and competent personal to fill all positions from top management to operative level.

1) **Manpower Planning:** Process of analyzing company needs of personnel now and in future in view of its short-and long - term objectives.

ii. Analyse company manpower requirements in terms of short-and long-term goals.

Def: Is planning, organizing, compensating, integration and maintenance of people for the purpose of contributing to organization, individual and societal goals

b. Prepare an inventory of management and other personnel.
c. Calculate and forecast turnover.
d. Prepare a schedule of manpower needs over a reasonable period of time.
e. Develop job descriptions and job specifications.

2) Recruitment: Process of attracting qualified and competent personnel.
a. Identify existing sources of applicants.
b. Develop new sources of applicants.
c. Attract potential applicants in sufficient numbers to permit good selection.

3) Selection: Process of developing selection policies and procedures, and evaluation potential employees in terms of job specifications.
a. Develop application blanks.
b. Develop valid and reliable testing techniques.
c. Develop interviewing techniques.
d. Develop employee referral system.
e. Develop medical examination policy and procedure.
f. Evaluate and select personnel in terms of job specifications.
g. Make final recommendations to line management.
h. Send rejection and appointment letters.

4) Placement: Process of placing the employee on the job for which he is most suitable in terms of job requirements, his qualifications and personality needs.
a. Advise line management on placement.
b. Conduct follow-up study to determine employee adjustment with the job.

5) Induction and Orientation: Process of initiating the employee in the organization and on the job.
a. Acquaint the employee with the company personality, philosophy, objectives, policies, career development opportunities, product, market standing, and social and community standing.
b. Familiarize the employee with the people with whom he is to interact as peers, superiors, and subordinates.

6) Transfer: Process of placing employees where they can be utilized more effectively consistent with their social and psychological needs.
a. Develop transfer policies and procedures.
b. Counseling employees and line management on transfers.
c. Evaluate transfer policies and procedures.

7) Promotion: Process of advancing employees to higher positions keeping in view their capabilities, job requirements and personality needs.
a. Develop equitable, fair, and consistent promotion policies and procedures.
b. Advise line managers and employees on matters relating to promotions.
c. Oversee the implementation of promotion policies and procedures.

8) Separation: Process of severing relations with employees in a congenial manner.
a. Conduct exit interviews.
b. Analyse employee turnover.
c. Advise line management on causes of turnover.

3. TRAINING AND EXECUTIVE DEVELOPMENT:

Process of training and developing employees so as to develop their full potential for optimum efficiency in effective job performance.

1) **Operative Training:** Process of imparting requisite job skills to operatives.

a. Identify training needs of the company.
b. Develop suitable training programs.
c. Identify operatives who need training and who have the aptitude and motivation to go through the training programme.
d. Help and advise line management in the conduct of training programmes.
e. Evaluate the effectiveness of training programs.

2) **Executive Development:** Process of designing suitable executive development programs.

a. Identify the areas in which executive development is needed.
b. Develop programs of executive development.
c. Motivate the executives to develop.
d. Design special development programs for promotables.
e. Conduct executive development programs, enlist the services of specialists, and/or utilize the institutional executive development programmes.

4. WAGE AND SALARY ADMINISTRATION:

Process of compensating employees adequately, equitably and fairly..

1) **Job Evaluation:** Process of determining relative worth of jobs.

a. Select suitable job evaluation techniques.
b. Classify jobs in various categories.
c. Determine relative value of jobs in various categories.

2) **Wage and Salary Programme:** Process of developing and operating a suitable wage and salary programme.

a. Conduct wage and salary surveys.
b. Determine wage and salary rates.
c. Operate wage and salary programme.
d. Evaluate its effectiveness.

3) **Incentive Compensation:** Process of developing, administering and reviewing a system of financial incentives in addition to regular wage payment so as to encourage a higher level of efficiency..

a. Develop an incentive payment system.
b. Advise line management on its operation.
c. Review it periodically to evaluate its effectiveness.

4) **Performance Appraisal:** Process of evaluating employee performance in terms of predetermined criteria so as to enable objective administration of the system of rewards and punishment, and identification of promotables.

a. Develop performance appraisal policies, techniques and procedures.
b. Overview consistent use of performance appraisal programme.
c. Assist line management in conducting performance appraisal.
d. Review performance appraisal reports, consolidate and report on them.
e. Evaluate the effectiveness of performance appraisal programme.

5. MOTIVATION:

Process of motivating employees so as to secure their integration with the organization and attain the optimum level of efficiency and effectiveness toward the achievement of organizational goals.

1) **Non-financial Incentives:** Process of motivating employees by creating conditions so as to permit the satisfaction of their social and psychological needs.

a. Develop policies and programs which will permit the employees to attain the satisfaction of their social and psychological needs while at work. This may include reorganizing the socio-technical system, restructuring organizational relationship, reorganization of work, restructuring communication system, pushing down decision levels, etc.

b. Advise and guide the line management in the execution of these policies and programs.

c. Conduct morale and attitude surveys.

d. Diagnose the health of human organization.

e. Advise line management on the needs, areas, and ways and means of improving the morale of human organization.

6. EMPLOYEE SERVICES:—

Process of maintaining a healthy and effective human organization.

1) Safety: Process of ensuring physical safety of employees at work.
   a. Develop techniques, policies and procedures for safety.
   b. Advise and guide line management in implementation and operation of safety programme.
   c. Train first line supervisors and workers in safe practices.
   d. Overview the observance of safety programme.
   e. Investigate accidents and collect statistics.
   f. Evaluate the effectiveness of safety programme.

2) Employee Counselling: Process of counselling and helping the employees in solving their work and non-work problems.
   a. Motivate employees to seek counsel in the solution of their work and non-work problems.
   b. Provide counsel and help.
   c. Advise line management on the general nature of problems facing the employees.

3) Medical Services: Process of providing medical and health services to employees.
   a. Conduct periodical medical check-ups.
   b. Advise employees on hygienic and preventive measures.
   c. Render curative and preventive medical assistance and facilities.
   d. Advise line management on employees' health.

4) Recreation, Canteen and other Welfare Programs: Process of providing recreational, canteen, educational and other facilities so as to make company employment attractive.
   a. Develop suitable policies, programs and facilities.
   b. Administer the programs and facilities.
   c. Evaluate its effectiveness and diagnose employee needs in this area.

5) Leave, Provident Fund, Pension and Gratuity Programs: Process of providing these facilities so as to reduce turnover and make company employment more attractive.
   a. Develop leave, provident fund, gratuity and pension policies, programs, rules and procedures.
   b. Administer these programs.
   c. Evaluate the effectiveness of these programs.

7. EMPLOYEE RECORD:

Process of maintaining up-to-date and complete employee records.

1) Process of collection information relating to personnel qualifications, special aptitude, results of employment testing, job performance, leave, promotions, rewards, punishments, etc.

2) Process of analysing employee records for preparing employee and talent inventory.

3) Process of developing information needed for decisions relating to employee transfer, promotion, leave, merit increases, etc.

8. LABOUR RELATIONS:

Process of maintaining healthy and peaceful union-management relations;

1) **Grievance Handling:** Process of redressing grievances.
   a. Design grievance procedure and machinery.
   b. Evaluate the effectiveness of grievance procedure and machinery.
   c. Analyse the nature of grievances.
   d. Identify areas of dissatisfaction and use them as guide in policy making.
   e. Advise management on the areas of dissatisfaction.

2) **Discipline:** Process of developing policies, rules and procedures relating to employees' conduct and behavior and ensure their observance.
   a. Develop policies, rules and procedures for maintaining discipline.
   b. Develop a system of reward and punishment to reward the observance and punish the violation of discipline.
   c. Analyse the nature and causes of indiscipline.
   d. Advise line management.

3) **Compliance with Labour Laws:** Process of observance and compliance with labour laws.
   a. Acquire knowledge of labour laws applicable to the company.
   b. Acquaint line management with relevant labour laws and help them in their compliance.
   c. Advise line management.

4) **Collective Bargaining:** Process of negotiating and entering into agreement with labour union on wages, working conditions, employment relationships, etc.
   a. Identify areas of disagreement between management and labour.
   b. Identify areas of collective bargaining.
   c. Collect data and information inside and outside the company.
   d. Negotiate or help line management in negotiations.
   e. Interpret and administer the agreement.

9. PERSONNEL RESEARCH:

Process of evaluating the effectiveness of personnel programs, policies and procedures and developing more appropriate ones.

1) Conduct morale and attitude surveys,
2) Collect data relating to productivity, quality, wages, grievance, absenteeism, turnover, strikes, accidents and other indices of operational effectiveness of personnel programs, policies and procedures.
3) Report to line management on findings.
4) Advise line management on the needs, areas and directions of change.
5) Develop more appropriate personnel programs, policies and procedures.

2.4. JOB DESIGN

Introduction:

A job is grouping of work tasks, duties, and responsibilities that a worker and work group should perform for production of goods and services of the economy. Jobs are also the means by which workers and people, in general, earn their bread and represent how they spend a major portion of their lives. But the statement "man does not live by bread alone" states clearly man's motivational needs/wants. People want more than money to motivate them for higher productivity. After all monetary needs are satisfied, people want promotion, recognition, security, status, and freedom for

32. Five jobs are performed first on machine I and then on machine II. Time in hours taken by each job on each machine is given below :

	Jobs				
Machine	*1*	*2*	*3*	*4*	*5*
I	5	1	9	3	10
II	2	6	7	8	4

Determine the optimum sequence of jobs and the minimum time elapsed.

33. What do you understand by sequencing ? How it is useful in production management ? Explain.

34. Define "Operation Research". What are the characteristics of operation research ? Name the various techniques of O.R.

Mechanical

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UNIT- III

KPB

32 III / IV B.TECH Marketing Management

32.1. INTRODUCTION

Marketing has become such an integral part of life that we cannot imagine even a day without experiencing the process or the product of marketing. The marketing process has become a vital ingredient to success in business organisations. Marketing is indeed an ancient art, it has been practised in one form or the other since the days of Adam and Eve. Its emergence as a management discipline, however, is of relatively recent origin. It has gained a great deal of importance within this relatively short period and today, most management thinkers and practitioners all over the world, regard marketing as the most important of all management functions of any business.

32.2. EVOLUTION OF MARKETING

The evolution of marketing took place in the following main stages :

1. The stage of Economic self-sufficiency.
2. The Barter system.
3. Money system.
4. The stage of early capitalism.
5. Industrial revolution.
6. The emergence of marketing.

In the earliest stage of economic development there were small family units carrying out all the work to satisfy their limited needs for foods, clothing and shelter. There was no exchange at all.

Soon it was realised that some people are able to turn out certain goods quickly than others. This led to economic specialization. Gradually not only individuals but the whole tribes and communities turned to specialization. The family or tribe engaged in a particular trade and entered into bartering relationship with others for the goods it did not produce. Those who were in possession of surplus bartered (exchanged) their goods which they did not produce themselves.

The economic goods exchanged under barter system created certain difficulties. They were not always of equal values. The various difficulties of barter system were the common measure of value, double coincidence, difficulties of storage and carrying goods from place to place in search of interested parties. The solution came through the development of a common medium of exchange in the form of money, pricing became the mechanism of exchange process.

The next stage was the capitalism. The early capitalists organised workers into productive units and sought markets to trade their output. A merchant class arose which facilitated the distribution of goods in large towns. There was no serious effort to study the needs of consumers. The concept of marketing under early capitalism was that of business activities specially involved in searching for customers or markets and moving goods from producer to consumers for the purpose of the sellers gain.

Manufacture, new modes of transportation and methods of communication brought about drastic changes in the physical and economic environment of man. Mass production became the order of the day. A large variety of low priced goods became available in great abundance. The ever increasing number and size of the industries generated the phenomenon of competition. The situation demanded a conscious effort on the part of the enterprises to ensure that their products were preferred to those of their competitors.

The size and character of markets in many countries of the world changed enormously after the Second World War.

A great variety of new products and services were made available because of development of large number of mass scale enterprises.

The selling of the products and services became usually difficult because of the high intensity of

(3) The supply is adjusted to changing demands of quality, quantity, brand, model etc.

(4) Interests of the enterprise and society can be harmonised as profit through service is emphasized.

(5) Marketing system based on the marketing concept assures integrated view of business operations.

(6) Marketing research is considered as an integral part of marketing process and it is a managerial tool in decision-making in the field of marketing.

32.4. SELLING CONCEPT Vs MARKETING CONCEPT

Selling	*Marketing*
1. Product enjoys the supreme importance.	1. Customer enjoys unique importance.
2. Emphasis on company (sellers) needs.	2. Emphasis on market customer's need.
3. Company oriented selling efforts.	3. Market oriented selling efforts.
4. Goods are already produced and then sold at profit.	4. Customer demand determines production; supply is adjusted to demand.
5. Selling aims at short term objectives.	5. Marketing aims at long term objectives.
6. Top priority is given to sales volume rather than profits-increasing sales.	6. Top priority is given to profitable volume of sales and market share at fair prices and reasonable risk.

Fig. 3

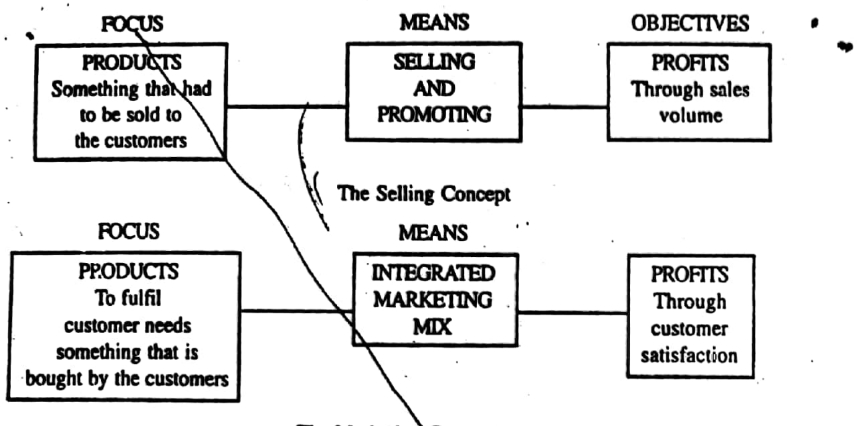

Fig. 32.1. Sales and marketing concept (difference).

THE NATURE OF MARKETING

Marketing is the process which provides the dynamic bridge between the producers of products/goods, es and ideas and their users or consumers. Marketing established that vital link and forms the testing d for acceptance or rejection of products, services or ideas by the users or consumers.

Marketing is often confused with just selling but it is a lot more than that. Marketing is finding out what riers need and delivering the products to their satisfaction. While selling concentrates on pushing the :t to the customer, marketing deals with pulling the customer to the product by making it more relevant tisfying. Thus selling satisfies the needs of the seller while marketing satisfies the needs of the buyer. Marketing is not merely advertising. Often, due to high visibility of advertising, we may tend to think nonymous with marketing. If this were true, all advertised products should succeed in the market place. advertising contributes to marketing but does not substitute for the whole marketing process which cludes appropriate product designing, pricing and placing or providing accessibility.

MARKETING FUNCTIONS

Marketing adds value to the product by the specific functions it performs. The following chart describes ssification of marketing functions :

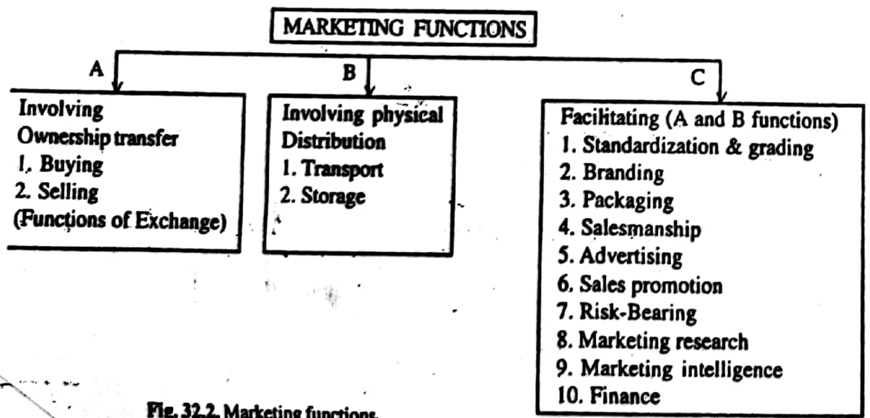

Fig. 32.2. Marketing functions.

There are basically eight functions in marketing. These are :

1. Buying
2. Selling
3. Transporting
4. Storage
5. Standardisation and grading
6. Financing
7. Risk-bearing and
8. Market information.

Under selling we can include branding, packaging, personal salesmanship, advertising and sales promotion.

1. Buying. Buying involves both the marketing and the customers. The marketing manager must know about the type of customers, their consuming habits, demand and buying pattern. For the consumers, the buying function includes a consideration of price, quality, quantity, kind and style.

2. Selling. Selling creates a demand for a product. Selling function involves :

(*a*) product planning and development,
(*b*) finding out or locating buyers,
(*c*) demand creation through salesmanship, advertising and sales promotion,
(*d*) negotiation of terms of sale, such as price, quantity, quality etc.
(*e*) sale contract leading to transfer of title and possession of goods.

3. Transporting. Transporting involves the creation of place utility. In order to have value goods must first be transported from the place they are produced to the place where they are needed.

4. Storage. It is concerned with storing finished products properly without any damage, until they are dispatched to the customers. It is also concerned with maintaining stock of raw materials, components etc. to meet production schedules. The levels of inventory are frequently pre-determined to meet the changing needs of customers.

5. Standardization and Grading. Standardization involves the maintenance of uniform size and quality standards throughout the country. Standardization assures quality. It promotes uniformity of products. In buying a light bulb for example, few of us have any doubts as to whether that bulb will fit or how much light it will flourish. Products are produced in different grades to fulfil the needs of various types of customers. Grading means separating or inspecting products according to established standards. Grading provides a

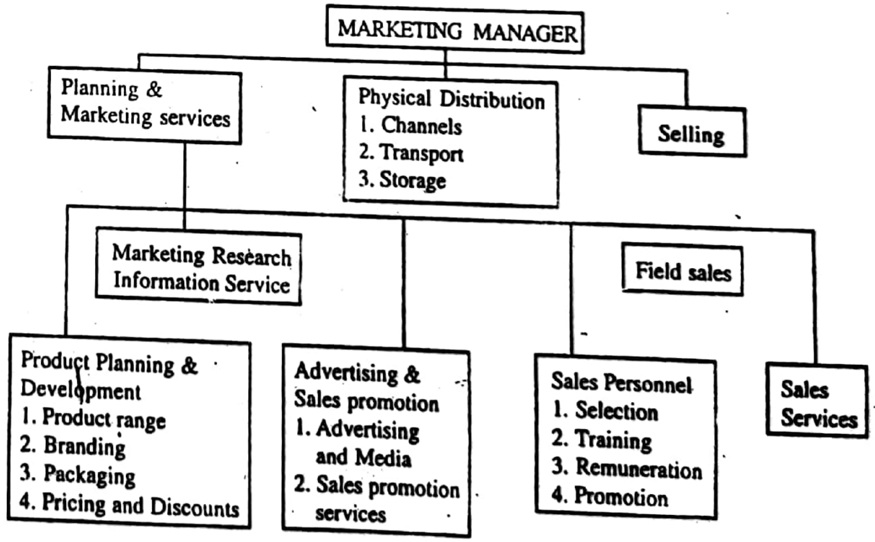

Fig. 32.3. Marketing organisation.

s for comparison of similar products. Grading is particularly important in agricultural products, milk, on, wheat etc.

6. **Financing.** Finance is the life blood of business. Value of goods is expressed in money and it is oted by price to be paid by buyer to seller. Credit is necessary in marketing. It plays an important role in il trade particularly in the sale of costly consumer goods.

7. **Marketing Information.** The marketing personnel must study the trends in market demand, supply, es and related market information. The knowledge about the latest market information may help the firm educe risk of loss in purchasing, in pricing, in forecasting market demand and in facing competition in the ket. Securing and using market information is a mark of good marketing management.

Organisation for Marketing

The marketing department can be organised around the product to be sold. It may also be organised by ction e.g. market research, advertising and sales promotion, pricing, and sales management. Functional anisation is suitable when one or few closely related products are to be sold. When the firm has a national ket and regional marketing problems demand special attention, organisation by territory may be preferred.

Fig. 32.3 shows a typical marketing organisation having a customer oriented approach.

7. MARKETING SYSTEM

In the model of systems approach we have (1) Objectives (2) Inputs (3) Processing (4) Output and (5) dback. In the marketing system the output establishes the purpose or objective of a system. The objective rofits through serving the demand of the consumers and community. The output is sale of goods. The input ie marketing management, in order to produce desirable outputs or sales and customer satisfaction. These uts are (4P's) i.e. Product, Price, Place and Promotion (means of marketing communications).

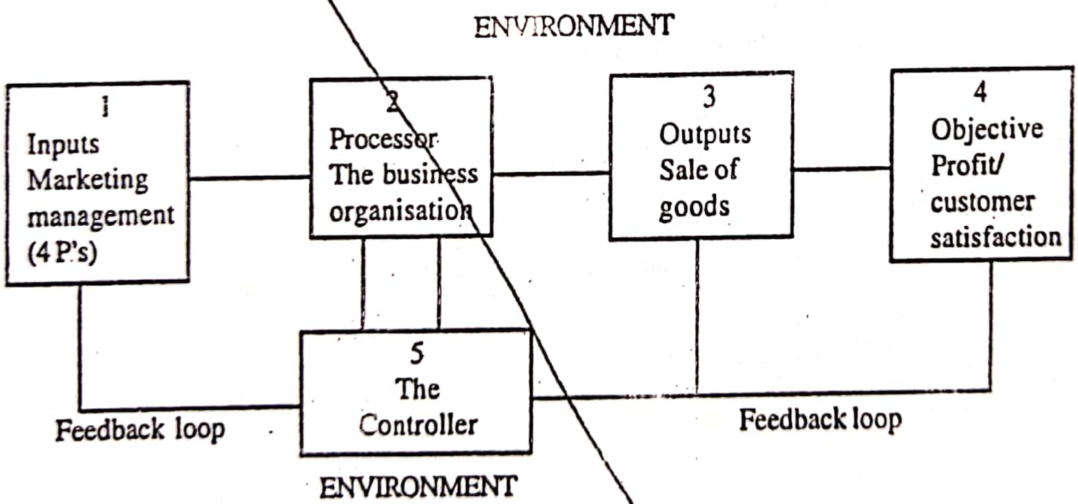

Fig. 32.4. Marketing system.

The marketing system is an important element or segment of the total business system. It represents egrated marketing pointing out inter-relationships between internal and external factors affecting iness.

System approach stresses marketing linkages inside and outside the firm. It emphasizes changing ironment. It provides a framework of control. Information feedback gives information regarding con- ner, dealer and community reaction to the marketing mix. Feedback ensures accomplishment of marketing iectives.

.8. MARKETING ENVIRONMENT (ENVIRONMENTAL FORCES AND MARKETING)

The environmental forces which are external to the enterprise should be analysed carefully because se affect the marketing strategy considerably. The environmental forces should be analysed for two major sons:

glasses. Bournvita has also been sold in smaller drinking mugs and pet jars. Sweekar oil sold in plastic container is also an example of re-usable containers.

(*v*) **Refill Packs.** Refill packaging is also related to customer convenience and economy. Several products like Nescafe, Bru, Bournvita etc., are now coming in refill packs. The refill packs are sold at slightly lesser prices than the regular package which helps to increase the sales.

The materials used for packaging include :

1. Corrugated shipping containers,
2. Metal cans, drums,
3. Paper foil cans,
4. Glass bottles,
5. Plastic bottles,
6. Plastic bags,
7. Paper cartons,
8. Paper wraps,
9. Cardboard cartons,
10. Wooden crates,
11. Cushioned containers,
12. Fibre board containers etc.

32.14. CHANNELS OF DISTRIBUTION

Channels of distribution. When the product is finally ready for the market, it has to be determined what methods and routes will be used to bring the product to the market, i.e., to ultimate consumers and industrial users. A channel of distribution for a product is the route taken by the products/goods as they move from the organisation/producer to the ultimate consumer or user.

Producers normally distribute the product directly but use a number of marketing intermediaries for taking their products to users. Marketing intermediaries bear a variety of names such as : sole-setting agents, marketers, wholesalers, distributors, stockists, retailers, authorised representatives, brokers/commission agents etc. All such intermediaries constitute the distribution channel. The depots/show-rooms and other direct selling methods also form a part of distribution channel.

According to American Marketing Association, "A channel of distribution, or marketing channel, is the structure of intra-company organisation units and extra-company agents and dealers, wholesale and retail, through which a commodity, product or service is marketed".

Cundift E.W. and Still R.S. define a marketing channel as "a path traced in the direct or indirect transfer of title to a product, as it moves from a producer to ultimate consumers or industrial users".

Thus it is clear that every marketing channel contains one or more of the transfer points at each of which there is either an institution or a final buyer of the product.

Functions of channels of distribution

The following are some of the functions performed by different channels of distribution.

1. Helps in Production Function. The producer can concentrate on production function leaving the marketing problem to middlemen who specialise in the profession. The finance, required for organising marketing, could profitably be used in production where the rate of return is greater.

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2. Matching Demand and Supply. The chief function of intermediaries is to combine the assortments products and components of different manufacturers into suitable assortments convenient to final users. According to Alderson "the goal of marketing is the matching of segments of supply and demand". They break up the bulk and meet the small-size needs of individual consumers.

3. Provide distribution efficiency to manufacturers. In the first place, distribution channels bring together the makers and the users in an efficient and economic manner. It will not be practical for any manufacturer to organise a network of his own selling points throughout the market and sell his products directly to consumers totally avoiding outside distribution channels. Just like mass manufacturing, mass distribution too needs large resources in terms of money, materials and men. No manufacturer can easily command such resources profitably.

4. Channels provide salesmanship. Distribution channels in particular, assist in establishing new products in the market. Dealer-recommended selling is common in many consumer products. The dealers promote the purchase through their word-of-mouth communication. They also provide pre-sale and after-sale service to consumers. They are in constant contact with customers and provide feedback to the producers about the reactions of the customer.

5. Channels help Merchandise the products. Through merchandising, distribution channels help reinforce/create the awareness about the product among the customers. When a customer visits a retail shop, his attention can be concentrated by an attractive display of new product/brand, increasing his awareness of the product and his interest in the product.

Channels help in implementing the pricing mechanism. In pricing the product, the producer should invite suggestions from the middlemen who are very close to the ultimate users. They assist in arriving at the price level that is acceptable to the maker as well as the user.

Financing the producer. Middlemen collect huge orders and purchase products in bulk from the manufacturers in cash. Some of the intermediaries, particularly wholesalers/stockists, often give substantive amount to the producers as deposits, alternatively they pay cash to lift the product. The manufacturer gets his money long before the product reaches the actual users. This enables the producers to undertake large-scale production and adopt better techniques of production.

Marketing intermediaries also look after a good part of the physical distribution functions like transportation, warehousing, sub-distribution and inventory management. In addition, they look after financing of goods, credit transactions, negotiations with buyers etc.

Routinisation of sales. Channels of distribution routinise the sale of the products. Once the route for reaching the products is fixed, the problem of selling the product is automatically solved.

They also accept the responsibility of transfer of technology. The case of agricultural inputs is a good example. The intermediaries in this business act as 'change agents' among the farmers and generate demand for new products.

Different Channels of Distribution

(*a*) **Channels of distribution for consumer goods.** Consumer goods may be distributed generally through channels, in each of which the sales office or sales branch may be used as the additional alternative by the manufacturer. There are five principle channels of distribution :

(*i*) Direct distribution from manufacturer to ultimate consumer.

(*ii*) Manufacturer to retailer to consumer, where goods may be purchased directly from manufacturers, or retail stores may be opened by manufacturer.

(*iii*) Manufacturer to wholesaler to retailer to consumer.

(*iv*) Manufacturer to agent to wholesaler to retailer to consumer.

(*v*) Manufacturer to agent to retailer to consumer.

The manufacturer may use one of these channels or a combination of them. The question has to be settled by marketing research regarding which method to adopt and how to measure its effectiveness. Management must periodically reappraise its channels of distribution and adjust the outlets to suit changes in business and economic conditions.

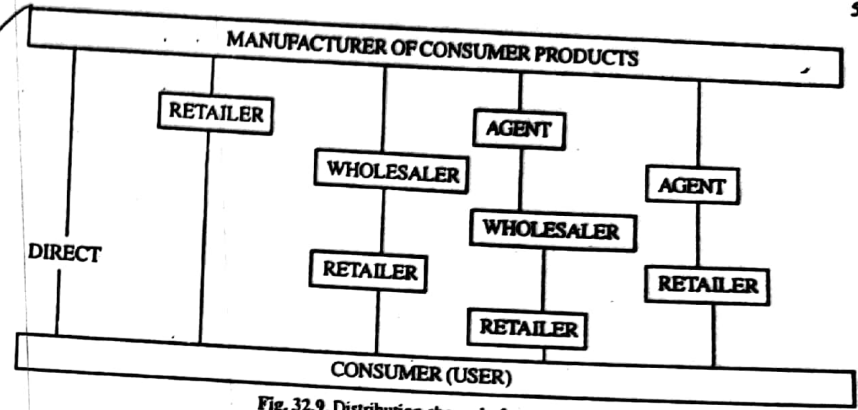

Fig. 32.9. Distribution channel of consumer goods.

(*b*) **Channels of distribution for industrial goods :** Industrial goods are distributed by manufacturer through four important channels, although he may also use his sales branch or sales office for the same.

(*i*) ***Manufacturer to industrial user.*** Large installations like generators, boilers, plants etc. are sold through this direct channel.

(*ii*) ***Manufacturer to industrial distributer to user.*** Operating supplies and small accessory equipment, such as building materials, construction equipment, air-conditioning equipments etc. are sold through this channel.

(*iii*) ***Manufacturer to agent to user.*** This channel is often used when a new product is introduced, or a new market is entered.

(*iv*) Manufacturer to agent to industrial distributer to user.

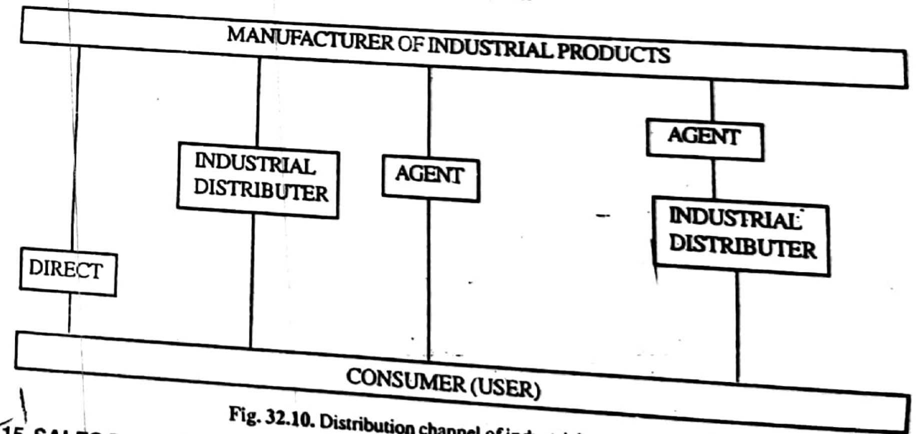

Fig. 32.10. Distribution channel of industrial products.

32.15. SALES PROMOTION

In modern business world, sales promotion is considered as an instrument to lubricate the marketing efforts. Sales promotion is essentially a direct and immediate inducement that adds an extra value to the product so that it prompts the dealers, distributors or ultimate consumers to buy the product. Sales promotion activities are complementary to advertising and personal selling efforts.

According to the American Marketing Association, "In a specific sense, sales promotion includes those sales activities that supplement both personal selling and advertising and co-ordinate them and help to make them effective such as displays, shows and expositions, demonstrations and other non-recurrent selling efforts not in the ordinary routine."

Examples of sales promotion are free product samples, premiums and trade shows. For many organisations, including the marketers of foods, toys and clothing, store displays are the important sales promotion devices. Displays expose promotion messages to consumers at the time and place of purchase. Numerous consumer products are purchased in stores that use self-service selling methods. Marketers of such items need effective displays in order to distinguish their offerings from those of other firms. Sales promotion is a vital link between advertising and field selling. It aims at stimulating consumer purchasing at the point of sale and dealers effectiveness at the retail channel of distribution.

Sales promotion differs from advertising in the following ways :

- Whereas advertising is mostly an indirect and subtle approach towards persuading consumers to buy a product, sales promotion is a direct and almost open inducement to consumers to immediately try the product.
- While advertising normally has long-term objectives like building brand awareness or building consumer loyalty or responding a brand, sales promotion performs an immediate task of increasing current sales.
- While advertising helps sales by adding some durable and longterm value to the product, sales promotion aids selling by temporarily changing the existing price-value relationship of the product.

Objectives of sales promotion. Marketers use sales promotion to meet several marketing needs, such as :

- For introducing new products.
- For unloading accumulated inventory.
- For overcoming a unique competitive situation.
- For overcoming seasonal slumps/deline.
- As a support and supplement to the advertising effort.
- As a support and supplement to the salesmen's effort.
- For persuading salesmen to sell the full line of products.
- For persuading dealers to buy more/increase the size of orders.

Sales Promotion Schemes

On the Basis of Target Group			On the Basis of Location	
Consumers	Middlemen	Sales force	In Store promotion	In Home or in Business promotion
1. Samples	1. Buying allowance	1. Bonus	1. Premiums	1. Coupons
2. Coupons	2. Buy-back allowance	2. Commission	2. Price reduction	2. Samples
3. Premiums	3. Count and recount		3. In store displays	3. Contests
4. Price off promotion	4. Merchandise allowance		4. Demonstration	4. Demonstrations
5. Money refund offers	5. Free goods			5. Public relations
6. Contests				
7. Sweepstakes and games				
8. Demonstrations				
9. Trading stamps				

Fig. 32.11. Sales promotion devices.

Tools or devices of sales promotion. The tools or devices used for sales promotion depend upon the target group, nature of the product and innovative talents of the marketers. The promotion tools are broadly classified on the basis of the target group (consumers, middlemen and sales force) and on the basis of location and intensity of efforts such as in home or in business promotion and in store promotion tools. The common sales promotion devices are shown in the given above chart.

32.16. ADVERTISING

Advertising and promotion are integral parts of the marketing effort. Advertising is the art of disseminating marketing information through various media of communication (such as newspapers, magazines, radio and T.V.) at the expense of the company for the purpose of increasing or maintaining) effective demand and facilitating the sale of specific goods and services. It informs the customers about the product and the place where they can get it. Advertising promotes trade and creates demand and hence it is the pivot of modern trade, commerce and business.

The word "Advertising" has been derived from Latin term "adverto". 'ad' means towards and 'verto' meaning to turn. To turn the attention of the people towards the product. American Marketing Association defines advertising as "any paid form of non-personal presentation and promotion of goods and services or ideas by an identified sponsor".

"Advertising is any form of paid non-personal presentation of ideas, goods or services for the purpose of inducing people to buy" – Weeler.

According to Mason and Rath "advertising is salesmanship without a personal salesman."

Stanton says that advertising consists of all activities involved in presenting to a group a non-personal, oral or visual, openly sponsored message regarding a product, service or idea.

From the above definitions it could be said briefly that advertising is :

(i) paid form of communication,
(ii) having an identified sponsor,
(iii) a presentation about the product or service or idea,
(iv) done through diverse media, and
(v) meant to improve/create the sales of goods and services.

It should be noted that advertisement is the message itself. Advertising is a process– it is a programme or a series of activities necessary to prepare the message and get it to the intended markets.

Functions and Objectives of Advertising

The purpose of advertising is to sell something– a product, a service, or an idea. Stated another way the real goal of advertising is effective communication. That is, the ultimate effect of advertising should be to modify the attitudes and/or behaviour of the receiver of the message.

Depending on its marketing objectives one or more of the following may be the objectives of the advertising :

(i) To introduce a new product, model, or service to the market.
(ii) To facilitate or increase the sale of present products by constanly keeping the commodity before the market, thereby maintaining consumer awareness, offsetting the advertisements of competing firms and reducing the amount of personal sales effort required to secure an order.
(iii) To enlighten the public as to the features and uses of the products and overcome tradition or prejudices that may retard consumption.
(iv) To create or enhance company goodwill and thereby maintain or increase demand for the product.
(v) To create confidence in the minds of buyers regarding quality of the goods or products of the company.
(vi) Make the product stand against its competitor's products.
(vii) To improve dealer relations.
(viii) Reach people inaccessible to the sales force.
(ix) Enter a new geographic market or attract new group of customers.

(x) Advertising campaign may also be designed to lengthen the season for the product (as has been done in case of soft drinks).

(xi) to disseminate information about the changes that have come in the form, content, colour, brand etc., of production.

Planning an Advertising Campaign. Proper planning of advertisement campaign is necessary for optimum utilization of money spent on advertising. It involves the following steps :

(i) Locating the potential demand and the class of buyers to which advertisements are to be directed.
(ii) Ascertain the advertisement theme and illustration to suit the customer's needs. (Determining motivating data).
(iii) Selection of most effective and economical media.
(iv) Preparing advertisement.
(v) Estimate the advertisement budget.
(vi) Schedule the campaign.
(vii) Appraising the marketing effectiveness of advertising.

Advertising media and media selection

Advertising message may be conveyed by many methods. A firm may deliver its massage through an advertising medium, a single source or media more than one source. An advertising medium is any object or device that carries the advertising to a selected audience. In general, an advertising medium should be capable of accomplishing the following objectives :

(a) It must reach the largest number of people possible.
(b) It must gain their attention.
(c) It must be less expensive.

Selecting the appropriate media and arriving at a sound, sound media mix is a very crucial function of advertising.

Types of Media

(a) Press Advertising	(b) Direct mail	(c) Audio-visual/ Audio visual media	(d) Outdoor
(i) Newspapers	(i) Circular	(i) Radio	(i) Posters
(ii) Magazines	(ii) Catalogue	(ii) Television	(ii) Boards
(iii) Trade journals	(iii) Price list	(iii) Cinema and slides	(iii) Electric display
	(iv) Personal letters	(iv) Fairs and exhibitions	(iv) Bus, trams & train advertising etc.
	(v) Booklets	(v) Loudspeakers	
	(vi) Leaflets etc.	(vi) Posts & Telegraphs etc.	

Fig. 32.12.

Consideration in media planning/media selection

Media has a vital role to play in the process of advertising communication. Effective advertising is possible only if suitable media is selected/available.

The task of media planning and selection consists of identifying media and the factors governing the media selection, laying down the criteria for selection and evaluating each media against them, developing the media-mix and resource allocation.

Media selection is the problem of finding the most cost effective media to deliver the desired number of messages to the target customers. The factors governing the media selection are :

I. Purpose of Advertisement (communication objectives). The objectives of a specific as well as the total advertising programme influence the choice of media. In planning the advertising strategy of the concern, Marketing Manager set goals for the concern's advertising campaign, which are :

1. One primary goal is to inform potential customers about products or services. Without knowledge of a product, people may not buy it.

2. Advertising also tries to inform people about the superiority of one company's products or services over competitors.

3. Another goal of advertising is to make a 'brand name' so familiar that it becomes a household word. This widespread familiarity of product name helps the mass distribution and selling of product.

4. To emphasize the merits of established product or introduce a new product.

II. Coverage. The selection of media also depends upon the firm's existing image in the market, characteristics of major customer segments, their buying habits, their life styles, their reading habits, the age, income, occupation, education, religion, social class etc.

III. Exposures required. A prospective buyer should go through certain stage for final purchase action to take place. These stages are Awareness, Interest, Desire and Action. It is thus necessary to ascertain the number of exposures of a message required to take a typical number of target group through all the stages of the purchase process. An initial exposure may create a curiosity. The next exposure may perhaps create some interest. Some more exposures at well planned intervals may result in a desire to buy.

For new products several exposures may be required. For established products, an exposure at the appropriate time may serve as a reminder to stick to the brand.

IV. Reach and frequency. So, the main consideration in selecting the media is : How many exposures can be planned for an already decided budget ? Which media/media vehicle offers the best buy ?

The cost of exposure in different media and differt vehicles in the same media, also vary. Reach denotes the total number of persons exposed to the given media vehicle at least once during the period under reference. Frequency denotes the number of times the audience is exposed to the media vehicle.

The cost of advertising media/media vehicle and number of exposures required forms a basis for selection.

V. Impact of the Media. Exposures in different media have varying impact on the audience. The same message seen in newspaper and T.V. by the same audience member will have different impact on him.

VI. Cost of Advertising Media. Those charged with the responsibility for the advertising programme of a firm should compare the advertisement costs for the various media to the size of the audience reached.

One method of estimating cost is based on how much it costs to reach each reader or viewer. This is calculated by the cost of advertisement divided by the size of audience. For T.V. or Radio this cost is based on the cost per thousand, with a commercial of a certain length say 10 sec, 30 sec, 40 sec and 60 second spot. Rates may vary according to time of day or night the advertisement is broadcast.

Magazine rates are also measured in cost per thousand, the cost for a single page advertisement for each thousand circulation. Each publisher has a rate card showing the cost for advertising space in the magazine.

In the same way newspapers rates vary for each paper. They charge according to the size of the space occupied by the advertisement and place of advertisement in the newspaper.

Marketing manager should estimate costs and the size of the audiences and determine the relative effectiveness of the media for the company's advertising programme.

32.17. PRICING

Pricing is one of the most important decision areas of marketing. Pricing decisions interconnect the marketing actions with the financial objectives of the enterprise. The following are the most important variables affected by pricing decisions :

(1) Sales volume
(2) Profit margin
(3) Rate of return on investment
(4) Trade margins

ome more effective.

(3) The supply is adjusted to changing demands of quality, quantity, brand, model etc.

(4) Interests of the enterprise and society can be harmonised as profit through service is emphasized.

(5) Marketing system based on the marketing concept assures integrated view of business operations.

(6) Marketing research is considered as an integral part of marketing process and it is a managerial tool ecision-making in the field of marketing.

SELLING CONCEPT Vs MARKETING CONCEPT

Selling	*Marketing*
1. Product enjoys the supreme importance.	1. Customer enjoys unique importance.
2. Emphasis on company (sellers) needs.	2. Emphasis on market customer's need.
3. Company oriented selling efforts.	3. Market oriented selling efforts.
4. Goods are already produced and then sold at profit.	4. Customer demand determines production; supply is adjusted to demand.
5. Selling aims at short term objectives.	5. Marketing aims at long term objectives.
6. Top priority is given to sales volume rather than profits-increasing sales.	6. Top priority is given to profitable volume of sales and market share at fair prices and reasonable risk.

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25. What is sales promotion ? What are its main objectives ?
26. Define sales promotion. How does it differ from advertising ?
27. State the various sales promotion devices.
28. Explain the term 'Advertising'. State its objectives.
29. Describe the types of advertising media.
30. Explain the factors governing the advertising media selection.
31. Write short notes on :
    (i) Advertising campaign (ii) Advertising media
    (iii) Channels of distribution (iv) Market segment.
32. What do you mean by pricing decisions ? Describe their objectives.
33. "The success or failure of business depends upon the product pricing policy". Explain. Name the factors to be considered while formulating a product price policy.
34. Explain pricing procedure in brief.

33 Market Research

33.1. INTRODUCTION

We have seen that marketing basically consists of finding the needs of customers and meeting them in the best possible manner. Marketing research plays a key role in this process. It starts from the product idea and does not end until customer wants are adequately satisfied. Customer is the pivot around which the entire marketing operations revolve. Beginning and end of marketing management is market research. It helps the firm acquire a better understanding of the consumer ; their needs, the competition, the share of competitors in the market and the marketing environment. Marketing research in fact enables the firm to know what the consumers want, at what time they want, in how much quantity they want, how many of them want a particular commodity, how it could be made available, and how many other customers would be attracted by the enterprise/producer or a dealer. It also aids in the formulation of marketing mix, product distribution promotion and pricing.

As a business grows larger and the management becomes more remote from the market place, marketing management has to rely more heavily on marketing research as a managerial tool in solving any problems in the field of marketing. Marketing research has emerged as a highly specialised function of marketing management.

33.2. DEFINITIONS OF MARKETING RESEARCH

"Marketing research may be defined as the application of scientific method to the solution of marketing problem."

"Marketing research is the systematic, objective and exhaustive search for and study of the facts relating to any problem in the field of marketing" — *Richard Crisp*

"Marketing research is the systematic problem analysis, model building and fact finding for the purpose of important decisions making and control in the marketing of goods and services" — *Philip Kolter*

"Marketing research is the systematic gathering, recording and analysing of data about problems relating to the marketing of goods and services". — *American Marketing Association*

Marketing research is defined as the systematic study and evaluation of all factors bearing on any business operation which involves the transfer of goods from a producer to a consumer". — *A.G.R. Delens*

It is essential to clarify the relationship and the difference between marketing research and Marketing Information System (MIS). Whereas the job of MIS is to supply marketing information, problem analysis is the job of marketing research. Marketing research too generates and utilizes marketing information but its purpose is problem solving.

33.3. CLASSIFICATION OF MARKETING RESEARCH PROBLEMS

The various marketing research problems can be classified based on the subject matter of research as follows :

- Research on products
- Research on market
- Research on consumer
- Research on advertising and promotion
- Research on distribution
- Research on price
- Research on competition
- Research on methods.

Fig. 33.1. Main areas of market research.

Research on Products

- Studies on competitive position of a product/brand
- The level of consumer acceptance of a product/brand.
- Study of packaging/package design, size etc.
- Study of new uses of product.
- Review of product quality.
- Study on maintenance and service requirements.

Research on Market

- Market share analysis.
- Demand analysis.
- Determining market characteristics.
- Market segmentation studies.
- Analysis of market territories.
- Short range and long range sales forecasting.
- Study of market trends.

Research on Consumer

- Studies on consumer behaviour.
- Buyer motives.
- Consumer preferences, tastes.
- Types of customers, prices they are willing to pay.
- Study of consumer resistance, dis-satisfactions, complaints about the product quality and other aspects.

Research on Sales Promotion

- Studies on advertising effectiveness.
- Studies on media and their relative effectiveness.
- Cost-benefit studies on sales promotion aspects.
- Analysis of salesmen's territories etc.

Research on Distribution

- Studies on distribution policies, transportation, warehousing, channels of distribution etc.

Research on Pricing

- Evaluating the pricing strategy of the enterprise.
- Assessing the general pattern of pricing followed by the industry.
- Studying effect of price on sales.

Research on Competition

- Trends in competition.
- Evaluating competitors' products, prices, channels of distribution.
- Share of market and sales methods used by competitors.
- Strengths and weaknesses of competitors and analysis of their cost *vs* performance.

Research on Sales Methods

- Testing new sales programmes.
- Analysis of salesmen's territories/sales quotas.
- Measuring salesmen's effectiveness.
- Methods for attracting new customers etc.

33.4. STEPS IN MARKETING RESEARCH AND MARKET SURVEY

Marketing research is aimed at solving the problems faced by marketing executives. The major steps involved in marketing research are :

(1) Identification of the marketing research problem and defining the objective of the research.
(2) Determining the information needed and sources.
(3) Analysing and interpreting the information.
(4) Preparing the Research Report.
(5) Follow up and Action.

(1) Identification of the Marketing Problem and Defining Objectives. The problem is initially identified by the marketing manager and then the researcher defines the problem precisely and correctly. Defining the problem correctly is the most important part of the marketing research process. Unless the problem is precisely and correctly defined, it would not be possible to develop an appropriate research plan.

If the definition of the problem is faulty, the research results will be misleading and confusing. For example, a problem of poor profits may sometimes be understood wrongly as a problem of inadequate sales. In the cited case the problem of profits may have nothing to do with sales or advertising. Instead it may have bearing on pricing or costs. Thus proper defining the problem is a must for proceeding further with the marketing research.

The type of research to be carried out, the questions to be raised, the sampling procedure to be followed, the data to be collected, all depend on a correct understanding of the problem.

Apart from defining the problem correctly, it is also essential to analyse the problem. This helps in collection of the relevant information.

(2) Developing the Research Design and Research Procedure. Development of research design and procedure is the next step in the marketing research process, after problem definition and problem analysis. The choice of research design depends on the depth and extent of data required, the cost and benefits of the research, the urgency of the work, and the time available for completing it.

Research procedure spells out the plan for securing the information. It consists of making decision on the data requirements, the data sources, research instruments, sampling plan and contact method.

(3) Collective the information : Data Collection. Data or facts may be obtained from several sources. Data can be classified as primary data and secondary data; primary data are those which have to be collected first time for the specific research. Secondary data is data obtained from secondary sources. Sales records constitutes the most important part of secondary data on marketing research. In addition to sales record, publications of a wide variety, newspapers, technical journals, magazines, trade publications, directories; govt. publications, reference books, balance sheets of companies and research reports of various agencies are sources of secondary data.

The primary data may be collected by observation, focus group, market survey and experiments.

Research Instruments. The instruments employed for gathering the information (primary data) — Questionnaires, mechanical or electrical device of observation (*e.g.* tape recorder, camera etc.)

(4) **Analysing the information.** The next step in marketing research process is to obtain relevant ation from the data collected and interpreting the findings. This step proceeds through tabulation of omputation of averages and measures of dispersion for the major variables through advanced statistical ques and decision models to generate additional findings. Such techniques include regression analysis, ation analysis etc. and product design models, pricing models, media-mix models, advertising, budget is etc.

(5) **Preparing the Research Report.** The step consists in presenting the relevant findings to the gement in a systematic way to help the management in taking decisions.

(6) **Follow up Action.** After submitting the market research report it is necessary to implement the ures suggested in the report and take a follow-up action to ensure its proper implementation.

SOURCES OF COLLECTING MARKETING RESEARCH DATA

The Research Instruments. Research instruments mean the instruments employed in research for ring the information. The questionnaire is an example of research instrument. In an observation based , the instrument of research can be a person trained in observation. The instrument can also be a anical or electronic device of observation (*e.g.*, tape recorder, camera). In a survey type of research, ly, the instrument of research is the questionnaire. In an experimental type of research, sometimes an vative device is used, sometimes a questionnaire is used.

Data Collection. One of the important tools for conducting marketing research is the availability of ssary and useful data. Data is the foundation of all marketing research. It is the raw material on which a et researcher functions. Data collection is an elaborate process in which the researcher makes a planned h for all relevant data. Data collection is an art. Data, or facts, may be obtained from several sources. Data e classified as primary data and secondary data. Primary data is data gathered for the first time by the rcher, secondary data (data already collected by others) is data borrowed by the researcher from secondary ces. The sources of information (secondary data) fall under two categories :

(i) Internal sources (ii) External sources.

Internal Sources. A business organisation has to maintain records of financial accounting, sales records, rts of salesmen etc. These records provide sufficient information. Proper use can be made of the various rmations in possession of the organisation. This data is readily available.

External Sources. When the internal records are insufficient the organisation will have to depend on rnal sources. The external sources fall under two categories. Primary data and secondary data. A primary rce is one from which information is obtained directly as for instance through questionnaire and interview. nary sources include consumers and buyers, middlemen, salesmen, trade associations chamber of commerce.

Secondary sources are mostly published materials. In addition to sales records, newspapers, magazines, nical journals, trade publications, directories, government publications, committee reports, reference ks, balance sheets of companies and research reports by various agencies are sources of external secondary a.

Secondary data can also be purchased in many cases from commercial marketing research services. ne typical examples of secondary data are as follows :

Government Sources. Reserve Bank of India Bulletin, Agricultural Situation in India, ISI Bulletin, blication of ICAR, and NCERT, State and Central Gazettes.

International Sources. UN Statistical Year Book, IMF Balance of Payments Year Book, Year Book of od and Agricultural Statistics, International Reports on Cotton, Sugar and Tea etc.

Newspapers. Economic Times, Financial Express, The Hindu Survey of Indian Industry etc.

Magazines and Journals. Commerce, Eastern Economist, Journal of Marketing, Capital, Economic Weekly, Machine Building Industry, A.S.T.M.E. Journal, etc.

In addition to these traditional sources, in modern days more and more sources of secondary data are becoming available, some of these are :

Yellow Pages/Stand-alone Directories. Today, yellow pages in telephone directories and stand-alone yellow pages directories have become an established source of information for business firms. Tata press launched a stand-alone yellow pages directory for Bombay City. New Horizons, a joint venture between the Living Media group of publications and Singapore Telecom, has published stand-alone directories for specific businesses, Delhi Business Pages directory published by Business India group. Sterling yellow pages published by Sterling Computers U.K. are also some of the examples.

Industrial Product Finder. Industrial Product Finder (IPF) provides useful information to Indian Industries about new products, new materials and services—what is available and from whom. IPF details the many applications of given new industrial products.

Data through Telephone. Agencies providing te e-data services have also emerged in cities in recent times. E-mail, Internet services provide essential data on a number of subjects/products etc.

33.6. OBJECTIVES/BENEFITS OF MARKET RESEARCH

1. **Reduction of Risk.** Marketing research reduces the risk in marketing decisions. The facts/information obtained from research can form the basis of planning, selling, sales promotion, advertising. If the marketing manager knows the relevant information about customer preference, prevailing prices, of competitors' product, share of market, market trend and dealers reactions to different sales promotion the risk is greately reduced.

Marketing research helps in lessening the risk involved in marketing decisions in two ways by providing :

(i) Current information and market trends.

(ii) Generalised knowledge about the marketing process.

2. **Production of new items.** The marketer gets valuable information and facts regarding customer's habits and preferences through marketing research. In order to satisfy their needs, company develops new products and/or makes necessary improvements in existing products.

3. **Assists in Formulation of Marketing plans.** Marketing research helps in the formulation of all marketing plans, policies, programmes and procedures.

4. **Helps for survival and growth of the company.** Marketing management through marketing research can bring about the sale of right product (brand and package) through right channels to right customers at right places and at right prices by evolving right plans, policies and programmes with the help of right personnel. It incidentally provides insurance cover for the survival and growth of business in a dynamic economy.

5. **Customer's satisfaction and profit.** The main objective of marketing research is to enable manufacturer to make goods acceptable and saleable and to see that they reach the market more easily, quickly, cheaply and profitably without sacrificing customer interest.

6. **Minimization of cost is possible.** Marketing research is used in reducing and minimizing all marketing costs, particularly, selling, advertising, promotion and distribution costs.

7. **Discovery of potential markets.** Through marketing research, potential markets are discovered where company's product can be sold profitabily. It widens the scope of company's market.

8. **Planned production.** Marketing research helps in estimating the demand of the product. It facilitates the production of the product in a planned way which may result in maintaining the equilibrium in demand and supply position in the market.

According to Crisp, marketing research benefits the management in the following manner :

(*i*) It tells management where the company stands in its business (i.e. competitive strength of the company).

(*ii*) It tells management what industry trends are and are likely to be.

(*iii*) It is an essential tool in appraising and improving sales management effectiveness. Specific activities in this area include measuring variations in territorial sales yield, market share and sales effectiveness, measuring the effectiveness of individual salesman and analysis of salesman's activities, and

(*iv*) As an essential tool in the development and introduction of new products.

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14

Break-Even Analysis

14.1. INTRODUCTION

The fundamental objective of any business is to earn more and more profit. Profit mainly depends on three factors namely cost of production, amount of output and revenue. The value of these components depends on the level of various activities performed in the organisation. There is a need to analyse fixed costs, variable costs and revenues at different levels of output to determine optimum profit. Cost of production is composed of two components viz. Fixed costs and Variable costs. Fixed costs are assumed to remain constant at all levels of output *e.g.* expenditure on permanent labour and overheads. But with the increase in output, the fixed cost per unit of output decreases variable costs tend to vary with output *e.g.* materials costs, inventory costs etc. Cost of production can be minimized by (*i*) Increase in output (*ii*) Using alternative cheaper material without affecting the quality (*iii*) Maintaining optimum inventory levels (*iv*) Standardization and mass production (*v*) Developing human resources by training and incentive schemes and (*vi*) Improving the efficiency.

One of the techniques to study the total cost, total revenue and output relationship is known as Break Even Analysis. It is also termed as cost volume profit analysis.

- Profit planning instrument
- To produce planned level of output

The break-even analysis is the study of cost-volume-profit (CVP) relationship. In its narrow sense, it refers to a system of determining that levels of operations where the undertaking neither earns profit nor suffers from a loss, *i.e.* where the total cost is equal to total sales, *i.e.* the point of zero profit. In a broad sense it referes to a system of analysis that can be used to determine the probable profit at any level of activity.

Through the knowledge and information obtained from the break even analysis, complicated budgeting and profit planning issues can be made easy and possible. Thus, the break-even analysis is a vital tool of financial planning and control. However, the accuracy of results would largely depend upon the reliability of the data and viability of the assumptions on which the break-even analysis is based.

Break-even analysis can be carried out in two ways :

(*a*) Algebraic method

(*b*) Graphical method.

Usually, a break-even analysis is presented graphically, as this method of visual presentation is particularly well-suited to the need of managers to appraise the situation at a glance. When presented graphically the break-even analysis takes the shape of a break-even chart. The break-even chart shows the effect of volume of production on the profit contribution.

14.2. ASSUMPTIONS IN BREAK-EVEN ANALYSIS

The following assumptions are made while plotting a break-even chart :

1. The total cost of production can be divided into two categories— (*a*) Fixed cost, (*b*) Variable cost.
2. Fixed cost remains constant *i.e.* it is independent of the quantity produced and includes executive salaries, rent of building, depreciation of plant and equipment etc.
3. The variable cost varies directly and proportionately with the volume of production. If V = Variable cost per unit and Q is the quantity produced, variable cost = $V \times Q$.
4. The selling price does not change with change in the volume of sales. If P is the selling price per unit. The total sales income = $P \times Q$.
5. The firm deals with only one product, or the sales mix remains unchanged.
6. There is a perfect synchronization between production and sales. This assumes that everything produced is sold and there is no change in the inventory of finished goods.
7. Productivity per worker and efficiency of plant, etc., remains mostly unchanged.

Any change in any one of the above factors will affect the break even point and the profits will be affected by factors other than volume. Hence, the result of the break-even analysis should be interpreted subject to the limitations of the above assumptions.

14.3. PLOTTING THE BREAK-EVEN CHART

1. The cost and the sales income (revenue) in rupees are plotted along the vertical axis.
2. The quantity (volume of production) is plotted along the horizontal axis.
3. Fixed cost is represented by a straight line parallel to the horizontal axis.
4. The variable costs are superimposed upon the horizontal line representing the fixed cost. This top line then represents the total cost line.
5. The sales income line passes through the origin.
6. The point of intersection of the sales income line and the total cost line represents the break even point.
7. The shaded area between the total cost line and the sales income line on the left hand side of B.E.P. indicates loss; whereas the shaded area on the right hand side of B.E.P. shows profit.

Also called (C – V – P) Analysis cost-volume-profit

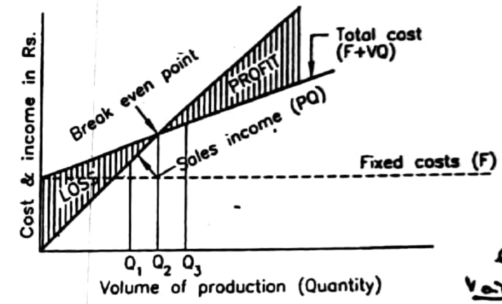

Fig. 14.1. Break-even chart.

Fixed costs – Does not vary with output Ex: Rent Insurance etc.

Variable costs : Vary with output Ex: Salaries etc

(Total cost) T.C = Fixed to variable cost

Break-even point :

The point of intersection of the total cost line and the income line is called as the break-even point. The break-even point is that junction where income and costs are exactly in balance. Thus there is neither profit nor loss for that particular volume of production. Break-even point indicates minimum operating level below which it is dangerous to fall. As the performance reaches towards this non-profit point, corrective measures should be taken to cut down the cost, (increase output or raise selling price.) The spread to the right of BEP shows the profit potential while to the left represents the loss pontential BEP is also called as the "no-profit-no-loss point."

Margin of Safety :

Margin of safety is the distance between the break-even point and the output being produced.

A large margin of safety indicates that the business can earn profit even if there is a great reduction in output. If the margin of safety is relatively small then it indicates that the profit will be considerably small even if there is a small drop in output. A low margin of safety level indicates high fixed costs and profits are not possible unless the output level is sufficient enough to absorb fixed costs.

Margin of safety is generally expressed as :

(*a*) Ratio of budgeted sales to sales at BEP.

(*b*) Ratio of actual sales to sales at BEP.

(*c*) Percentage of budget to BEP.

(*d*) Percentage of budget to actual sales at BEP.

(*e*) Percentage of the difference between actual sales and break-even sales to budgeted sales.

...ance may, therefore, be defined as a contract between two parties whereby one party (the insurer) undertakes, in exchange for fixed sum (premium), topay to the other party (the insured or the assured in case of life insurance) a fixed amount of money on the happening of a certain even (death or attaining a certain age in case of human life), or to pay the amount of actual loss when it takes place through the risk insured in case of property.

It follows that insurance gives the businessman and the man in the street a sense of security which is a real boon to him. This is a very important benefit of insurance from the social standpoint.

7.2 PRODUCT LIFE CYCLE:

1. A company has to be good at developing new products. It also has to be good at managing them in the face of changing tastes, technologies and competition.
2. Every product seems to go through a life cycle. It is conceived and born, develops through several phases and eventually drives as younger products come along that better serve consumer needs.
3. Fig 7.1 shows the theoretical course of a products sales and profits from inception to devise.
4. The product life cycle begins when the company finds and develops a new product idea.
5. During a product development, the company accumulates increasing investment costs.
6. After the company launches the product, sales pass through an introduction period, then through a period of strong growth, followed by maturity and eventual decline.
7. Meanwhile profits go from negative to positive, peak in the growth or mature sales stages and then decline.
8. The product life cycle present companies' with two major points. First because all products eventually decline, the firm must develop a process for finding a new products to replace assuring ones (the problem of new product development). Second, the firm must understood how its products age, and adopt its marketing strategies for products as they pass through different life - cycle stages (the problem of product-life cycle strategies).

7.2.1. PRODUCT LIFE-CYCLE STRATEGIES:

After launching the new product, management wants the product to enjoy a long and happy life. Although under no illusion that the product will sell forever, management wants to earn a decent profit to cover all the effort and risk that went into it. Management hopes that sales will be high and last long. Management is aware that each product will exhibit a life cycle, although the exact shape and duration is not easily known in advance.

The typical product life cycle (PLC) is marked by four distinct stages:

1. INTRODUCTION: Is a period of slow sales growth as the product is being introduced in the market profits are nonexistent in this stage because of the heavy expenses of product introduction.
2. GROWTH: Is a period of market acceptance and increasing points.
3. MATURITY: Is a period of slowdown in sales growth because the product has achieved acceptance by most of the potential buyers. Profits stabilize or decline because of increased marketing outlays to defend the product against competition.
4. DECLINE: Is the period when sales show a strong downward drift and profits erode.

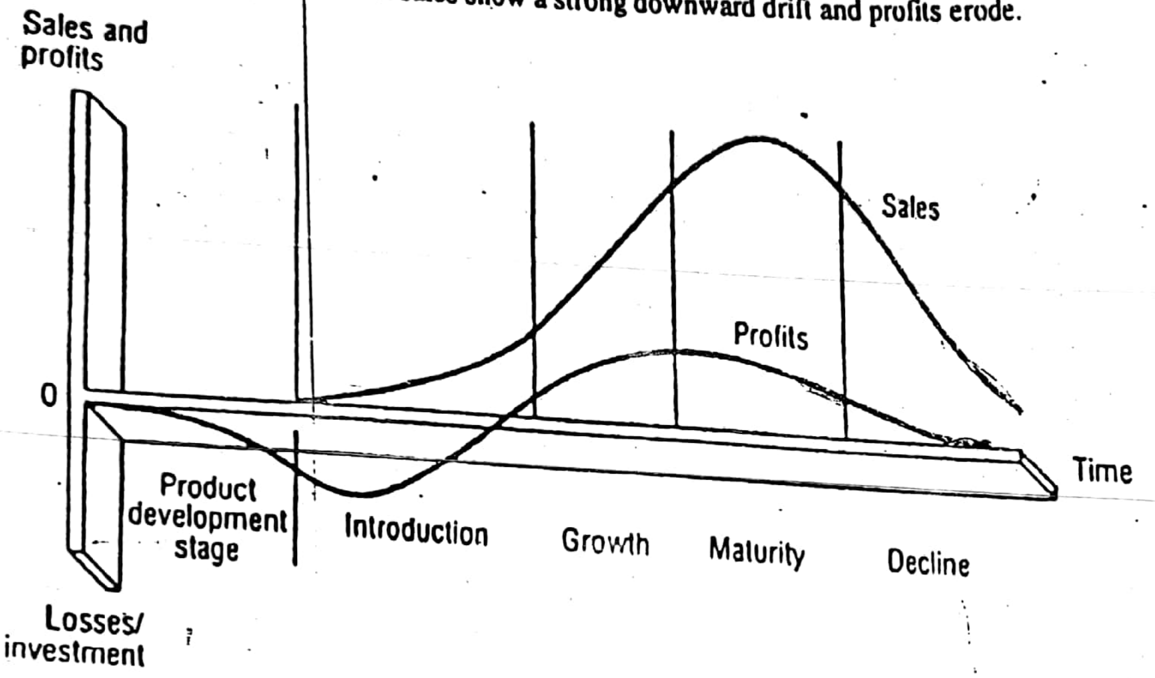

Fig7.1 Product life cycle.

Using the PLC concept to develop marketing strategy can be difficult because strategy is both a cause and result of the product's life cycle. The product's current PLC position suggests which marketing strategies will be most effective and the resulting marketing strategies affect product performance in later life-cycle stages. Despite these and other problems, when used carefully the PLC concept can be a useful framework for developing effective marketing strategies for different stages of the product life cycle. We now turn to these stages and consider appropriate marketing strategies.

1) INTRODUCTION STAGE: The introduction stage starts when the new product is first distributed and made available for purchase. Introduction takes time, and sales growth is apt to be slow. Buzzell identified four causes for the slow growth of many processed food products: (1) delays in the expansion of production capacity (2) technical problems (working out bugs) (3) delays in making the product available to customers, especially in obtaining adequate distribution through retail outlets. (4) customer reluctance to change established behavior patterns in the case of expensive new product, sales growth is retarded by additional factors, such as the small number of buyers who can adopt and afford the new product.

In this stage, profits are negative or low because of the low sales and heavy distribution and promotion expenses. Much money is needed to attract distributors and "fill the pipelines." Promotional expenditures are at their highest ratio to sales "because of the need for a high level of promotional effort to inform potential consumers of the new and unknown product, induce trial of the product, and secure distribution in retail outlets".

2) GROWTH STAGE:

If the new product satisfies the market, sales will start climbing substantially. The early adopters will continue their purchasing and conventional consumers will start following their lead, especially if they hear favorable word of mouth. New competitors will enter the market attracted by the opportunities for large-scale production and profit. They will introduce new product features. and this will expand the market. The increased number of competitors leads to an increase in the number of distribution outlets, and factory sales jump just to fill the pipelines.

Prices remain where they are or fall only slightly insofar as demand is increasing quite rapidly. Companies maintain their promotional expenditures at the same or at a slightly raised level to meet competition and continue educating the market. Sales rise much faster, causing a decline in the promotion-sales ratio.

Profits increase during this growth stage as promotion costs are spread over a large volume. and unit manufacturing costs fall due to the "experience curve" effect. The firm uses several strategies to sustain rapid market growth as long as possible.

A) The firm improves product quality and adds new product features and models.
B) It enters new market segments.
C) It enters new distribution channels.
D) It shifts some advertising from building product awareness to bringing about product conviction and purchase
E) It lowers prices at the right time to attract the next layer of price-sensitive buyers.

The firm that pursues these market-expanding strategies will improve its competitive position. But this comes at an additional cost. The firm in the growth stage faces a trade off between high market share and high current profit. By spending a lot of money on product improvement, promotion, and distribution, it can capture a dominant position, but it forgoes maximum current profit in the hope of making this up in the next stage.

3) MATURITY STAGE:

At some point a product's rate of sales growth will slow down, and the product will enter a stage of relative maturity. This maturity stage normally lasts longer than the previous stages, and it poses formidable challenges to marketing management. Most products are in the maturity stage of the life cycle, and therefore most of marketing management deals with the mature product.

The slowdown in the rate of sales growth creates overcapacity in the industry. This overcapacity leads to intensified competition. Competitors engage more frequently in markdowns and off-list pricing. They increase their advertising and trade and consumer deals. They increase their R&D budgets to find better versions of the product. These steps mean some profit erosion. Some of the weaker competitors start dropping out. The industry eventually consists of well-entrenched competitors whose basic drive is to gain a competitive advantage.

The product manager should not simply defend the product. A good offense is the best defense. He or she should consider strategies of market, product and marketing mix modification.

(A) MARKET MODIFICATION:
Here the manager tries to increase the consumption of the existing product. The manager looks for new users and market segments. The manager also looks for ways to stimulate increased usage among present customers. The manager may want to reposition the brand to appeal to a larger or faster-growing segment.

(B) PRODUCT MODIFICATION:
The product manager can also modify product characteristics - such as product quality, features, or style-to attract new users and more usage.

A strategy of quality improvement aims at increasing the functional performance of the product - is durability, reliability, speed, taste. This strategy is effective to the extent that the quality can be improved, buyers believe the claim of improved quality, and a sufficient number of buyers want higher quality.

A strategy of feature improvement aims at adding new features that expand the product's versatility, safety, or convenience. Feature improvement has been a successful strategy of Japanese makers of watches, calculators, and copying machines. For example, Sony keeps adding new playing features to its Walkman line of miniature stereo players. Stewart outlines five advantages of feature improvement.

1. New features build a company image of progressiveness and leadership.
2. New features can be adapted quickly, dropped quickly, and often made optional at very little expense.
3. New features can win the loyalty of certain market segments.
4. New features can bring the company free publicity.
5. New features generate sales force and distributor enthusiasm.

A strategy of style improvement aims at increasing the esthetic appeal of the product. Thus car manufacturers restyle their cars periodically to attract buyers who want a new look.

) DECLINE STAGE
he sales of most product forms and brands eventually dip. The sales decline may be slow, as in the ase of oatmeal cereal; or rapid, as in the case of the Edsel automobile. Sales may plunge to zero, r they may drop to a low level and continue for many years at that level. This is the decline stage.

ales decline for a number of reasons, including technological advances, consumer shifts in tastes, d increased domestic and foreign competition. All lead to overcapacity, increased price cutting, d profit erosion.

s sales and profits decline, some firms withdraw from the market. Those remaining may reduce number of their product offerings. They may drop smaller market segments and marginal trade annels. They may cut the promotion budget and reduce their prices further.

mpanies need to pay more attention to their aging products. The first task is to identify those ducts in the declining stage by periodically reviewing the sales, market shares, cost and profit nds on each of its products. For each declining product, management has to decide whether to intain or to drop the product from the line.

management may decide to maintain its brand in the hope that competitors will leave the ustry. For example, Procter & Gamble remained in the declining liquid-soap business as others withdrew, and it made good profits or management may decide to harvest the product, which means reducing various costs (plant and equipment, maintenance, R&D), advertising, sales force) and hoping that sales hold up fairly well for a while. If successful, harvesting will increase the company's profits in the short run. Or management may decide to drop the product from the line. It can sell it to another firm or simply liquidate it at salvage value. If the company plans to find a buyer, it will not want to run down the product through harvesting.

7.3 CONCEPT OF BREAK-EVEN-CHART:

1. Break even analysis is a technique for studying the relationships between cost, volume and profit. It is also called cost-volume-profit (C-V-P) analysis.
2. It enables the financial manager to understand the impact of changes in the volume of output on cost and profit.
3. It is also an instrument of profit planning as it helps in finding out the level of output which should be produced in order to generate the planned level of profit.
4. Given the fixed costs, variable costs and price per unit, break-even analysis is used to find the level of output at which total (fixed and variable) cost of production is equal to the total revenues generated by the sale of that output.
5. This point at which total cost is equal to total revenues is called the break-even-point.
6. In break-even analysis, a clear distinction is made between fixed costs and variable costs.
7. Fixed costs are those costs which must be born irrespective of the level of the output. These costs are the costs of depreciation, insurance, rent, administration etc.
8. Variable costs are those costs which vary directly with output. These are per unit costs relating to materials, supplies, wages etc.
9. In break-even analysis, variable costs are assumed to vary in a linear relationship with the output. This is the reason for the straight line shape of the variable cost curve.

Break-even analysis is based on the following assumptions:

1. Variable costs change directly and proportionately with output.
   Fixed costs remain unchanged irrespective of the level of output.
   Sales price is fixed and the firm can sell any quantity of its production at this price.

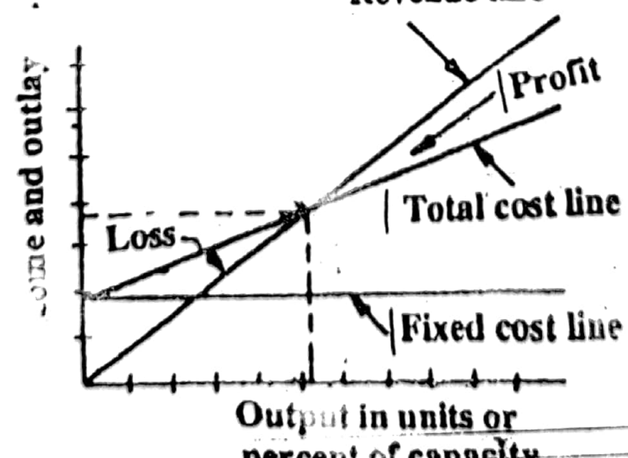

Fig. 7.2 Break-Even chart

BEP = FC/(P-VC)

Out put for planned profit = (FC+ Profit)/(P-VC)

Where FC = Fixed Costs

VC = Variable cost per unit

P = Price per unit.

It will be seen from the fig 7.2 That the firm suffers loss if it produces less than the break even point and makes profit above this output.

Another important point to be noted from the figure is that the revenue curve is steeper in slope than the total cost curve. It signifies that percentage change in revenues is greater than the percentage change in output.

Below the break-even point, with every addition to output, the firms losses decline at a higher percentage than the percentage increase in output and above the break-even point percentage increase in profit is higher than percentage increase in output.

PROBLEM 1:

The following data is given for a company :

Fixed Costs = Rs 50,000

Sales price = Rs 5 per unit

Variable costs = Rs 3.80 per unit.

Find the break-even point and rupee sales volume.

Solution: BEP = (FC)/(P-VC) = 50,000/(5-3.8) = 41666.6

EXERCISE PROBLEM:

The company has the following cost data

Fixed Cost = Rs.1,00,000

Variable costs = Rs. 4 per unit

Sales price = Rs 4.50 per unit

(a) It wants to earn a profit of 10% on its investment of Rs.5,00,000. How many units of output it should produce and sell ?

(b) What will be its break even output and planned profit, if it:

(1) reduces it fixed cost to Rs.90,000

(2) increases its sales price to Rs.5 per unit.

(3) reduces its variable costs by 10 percent.

(4) reduces its sales price by 10 percent, increases its fixed costs by 10% and cuts its variable costs by 10%.

7.4. PRICING:

INTRODUCTION:

Pricing is the holy of holies of antitrust enforcement with its per se prohibition of price conspiracies and strong suspicion of the conscious parallelism and price leadership of oligopolistic competition and of so called administered pricing.

The price of the products is the means whereby manufacturers obtain a fair return for their labours and replace and increase their wealth and purchasing power in return for supplying the products.

All business enterprises face the task of setting a price for their products or services.