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## About the Tutorial

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Marketing Management is an organizational discipline, which deals with the practical application of marketing orientation, techniques and methods in enterprises and organizations and with the management of a company's marketing resources and activities.

This is a brief introductory tutorial that explains the methodologies applied in the rapidly growing area of marketing management.

## Audience

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This tutorial will be useful for students from management streams who aspire to learn the basics of Marketing Management. Professionals, especially managers, aspirants of entrepreneurship, regardless of which sector or industry they belong to, can use this tutorial to learn how to apply the methods of Marketing Management in their respective enterprise.

## Prerequisites

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To understand this tutorial, it is advisable to have a foundation level knowledge of business and management studies. However, general students who wish to get a brief overview Marketing Management may find it quite useful.

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# 1. Marketing — Overview

## What is a Market?

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A market can be defined as the summation of all the buyers and sellers in an area or region under consideration. The area may be a country, a region, a state, a village or a city.



Market is a place where goods, commodities or services provided by the sellers are swapped with the buyers or purchasers for some value combined with need, demand, supply etc.

We can say that it is a place, which satisfies the potential needs of the buyers as well as the sellers. The market may have a physical existence or a virtual one. It may be local or global one.



## Characteristics of a Market

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A market has its own characteristic features. It involves only exchange and trade of commodities but that activity also has its own features.

Let us take a look at the characteristics of a market.

- A place for swapping goods and services for some value. The goods can be swapped for money, land or some other commodity.
- This is a place where you can negotiate commodities
- Coverage of all customer requirements is possible here
- This is a place for innovation and creation
- There is potential or capacity for buying and selling.
- There is share of consumption as well as total part of demand.

Let us now take a look at the key elements of the market.

## Elements of a Market

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The key elements that make a market, without which a market is not complete, or the elements on which a market depends are as follows:

- **Place** – The area where the swapping of goods, commodities or services takes place between the seller and the buyer. The place should be convenient to both the parties.
- **Demand** – Market runs on supply and demand. A seller provides the products or services and a buyer wants to fulfill his/her requirements. A product with high demand is supplied more.
- **Seller** – A seller is the person or the party who offers a variety of or even a single product or service to others in return of some valuable item.
- **Buyer** – A buyer is the person or party who needs a product or service and in return is ready to pay some valuable item as demanded by the seller for the product.
- **Price** – This is the cost or the amount that is to be paid for a product or service. It should be fixed; else, it may lead to conflict as well as an imbalance in the seller-buyer relationship.
- **Government Regulation** – The government makes some regulations that both the buyer and seller have to abide. Everyone is treated equally in front of the law. For example, the buyer is not allowed to sell illegal products while the seller is prohibited from buying them.

- **Product Specification** – It is very important to specify the quantity required, ingredients used and all other details of the product as everybody has different tastes and requirements. It is also not necessary that what suits one person should suit another.

These are the key elements that can make or deteriorate a market. A market runs with all these elements together; if one of them is removed, there is no market. For example, if we remove the buyer from the market, the question of who will purchase the commodities arises. In the same way, each element has its own role in the market.

## Factors Affecting a Market

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There are numerous reasons why a market grows or reduces its profitability. There are different factors affect the growth of a market in many ways.

Let us understand the importance and effect of each factor given below on a market with the help of relevant examples.

### Number of Buyers and Sellers

Flipkart offers a special sale offer, where the candidate needs to register for an item in order to purchase it. In this way, the site gets an idea about the product's demand and thus it tries to maintain the quantity of the item as per the demand. If the number of buyers is more, the product needs to be bought again. However, if the buyers are fewer, then the product needs to be hiked to increase the sale.



## Types of Goods

If a person wants to buy a car, following things need to be considered: what type of a car does he /she need, which brand, what are the brands available, what is the budget, etc. Most importantly, with this factor, one gets a variety of choices in a limited budget.

## Presence of Competition

Lakme launches a new product, which gives the customer three-in-one service. It works as a face wash, face scrub as well as face pack. But the question is what was the need.

The simple answer is competition; this product is a technique to attract more customers and cope with the growing competition.

LAKMÉ

## Expectation of buyers

We buy a product only if it stands up to our expectations. Yardley claims that it moisturizes and nourishes the skin for six hours, so a person with dry skin will buy it expecting that claim to be true.

## Cultural Factors

Cultural factors like the culture and tradition we follow also affect the market. For example, an Oriya woman would prefer a Sambalpuri saree for some special event over silk or any other type.



### **Economic Factors**

An individual will prefer buying gold only when the rates are down. When the rate is Rs 20,000 for 10g, the customers increase while, when the rate is Rs 26,300 for 10g, the customers decrease.

### **Social Factors**

What the market provides is very much dependent on social factors. Analysis shows that social factors impact the business of beverage companies. For example, Pepsi projects itself as a non-alcoholic beverage because it has to maintain the strict differences in cultures around the world.

### **Political Factors**

Political factors are also important. Something that is banned by the government cannot be sold in the market, for example, the recent meat ban.

## **Objectives of Marketing Management**

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Marketing management is the process of planning & implementing the conception, pricing, promotion and distribution of products or services. It is a target-oriented process and an operational area of management.

Marketing management is basically an organizational discipline, which focuses on the practical usage of marketing orientation, techniques and methodologies in companies and organizations and on the management of a firm's marketing resources and activities.

The following are the main objectives of marketing management:

- To satisfy the clients' requirements and their objectives.
- To leverage the gain for the growth of business.
- To develop customer base for the business.
- To create an appropriate marketing mix.
- To raise the quality of life of people.
- To build a good image of the organization.
- To maintain the long-run concept.

Now, we are clear about the need and objective of marketing management. Moving forward, let us discuss the broad marketing concepts in detail.

## 2. Marketing — Concepts

Marketing concept is the philosophy that companies should examine the requirements of their customers and then make decisions to satisfy those needs in a better manner than the competitors.

Today, most of the companies have adopted various marketing concepts, but this has not always been the case. Let us now understand major marketing concepts.

**The major marketing concepts are:**

- Production concept
- Sales concept
- Marketing concept

### **Production Concept**

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According to the production concept, a company should focus on those items that it can produce most efficiently and also focus on creating supply of low-cost items that create the demand for the products.

The key questions that a company needs to ask itself before producing an item are:

- Can we produce the item?
- Can enough of it be produced?

This concept worked fairly during the 1920s as the items that were produced were largely those of basic necessity and there was a relatively high level of unfulfilled demand. Virtually everything that could be produced was sold easily by a sales team whose task was to complete the transactions at a price fixed by the cost of production. All in all, this concept prevailed until the late 1920's.

### **Sales Concept**

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According to this concept, the companies would not only produce the items but would also try to convince customers to buy them through advertising and personal selling. Before producing a product, the key questions were:

- Can we sell the item?
- Can we account enough for it?

This concept paid little attention to whether the item actually was required. The goal simply was to beat the competition with little focus on customer satisfaction. Marketing was an operation performed after the product was developed and produced and many people came to relate marketing with hard selling. Even today, people use the word "marketing" when they actually mean "sales."

## Marketing Concept

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The marketing concept relies upon marketing studies to define market segments, their size, and their requirements. To satisfy those requirements, the marketing team makes decisions about the controllable parameters of the marketing mix.

This concept was introduced after World War II as the customers could afford to be selective and buy only those items that precisely met their changing needs and these needs were not immediately obvious. The key questions changed to:

- What do customers actually want?
- Can we improve it while they still want it?
- How can we keep the customers satisfied?

In reply to these discerning customers, companies began to adopt marketing concepts, which includes:

- Focusing on customer requirements before developing a product
- Aligning all operations of the company to focus on those needs
- Realizing a gain by successfully satisfying customer needs over the long-term

When companies began to adopt this concept, they actually set up separate marketing departments whose objective was to satisfy customer needs. Mostly, these departments were sales departments with expanded responsibilities. While this widened sales department structure can be found in some enterprises today, many of them have structured themselves into marketing organizations having a worldwide customer focus.



# 3. Marketing — Marketing Process

Marketing process includes ways in which value can be created for the customers to satisfy their requirements. It is an endless series of actions and reactions between the customers and the companies making attempt to create value for and satisfy the needs of customers.

In marketing process, the situation is examined to identify opportunities, the strategy is formulated for a value proposition, tactical decisions are taken, plan is executed, and results are monitored.

The following four steps are involved in the marketing process:

## **Situation Analysis**

Analysis of the situation in which the company finds itself serves as the basis for identifying chances to satisfy unfulfilled customer needs.

Situational and environmental analysis is done to identify the marketing options, to understand the company's own capabilities and to understand the surroundings in which the company is operating.

## **Marketing Strategy**

After identifying the marketing options available, a strategic plan is developed to pursue the identified options. An analysis is done and the best available option is chosen; a plan or strategy is made for that option.

## **Marketing Mix Decisions**

At this step, elaborated tactical decisions are made for the controllable parameters of the marketing mix. It includes decisions related to product development, product pricing, product distribution and product promotion.

## **Implementation and Control**

Finally, the marketing plan is executed and the outputs of marketing efforts are monitored to adjust the marketing mix according to the market changes.

This being the final step, it transforms the written or planned strategy into action and the product is presented according to this process.



## 4. Marketing — Functions

The term functions of marketing management means the main role of this type of management in any organization.

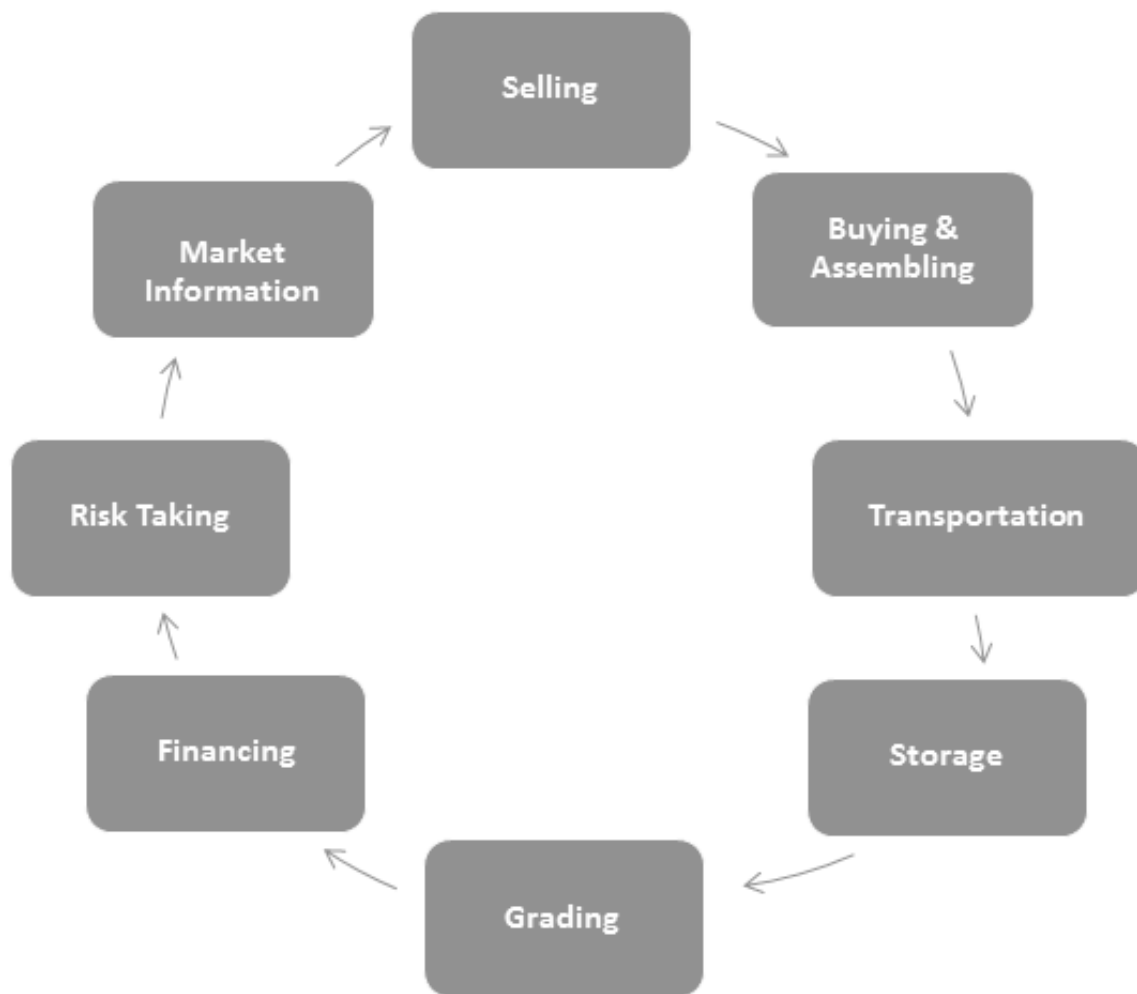
### **Major Functions of Marketing Management**

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We need to understand the major functions of marketing management in order to understand and groom our organization. The following are some of the major functions of marketing management:

- Selling
- Buying and Assembling
- Transportation
- Storage
- Standardization and Grading
- Financing
- Risk Taking
- Market Information

The marketing process performs certain activities as the products and services move from the producer to consumer. All these activities or jobs are not performed by every company.



Nonetheless, it is recommended that they be carried out by any company that wants its marketing systems to function successfully.

## **Selling**

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Selling is the crux of marketing. It involves convincing the prospective buyers to actually complete the purchase of an article. It includes transfer of ownership of products to the buyer.

Selling plays a very vital part in realizing the ultimate aim of earning profit. Selling is groomed by means of personal selling, advertising, publicity and sales promotion. Effectiveness and efficiency in selling determines the volume of the firm's profits and profitability.

## Buying and Assembling

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It deals with what to buy, of what quality, how much from whom, when and at what price. People in business purchase to increase sales or to decrease costs. Purchasing agents are much tempted by quality, service and price. The products that the retailers buy for resale are selected as per the requirements and preferences of their customers.

Assembling means buying necessary component parts and to fit them together to make a product. 'Assembly line' marks a production line made up of purely assembly functions. The assembly operation includes the arrival of individual component parts at the work place and issuing of these parts for assembling.



Assembly line is an arrangement of employees and machines in which each individual has a particular job and the work is passed directly from one employee to the next until the product is complete.

## Transportation

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Transportation is the physical means through which products are moved from the places where they are produced to those places where they are needed for consumption. It creates locational utility.

Transportation is very important from the procurement of raw material to the delivery of finished products to the customer's places. Transportation depends mainly on railroads, trucks, waterways, pipelines and airways.

## Storage

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It includes holding of products in proper, i.e., usable or saleable, condition from the time they are produced until they are required by customers in case of finished products or by the production department in case of raw materials and stores.



Storing protects the products from deterioration and helps in carrying over surplus for future consumption or usage in production.

## Standardization and Grading

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Standardization means setting up of certain standards or specifications for products based on the intrinsic physical qualities of any item. This may include quantity like weight and size or quality like color, shape, appearance, material, taste, sweetness etc. A standard gives rise to uniformity of products.

Grading means classification of standardized items into certain well defined classes or groups. It includes the division of products into classes made of units possessing similar features of size and quality.

Grading is very essential for raw materials; agricultural products like fruits and cereals; mining products like coal, iron and manganese and forest products like timber.

## Financing

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Financing involves the application of the capital to meet the financial requirements of agencies dealing with various activities of marketing. The services to ensure the credit and money needed and the costs of getting merchandise into the hands of the final user are mostly referred to as the finance function in marketing.

Financing is required for the working capital and fixed capital, which may be secured from three sources — owned capital, bank loans and advance & trade credit. In other words, different kinds of finances are short-term, medium-term, and long-term finance.

## Risk Taking

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Risk means loss due to some unforeseen situations. Risk bearing in marketing means the financial risk invested in the ownership of goods held for an anticipated demand, including the possible losses because of fall in prices and the losses from spoilage, depreciation, obsolescence, fire and floods or any other loss that may occur with the passage of time.

They may also be due to decay, deterioration and accidents or due to fluctuation in the prices induced by changes in supply and demand. The different risks are usually termed as place risk, time risk, physical risk, etc.

## Market Information

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The importance of this facilitating function of marketing has been recently marked. The only sound foundation on which marketing decisions depend is timely and correct market information.

Right facts and information minimize the aforesaid risks and thereby result in cost reduction. Even ultimate buyers need market information about availability of items, their quality standards, their prices and the after sale service facility.

# 5. Marketing — Environment

Marketing environment can be defined as the composition of all the factors affecting the market, marketing system and functions related to marketing.

## Types of Layers

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There are different layers of marketing environment. Each layer has special characteristics. Marketing environment has the following four layers:

- Organizational environment
- Marketing environment
- Macro environment
- Micro environment

## Organizational Environment

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An organizational environment consists of forces or institutions surrounding an organization that affect performance, operations and resources. It includes all of the key elements that exist outside of the company's boundaries and have the potential to affect a portion or all of the organization.

## Marketing Environment

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The market environment is a marketing term that refers to factors and forces that affect a company's behavior.

By the term company's behavior, we mean the company's ability to build and maintain successful relationships with customers, clients and all the people related to it.

## Macro Environment

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The term **macro** means **large**. Macro refers to large factors or vital factors like social factors, for example, male-female ratio, social changes, new lifestyle, or arrival of new thought. Examples of economic factors are per capital income, balance of payment, balance of trade, inflation rate, and gross domestic product.

Other factors like geographical, cultural, political, demographical and legal factors such as competitions and technology are also included in this environment.

**Examples:** Geographical distribution, distance from market, age, sex, literacy etc., cultural differences, cultural change, arrival of a new tradition, government decision-making, new plans, programs & policies, government support, political disturbances and so on.

## Micro Environment

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Here the word itself describes the meaning — micro means small. So, micro environment is a composition of small factors, inside factors/nearer factors like customers, mediators like wholesaler, retailer, supplier, other stakeholders who demand something from the organization, i.e., shareholders, debenture holders, creditors, debtors, moneylenders, etc.

Micro environment also involves factors like working conditions, employees, purchase groups, local community and pressure groups.

## 6. Marketing — Porter's Five Forces

Michel Porter is known for his marketing and management thoughts and skills. He contributed many valuable theories to the modern marketing management. Here we are going to see Porter's five forces model theory.

The model includes the following five forces:

- Potential entrants
- Bargaining power of suppliers
- Bargaining power of buyers
- Industry competitors
- Threat of substitutes



Let us discuss the five forces one by one.



## Potential Entrants

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It refers to the addition of new competitors in the existing market. As we know, for each product we have different options or we have different companies offering the same product with some slight variation in price, item etc.

Thus, potential entrants refer to the entrance of new companies in the market and ways to deal with it.

## Bargaining Power of Suppliers

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A supplier or producer is the one who produces the product desired or required by the market. The supplier is not necessarily a single person; it can be a group, company or anything.

The function of a supplier is to design products as per the requirement of the client, company, market and society.

## Bargaining Power of Buyers

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Buyer or consumer is the one who swaps the product designed by the supplier as per the demand of the buyer with some valuable commodity.

The function of a buyer is to be precise in what actually is needed and purchase it from the supplier, for example, buying a car or any other product.

## Industry Competitors

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The companies competing with other companies within the same market are known as industrial competitors.

For example, we can say that Lakme and Maybelline are industrial competitors as they are in the same market, i.e., cosmetic products.

## Threat of Substitutes

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The threat of a substitute paves way for competition in an industry. The threat of substitution in an industry affects the competitive environment for the firms in that industry and influences those firms' ability to achieve profitability. The availability of a substitution threat effects the profitability of an industry because consumers can choose to purchase the substitute instead of the industry's product.

# 7. Marketing — Planning

Marketing planning is the process of improvising a marketing plan incorporating overall marketing objectives and goals and designing strategies and programs of actions to achieve those objectives.

Marketing planning includes setting objectives and targets and allocating those targets to people responsible to achieve them. It also includes careful examination of all strategic issues, including the business environment, the market itself, the corporate mission statement, competitors and organizational capabilities.

Marketing planning is a sequence of stages that are usually followed in a format. Companies can adopt a marketing plan to suit the situations and their requirements. Marketing planning process includes both the development of objectives and specifications of how to achieve those objectives.

Let us now discuss the components of a marketing plan.

## **Mission**

It is the reason for which a company exists. Mission statement is a direct statement that shows why a company is in business, provides basic guidelines for further planning, and organizes broad parameters for the future.

Most of the useful mission statements encourage staff and customers.

## **Corporate Objectives**

Objectives are the set of goals to be achieved within a specified timeframe. Corporate objectives are essential goals the company as a whole wishes to achieve within a given timeframe such as one or five years.

## **Marketing Audit**

Marketing audit helps in examining and evaluating the marketing strategies, activities, problems, goals, and results.

It is done to check all the aspects of business directly linked to the marketing department. It is done not only at the initial state of marketing planning process but also at a series of points during the execution of plan.

## **SWOT Analysis**

The information collected through the marketing audit process is used for the development of SWOT Analysis. It is an analysis of the company's marketing efforts and its strengths, weaknesses, options, and warnings related to marketing functions.

## **Marketing Assumptions**

A good marketing plan depends on in-depth customer understanding and knowledge. However, it is not possible to know everything about the customer, and many different things are assumed about the customer. Example: Assumptions of who the target buyers might be.

## **Marketing Objectives and Strategies**

After identification of options and challenges, the next step is to develop marketing objectives that mark the end state to achieve.

Marketing strategies are formed to achieve the marketing goals and objectives. They are formed to determine how to achieve those target points.

## **Forecast the Expected Results**

Marketing managers have to predict the expected results. They have to project the future numbers, features, and trends in the target market.

Without proper forecasting, the marketing plan could have impractical goals or fall short on what is promised to deliver.

## **Create Alternative Plan**

An alternate or substitute marketing plan is created and kept ready to be executed in the place of the primary marketing plan if the whole or some part of the primary marketing plan is dropped.

## **Marketing Budget**

The marketing budget is the process of documenting the desired costs of the proposed marketing plan.

One common method is to allocate the marketing budget depending on the percentage of revenue. Other methods are comparative method, all you can afford, and task method.

## **Implementation and Evaluation**

At this stage, the marketing team is all set to put their plans into action. This may include spending money on advertising, launching new products, interacting with potential new customers, opening new retail outlets etc.

A marketing planning process is required to be verified and updated on a regular basis.

## 8. Marketing — Research

Marketing research can be defined as the development, interpretation and interaction of decision-oriented information to be used in all phases of marketing process.

Managers require information in order to introduce products and services that create value in the mind of the customer. But the perception of value is a rational one, and what customers prioritize this year may be quite different from what they prioritize next year.

As such, the elements that create priority cannot simply be deduced from common knowledge. Rather, data must be collected and examined. The goal of marketing research is to ensure the facts and direction that managers need to make their more essential marketing decisions. However, to increase the benefit of marketing research, those who use it need to understand the research process and its limitations.

### Global Market Research

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Global marketing is the process of adjusting an enterprise's marketing strategies to adapt to the situations in other countries.

Suppose we have a widget we would like to sell in Europe and we are developing our marketing plan. We need to make some strategic decisions like market segmentation, localization, strategic planning and so on.

Global market research is brings clarity on the following points:

- Decide whether to go overseas
- Get an idea about the competitive strength of global market
- Decide which market to enter with better information
- Provide knowledge about how to enter global market.
- Help in formulating marketing schedule, product decision, promotion, product pricing & selection of distribution channel.
- Help in marketing companies.

In short, we can conclude that global market research is necessary when one wants to expand the business globally, as to other countries.

## Marketing Research Vs. Market Research

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**Market research** precisely deals with collecting information about a market's size and trends whereas marketing research covers a range of activities and it may include market research.



**Marketing research** is a more general synchronized process that can be used to a variety of marketing problems. Marketing research by itself does not deal with marketing decisions, nor does it guarantee that the company will be successful in marketing its products. However, when conducted in a synchronized, systematic, analytical, and objective manner, marketing research can minimize the uncertainty in the decision-making process and increase the probability and magnitude of success.

## 9. Marketing — Research Process

After establishing marketing requirements, we need to establish the research process. Most marketing research projects include the following steps:

- Define the problem
- Determine research design
- Identify data types and sources
- Design data collection forms and questionnaires
- Determine sample plan and size
- Collect the data
- Analyze and interpret the data
- Prepare the research report

Let us take a look at all these steps one by one.

### **Problem Definition**

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The decision-making problem faced by management must be transformed into a market research problem in the form of questions that state the information required to make the decision and shows how that information can be obtained. For example, there could be a decision problem on whether to cast a new product. The corresponding research problem might be to appraise whether the market would accept the new product.

The objective of research should be stated clearly. To ensure that the true decision problem is addressed, it is useful for the researcher to outline possible outcomes of the research results and then for the decision maker to formulate plans of action under each scenario. The use of such outcomes can assure that the purpose of the research is agreed upon before it commences.

### **Research Design**

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After defining the issue in marketing research, we need to determine the research design. Marketing research can further be categorized into three following categories:

#### **Exploratory research**

This has the goal of formulating problems more specifically, clarifying concepts, and collecting explanations, gaining insight, removing impractical ideas, and forming hypotheses.

### **Descriptive research**

This is firmer than exploratory research and seeks to specify in brief uses of a product, determine the proportion of the population that uses a product, or predict future demand for a product.

### **Causal research**

This explores to search for cause and effect relationships between variables. It completes this goal through laboratory and field experiments.

Any one of the above types of research can be used to determine the best research design for the marketing research.

## **Data Types and Sources**

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Data types can be described as the different attributes on the basis of which a given data is classified into different categories or types. The data types and sources to be used can be divided as secondary data or primary data. Let us take a look at these data types.

### **Secondary Data**

Secondary data means the data that have been collected previously for other purposes but that can be used in the immediate study. Secondary data may be internal to the company like sales invoices and warranty cards or may be external to the company like published data or commercially available data. The government census is an important of secondary data.

Secondary data offers the benefit of saving time and minimizing data gathering costs.

The main disadvantage of this data type is that the data may not fit the issue perfectly and that the accuracy may be more difficult to check for secondary data than for primary data.

### **Primary Data**

Often, secondary data must be supported by primary data originated specifically for the study at hand. Some common types of primary data are demographic and socioeconomic features, psychological and lifestyle features etc.

Primary data can be obtained by interaction or by observation. Communication includes questioning respondents either verbally or in writing. This method is versatile, as one requires questioning for the information. However, the response may not be accurate or up to the mark.

Personal interviews have an interviewer partiality that mail-in questionnaires do not have. For example, in a personal interview the respondent's imagination of the interviewer may affect the responses.

## Questionnaire Design

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The questionnaire is an essential tool for collecting primary data. Poorly constructed questions can result in large mistakes and invalidate the research data, so considerable effort should be put into the questionnaire design.



The questionnaire should be tested completely prior to conducting the actual survey.

## Measurement Scales

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Marketing attributes can be scaled on nominal, ordinal, interval, and ratio scales:

- **Nominal** numbers are simply identifiers, with the only permissible analytical use being for counting. For example — social security numbers, pin code.
- **Ordinal** scales are used for scaling. The gap between the numbers conveys no meaning. **Median** and mode calculations can be done on ordinal numbers. For example, state ranking.
- **Interval** scales balance an equal interval between numbers. These scales can be used for ranking and for weighing the interval between two numbers. We know that the zero point is arbitrary and ratios cannot be taken between numbers on an interval scale. However, mean, median, and mode are all valid. For example — temperature scale.
- **Ratio** scales are hinted to an absolute zero value, so ratios between numbers on the scale have some meanings. **In** addition to mean, median, and mode, geometric averages are also valid in this measurement scale. For example — weight, height.

## Data Collection

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Data collection process introduces additional errors in the document. These errors are known as non-sampling errors. Some non-sampling errors may be intentional on the part of the interviewer, who may introduce partiality by directing the respondent to provide a certain response.



The interviewer also may introduce unintentional mistakes due to not having a clear understanding of the interview process or due to fatigue.

The occurrence of such non-sampling errors can be reduced through quality control techniques.

### **Data Analysis and Interpretation**

Before analysis can be performed, raw data must be groomed into the right format. First, it must be edited so that mistakes can be corrected or removed.

The data must then be coded; this procedure transforms the edited raw data into numbers or symbols. A codebook is made to document how the data was coded. Finally, the data is tabulated to count the number of events falling into various categories.

**Cross tabulation** is the most commonly used data analysis method in marketing research. This technique divides the sample into sub-groups to represent how the dependent variable varies from one subgroup to another. A third variable can be launched to uncover a relationship that was initially not evident.

### **Marketing Research Report**

The format of the marketing research report differs as per the requirements of the organization. The report often exhibits contents like enabling letter for the research, Table of Contents, list of explanations, results, limitations and so on.

# 10. Marketing — Consumer Behavior

Consumer behavior refers to the purchasing behavior of final customer or individual or household who buys goods & services for personal use. Customer behavior is very important as it supports product positioning, development of effective marketing strategy and enhancement of long-term customer relationship.



Consumer Behavior supports customer belief for performance, determines product features, formulates pricing policy and appreciates new product decision.

## Factors Influencing Consumer Buying Behavior

There are some factors that influence the buying behavior of a customer or what we can say as the customer's preference for buying a product.

Consumer behavior is basically dependent on the following four key factors:

- **Cultural factor** — Factors like culture, sub-culture, and social class.
- **Social factor** — Factors like reference group, secondary reference group, and family.
- **Personal factor** — Factors like age, sex, lifestyle, occupation, and financial status.
- **Psychological factor** — Factors like motivation, perception, belief, and attitude.

These are the main factors that influence the consumption and usage of any product in the market. Customers opt for some product primarily on the basis of these factors.

## Buying Motive

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Buying motive can be defined as the internal factor or condition that tends to start and sustain the buying activity. In short, buying motive is the reason a customer needs to purchase a product.

Buying motive can be of two types:

- **Product motive** refers to those effects and reasons, which induce a buyer to select a particular product in preference to other products. They include the physical appeal of the product, like the design, shape, dimension, size, color, package, performance, price etc.
- **Patronage motive** refers to those situations or reasons, which prompt a buyer to buy the desired product from a particular shop in preference to other shops. Patronage motive can further be subdivided as:
  - **Emotional patronage:** It includes factors like appearance of the shop, display of goods in the shop, imitations and many more.
  - **Rotational patronage:** It includes factors like convenience, price charged, services offered and many more.

# 11. Marketing — OBB

**Organizational buying behavior** (OBB) can be defined as the process of how companies or organizations buy goods and services. The buying behavior of an organization is a step-by-step process. It is not a one-night journey to launch a product and change the market behavior. It is a time-consuming procedure and is done in a synchronized manner.

OBB plays a very important role in the modern marketing concept. It is a well-defined and properly maintained marketing process with wide contact between the buyer and seller.

## Characteristic Features of OBB

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The major features that decide the buying behavior of an organization as a whole can be learnt from the following points:

- It is an analytical process.
- Number of individuals engaged is more.
- It handles large quantity marketing.
- Purchase criteria are precise and well defined.
- There is broad contact between buyers and sellers
- It includes user, influencer, decider, buyer and gatekeeper.

After seeing these features, we have an idea of the concept of organizational buying behavior. It is not always the money that decides what to buy but some other features apart from money are also very important.

## Determinants of OBB

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Determinants of OBB can be defined as the agents that originated OBB. There are two determinants of the buying behavior of an organization.

- **Organizational factors** like objective, technological capacity, company's structure, human resource criteria and many more.
- **Psychological factors** like perception, motivation, attitude, belief and many more.

After having a quick look on these determinants or agents of buying behavior of a firm, let us look at the participants of OBB.

## Participants of OBB

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Participants of OBB are the people involved, responsible and answerable in the buying behavior of an organization.

We can see the following seven different types of participants in OBB:

- **Initiator:** The one who initiates the buying of the product.
- **Influencer:** The one who influences others or, say, the organization, to buy a product.
- **User:** The one who is going to use the product.
- **Decider:** The one who decides if the product should be used.
- **Approver:** The one who permits or approves the use of the product.
- **Buyer:** The one who is going to buy the product.
- **Gatekeeper:** The one who watches the buying behavior.

Participants in OBB are responsible for their fields respectively.

## Steps of OBB

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Organizational buying is not an easy activity as most people think of it. The process of OBB consists of the following steps and each one is very important and affects the next one:

- Problem recognition
- General need
- Product specification
- Searching for potential supplier
- Value analysis
- Vender analysis
- Order routine specification
- Multiplicity surrounding
- Performance Reviews

## Stages in Organizational Buying Process

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Following are the stages in the organizational buying process:

- **Problem Recognition** – It is the first stage of the business buying process. In this stage, someone in the organization recognizes an issue or need that can be met by acquiring a good or a service.
- **General Need Description** – At this stage of business buying process, the organization briefs the general features and quantity of a needed product.
- **Product Specification** – At this stage of the business buying process, the buying company decides on the item and specifies the best technical product features for a needed item.
- **Value Analysis** – This stage involves an access to cost reduction, in which elements are studied carefully to select if they can be redesigned, standardized or made by less costly methods of production.
- **Supplier Search** – At this stage of the business buying process, the consumer tries to find the best sellers.
- **Proposal Solicitation** – In this stage of the business buying process, the buyer invites qualified suppliers or producers to submit the proposals or options they have.
- **Supplier Selection** – In this stage of the business buying process, the buyer reviews plans and chooses a supplier or suppliers.
- **Order-routine Specification** – This is the stage of the business buying process in which the buyer writes the final order with the selected supplier(s), enlisting the technical specifications, quantity required, expected time of delivery, return policies, manufacturing date and warranties.
- **Performance Review** – In this stage of the business buying process, the buyer rates his satisfaction with suppliers, deciding whether to continue, develop or drop them.

## Types of Organizational Market

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In order to facilitate the buying behavior of a market, we divide the organizational market into these four types.

### Product Market

Producers purchase items and services and transform them into a sellable product, which they sell to their customers for the purpose of gaining profit; this is known as product market. Examples of **producers** are farmers, manufacturers and construction companies.

### Retailer Market

The market for the sale of products or services to consumers instead of that to producers or intermediaries is known as the retailer market. For example, a shoe store sells to people who will most likely wear the shoes. It does not include the sale of the shoes to other stores who will resell them. The retail market contrasts with the wholesale market.

### **Government Market**

The market where the consumers are national, state, and local governments is known as the government market. Governments buy both products and services from the private sector.

Governments purchase the same types of products and services as the private sector consumers, in addition to some more exotic products such as aircraft carriers, fighter jets, tanks, spy satellites and nuclear weapons.

### **International Market**

The market where the marketing principles are applied to more than one country is known as the international market.

Market of product is decided by the product type. A product can be introduced to more than one market or the product can be specifically introduced at any single market type.

# 12. Marketing — Segmentation

Market segmentation can be defined as the subdivision of the market into compatible subsections of customers where any subsection may be selected as a market target to be reached with a unique marketing mix.



For example, Hindustan Unilever (HUL) produces a variety of products for different classes such as Surf Excel for higher class, Rin for middle class and Sunlight/Wheel for the lower class.

## **Objectives of Marketing Segmentation**

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The main objective of marketing segmentation or the goals to be achieved through marketing segmentation can be understood through the following points:

- To label potential customers
- To avail additional privileges for their customers
- To acknowledge the convenient place to purchase
- To pay additional benefits willingly
- To pay proper attention to some precise area



- To ensure proper database marketing usage
- To acknowledge real competition in the market
- To enhance productivity

These are the objectives an organization should keep in mind in order to design the marketing mix and increase its promotion. Let us move forward with the topic and have a look on the importance of market segmentation.

## **Importance of Segmentation**

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To achieve the objectives stated above, one has to clearly know the need of market segmentation in the first place. Following are some points outlining the importance of market segmentation.

- It promotes proper selection of target market.
- It assists planning and marketing exercises.
- It aids the tapping of market.
- Marketing effort is made more effective.
- It assists in accessing the strength and weakness of the company.
- It assists in effective usage of marketing resources.
- It balances proper coordination between the customers and the company.

Based on these points of importance of market segmentation, we will further look at the levels of market segmentation.

## **Levels of Market Segmentation**

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The level of marketing segmentation is dependent on the marketing plan of the marketer and the product attributes. There are four different levels of market segmentation.

- Segment marketing
- Individual marketing
- Niche marketing
- Local marketing

### **Segment Marketing**

In segment marketing, we divide the entire marketing into a bunch of customers with respect to some common characteristics. That common characteristics may be taste,

preference, choice etc. Segmenting this market is a very complex process as there are no criteria for the above attributes.

### **Individual Marketing**

In this case, the customers are targeted individually by e-mail, SMS, calls etc. However, in order to make this marketing successful, we have to reduce the degree of heterogeneity.

### **Niche Marketing**

In this type of segmentation, the small markets are targeted taking into consideration customer taste, preference, income and purchasing power.

In this type of market, we have to care for the bargaining power, the discounts, free gift, bonus points, free delivery, lucky coupons and post purchase voucher.

### **Local Marketing**

In this type of segmentation, generally the local markets are targeted.

The organizations try to create patriotism in the mind of the customer by following the slogan "See global, use local". Again they take help of low-cost advertisements, low transportation costs, frequent delivery, speedy services etc.

Marketing segment are determined depending on the targeted consumer groups for particular products.

## **Steps in Market Segmentation**

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Segmentation is the process of creating small portions within a broad market to choose the right target market for various brands. Market segmentation assists the marketers to devise and execute relevant strategies to sponsor their products amongst the target market.

A market segment consists of people who have identical choices, interests and preferences. They generally think on the same lines and are biased towards similar products. Once the enterprise selects on their target market, they can easily codify strategies and plans to make their brands fashionable amongst the consumers.

Let us now discuss the steps in market segmentation:

### **Identify the Target Market**

Identifying the target market means choosing the group of audience who could be a potential customer for the product. By identifying the target group, the marketing strategies can be prepared and products can be shaped.

For example: Different segments of cars are targeted at different consumer groups like the SUV for consumer who likes adventure and prefers outdoor road trips and the Sedan for luxury seeker consumer.

## **Identify Expectations of Target Audience**

Expectations of different audience vary as per their requirement from the product. The demand and requirement of the target consumer changes and the company should keep a track of it and change its strategy as needed. For example, Instant noodles are designed for consumers who don't have much time to cook.

## **Create Subgroups**

Creation of subgroup specifies the group it is targeted at and consumers from that group can easily relate to the product. This gives the product an edge in market over other products. For example, Face wash has created subgroups such as men and women and advertisements are made accordingly.

## **Review the Needs of the Target Audience**

It's important to review the needs of the target audience for upgrading the product or shaping the product as per the requirement of the audience. Consumers' demands change from time to time and the product has to adapt as per the changes in demand.

## **Name Your Market Segment**

Segments should be given an appropriate name so that the products in that segment can be easily identified.

For example: Stores have segments like Boy, Girl, Men, Women, etc., which gives the idea of the products in that segment.

## **Marketing Strategies**

Marketing strategies are meant to promote and advertise the product. They change as per the segment. Advertisements should be for the target audience so that there is a link between the product and the consumer.

## **Review the Behavior**

The review of target consumer gives an insight into the product. Demands vary differently at a particular time of the year and perception of product changes. By taking review of these behaviors, marketing can be planned accordingly.

## **Size of the Target Market**

It's important to acquire information about the market size and have relevant data for sales planning and forecasting. These steps have to be considered for segmentation of marketing and targeting the product at the potential customers.

# 13. Marketing — Demand Forecasting

Demand forecasting is an assumption of demand in future. By using demand forecasting, a company makes suitable plans for upcoming challenges or demands and takes suitable action to tackle that them.

Demand forecasting can be divided into the following two major types:

- **Short run forecasting** is made to fulfill short-term targets, like preparation of suitable sales policies to increase the sales or proper planning for inventory as per the required demand.
- **Long run forecasting** is assumption made for long-term targets like planning of capital or assets.

Short run and long run demand forecasting is used as per the requirement of the enterprise. These forecasting types are explained in further section.

## Steps in Demand Forecasting

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Following factors should be considered for assumption and fulfillment of short and long term demand forecasting.

- Identifying the most relevant method for forecasting.
- Predicting factors involved, which affect the demand of the product.
- Acquiring the data about the factors that affect demand.
- Finding the most suitable relation among independent variables and dependent variables.
- Preparing the demand forecast and analyzing the results.
- Demand forecasting can be accomplished by following the above steps.

The tools or methods used to forecast demand are of the following two types:

- Quantitative techniques
- Qualitative techniques

## Quantitative Techniques

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These techniques are used for both short run and long run forecasting; however, for short and long run forecasting, this method can further be sub divided as per forecasting type. The following are the tools for short-run forecasting:

## Moving Average Method

This method is used to plot a trend in the demand. In this, average demand of different time frame is taken (for example, 2 years, 3years, etc.) for getting an assumption of future demand.

**Example: Find the 3 yearly moving averages of the following:**

Year	Production
1999	42
2000	46
2001	47
2002	39
2003	54
2004	65
2005	66
2006	60

**Solution**

Year	Production	3 Yearly MT	3 Yearly MA
1999	42	-	-
2000	46	136	45.33
2001	48	133	44.33
2002	39	141	47
2003	54	158	52.67
2004	65	185	61.67
2005	60	-	-

## Exponential Smoothing Method

This method is mostly used for short-term forecasting. It is derived from moving average and modified. It is based on weighted averaged of observed value. It smoothens the trend where weighted value remains between 0 and 1.

- $St = W.Yt + (1-W). St-I$  [ $St$ = Current smoothened value (predicted)]
- $Yt$  = Current observed value.
- $W$  = weighted value or rate of trend.

## Time Series Analysis

Time series analysis is commonly used for long term demand forecasting. The following are some of its components:

- Seasonal variation
- Cyclical variation
- Random variation
- Irregular variation

To measure the components of time series, the following three methods are used:

- Semi Average Method
- Moving Average Method
- Method of Least Square

These methods can be used for time series analysis as per demand forecasting requirement of an enterprise.

## Econometrics Method

This method for demand forecasting is an analytical method. In this method, different methods of economics and mathematics are used to forecast the demand.

This method provides the liberty to assume multiple variables so it is more accurate in real business situations.

This method is based on the following criteria:

- Demand for a product is based on several factors.
- The determinants are independent variables but the demand is the dependent variable.
- There is a constant interaction between demand and its determinants.
- There is a constant interaction between the independent variables. The independent variables are divided into two types — **Exogenous** (non-economics) and **Endogenous** (economics).

This type of interaction can be estimated by statistical method. The forecast is divided into the set of linear or non-linear equations. These principles should be taken into consideration while using the econometrics method for demand forecasting.

## Qualitative Techniques

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Let us now discuss some of the qualitative techniques of Demand Forecasting:

### **Buying Intention Survey Method**

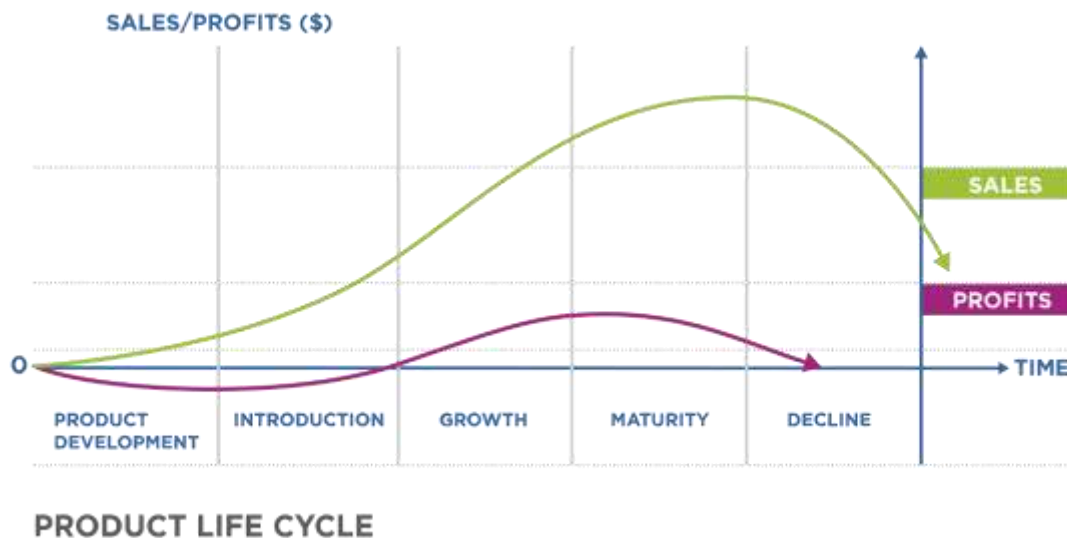
In buying intention survey method, the survey is conducted on the product; several questions regarding the product are formulated. The participants are asked for reviewing/rating the product based on different criteria like taste, preference, cost, expectation, etc. These reviews are summarized and a report is prepared for consumer demand of the product.

### **Sales Force Opinion Method**

In sales force opinion method, different territorial sales demands are collected to forecast the demand of a product. Then individual territory demand is combined to produce a final report of the market demand. This method is difficult to execute due to improper skill of salesmen. However, with appropriate skills, accurate predictions can be forecasted.

# 14. Marketing — Product Life Cycle

Product life cycle is the timeline of demand for the product from its initial stage of introduction.



Let us now discuss the various stages of a product, starting from its innovation to its decline stage.

## Stages of Product Cycle

Product life cycle can be defined as the life cycle of the product. It means the various stages a product sees in its complete life span.

Product life cycle comprises of the following four stages:

- Introduction or innovation
- Growth
- Maturity
- Decline

Let us start by describing the first stage we have in the product life cycle, that is, the introduction stage.



## Introduction Stage

The product is introduced in the market in this stage; it is the initial stage of the product.

- Sales of the product are low in this stage because there may not be a need of the product in the market.
- The product may undergo brand trouble.
- In this stage, there is very little or no profit.
- The demand for the product is created and developed in this stage.

After this initial stage, the next stage of the product is the growth stage.

## Growth Stage

In this stage, the demands and market share increases as well as competition emerges in the market.

- Generally, the price remains constant in this stage.
- Marketing and promotional expenses increase.
- There is rapid increase in sales.
- The manufacturing cost decreases so there is increase in profit margin.
- It penetrates other market segment.

In the growth stage, there is a boom in the demand of the product and the profit increases substantially.

## Maturity Stage

The price of the product is comparatively low, but the advertisement and promotion cost increases in this stage.

- This stage remains for a comparatively longer duration.
- In this stage, there is high competition.
- Profit is decreased.
- Sales growth can be divided into the following three categories in the maturity stage:
  - Growth
  - Stability
  - Decay

In growth, there is an increase in the demand of the product. In stability, the demand of the product remains constant. In decay, there is a slight decrease in the demand.

## Decline Stage

There is a decrease in sales in this stage. Demand of product also decreases.

- There is decrease in the price of the product.
- Margins are lowered.
- There is introduction of new product in market.
- New strategies are implemented.

This is the final stage of the product. There is a decrease in demand and sales of the product.

## Importance of Product Life Cycle

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Product life cycle is an important tool for market forecasting, planning and control. Product life cycle is important in various ways. The situation of the product can be analyzed properly and changes can be made in order to increase profit. Some other important features are:

- Helpful in formulating a proper product policy, production and pricing.
- Helpful in modifying the marketing policy.
- Helpful to the marketer regarding competition.
- Cautions the management about the decline stage of the product.

## New Product Development Process

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If a company needs to launch a new product in the market, there is a different development process to be considered. The following are the factors contributing to new product development:

- Demand in market
- Acceptance of a product in the market
- Acceptance of company strategy in market
- Economic viability of the product
- Changing the product as per consumer preference
- Adapting as per technological development
- Consideration of Government Policy

The development process has to consider these different perspectives for product development and has to adapt as per the market demand.

## Stages of New Product Development

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The following are the different stages of new product development:

- **Stage 1:** Generation of new product ideas
- **Stage 2:** Screening and evaluation of ideas
- **Stage 3:** Development and testing of concept
- **Stage 4:** Development of advertisement and promotion strategies
- **Stage 5:** Analysis of business
- **Stage 6:** Development of product
- **Stage 7:** Testing product in market
- **Stage 8:** Commercialization of the product

Development of a new product follows a long process, from the generation of an idea to the commercialization of the product in the market.

# 15. Marketing — Branding of a Product

Branding can be the name, logo, concept, etc., which differentiate the product or service from the other competitors in the market.

## Reasons for Branding

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Branding is aimed at promoting your own product. Let us now see why branding a product is essential.

- It makes the promotion process easy.
- It increases the rate of success in advertising.
- It creates an image of the product in customers' minds, which he/she can relate to.
- Brand signifies the organization.
- Brand creates product loyalty and stabilizes sales.
- It differentiates the product from other competitors in market.
- It makes the introduction of a new product easier.
- Branding creates a difference from other products, which helps to tackle price competition.

Branding of a product has many upsides; by creating a brand, the product can be stabilized in the market for a longer duration.

## Branding Strategies

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Branding strategy can be divided into the following two types:

- Producer strategy
- Middleman strategy

### Producer Strategy

The following need to be considered for producer strategies:

- Marketing under producer's brand
- Developing a market preference for branded parts or materials
- Marketing the product under a renowned middleman brand

This strategy is used by the companies or manufacturers to build a brand.

## Middleman Strategy

In this strategy, the manufacturer uses a known distributor brand to advertise the product.

- It is the middlemen or distributor brand policy.
- It is used by companies without adequate finance for advertisement and promotion.
- This can be an advantage to the producer in market.



## Positioning a Brand

Positioning a brand means occupying a unique place in the minds of the consumers. The following are the various ways for positioning a brand:

- Taking benefit from a trending situation
- Connecting various uses
- Positioning according to consumer lifestyle
- Advertising the benefits
- Accruing a competitive position
- Benefits offered by the product

Positioning a brand creates an image in the customers' minds, which one can relate to. It increases the sales of the product.

# 16. Marketing — Brand Equity

Brand equity can be described as the value of a well-established brand name. A product of a popular brand can generate more revenue as compared to an unknown brand. Consumers have a perspective that a product from well know brand will be better in terms of quality than others. This gives an advantage to a branded product over an unknown product.

## Elements of Brand Equity

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Brand equity valuation is difficult and doesn't have any basic criteria. Some of the elements associated to it include:

- Consumer loyalty
- Awareness of brand
- Quality of product
- Association with brand
- Proprietary assets owned by the brand

Elements of brand equity add a value to the brand; a successful brand has all the elements of brand equity.

## Brand Benefits

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A brand has various advantages compared to unknown products. Some of the benefits are as follows:

- It increases customer confidence in purchasing decision
- It increases efficiency and effectiveness of advertisement and promotion
- Brand loyalty is increased
- Products can be priced higher for bigger margin and higher Return On Investment (ROI)
- Extension of brand
- Leverage in trade
- Unique position of brand

## Packaging

Packaging is a method used to protect the product from external factors during transportation or storage. Depending of the nature of product, the packaging can differ.



At the same time, packaging creates a first impression on the consumer so it should be designed accordingly.

## Characteristics of Packaging

The characteristics or different features of packaging can be listed as follows:

- Attractive packaging
- Identity of product
- Development
- Sustainability of product
- Looks genuine
- Reveals image of brand



Packaging gives an overview of the product so these characteristics should be considered during the design of packaging.

## AIDAS Formula

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AIDAS theory is a very popular marketing technique. It states that a consumer goes through the following five stages before showing satisfaction for a product.

- **A** — Attention
- **I** — Interest
- **D** — Desire
- **A** — Action
- **S** — Satisfaction

These stages are to be evaluated and kept in perspective during the packaging design of the product.

## Packaging Strategies

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The design of packaging can provide an advantage in the market over similar category product. The following are the different strategies for effective packaging:

- Packaging of product line
- Multiple packaging
- Changing the package

Proper execution of packaging strategies can increase the attractiveness and durability of the product.

## Labeling

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Labeling is the process of marking an identity on the product. The information used for labeling contains the following details:

- Name and address of the manufacturer
- Name and address of the distributor
- Maximum Retail Price (MRP) of the product
- Manufacturing date of the product
- The method used to manufacture
- Ingredients used
- Precaution details
- Quantity
- Expiry date



The information provided in labeling is important because of various reasons like tracing the origin of the product, genuinity of product, etc.

## **Product Mix**

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Product mix refers to all the products offered by a particular company. As an example, Reliance Industries has products like cellular service, power, entertainment, etc. Hence, a strategy should be planned such that the uniqueness of the product can be established.

## **Positioning the Product**

It includes positioning in relation to competition, positioning with attributes, and positioning in relation to price and quality of other products in the segment. The product has to be positioned as per these factors in their respective sectors.

## **Product Mix Expansion**

It includes Product depth and product line. These are the dimension of the product mix. It depends on the number of products manufactured by a company.

## **Planned Obsolescence**

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Planned obsolescence is a strategy to create space for a new product with the help of advertisements showing an existing product to be out of date or fashion. This strategy is therefore considered controversial. However, it creates a void, which can be filled with a new product satisfying the thirst of newness.

Planned obsolescence is of the following two types:

- Technological obsolescence
- Style obsolescence

These strategies are used to create a void for a newer product.

# 17. Marketing — Pricing Decision

Pricing is a process to determine what manufacturers receive in exchange of the product. Pricing depends on various factors like manufacturing cost, raw material cost, profit margin etc.



## Objectives of Pricing

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The main objectives of pricing can be learnt from the following points:

- Maximization of profit in short run
- Optimization of profit in the long run
- Maximum return on investment
- Decreasing sales turnover
- Fulfill sales target value

- Obtain target market share
- Penetration in market
- Introduction in new markets
- Obtain profit in whole product line irrespective of individual product profit targets
- Tackle competition
- Recover investments faster
- Stable product price
- Affordable pricing to target larger consumer group
- Pricing product or services that simulate economic development

Pricing objective is to price the product such that maximum profit can be extracted from it.

## **Factors Influencing Pricing**

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Pricing of a product is influenced by various factors as price involves many variables. Factors can be categorized into two, depending on the variables influencing the price.

### **Internal Factors**

The following are the factors that influence the increase and decrease in the price of a product internally:

- Marketing objectives of company
- Consumer's expectation from company by past pricing
- Product features
- Position of product in product cycle
- Rate of product using pattern of demand
- Production and advertisement cost
- Uniqueness of the product
- Production line composition of the company
- Price elasticity as per sales of product

Internal factors that influence pricing depend on the cost of manufacturing of the product, which includes fixed cost like labor charges, rent price, etc., and variable costs like overhead, electric charges, etc.

## External Factors

The following are the external factors that have an impact on the increase and decrease in the price of a product:

- Open or closed market
- Consumer behavior for given product
- Major customer negotiation
- Variation in the price of supplies
- Market opponent product pricing
- Consideration of social condition
- Price restricted as per any governing authority

External factors that influence price depend on elements like competition in market, consumer flexibility to purchase, government rules and regulation, etc.

## Pricing Methods

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Let us now discuss the various pricing methods:

### Cost plus Pricing

Cost plus pricing can be defined as the cost of production per unit of product plus profit margin decided by the management.

**Step 1:** (Calculation of average variable cost)

**Step 2:** (Calculation of average fixed cost), i.e.,

$$AFC = \frac{\text{Total Fixed Cost}}{\text{Units of Output Products}} \quad \text{or,}$$

$$AFC = \frac{\text{Total Fixed Cost}}{\text{Expected Unit Sales}}$$

**Step 3:** (Determination of the desired profit margin)

Selling Price = Unit total cost + Desired unit profit

i.e., Selling Price = AVC + AFC + Mark up

i.e.,

$$\text{Selling Price} = \frac{\text{Unit Total Cost}}{1 - (\text{Desired Profit Margin})}$$

These are the steps one needs to follow to calculate cost plus pricing.

### Break Even Analysis

It is a point when the investment and revenue of an enterprise is equal; after this point an enterprise gains profit.

### Prices Based on Marginal analysis

In this method, additional cost of that activity is compared to additional profit and the price is calculated according to margin cost. Thus, the cost and price is evaluated and as per the result, the price is decided so as to maximize the profit.

## Pricing Strategies

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Let us now understand the various pricing strategies:

### Skimming Pricing

In this method, a new product is introduced in the market with high price, concentrating on upper segment of the market who are not price sensitive, and the result is skimmed.

### Penetration Pricing

In penetration pricing, a product is introduced in the market with a low initial price. The price is kept low to increase target consumer. Using this strategy, more consumers can be penetrated or reached.

### Discounts and Allowances

Discounts are provided in order to increase the demand of product in the market. The main points to be considered to offer discounts are as follows:

- Discount in quantity
- Discount in trade
- Discount in cash
- Other discounts like seasonal, promotional, etc.

### Geographic Pricing Strategies

Geographic pricing strategy is used to price product as per its geographical location. As the distance increases from the point of production, the cost of the product increases.

The main points to be considered under this are as follows:

- Point of production pricing strategy
- Uniform delivery pricing strategy
- Zone delivery pricing strategy
- Freight absorption pricing strategy

### **Special Pricing Strategies**

Special pricing strategy is mostly used for the promotion of the product. In this strategy, pricing is changed for a short interval of time. These strategies can be lined up as follows:

- One price strategy
- Flexible price strategy
- Flat rate pricing strategy
- Single price strategy
- Odd pricing
- Leader pricing
- High low pricing
- Resale price maintenance
- Everyday low pricing
- Price lining

# 18. Marketing — Promotion Decisions

Promotion decision is used to find the appropriate and effective method to promote a particular product to increase the sales.

## **Integrated Marketing Communication**

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Integrated marketing communication (IMC) is a continuous effort to plan, execute and evaluate techniques for selling or advertising a product by using traditional and non-traditional methods of promotion.

The following are the major features of promotion decisions:

- Awareness of target consumer and their preference of media
- Knowledge of consumers' beliefs that can be related to the product to get the expected response
- Setting different promotional tools, each tool for specific target but all linked to acquire a common target
- Coordinating of advertising, sales, promotion and public relation as proportional strategy
- Continuous broadcasting of information about the product

Promotion decisions are made on the basis of characteristics. Such decisions help in target marketing of the product; this decreases the advertising expenses.

## **Marketing Communication Process**

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Marketing communication process comprises the following eight stages:

- **Stage I:** Source
- **Stage II:** Encoding
- **Stage III:** Transmission
- **Stage IV:** Decoding
- **Stage V:** Receipt
- **Stage VI:** Response
- **Stage VII:** Feedback

The source is the information which is introduced for the promotion while the feedback is provided by the consumer, which is evaluated and changes are made for promotion.

## Promotion Decisions

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Special pricing strategy is mostly used for the promotion of the product. In this strategy, pricing is changed for a short interval of time.

Promotion decision can be executed by implementing the following steps:

- **Step 1:** Setting of the objectives
- **Step 2:** Determining promotion budget
- **Step 3:** Target Market
- **Step 4:** The appeal
- **Step 5:** Promotion Mix

## Promotion Mix

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Promotion mix is a combination of various marketing techniques, oriented to acquire a common target. It provides a structure for budget allocation for different elements of the promotional mix.

Some elements of promotional mix are as follows:

- Advertising
- Sales promotion
- Public relations and publicity
- Personal selling
- Direct marketing
- Type of product market
- Overall marketing strategy
- Buyer readiness stage
- Product life cycle stage

## Direct Marketing

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Direct marketing is a form of marketing in which a single customer is approached for advertisement of the product.

It attempts to acquire and retain customers by contacting them without the use of an intermediary. The objective of direct marketing is to garner a direct response, which may take one of the following forms:

- A purchase over the telephone or by post
- A request for a catalogue or sales literature



- An agreement to visit a location / event (e.g., an exhibition)
- Participation is some form of action (e.g., joining a political party)
- A request for a demonstration of a product
- A request for a sales person's visit

## Forms of Direct Marketing

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The following are the different forms of direct marketing:

- Catalogue marketing
- Direct mail marketing
- Telemarketing
- Teleshopping /home shopping
- Database marketing
- Kiosk marketing

In these methods, the product is advertised directly to the potential customers by approaching them.

# 19. Marketing — Distribution Channels

A distribution channel is the route through which goods or services move from the company to the customer or the transfer of payment happens from the customer to the company.

Distribution channels can mean selling of products directly or selling through wholesalers, retailers etc. The same applies for payment transfer from customers to company; it can move through a path or can be sent directly to the company.

## Functions of Distribution Channels

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Distribution channels basically function to deliver goods from the manufacturer to the customer.

The following are the functions of distribution channels:

- Facilitate selling by being physically close to customers
- Gather information about potential and current customer competitions, other factors and forces of the environment
- Provide distributional efficiency by bridging the gap between the manufacturer and the user efficiently and economically
- Assemble products into assortments to meet buyers' needs
- Match segments of supply with segments of demand
- Assist in sales promotion
- Assist in introducing new products
- Assist in implementing the price mechanism
- Assist in developing sales forecast
- Provide market intelligence and feedback
- Maintain records
- Take care of liaison requirements
- Standardize transaction

## Objectives of Distribution Channels

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Objectives of a distribution channel are planned as per the target of the enterprise and executed respectively. The following are the various objectives behind the planning of distribution channels:

- To ensure availability of products at the point of sale
- To build channel member's loyalty
- To stimulate channel members to put greater selling efforts
- To develop management efficiency in channel organization
- To identify the organization at the level
- To have an efficient and effective distribution system for making the products and services available readily, regularly, equitably and fresh.

## Major Channels of Distribution

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Here is a list of some of the major channels of distribution:

- Manufacturer → Consumer
- Manufacturer → Retailer → Customer
- Manufacturer → Wholesaler → Customer
- Manufacturer → Wholesaler → Retailer → Customer
- Manufacturer → Agent → Retailer → Customer
- Manufacturer → Agent → Wholesaler → Customer
- Manufacturer → Agent → Wholesaler → Retailer → Customer

Profit distribution decreases as the channel length increases.

## Designing Distribution Channels

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We have seen what a distribution channel is. Let us now see the designing process of a distribution channel.

The following steps are involved in the designing of a channel system:

- Formulating the channel objectives
- Identifying the functions to be performed by the channel

- Analyzing the product and linking the channel design to the product characteristics
- Evaluating the distribution environment, including legal aspects
- Evaluating competitor's channel designs
- Evaluating company resources and matching the channel design to the resources
- Generating alternative designs, evaluating them and selecting the one that suits the firm best

## **Classification of Wholesalers**

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A wholesaler purchases from the manufacturer and further distributes the product to customers or retailers. Wholesalers can be classified into the following categories as per area of functioning:

- Merchant wholesalers
- Agents and brokers
- Manufacturer's sales branches and offices

# 20. Marketing — Physical Distribution

The planning, implementation, and controlling of the physical flow of material or product from one point to another to meet the customer requirements in the market is known as physical distribution.

## Importance of Physical Distribution

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The importance of physical distribution becomes significant when the manufacturers and market are geographically far from each other. The following points highlight the importance of physical distribution:

- Execute physical flow of product from the manufacture to the customers.
- Grant time and place for the product
- Build customer for the product
- Cost reduction
- Fulfill the demand of the product in the market so that business takes place

## Steps in Designing a Physical Distribution System

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To design a physical distribution system for a product, following steps need to be followed:

- **Step 1:** Defining distribution objective and services required for product distribution
- **Step 2:** Articulating customer requirement
- **Step 3:** Comparing the strategy with market competitors
- **Step 4:** Managing the cost of distribution to decrease cost without compromising on the quality of service
- **Step 5:** Building physical distribution system that is flexible for implementation of changes, if required

Designing of a physical distribution system involves these steps. It is necessary to consider all steps involved for smooth distribution of goods and services.

## **Components of a Physical Distribution System**

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Physical distribution can be controlled and monitored by its different components. Each component should be evaluated and managed in order to accomplish physical distribution without any problems.

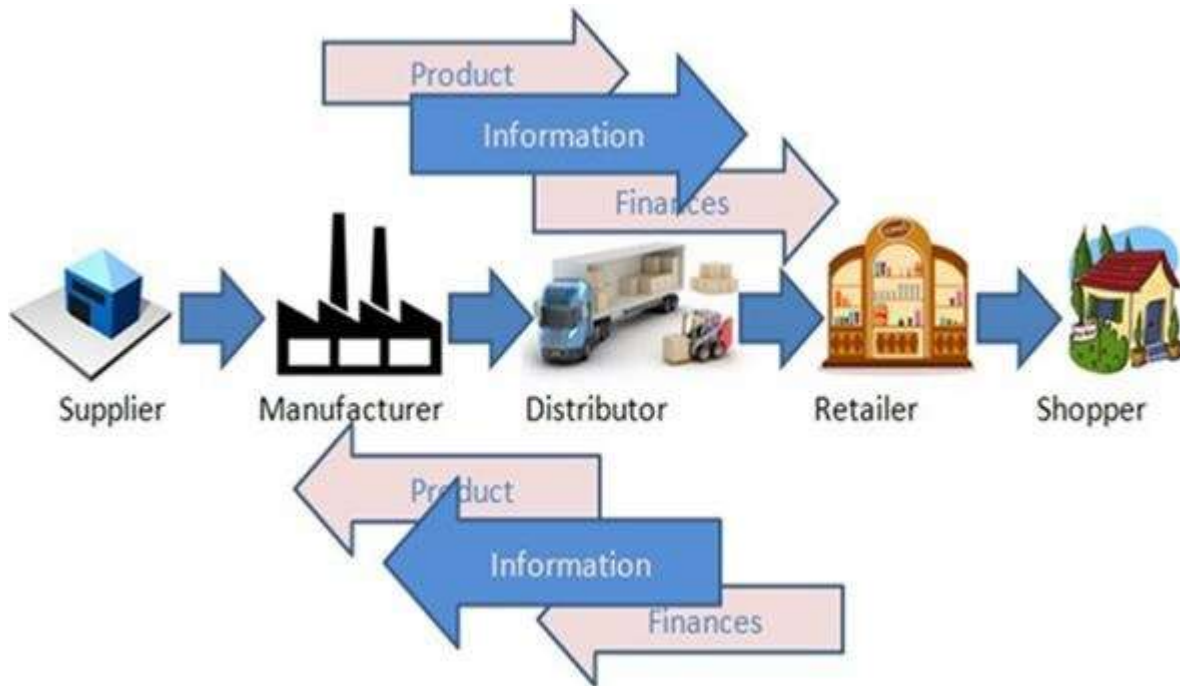
The following are the different components of the physical distribution system:

- Planning of physical distribution system
- Storage planning in plant
- Logistics
- Warehousing on field
- Receiving
- Handling
- Sub distribution of product
- Management of inventory at various levels
- Execution of order
- Accounting transactions
- Communication at different levels

## **Supply Chain Management (SCM)**

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Supply Chain Management (SCM) involves managing of goods and services. It includes different stages like storage of goods, logistics and supply of goods to the customer after manufacturing.



It can also be referred as the combination of materials management and product distribution of an enterprise.

### Advantages of SCM

Supply chain management increases the flexibility and efficiency for the logistics of a product. The following are the advantages of supply chain management:

- It increases the efficiency to deliver on time by approximately 20 %.
- It reduces inventory requirement by approximately 50 %.
- It increases the sales of product from 3 to 6 %.
- It provides integrated controlling for the function of logistics at the front and back end of business.

### Disadvantages of SCM

The following are the disadvantages of supply chain management:

- It considers material management important and customer requirement for logistics as superfluous for the supply cycle.
- Consequently, customer requirement for logistics is not executed with high importance.

Thus, supply chain management has both advantages and disadvantages and both have to be considered for implementation in an organization.

# 21. Marketing — Advanced Topics

## E-Marketing

E-Marketing entails advertising a product using digital medium. In the recent years, digital devices have developed rapidly and are now commonly used, creating a new medium for advertising. At the same time, internet services have become affordable for mass consumers.

E-Marketing has many benefits compared to traditional marketing, for example, a large number of potential consumers can be reached in a shorter span of time. The comparison between e-marketing and traditional marketing is explained in the next section.

### E-Marketing Vs. Traditional Marketing

Let us now understand the difference between E-Marketing and Traditional Marketing:

<b>E-Marketing</b>	<b>Traditional Marketing</b>
It is an economical and faster way of promoting a product.	It is comparatively expensive and time consuming.
Products can be advertised globally because of less time involved.	Coverage of promotion is limited because of the time involved.
The number of employees required is fewer.	It requires more employees than e-marketing, which results in higher costs of marketing.
E-marketing provides time flexibility for a customer, so one can make a transaction any time.	Flexibility is not commercially viable.
Costs involved are reasonable.	Costs involved are not reasonable.

## Green Marketing

Green marketing is marketing of products that are ecofriendly and don't damage the environment. To make a product ecofriendly, there is a wide range of activities to be performed like product modification, change in production techniques, change in packaging, etc.



Green marketing appeals to environment-concerned consumers and it also reflects the business ethics of an organization.

## **Services Marketing**

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Services marketing is marketing of service-related businesses.

It is marketing of some activity or experience provided by the business. While marketing such services, the focus should be on the value of delivery and reputation of the organization.

### **Components of Services Marketing**

Services marketing has grown rapidly over the years. In this segment, the quality of service has great importance for attracting and retaining customers. The following are the components of service marketing:

- Knowing the features of the service
- Shaping the service accordingly
- Targeting the present and potential customers
- Target advertising
- Price determination
- Promotional requirements
- Creating an efficient delivery system
- Evaluating quality of service
- Determining effectiveness of the product mix and using it efficiently
- Collecting customers' reviews for improvement in service

## **Customer Relationship Management**

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Customer relationship management is about building relations between customers and enterprises. It gives a huge competitive benefit from other competitors in the market; the customer relationship management increases customer loyalty. It gives the company a tactical advantage in long-term because loyalty of customer can lead to consistent profit and it can be achieved by quality service.

Customer relationship has proved to increase customer loyalty, which can mean huge profits in long-term. This can further be improved through the following process:

- Storage and management of data
- Organizational structure creation and management

- Responding to customer queries and complains in real time
- Workforce that can deal with customers with training in the product and organization ethics

## Rural Marketing

Rural marketing is a process of marketing products for the outskirts or rural areas. This segment of market is very price sensitive but comprises a very large consumer group.



### Importance of Rural Marketing

The consumer group of this segment is very large and has lot of potential in terms of growth. This segment of market has expanded rapidly and has great overall purchasing power and has made an impression in economy.

The following are the important reasons for the emergence of rural marketing:

- Rural market offers new opportunities for the product as there is less competition in these areas.
- Changing lifestyles in rural areas is creating a demand for various products.
- Transport and communication development is providing a framework for viable marketing.

- The rural market size is huge and it is growing rapidly with 25 % per year.
- Economic growth has created a demand for different kinds of products in rural areas.

Rural marketing is growing rapidly and this growth creates a wide opportunity for an organization.