Marketing Principles

Sub Code 551

S.P MANDALI'S
weschool
Welingkar Education

Developed by
Prof. S.A. Sherlekar
Prof. R. Krishnamoorthy

On behalf of
Prin. L.N. Welingkar Institute of Management Development & Research

Printed and Published on behalf of Prin. L.N. Welingkar Institute of Management Development & Research, L.N. Road, Matunga (CR), Mumbai - 400 019.

NOT FOR SALE. FOR PRIVATE CIRCULATION ONLY. 1st Edition, December 2016

Contents

Chapter 1

NATURE AND SCOPE OF MARKETING

Objectives:

After studying this Chapter, you should be able to:

- Understand the concept and classification of market
- Understand the concept of marketing
- Study the approaches to marketing
- Know the traditional and modern concepts of marketing

Structure:

1.1 Introduction
1.2 Market
1.3 Marketing
1.4 Summary
1.5 Self Assessment Questions

1.1 INTRODUCTION

Our country, with a population of over 120 crore is one of the biggest markets in the world. Our economy, based on socialist pattern of growth and development, has moved away from License Raj and centrally controlled system to free economy. These reforms in the form of liberalisation, deregulation, relaxation of trade and investment controls and privatisation have led to increase in exports and foreign exchange reserves, higher competition and efficiency in the market place and availability of a variety of goods and services. The result has been a sharp rise in income and consumption, especially among the growing middle class in urban and rural areas. The economic policies have resulted in major changes in the marketing environment of the country.

In olden days, goods were produced based on actual demand and hardly any marketing effort was required. The job of the salesperson was simply to book orders. Remember the days when a person had to make advance payment for a scooter or car and wait in the queue for the delivery! Similarly the consumer had to wait for years to get telephone connection. There was a craze for foreign goods such as wrist watches, transistors, television sets, cameras and non-resident Indians returning from Gulf countries used to bring consumer durables which were in high demand in domestic market. To-day the market situation has completely changed and high quality branded goods are available in domestic market. With liberalisation, production and availability of goods have increased manifold and the consumer can select from a wide range of products and services available in the market. The competition is increasing in the market place and companies are wooing the consumers with discounts and schemes.

The rise in income coupled with increased awareness and the need for possessing modern goods have influenced the marketing environment and the market has changed radically during the last fifteen years. Our country is emerging as a large market for a number of goods and services such as consumer goods, durables, financial services, education, health care, telecommunication and the list continues.

The return of multinationals such as Coca-Cola and IBM to India and entry of many other MNCs such as General Electric, Pepsi, Motorola, Proctor & Gamble, Nokia, LG, Ford, Hyundai, Sony, Samsung clearly proves that India has a vast market… rising incomes… a booming middle class, rising rural elites with adequate purchasing power, offering long-term opportunities for Indian as well as foreign industries.

There is a definite shift from sellers' market to buyers' market, from Caveat Emptor (Buyer Beware) to Caveat Vendor (Seller Beware). The essence of marketing concept is that the consumer shall be the centre or the heart of the entire business system. It emphasises consumer-oriented marketing process. All business operations revolve around consumer satisfaction and service. Marketing concept advocates serving the consumers and maximising profits at the same time. Guaranteed route to profits is through customer satisfaction. Profit is a by-product of supplying what the customer wants.

Therefore, marketing is considered the most important activity as it provides goods and services to the society and generates revenue for the organisation.

1.2 MARKET

- **Meaning of Market**

The word 'market' is derived from the Latin word "Marcatus" meaning goods or trade or a place where business is conducted. Traditionally market refers to a physical location where buyers and sellers gather to exchange their goods. In the market, ownership and possession of products are transferred from the seller to the buyer and money acts as a medium of exchange and measure of value. Economists describe a market as a collection of buyers and sellers who transact over a particular product or service. Marketers view sellers as the industry and the buyers as the market. Business people use the term market to refer to various grouping of customers such as Product market (**Example:** Television market), Geographic market (**Example:** African market) or Non customer group such as Labour market. However the term has a wider meaning and it is not confined to a particular area or place where buyers and sellers meet to exchange goods. It is now generally used to mean any body of persons who are in intimate business relations and carry on extensive transactions in any commodity. Let us see a few definitions of market.

1. According to Philip Kotler, "A market consists of all the potential customers showing a particular need or want who might be willing and able to engage in exchange to satisfy the need or want."

2. According to William J. Stanton, "A market may be defined as a place where buyers and sellers meet, goods and services are offered for sale and transfer of ownership occurs."

3. The American Marketing Association defines a market as "the aggregate demand of the potential buyers for a product or service." The term market as a group of persons is also used to represent the total customer demand. In this sense, market means people with needs to satisfy, the money to spend and the will to spend money to satisfy their wants.

It is quite clear from the above definitions, that "Market" does not necessarily mean a physical place. It is an area in which forces of demand and supply operate directly or by means of any kind of communication to bring about transfer of the title of the goods.

- **Concepts of Market**

1. **Place Concept:** A market is a convenient meeting place of buyers and sellers to gather together in order to conduct buying and selling activities. It is a physical location where things are bought and sold and where buyers and sellers personally meet to affect purchase and sales.

   Examples: Vegetable/Fruit market.

2. **Area Concept:** A market develops in any area, small or large, the moment there are three pre-requisites for exchange: (a) Two or more individuals have unmet wants, (b) They have products to meet the demand, and (c) They have some means of communication such as telephone, fax, correspondence, electronic mail or Internet. With the means of communication, forces of demand and supply can freely operate to determine the prices and buyers and sellers can establish close and continuous contacts to carry on the exchange of products without formal face-to-face meeting.

Example: Money market is a highly organised market for the entire nation without any central meeting place for borrowers or lenders of money.

3. **Demand Concept:** Today, a market is equated with the total demand. Hence, market means a group of people having unmet wants, purchasing power and the will to spend their income to satisfy those wants.

   Example: The domestic market for Pharmaceutical products was Rs. 40,000 crore (2010). The human being is a wanting animal, having never-ending, varied and ever-changing wants. The process of want-satisfaction is continuous and sellers want to create, capture and retain the market (customer demand) for their goods.

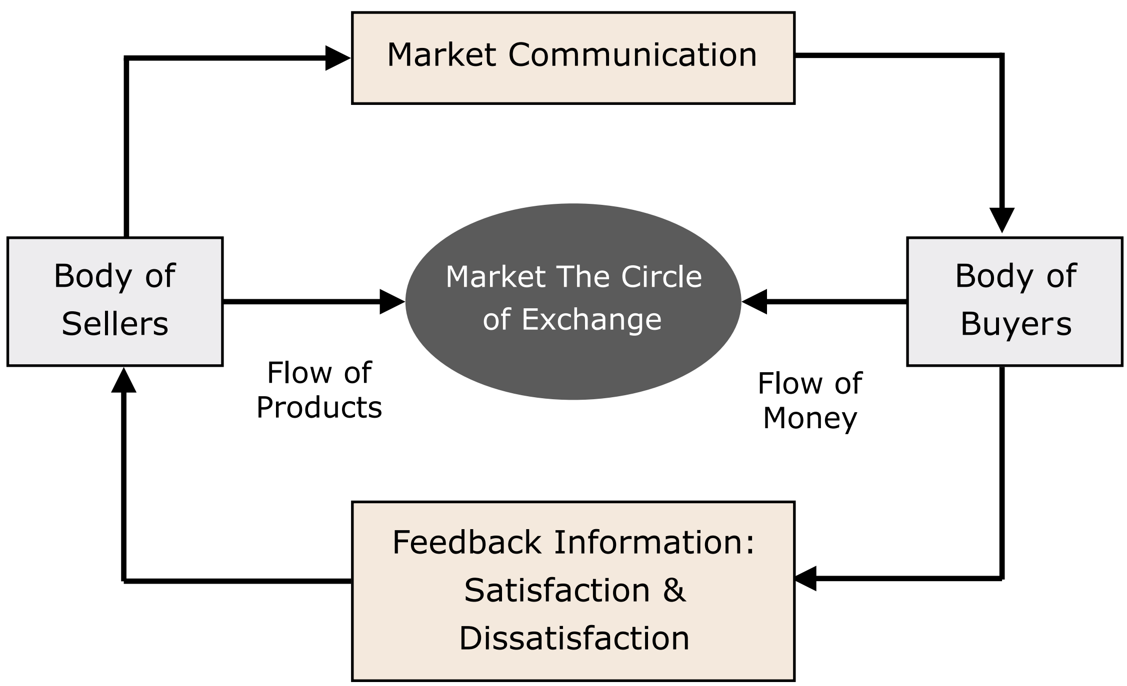


Fig. 1.1 The Market (Exchange process)

- **Features of the Market**

1. In a narrow sense, market refers to a particular place whereas in a wider sense any convenient place, region, state, nation and world can be considered as market.

2. Buyers (demand) and sellers (supply) are the two sides of the market.

3. The needs of the people, their capacity to spend money, their willingness to part with money, and the availability of goods and services are the requirements of the market.

4. The meeting of minds is more important than face-to-face meeting, in order to create a market. The transaction can be completed either personally or through agents and through modern communication facilities like fax and Internet.

5. In the free market system, price is determined by interaction of forces of demand and supply.

6. Factors affecting the exchange process are: (a) demand and supply, (b) price, (c) market information with sellers and buyers, (d) legal control and regulations to ensure fair price.

7. Feedback information points out buyers' post-purchase experience. If buyers' expectations are fulfilled, seller will get repeated orders. If dissatisfied, buyers will switch to rival brands.

8. Under market driven approach, consumer service and satisfaction become the focus around which entire enterprise is centred and through demand satisfaction, profit is made even against keen competition.

- **Types of Market**

1. **Selling Area Covered:** According to the area covered, the market may be classified as Local, Regional, National and International market.

2. **Commodities Traded:** The market is differentiated based on the product sold i.e. Cotton market, Tea market, Bullion market, etc.

3. **Nature of Dealings:** The market may be Spot/Cash market or Future/Forward market. While in spot market, goods are bought and

sold immediately, in the case of future market, actual buying and selling take place at a future time as agreed by the buyer and seller.

4. **Nature of Goods Sold:** The market may be for consumer goods or for industrial goods. Consumer goods are meant for direct consumption/use of consumers, whereas industrial goods are generally needed by manufacturers in the process of production.

5. **On the basis of time interval,** markets may be classified into Short term market and Long term market. Example: Money market for short term period and capital market for long term funds.

6. **Volume of Business Transactions:** The market may be a Wholesale market or Retail market according to the nature and volume of business.

7. **Competition:** On the basis of competition, the market may be Competitive market or Monopolistic market.

8. **Functioning of the Market:** The market may be an Unorganised market or an Organised market. Example: Regulated markets run by State Governments are organised markets for agricultural produce.

9. **Dominance of the Parties:** The market may be Sellers' market or Buyers' market depending upon the demand and supply of product and services.

10. **Sellers Position:** The market may be Primary market where farmers sell the produce to the traders or Secondary market where buying and selling take place between traders. In the case of Terminal market, the produce is assembled for export or for consumption of the local population.

- **Classification of Goods**

There are three types of goods as shown below:

1. **Manufactured goods** may be consumer goods needed for use or consumption by consumers or industrial goods needed for use by producers in the process of production.

2. **Agricultural goods** may be in the form of raw materials for industry (cotton, sugarcane) or consumer goods for immediate consumption.

3. **Natural raw materials** are the free gifts of nature and they are the raw materials of industry such as iron ore.

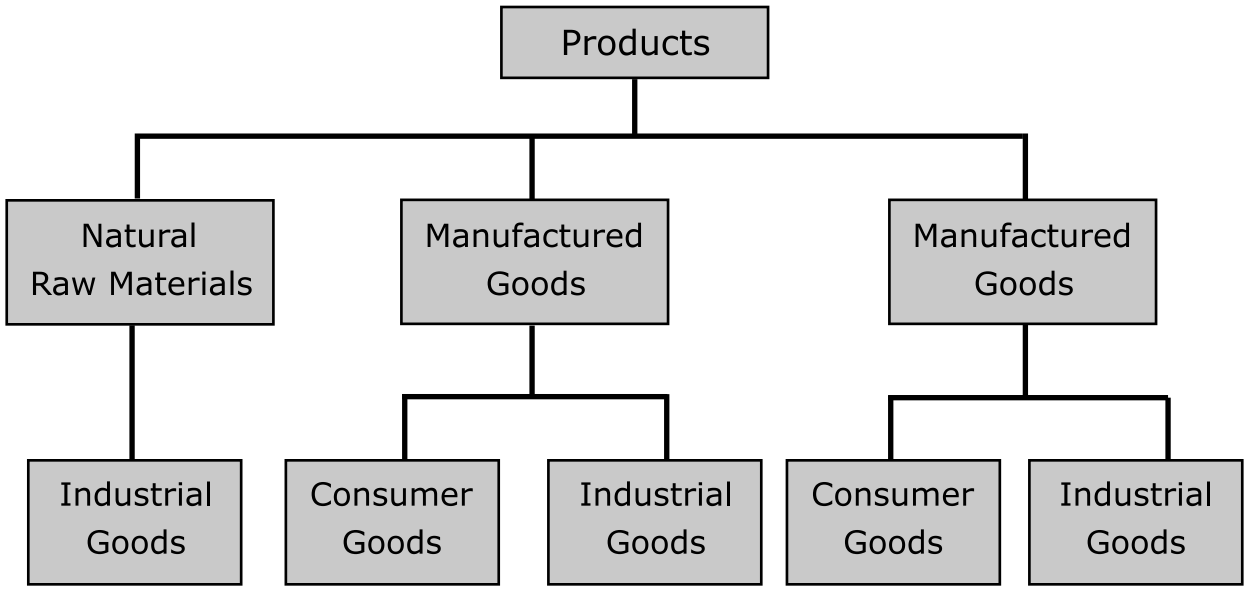


Fig. 1.2 Types of Goods

- **Consumer Goods**

Prof. M.T. Copeland developed three-fold classification of consumer goods based on typical buying habits of consumers, i.e., how, when and where consumers usually buy commodities. The three categories of consumer goods are: (1) Convenience goods. (2) Shopping goods, and (3) Speciality goods. The salient features of these goods are given in Fig. 1.3.

- **Durable and Non-durable Products**

As the term suggests, durable products offer tangibility and durability. Non-durable products are normally consumed fast and purchased regularly.

1. Fast moving consumer goods usually refer to non-durable products. They are also known as Consumer Packaged Goods. Normally consumers spend less time and effort in buying these goods. FMCG

includes a variety of products such a soap, biscuit, shampoo, toothpaste, talcum powder etc. They are relatively high volume and low value products. They are a large number of stock keeping units to meet the needs of consumers. Packaging plays a major role in attracting the attention of consumers The capital investment in setting up a factory is low and major investment is in brand promotion and distribution. Launching a new product requires heavy investment and the marketer has to continue to focus on 4Ps to fight competition and achieve desired volumes and profits.

Convenience Goods	Shopping Goods	Speciality Goods
Low priced goods, Frequent purchases with minimum effort, High replacement rate, Purch- ases in small quantities, Must be available at nearest store. Self service stores ideal for such goods. **Examples:** Bread, milk, tooth- paste, snacks, soap, news- paper, tobacco products.	Are not purchased regularly, Planned purchases with consi- derable efforts, Purchases based on quality, style, price, suita- bility, Purchases can be post- poned, Do not need numerous outlets **Examples:** Women's clothing, furniture, shoes, hardware, major appliances.	Less frequent purchases, Purchases once in a few years, High priced goods requiring high investments, Available in speciality shops **Examples:** TV, CD players, expen- sive watches, cars, refrigerators, ornaments, cameras.
Marketing Methods	**Marketing Methods**	**Marketing Methods**
1. Numerous outlets.	1. Limited outlets.	1. Limited outlets.
2. Quick sales turnover.	2. Medium turnover.	2. Low turnover
3. Sale through wholesaler and retailer.	3. Direct sale to retailer.	3. Direct sale to retailer.
4. Packaging as a silent salesman.	4. Packaging has a minor role.	4. Packaging has no promotion value.

Note: The distinction between convenience and shopping goods is clear and easily understandable. But the distinction between shopping and speciality goods is not quite clear. Many products are classified in both categories.

Fig. 1.3 Types of Goods Compared

2. Consumer durables are tangible goods and are used over an extended period of time. They are purchased once in a few years. **Examples:** TV, Refrigerator etc. The consumer spend lot of time in collecting information about various brands/models, discusses with neighbours and friends, check the prices from various outlets before making purchase decisions. The consumers are concerned about perceived risk and aftersale service. Therefore, personal selling and aftersale service play an important role in selling consumer durables.

- **High Involvement and Low Involvement Products**

Involvement refers to how much time, thought and energy consumers devote to the purchase process. High involvement products include car, major electronic appliances and residential flat. Many of the FMCG would come under low involvement products and consumer spends less time and energy in buying these goods.

1.3 MARKETING

- **Core Marketing Concepts**

A marketer is someone seeking a response from another party known as prospect. If two parties are seeking to sell something to each other, we call them both marketers.

A Prospect is someone whom the marketer identifies as potentially willing and able to engage in exchange of values.

Needs describe basic human requirements like water, air, food, clothing and shelter. They also need education, entertainment and recreation. Needs are not created by marketing persons.

Needs become **wants** when they are directed to specific objects that might satisfy the need. A person needs water but wants Fruity. Wants are shaped by society. Human needs are limited, but wants are unlimited.

Demands are wants for specific products backed by ability to pay. Many people want **BlackBerry,** but only a few are able and willing to buy one. Therefore, marketers do not create needs and rather influence the wants.

Exchange involves obtaining a desired product from someone by offering something in return. Five conditions exist in exchange process.

a. Existence of at least two parties.
b. Each party has something that might be of value to other party.
c. Each party is capable of communication.
d. Each party is free to accept or reject the offer.
e. Each party would like to deal with the other party.

Exchange takes place when both the parties agree on terms and conditions. Normally, exchange is beneficial to both parties. Exchange is a process. Two parties are involved in exchange and they are trying to arrive at mutually agreeable terms. When an agreement is reached, we say that a transaction has taken place. 'A' sells an Air conditioner and 'B' pays Rs. 15,000/- and this is an example of a monetary transaction. However, a barter systems involves trading of goods or services for other goods or services. In many villages, labourers are paid in kind in the form of rice, wheat etc. instead of wages.

In a transfer, 'A' gives to 'B', but 'A' does not receive anything tangible in return. Donations to political parties, gifts, etc. are transfers. Normally, the transferer receives thank you letters, house-magazines and invitations to events.

- **Value and Satisfaction**

According to Louis DeRose "Value is the satisfaction of customer requirements at the lowest possible cost of acquisition, ownership and use".

A product will be successful if it delivers value and satisfaction to the buyer. Value is a ratio between what the customer gets and what he gives. The customers gets functional benefits and emotional benefits. The cost include monetary costs, time costs, energy costs, etc.

Therefore, value = Benefits ÷Costs.

A marketer can increase the value of the product through raising benefits, reducing costs, raising benefits by more than the raise in costs and lower benefits by less than the reduction in costs.

Satisfaction is a function of perceived performance and expectations. If the performance falls short of expectations, the customer is dissatisfied. If the performance matches his expectations, the customer is satisfied. If the performance exceeds expectations, the customer is delighted.

- **Meaning of Marketing**

Marketing is a comprehensive term and it includes all resources and a set of activities necessary to direct and facilitate the flow of goods and services from producer to consumer. Businessman regards marketing as a management function to plan, promote and deliver products to the clients or customers. Human efforts, finance and management constitute the primary resources in marketing.

Marketing starts with identification of customer’s wants and then satisfying those wants through products and services. The modern concept of marketing is customer-oriented and focuses on earning profit through customer satisfaction.

Prof. Drucker states that the first function of marketing is to create a customer or market. Customer is the most important person in the whole marketing process. He is the cause and purpose of all marketing activities. According to Philip Kotler “Marketing is a human activity directed at satisfying needs and wants through exchange process.” All marketing activities are basically for meeting the needs of customers and also raising social welfare. We have twin activities which are most significant in marketing: (a) Matching the product with demand, i.e., customer needs and desires or target market, (b) The transfer of ownership and possession at every stage in the flow of goods from the primary producer to the ultimate consumer.

According to William Stanton “Marketing is a total system of business activities designed to plan, price, promote and distribute want-satisfying products to target markets to achieve organisational objectives.”

The American Marketing Association defines marketing as the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organisational objectives.

Paul Mazur defined marketing as the creation and delivery of a standard of living to society." This definition catches the real spirit of the marketing process. It has consumer-orientation. It duly honours the marketing concept which indicates a shift from product to customer- orientation, i.e., fulfilment of customer needs and desires. It emphasises the major function of marketing, viz., satisfaction of customer and social demand for material goods and services.

Example: In the case of oral care products, currently only 47 per cent of the rural population use toothpaste, 23 per cent use tooth powder and the rest neither. Targeting non-users in rural areas and developing awareness about oral hygiene and converting them to tooth powder/toothpaste users.

- **Features of Marketing**

1. Marketing activities are aimed at satisfying the needs and desires of consumers and therefore, finding out consumer needs and wants is the starting point for all marketing activities. It starts with consumers and ends with consumers by satisfying their needs.

2. Marketing is a continuous activity and the goods are manufactured and distributed to the consumers as per demand.

3. Marketing deals with exchange of goods and services with money as the medium of exchange.

4. Marketing concept has undergone changes over a period of time i.e., the recent one is the societal marketing concept which focuses on three factors: customer demand satisfaction, public interest and profitability.

5. Marketing creates time, place and possession utilities. The consumer is able to obtain the right product at the right time at the right place as and when he requires.

6. Production and marketing are related and production takes place based on the needs and expectations of the consumer.

7. Marketing facilities large-scale production, employment opportunities and social welfare.

8. Marketing is an integral part of business. The survival and growth of business depend upon the effectiveness of marketing operations in an organisation.

9. Marketing is an integrated process and is based on strategies and plans.

10. The long-term objective of marketing is profit maximization through customer satisfaction.

- **Modern Definition of Marketing**

Modern marketing begins with the customer, not with production, sales, technological landmarks and it ends with the customer satisfaction and social well-being. Under market-driven economy, buyer or customer is the king. The marketer should find out what the consumers wish to purchase and how much they are willing to pay. The company should then decide whether the desired product can be produced and sold at the price consumers will pay and at a profit to the company. Marketing covers the following:

1. **Seeking:** The purpose of seeking is to discover the customer and customer needs. The marketing opportunity is revealed through an analysis of the environment.

2. **Matching:** Marketing is a matching process. Customer demand has to be matched with organisational resources and environmental limitations, such as competition, government regulations, general economic conditions, and so on.

3. **Programming:** The marketing programme, called the marketing mix, covering Product, Price, Promotion and Place (distribution) strategies (4 P's) will be formulated and implemented to accomplish the twin objectives of customer satisfaction and profitability.

Marketing is an ongoing process of: (1) discovering and translating consumer needs and desires into products and services (through planning and producing the planned products), (2) creating demand for these products and services (through promotion and pricing), (3) serving the consumer demand (through planned physical distribution) with the help of marketing channels, and then, in turn, (4) expanding the market even in the face of keen competition. The modern marketer is called upon to set the marketing objectives, develop the marketing plan, organise the marketing function, implement the marketing plan or programme (marketing mix) and control the marketing programme to assure the accomplishment of the set of marketing objectives. The marketing programme covers product planning or merchandising, price, promotion and physical distribution.

- **Importance of Marketing**

Marketing is recognised as the most important or significant activity in our society. Production and marketing are the two pillars of an efficient economy. Rather, production and consumption are the two wheels of an economy which are linked with by the powerful belt of marketing. A market-oriented economy is a dynamic economy. If the levels of living are low in any country then that can be attributed to the least developed marketing system. This shows the importance of marketing. According to Peter F. Drucker, an eminent management consultant and thinker, the neglect of marketing is one of the main factors which keeps an economy underdeveloped.

- **Importance of Marketing to the Society**

1. **Marketing Helps to Achieve, Maintain and Raise the Standard of Living and Quality of Life of the Society:** In our society, there are broadly three classes of people i.e., Upper, Middle and Lower class. However every member of the society requires certain commodities to make a decent living. A number of products and services such as toothpaste, toothbrush, talcum powder, shampoo, snow, face cream, shirts, trousers, sarees, medicines, fans, lights, air conditioners, mobile phones, motor cycles, cars, books, food grains, vegetables etc. are made available to the consumers through the process marketing. Marketing is the means through which production and purchasing power are converted into consumption.

   Moreover, marketing process brings new variety of useful and quality goods to consumers. Better marketing gives room for mass production. Under mass production, cost will be low and hence, price of the article will be low. Since price is low, people can buy more goods for their money. This will result in a higher standard of living.

2. **Satisfaction of Human Wants:** Marketing leads to satisfaction of human wants by maintaining a steady supply of goods and services to consumers.

3. **Marketing Increases Employment Opportunities:** Marketing process increases employment opportunities. Just as every industry provides employment opportunities to thousands of skilled and unskilled labourers in various capacities, marketing also provides employment to millions of people. Marketing is a complex mechanism involving number of functions and sub-functions which call for different specialised persons for employment. The major marketing functions are buying and selling, transport, warehousing, financing, risk-bearing, market information and standardisation. In each such function, different activities are to be performed by a large number of individuals or institutions. Industrial workers are getting continuous employment because of the effective marketing machinery.

4. **Marketing Helps to Increase National Income:** The nation's income is composed of goods and services which money can buy. Efficient system of marketing reduces the cost to the minimum. This, in turn, lowers the prices and the consumer's purchasing power increases. This will increase the national income.

5. **Marketing Helps to Maintain Economic Stability and Economic Development:** Economic stability is the sign of any efficient and dynamic economy. Economic stability is maintained only when there is a balance of supply and demand. If production is more than demand, the excess goods cannot be sold at acceptable prices. Then the stocks of goods would be piled up and there would be glut in the market, resulting in fall in price, and depression creeps in. Similarly, if production is less than demand, prices shoot up resulting in inflation. In such a situation, marketing maintains the economic stability by balancing the two aspects — production and consumption.

6. **Marketing is a Connecting Link between the Consumer and the Producer:** Marketing process brings new items to retail shops from where the consumers can have them.

7. **Marketing removes imbalance of supply by transferring the surplus to deficit areas, through better transport facilities and this brings price stabilisation.**

8. **Marketing Helps in Creation of Utilities:** Marketing as an economic activity creates possession, place, time, and information utilities as shown in Fig. 1.4. Exchange creates ownership and possession utilities. Transport creates place utility. Storage creates time utility. Promotional activities create information utility.

Utility	Process	Examples
1. Form Utility	Converting a product into desired forms	Paddy to Rice, Cotton to Cloth or any manufactured product
2. Place Utility	Transferring products from places of production to places of consumption	Transporting goods from factories to different markets
3. Time Utility	Shifting products from the time of production to the time when needed	Warehousing- Goods are kept for a long period till demanded by consumers
4. Information Utility	Informing prospective buyers as to availability, source, price etc	Advertising and sales promotion are meant to provide product information
5. Possession Utility	Transferring ownership from seller to buyer	Exchange process

Fig. 1.4 Marketing Creates Utilities

- **Importance of Marketing to Individual/Business Firms**

1. **Marketing Generates Revenue to Firms:** Profit is the core on which the whole superstructure of business is built. Marketing alone generates revenue or income to an enterprise. Functions of marketing develop and widen the markets. When markets are widened, sales increases and thus profit to the firm increases.

2. **Marketing Acts as a Basis for Making Decisions:** The problems of the entrepreneur are what, how, when, how much, and for whom to produce. In the past, the producer was in direct contact with consumers. Hence, the problems were tackled very easily. However, today the producer does not have any direct contact with the consumers. Therefore, the problems of the producer become very acute and complicated.

   Nowadays the problem is solved by the marketing department. The marketing department collects all information regarding what, how, when, how much, and for whom to produce and this information is passed on to the top management. The top management uses this information for decision-making.

3. **Marketing Helps the Top Management to Manage Innovations and Changes:** Marketing and innovations are the two basic functions of any business. We are living in a dynamic world. There is nothing permanent except change. Change is the essence of life and change means progress. The behaviour and demand of consumers keep on changing. Hence, in order to run a business successfully, a businessman should adapt himself to the changing preferences, changing styles, changing fashions etc. and innovate new customers, new products, new markets, new methods and procedures. Marketing helps to adapt to change and innovation. Retailers communicate to the wholesalers about consumers' demand. Wholesalers, in turn, communicate to manufacturers about market demand. Market research also acts as a source of marketing information on consumer behaviour and market trends. Salesmen of a market-oriented concern are its ears and eyes for information feedback.

- **Scope of Marketing**

The scope of marketing is very wide. It may be analysed in terms of marketing performance through various functions as shown in Fig. 1.5.A number of functions are inherent in every marketing process and these functions are to be performed on the basis of various utilities:

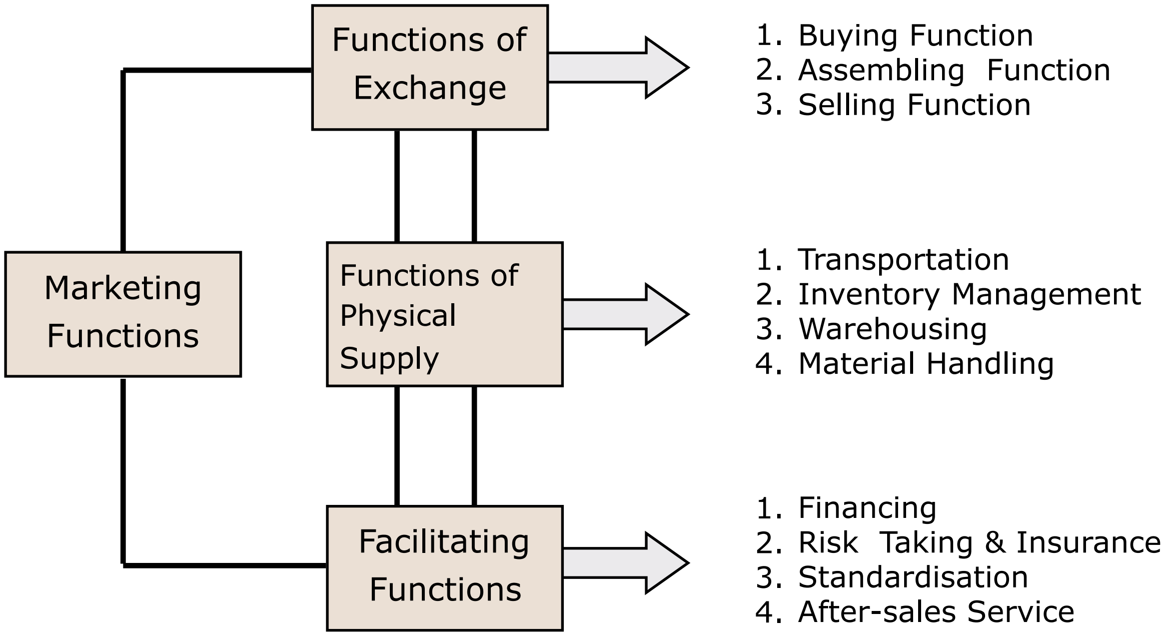


Fig. 1.5 Functions of Marketing

- **Functions of Exchange**

1. **Buying Function:** A manufacturer is required to buy raw materials for production purposes. Similarly, a wholesaler has to buy goods from manufacturer for purposes of sales to retailer. A retailer has to sell the goods to consumers. Thus, functions of buying have to be performed at various levels.

2. **Assembling Function:** Assembling is different and separate from buying. Buying involves transfer of ownership of the goods from seller to the buyer; whereas in assembling, goods are purchased from various sources and assembled at one place to suit the requirements of the buyer. In the case of agricultural produce assembling involves collecting the produce from scattered farms and bringing it to a central place.

3. **Selling Function:** Selling involves transfer of ownership from seller to the buyer. Selling function is vital to the success of any firm. Its importance has been continuously increasing in all organisations due to the emergence of severe competition. Producing goods is easy but it is very difficult to sell them.

- **Functions of Physical Supply**

1. **Transportation:** It includes decision to be taken on mode of transport, service selection, freight consolidation, carrier routing, vehicle scheduling, processing claims, etc. Transportation involves the movement of goods from the point of production to point of consumption.

2. **Inventory Management:** Short-term sales forecasting, Product mix at stocking points, number, size and location of stocking points, Just in time (JIT) or push or pull strategies

3. **Warehousing:** Space determination, Stock layout and design, Stock placements

4. **Material handling:** Equipment selection, Equipment replacement, Order picking procedure, Stock storage and retrieval.

- **Facilitating Functions**

1. **Financing:** The importance of extending liberal credit facilities as a selling tool cannot be underestimated. This would necessarily involve higher working capital requirements. Hence, arrangement of finance has become an increasingly important function. Therefore, a marketer can plan for various kinds of finance: Short-term Finance, Medium-term Finance and Long- term Finance. There are various sources of finance. **Example:** Commercial banks, co-operative banks, credit societies, Government agencies, etc.

2. **Risk-taking:** There are innumerable risks which a marketing enterprise has to bear in the process of marketing of goods and services. Risks arise due to unforeseen circumstances. Risks can also be insured. For example, the risk due to fire and accidents may be covered by insurance. But the risks due to changes in government policies, risks due to increased competition, technological risks and business-cycle risks cannot be insured.

3. **Standardisation and Grading:** Standardisation is the process of fixing certain norms for the products. It involves determination of basic characteristics of a product on the basis of which the product

can be divided into various groups. Standards are model products which form the basis for comparison. Grading is a physical process and it follows standardisation. It involves division of products into classes made up of units possessing similar characteristics. Grading is mostly done for Agricultural products and Mineral products. **Examples:** Manufactured products are tested based on standards laid down by the Bureau of Indian Standards and bear ISI label. Agmark is a quality certification mark for agricultural produce.

4. **After-sales Service:** The importance of after-sales service facilities as a marketing tool cannot be ignored. Hence, arrangement of after-sales service has become an increasingly important function. Therefore, a marketer has to plan for after-sales service. **Example:** Repairs, replacements, maintenance of computers, television, air conditioners, etc.

- **Marketing Functions**

Modern marketing also involves the following functions:

1. **Product Planning:** It involves development and commercialisation of new products, the modification of existing lines and discontinuation of unprofitable products.

2. **Packaging:** The main purpose of packaging is to preserve the quality and quantity of the contents during storage and transit. Besides, it has tremendous advertisement value, and facilitates the sale of a product. **Example:** Sachet packing has created a revolution in the shampoo industry.

3. **Product Pricing** is an important component of marketing. Pricing decisions affect all the parties involved in production, distribution, selling, and consumption of goods. Price affects the volume of sales and profit.

4. **Advertising and Sales Promotion:** Advertising is a paid method of business communication to the prospective customers and the main objective is to promote the products. Sales promotion includes activities such as demonstrations, displays, dealer schemes that stimulate purchases by dealers/ consumers. The marketing manager

has to take decisions regarding the advertisement/sales promotion activities.

5. **Distribution** includes distribution channel, area coverage, channel remuneration, warehousing, inventories, banking and transportation.

6. **Marketing Research** involves systematic gathering, recording and analysing of data about problems connected with product, pricing, promotion and distribution. It deals with research on customer demand i.e., behaviour of customers, analysis of sales data, market share, etc.

7. **Management of Sales Force:** Salespersons are the backbone of the organisation and success of the organisation depends upon how effectively they are able to sell goods and services to meet the changing needs of the customers. The salesperson has to educate the customers on products and services, sell the same with benefit to the customer and profit to the seller.

- **Approaches to the Study of Marketing**

Four basic approaches are commonly used to describe the marketing system:

1. **Commodity Approach:** Under the commodity approach, we study the flow of certain commodity and its journey from the original producer right up to the final customer. In such a study, we can locate the centre of production, people engaged in buying and selling of the product, mode of transportation, problem of selling and advertising the product, problems of financing it, problems arising out of its storage and so on. Through such an approach, we can find out the differences in marketing products, services and problems. Thus, we can have a fuller picture of the field of marketing. Marketing of agricultural products such as cotton, wheat, jute represent the commodity approach.

2. **Functional Approach:** Under the functional approach, we concentrate our attention on the specialised service or functions or activities performed by marketers. The study of marketing functions (like, buying, selling, storage, risk-bearing, transport, financing, and providing

information) represents the functional approach to the marketing system.

3. **Institutional Approach:** Under the institutional approach, our main interest centres round the marketing institutions or agencies such as wholesalers, retailers, transport undertakings, banks, insurance companies etc., who participate in discharging their marketing responsibilities during the movement of distribution of goods. We try to find out how these various business institutions and agencies work together to form a total marketing system.

4. **The Systems Approach:** A system is a set of interacting or interdependent components or groups co-ordinated to form a unified whole and organised marketing activities to accomplish a set of objectives. In the model of systems approach we have:

   i) Objective,
   ii) Inputs,
   iii) Processor,
   iv) Outputs, and
   v) Feedback.

The system is designed to achieve objectives or goals according to a plan, which provides for the processing of inputs and the discharge of appropriate outputs. The objectives direct the process control monitors the process. Information feedback gives information from internal and external sources and it is the basis for future change in the system. An open system has its own environment giving the inputs and accepting the outputs. Inputs are processed, producing outputs to meet the objective. The twin objectives of marketing system are customer satisfaction and profitability.

The systems approach provides the best model for marketing activity. It places emphasis on the inputs to the system and the outputs produced. It helps in the determination of marketing and corporate goals, and the development of marketing programmes and the total marketing mix.

Adoption of a systems approach provides a good basis for the logical and orderly analysis of marketing activities. It stresses marketing linkages inside and outside the firm. It emphasises changing environment. It provides a framework for control. It depends on using the right information. Markets can be understood only through study of information.

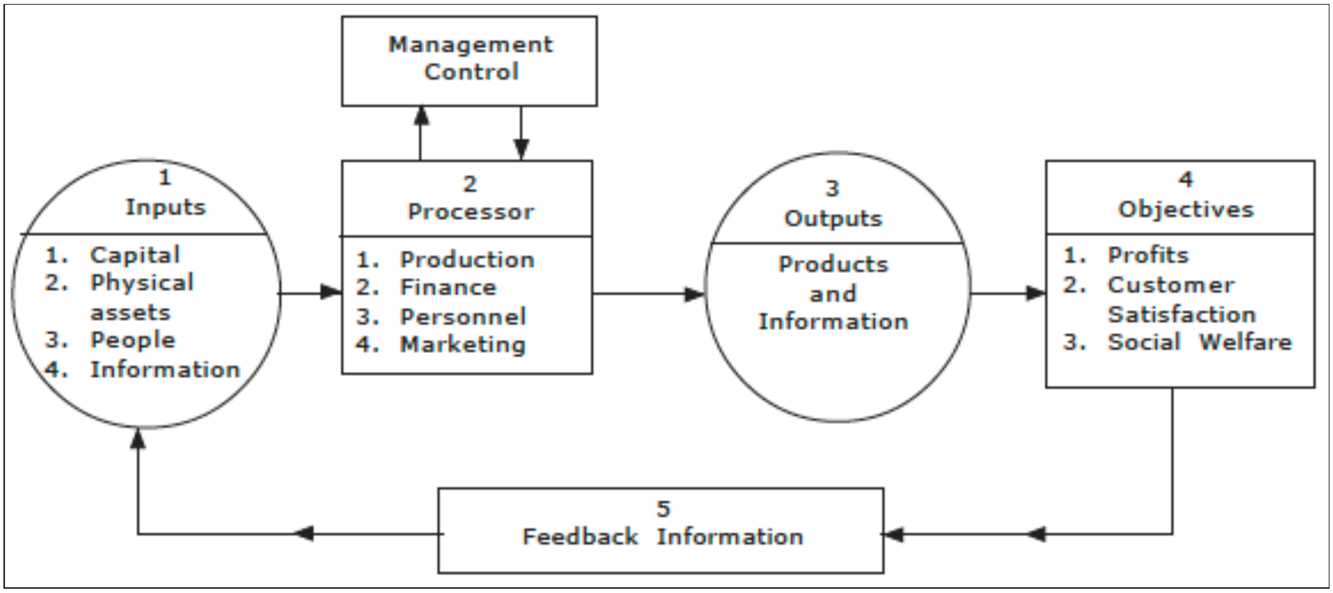


Fig. 1.6 The Systems Approach

The output establishes the purpose or objective of a system. The objective is profits through serving the demand of consumers and community. The output of marketing system is sales of goods. Correct inputs must be available to the processor i.e., marketing administration in order to produce desirable outputs. These inputs in the marketing system are the elements of marketing-mix and the target market determined through marketing research. The marketing system must operate as per plans and policies and within control which may be internal or external. Of course, feedback must be available for introducing corrections in the future plans and marketing operations. The flow of information required to check performance is called feedback. Feedback ensures the accomplishment of objectives through continuous marketing managerial process of planning-action- control. Marketing environment can be broken down into a number of layers. The inner layers become the subsystems of the outer layer. Output from one layer becomes the input for the next.

Marketing plan is a system and its parts or components are subsystems. There are four components or subsystems of marketing plan or marketing-mix: (1) The product management system to manage products from introduction to market withdrawal, (2) Channel and physical distribution system to manage distribution channels and the flow of goods to the market, (3) Promotion system to coordinate all means of promotion to stimulate demand, and (4) Price system designing prices for a line of products sold to customers under different selling conditions. Marketing management revolves around these four areas of marketing-mix or plan. Marketing information system provides data for decision-making in all marketing areas or problems. It is also a part of marketing system.

The systems model (plan-inputs-processing-outputs-feedback-environment) placed emphasis on the inputs of resources as per plan, discharge of outputs and marketing information flow. It enables the determination of goals as well as development of strategies and programmes to achieve those goals through feedback control mechanism.

- **Marketing Process**

The marketing process consists of analysing marketing opportunities, researching and selecting target markets, designing marketing strategies, planning marketing programmes and organising, implementing and controlling the marketing effort. Marketing process brings together producers and consumers — the two main participants in exchange. Each producer or seller has certain goals and capabilities in making and marketing his products. He uses marketing research as a tool to anticipate market demand. Then he provides a marketing mix (product, services, promotion, advertising, pricing, distribution, etc.) in order to capitalise marketing opportunity. An exchange or a transaction takes place when market offering is acceptable to the customer who is prepared to give something of value (money) in return against the product so bought.

Marketing process is influenced by:

1. Government, 2. Competitors, 3. Suppliers, 4. Consumerism, 5. Mass Media of communication etc.

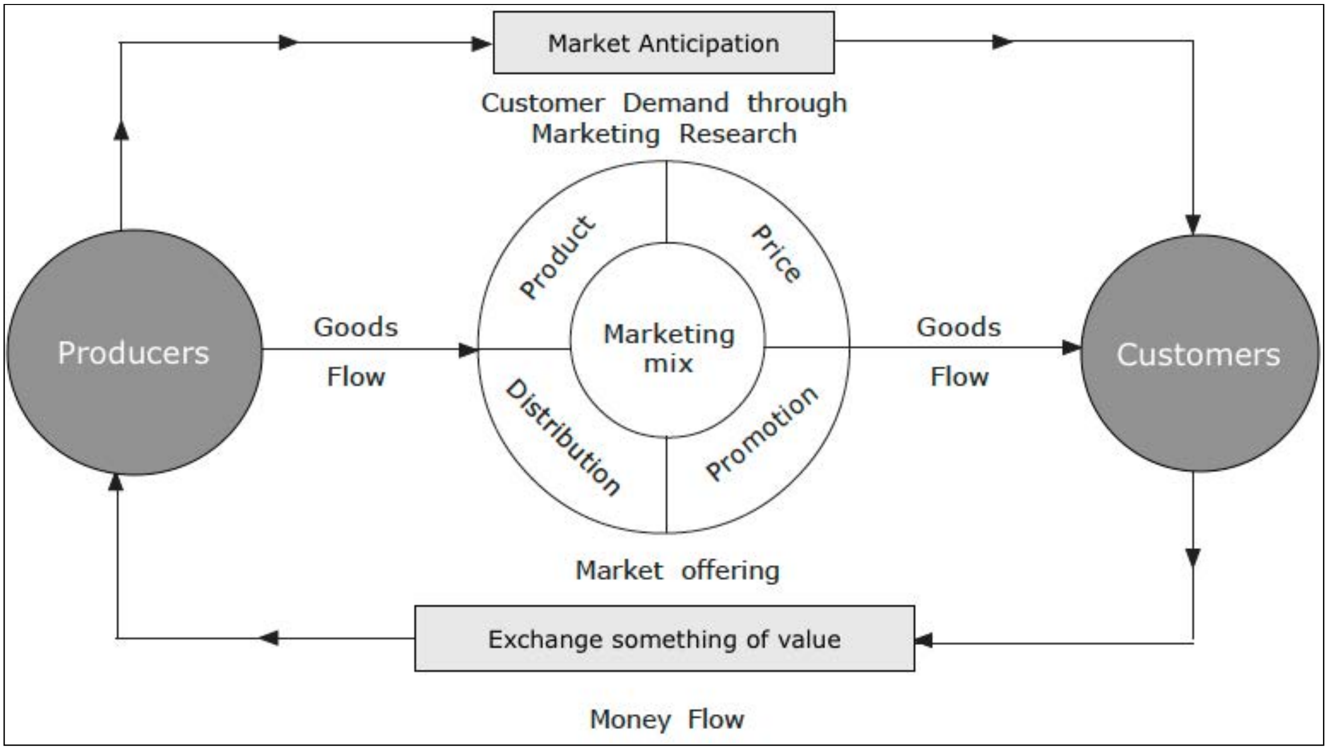


Fig. 1.7 Modern Marketing Process

In the process of exchange, both give up something and both gain something in return. The producer gets the surplus value in the form of profit which is a reward for delivering customer satisfaction. The consumer gets the surplus value in the form of utility or individual satisfaction. Market mechanism brings together a willing seller and a willing and informed buyer for mutual gain. The marketing process is influenced by competition, government rules and policies, mass- media of communication, consumer advocates, etc. Marketing environment affects both producer and consumer.

The business enterprise engaged in the marketing process itself is influenced by political, economic, social, cultural and technological forces. Marketers have to adapt to these everchanging environmental forces and fulfil the needs and desires of the society or 'community'. Thus, marketing is an economic as well as social activity. In the long run, society must approve the marketing process. It must monitor marketing process and control its effectiveness. It may be noted that the modern business enterprise is called upon to demonstrate simultaneously higher level of economic performance and fulfilment of social responsibility, i.e., high level of consumer/ citizen welfare and satisfaction. Marketing process must reflect social awareness and social responsiveness, and we must have judicial combination of productivity and social responsibility in all business enterprises. Then only we shall have assured survival, growth, and prosperity of our units. In essence, marketing is the business function charged with responsibility for directing the firm's response to an ever-changing market environment and orienting all parts of the business towards the sole purpose of the business, viz., the creation of satisfied customers at a profit.

Marketing process involves three major activities and constitutes the heart of marketing:

a. **Concentration** consists of gathering and putting together large quantities of finished goods at market places.

b. **Dispersion** is concerned with the distribution of goods to ultimate users.

c. **Equalisation** involves proper adjustment of supply at all centres of distribution based on the market requirements. Supply of goods has to be adjusted to demand on the basis of time, quantity, and quality.

Marketing management is directly in charge of formulating the marketing-mix and conducting the marketing process. Marketing management is in charge of planning, organising, directing, and controlling the marketing of goods and accomplish by the overall marketing objective, viz., profitable sales with satisfaction of consumer demand.

Marketing research is the starting point in the marketing process to ascertain and identify customer needs and desires through market analysis and investigation. Resources of men, money, materials and management are employed in the marketing system to perform marketing functions and thereby achieve the satisfaction of customer demand (the purpose or mission of marketing). Marketing process covers marketing functions as well as marketing agencies or channels of distribution. Marketing management operates through marketing agencies or institutions for distribution of goods in the market.

Chart 1.1 States of Development in Marketing Management

Production Orientation	Sales Orientation	Customer/Market Orientation
Market is viewed as dependent variable and production capacity as the independent variable.	Market as dependent variable and sales department capacity as the independent variable.	Market and the firm are mutually interdependent; firm is highly dependent on market; it is an extension of the market.
Emphasis is on the production process on technical unit. Focus is on problems of manufacturing/finance.	Emphasis is on maximum sales volume.	Emphasis is on the customer needs and wants — on demand. Focus is on problems of marketing.
Marketing means: 'Sell what is produced.' Product is excellent technologically.	Marketing means: 'A good product does not sell by itself. It has to be pushed. Customers have to be manipulated.'	Marketing means; Targeting on customer needs/present or future purchasing patterns of demand.
Marketing consists of mere distribution and selling. Product has lower unit cost, better quality.	Marketing consists of selling and sales promotion. Aggressive promotion-mix is needed.	Marketing consists of: (1) discovering needs, (2) obtaining demand, (3) fulfilling orders, (4) customer satisfaction and repeat orders.
Prevalent in a situation of absolute scarcity, or during seller's market.	Prevalent in a situation of surplus production, surplus capacity, or when the market has not been surveyed properly.	Prevalent in a situation of relative affluence or during buyers' market. Supply exceeding demand.
Prevalent in the West prior to 1930. Prevalent in areas, e.g., developing nations at a production economy stage.	Prevalent in the West during 1930-1950 and when demand declined in certain industries.	Prevalent in the developed and affluent (rich) countries since 1960.
Product was the centre of the marketing universe.	Salesmanship and promotion acted as the focus of marketing universe.	Customer satisfaction is the focus of marketing universe.

It was assumed that best product could attract buyers automatically. Consumer choice could be based on quality in relation to price.	It is assumed that goods are not bought. They have to be sold at any cost, and profit is through sales volume.	It is assumed that goods are bought and not sold and profit is through customer satisfaction only.
No need of aggressive salesmanship and publicity. Company sells what it can make.	Special selling efforts and promotion to capture and maintain demand.	If demand clicks with supply, no special selling efforts are necessary, problem is only of distribution, i.e., serving of demand. Company makes what it can sell.

Note: Since 1970, under environmental approach, marketing concept has been widened in the West. Government, market and pressure groups influence the firm and its marketing strategy. The firm has to adopt socially responsible marketing strategies. It has to cater to the needs of consumers as well as society — market needs in a social framework. It has to ensure quality of life, e.g., absence of food, air and water pollution. It should conserve the scarce natural resources and natural environment. Renewable energy resources are now gaining importance, e.g., Solar, Wind, Biogas. Consumerism and Government should achieve consumer protection and environmental protection. The firm now aims at benefits for both sides, i.e., customer satisfaction and profitability. Societal concept appeared in many affluent countries from 1970. It is also slowly spreading over in other developing countries. It is said that the so-called affluent countries have become really effluent countries. Developing countries should not be effluent countries: Economic development without environmental degradation can be achieved by all developing nations. Indian industries and marketers must assure such sustained economic growth in the 21st century.

- **Evolution of Marketing Concepts**

Since the industrial revolution, the concept of marketing has undergone significant changes.

1. **The Exchange Orientation:** Marketing does involve exchange of a product between a seller and a buyer, usually based on money. But modern marketing is not merely an exchange operation. Marketing has now a much wider connotation. It covers search of unmet customer wants, formulation of marketing strategies, marketing-mix, creative selling and advertising, serving the customer and so on. All these other vital ingredients of marketing are conveniently forgotten in exchange-oriented marketing approach.

2. **The Product Orientation:** Management firmly believes that, if the product has excellent features, quality and performance, customer

response is bound to be favourable and all promotional efforts are needless. This was the marketing philosophy till 1930. Over-emphasis on product excellence may lead a marketer to ignore many other aspects of customer needs and desires. Consumer for whom the product is meant may be ignored. This is called the phenomenon of marketing myopia or short-sightedness.

3. **The Production Orientation:** Company sells what it can make. The focus is on performance and cost. The product costs line is usually narrow. The price is based on production and distribution costs. Technical research enables product improvement and cost- cutting in the production process. Packaging is expected to protect the product and minimise costs. Credit is regarded as a necessary evil. The producer is interested only to minimise bad-debt losses. Promotion is adopted only to give emphasis on product features, quality, and price. This concept can work only in a sellers' market. In a buyers' market it fails to retain market under keen competition. **Example:** American luxury car market was captured by Japanese and European cars around 1980.

4. **The Sales Orientation:** Buyers' market for many commodities brought about sales-orientation in marketing. It points out that a company cannot secure enough customer response to its products without high-pressure salesmanship, aggressive advertising and intensive sales promotion. Sales orientation gives emphasis on increasing sales volume even at the cost of consumer satisfaction and service. Many marketers adopt this approach in selling unsought or unwanted goods. **Examples:** The selling concept is found in the sale of books, insurance and also in auto sales. We also have selling concept at the time of elections faithfully followed by all political parties. Sales orientation also exhibit marketing myopia.

5. **Marketing Concept:** When a marketer adopts a market- oriented business philosophy the guiding principle becomes "it is more effective to make what customer wants to buy than to sell them what a marketer wants to make or sell." Thus, planning and co-ordination of all company activities rotate around the primary goal of satisfying customer needs. The marketing concept is defined as a customer-oriented philosophy duly integrated and implemented through the entire organisation in order to serve customers better than

competitors and thereby ensuring sustained growth and prosperity. It was introduced as marketing philosophy and objectives only after 1950. Customer-oriented marketing approach points out that the primary task of a business enterprise is to study needs, desires and values of the potential customers, and on the basis of latest and accurate knowledge of market demand, the enterprise must produce and offer the products which will give the desired satisfaction and services to the customers (much better than its competitors). The entire marketing mix will be formulated on the basis of marketing information and research. Two radical changes were brought about when the marketing concept was introduced after 1950 in the process of marketing.

- We have a steady shift from producer-oriented or sales- oriented business enterprise to the customer-oriented business enterprise. Marketing and innovation are now the distinguishing features of a business organisation from those of other types of social institutions.

- We have also a gradual shift from caveat emptor (buyer beware) to caveat vendor (seller beware). This has clearly emphasised the social responsibility of business toward consumer and the need for consumer protection in the market place. Marketing concept as a customer-oriented marketing philosophy of the entire business organisation has four premises.

  a. **Customer Orientation:** The essence of modern marketing concept is "the firm must take its marching orders from the market and it must produce what the market needs." All elements of business should be geared towards the customer satisfaction. Corporate plans, programmes and operations must be focused around customer needs and desires.

  b. **Marketing Information System:** The marketing concept also emphasises the role of information as the key to both customer satisfaction and profitability. Customer demand can never be satisfied without integrated marketing programmes based upon adequate and accurate information about customer, customer needs and competition.

Information is a vital resource in planning-action-control process of management.

c. **Integrated Marketing Activities:** Systems approach adopts a unified view of the study of marketing. All marketing activities must be properly integrated and coordinated to accomplish a set of objectives.

d. **Dual Objectives:** The dual objectives are: (a) Customer satisfaction and (b) Maximisiing profits, of course by serving the customers.

A company adopting the marketing concept has three distinguishing features: (1) It has market or customer-oriented approach in business planning, (2) Corporate goals are given top priority, and (3) It has a systems approach in planning, organising, controlling and coordinating its entire business as one system to achieve the overall corporate objectives. We have corporate strategic plan as well as corporate operating plan. Then there are departmental plans such as production plans, marketing plans, financial and other plans. All these functional plans are integrated and coordinated. When these plans are implemented, they are expected to fulfil market needs as well as attain the corporate goals as per corporate strategic plan. In this way, under the marketing concept, we have comprehensive customer-oriented business planning leading to customer satisfaction and profits.

Benefits of Marketing Concept (Market-oriented Approach)

A business enterprise adopting the market-oriented business approach can enjoy the following advantages:

1. Long-term success is assured to an enterprise only if it recognises that the needs of the market are paramount.

2. It enables the firm to move more quickly to capitalise on market opportunities. Marketing risks can be reduced only by knowing and understanding the market.

3. Customer needs, wants and desires receive top consideration in all business activities.

4. Greater attention is given to the product planning and development so that merchandising can become more effective.

5. Demand side of the equation of exchange is honoured more and supply is adjusted to changing demand. Hence, more emphasis is given to research and innovation.

6. Marketing system based on the marketing concept assures integrated view of business operations and indicates interdependence of different departments of a business organisation.

7. Interests of the enterprise and society can be harmonised as profit through service is emphasised.

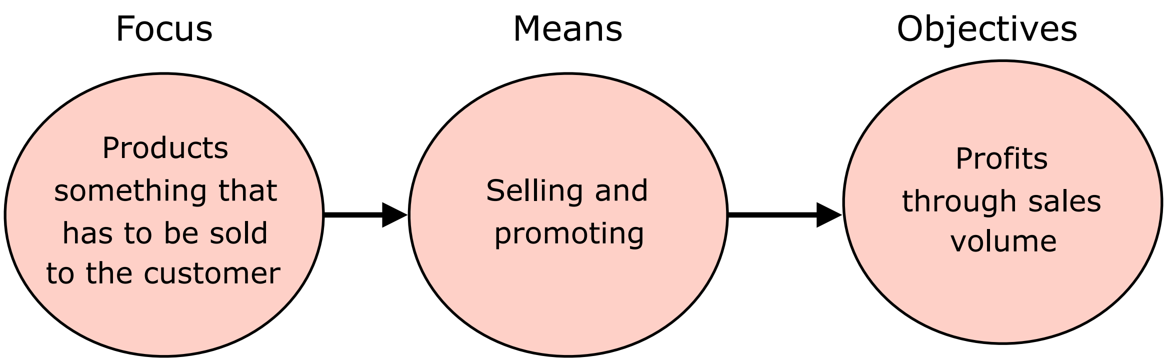
8. Marketing information and research is now an integral part of the marketing process and it is a managerial tool in decision- making in the field of marketing.

- **Consequences of the Marketing Concept**

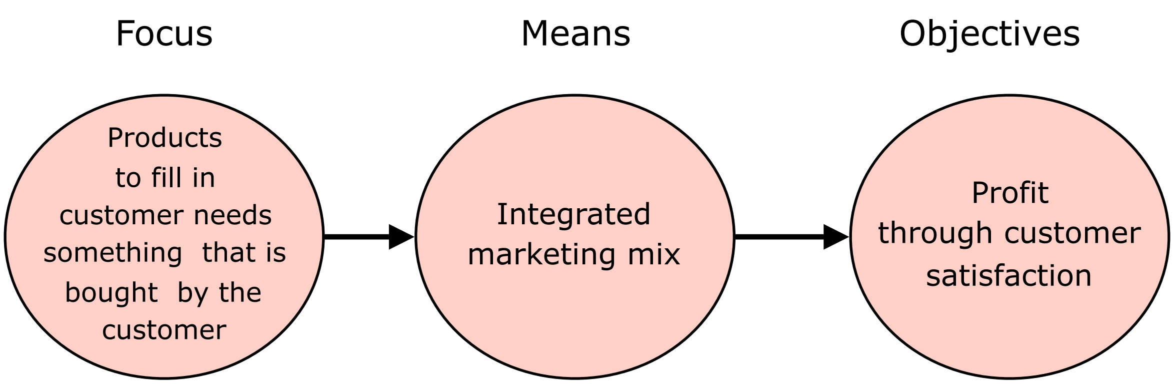
Company makes what it can sell. The focus is now on customer needs and market opportunities. Product line becomes broad. Pricing is based on perceived benefits provided. Market research enables company to focus on opportunities and applying new technology to satisfy customer needs. Packaging becomes a useful tool of promotion and is designed for customer convenience. Credit becomes a customer service and a tool to attract customers. Promotion now emphasises product benefits and aims to solve customer problems. The adoption of marketing concept sincerely can easily act as the best response of business to consumerism.

Under market concept there is a shift: (1) from product/business to customer, (2) from production to market, (3) from supply to demand, (1) from sales volume to profit, (5) from mere selling to customer satisfaction, (6) from internal orientation to external orientation, (7) Under marketing concept, supply becomes the function (result) of demand. Demand is the controlling factor and demand analysis becomes the foundation of all marketing functions. (8) We have four aspects of an intelligent demand management: (a) demand determination through marketing research, (b) product-mix as per demand, (c) promotion-mix to stimulate demand, and (d) distribution mix to serve demand. (9) Marketing concept is applicable to any organisation — profit/non-profit, and (10) Marketing concept can eliminate marketing myopia.

Marketing concept will have an appreciable effect on the company whose management is customer-oriented and whose organisation is customer-centred. The general management of the company will be market-oriented and its marketing management will become the corner- stone. The organisation of the entire enterprise will become market- oriented. The marketing plan as well as the business plan of such a company will have customer-oriented approach.



a. The Selling Concept



b. The Modern Concept

Fig. 1.8 Sales and Modern Concepts Contrasted

6. The Societal Marketing Concept:

- **The 3Cs of Business**

The famous Japanese Management Guru, Keniche Ohmae has stressed the need for integrating the three Cs (Customer, Competition, and Company) to achieve competitive advantage and success in business. The success factors include customer-based strategies, strategic market segmentation, cost-effectiveness, enhancing brand image, product differentiation and efficient use of people, money, and assets.

- **Selling Vs. Marketing**

Marketing is the creation and delivery of a standard of living. Marketing involves (a) finding out what the consumers want, (b) planning and developing a product or service that will satisfy those wants, and (c) determining the best way to price, promote, and distribute the product or service. Therefore, marketing is a total integrated process, which aims at customer satisfaction and business success. Under the selling concept the company makes a product and then uses various methods of selling to persuade a customer to buy the article. The differences between selling and marketing concepts are given in Fig. 1.9.

	Selling Concept	Marketing Concept
1	Selling involves planning, direction and control of the personal selling activities of a business unit including recruitment, selection, training, motivation, compensation of sales force.	Marketing involves (a) finding out what the consumers want (b) planning and developing a product or service that will satisfy those wants and (c) determining the best way to price, promote and distribute the product or service.
2	Emphasis is on the product.	Emphasis is on consumer wants.
3	Company makes a product and then finds out how to sell it.	Company first finds out what the consumer wants and then develops and supplies the product to satisfy those wants. .
4	Emphasis is on company needs.	Emphasis is on market needs.
5	Selling is production-oriented.	Marketing is consumer-oriented.
6	Selling assumes that the goods can be easily sold.	Marketing believes that the consumer is the king and goods should meet his wants and preferences.
7	In selling, once the goods are sold, the seller does not think about the consumer.	All marketing activities start with the consumer and end with the consumer.
8	Selling aims at profit maximisation by increasing sales volumes and profit is the primary aspect in selling.	Marketing believes in profitable sales through customer satisfaction.
9	Selling aims at converting goods into cash and has narrow perspective.	Marketing has long range objectives such as customer satisfaction, growth, and market share.
10	Selling concept is traditional and outdated.	Marketing concept is modern and accepted universally.

FIg. 1.9 Selling versus Marketing

P. Drucker makes the contrast between these two concepts even more diametrically opposite.

1. Under selling concept, the need for some selling is taken for granted. Under the marketing concept, the aim of marketing is to render selling superfluous or unwanted. With full understanding of customer demand, the product must fit or match the buyer needs entirely and it should sell itself without any promotional efforts.

2. A market minded firm's offering is determined not by the seller but by the buyer. The seller takes his cues from the buyer in such a way that the product becomes a consequence of the marketing effort, not vice versa.

3. The suggestions from the buyer are duly incorporated in the cues from the seller and a tailor-made marketing mix at once fits in with customer needs and expectations.

4. Ideally, under marketing concept, a customer should be too ready to buy the product on his own initiative. The seller has simply to ensure the availability of that product.

In his celebrated article 'Marketing Myopia', T. Levitt offers the best contrast between selling concept and marketing concept:

1. Selling focuses on the seller's needs, marketing on the buyer's needs.

2. Selling is pre-occupied with the seller's need to convert his product into cash; marketing with the idea of satisfying the customer's needs by means of the product and the whole cluster of things associated with creating, delivering and finally consuming it.

3. Selling aims at profit through sales volume; marketing aims at profit through serving customer demand.

- **Traditional and Modern Concepts of Marketing**

Traditionally marketing involved selling goods and services to consumers to earn profit. Since demand exceeded the supply, it was easy to sell the goods to the consumers. The consumers had to accept even poor-quality products at a higher price. It is basically a profit-oriented approach and consumers were given least importance in the marketing process. Traditional concept is a narrow and outdated approach in the present highly competitive marketing environment. Old marketing concepts such as exchange concept, production concept, product concept and selling concept would come under traditional concept of marketing.

Modern marketing recognises the importance of satisfying customers' wants through products and services. It starts with customer and ends with customer. The famous Management Guru Prof Peter Drucker states that the first function of marketing is to create a customer and he is the most important person in the whole marketing process. He is the cause and purpose of all marketing activities.

Modern marketing focuses on earning profits through customer satisfaction. The differences between Traditional and Modern concepts of Marketing are given in Fig. 1.10.

Traditional Concept of Marketing	Modern Concept of Marketing
Traditional marketing involves transfer of ownership of goods from the seller to the buyer. Focus on seller and his product.	Modern marketing considers creation of customer as the most important purpose of marketing. Focus on consumer and his needs.
It is a production/sales orientation approach.	It is customer oriented approach.
Narrow concept with least importance given to customers and society.	Broader concept and focuses on customer satisfaction and welfare of the society.
Importance given to profit maximisation.	Route to profit is through customer satisfaction.
It was prevalent prior to 1950 when demand exceeded supply.	It is relevant now especially in a highly competitive marketing environment.
It is an old and outdated concept.	Progressive and modern concept.
Least importance to social responsibility.	To survive and grow, companies are giving importance to corporate social responsibility.
Concept of consumerism was not present.	Protecting the interest of consumers has gained importance.
Aggressive selling and promotion under selling concept.	Understanding consumer wants and supply of product to meet their requirements.This leads to customer satisfaction, repeat sales and profit to the organisation.
Less competition and sellers market.	Highly, competitive marketing environment and buyers market.

Fig. 1.10 "Differences between Traditional and Modern concepts of marketing"

- **Criticism of Marketing**

1.1 SUMMARY

- Marketing involves finding out what the consumer wants, planning and developing a product or service that will satisfy those wants and determining the best way to price, promote and distribute the product or service. Marketing is a total integrated process and advocates customer orientation, marketing information system, integrated marketing activities and business success through customer satisfaction. Marketing is recognised as the most important activity as it provides goods and services and helps to maintain and raise the standard of living of the society and generates revenue for the enterprise. With liberalisation and globalisation the availability of products and services has increased. The customer has a wide choice and the competition is increasing in the market place. Many companies are following customer- oriented markekting philosophy to ensure growth in sales, profits and market share.

1.2 SELF ASSESSMENT QUESTIONS

1. What is a market? What are the types of market?

2. What is marketing? Discuss the scope of marketing.

3. What do you mean by marketing functions and how are they useful in the process of marketing.

4. Describe the evolution of marketing concepts.

5. Distinguish clearly between selling and marketing.

6. Comment on societal marketing concept. Can it be practised in India?

7. "Customer is the king". Explain the statement with reference to the modern concept of marketing.

8. Write short notes on the following:

    a. Needs and wants
    b. Value and satisfaction
    c. Marketing myopia
    d. Shopping goods

CASE STUDY

Nutrela has become the Generic for Soya in India

When Ruchi Soya Industries Limited (RSIL) set up its business in the 1970s, its focus was on oil extraction from soya beans. Soya meal was just a by-product. Then, a decade later, the company decided to try and market soya meal as a high-protein add-on to vegetables or meat — and Nutrela was born. Now Nutrela has become the generic for Textured Soya protein (TSP) in India. Having experimented with Nutrela in the past, not always successfully, the company is now extending the Rs. 120-crore brand into the snacks segment where it will compete against well-entrenched categories such as instant noodles. And Nutrela is also moving into a category where the action began — oils.

When the RSIL entered the Indian market for soya beans in 1969-70, the total soya crop in the country was around 50,000 tonnes a year. At present, the crop is 7 million tonnes. They were among the first to set up a crushing plant for soya bean in 1972. Soya bean is put through a solid extraction process, which yields oil as well as meal. In its raw form the meal can be used as animal feed, but with superior processing it is suitable for human consumption.

For close to a decade after the company started production, they used to export the meal as animal feed. Then, in 1979-80, they decided to venture into the production of TSP. They spent Rs. 5 crore on importing the TSP process from the US, which was a significant sum of money in those days. There was a risk, of course, in the venture. There was a huge export market for TSP if the product failed in India. Besides, it believed there was immense potential for high-protein, low cost food in this country. Nutritional levels in India are extremely low and for most people vegetarian foods like almonds are not affordable; on the other hand, soya is a rich source of protein. The message was nutrition, so they chose the name Nutrela.

The initial communication centred on proving that Nutrela was economical, even compared to Malted Food Drinks (MFDs). The choice of comparison was deliberate; targets were children and housewives. Even the packaging resembled MFD cartons. Also they wanted to show that, much like MFDs, soya could become part of the daily diet if it was added to vegetables.

Nutrela was launched first in Madhya Pradesh and Uttar Pradesh since production unit is located in Indore in Madhya Pradesh. Also, they would be easier to sell the concept of soya chunks in these regions since there was a high awareness of soyabean here. But they were surprised to find that the product found its way to Punjab and West Bengal, even before we launched in those States. We hadn't expected such an easy acceptance of soya chunks in the north and east markets. We conducted a dipstick survey to study the trends in these markets, and the results were interesting.

The target audience was supposed to be the vegetarian consumer who could use the chunks as an extender to paneer or as a substitute to vegetables. Nutrela would be particularly relevant in areas where vegetables were not grown or were not available for some periods of the year. Madhya Pradesh was one such market. But research indicated that it was the non-vegetarians who were buying the product since soya chunks are similar in texture to meat. Nutrela was proving a good substitute for meat, at one-fourth the cost. It was also being used as an extender (add-on) in food. In markets like Kolkata, for instance, soya chunks were added to fish to increase the quantity of the dish.

- **Spread the Word**

To convey this message to a larger section of consumers we took on ad agency Everest in 1988-89 to create a television commercial. Compared to what other food companies were spending at the time, Rs. 1.5 crore for the initial, year-long campaign was huge. The ads showed different ways of using soya chunks in Indian cooking; the product packs also carried detailed instructions. The communication on the product packs also compared the protein content in soya with other protein sources — 1 kg. of Nutrela has as much protein as 20 eggs or 10 kg. of almonds and so on. That made an impact with consumers. Another initiative that helped was the sampling exercises, our representatives cooked dishes with soya chunks and consumers were offered a taste. This was particularly important from the vegetarian customers' point of view — there was scepticism among vegetarians about Nutrela because soya chunks were similar to meat in look and feel. So we were compelled to conduct demos. The demos that took place in cities helped in tackling taste apprehensions.

Our learning here was that 'give the consumers what they want, not what you want them to have'. For instance, in the US, soya milk is the most popular but in India we had found that people did not want a substitute for milk. Instead, Chinese cuisine, which was gaining popularity at that time, proved a good entry point. And soya is a key ingredient in Chinese cuisine. We outsourced a field force to conduct demonstrations and cookery classes and hired a Chinese chef to train local chefs. That proved so successful that we continue the practice even today. Interaction with customers was vital for the growth of Nutrela as a brand and sought ways of reaching out to our customers. We introduced free recipe booklets, customised to regional cuisines to teach people how soya could enhance and be used in their day-to-day food. We also encouraged consumers to write in their own recipes. We organised events like the Cookery Queen contests in the late-1980s and early-1990s. Now, when more younger women are logging on to websites to get new recipes, they have launched website as well to offer recipes and health- related information.

- **Lend 'em Your Ears**

Market research has been crucial in their decisions regarding variants of Nutrela. The feedback showed that customers wanted smaller soya chunks to add to peas or chana dishes. So, in the mid-1980s, they launched Nutrela granules and mini-chunks. In the West, granules are mixed with sausages or added to gravies as a thickener. In India, too, granules proved popular as extenders to dals and gravy dishes, while the chunks were often used as substitutes for paneer cubes. The best-sellers, of course, are still the big chunks.

Similarly, when we learnt that customers did not find the TSP tasty on its own, we introduced flavoured soya chunks. But the tomato and spinach-flavoured Nutrela didn't take off because customers preferred to use fresh vegetables rather than pre-flavoured soya. Also, there was a perception that tomato and spinach didn't go well with soya. They withdrew the product within a year of its launch, especially because it was also making our production more complex and tedious.

The biggest product decision that resulted from consumer insight was the launch of soya flour. During their cooking demonstrations in Kolkata, they noticed that housewives didn't throw away the water in which they cooked Nutrela (Soya chunks have to be boiled before they are added to food).

Instead, these women used that water to knead flour. They were ensuring that no protein was lost. And that made us think: 'why not launch a soya flour?' So, in the mid-1980s, they launched soya flour under the Proflo brand. It did not catch on. But then, even branded wheat flour has not gained complete acceptance yet and atta is still a largely unorganised market. The biggest problem with the Indian market is initiating any change in food habits. That's why they haven't launched soya flour in big packs at all — apart from the 50 kg. bags for export and institutional sales, the largest size is the 1 kg. pack. Rather than changing age-old habits of wheat or maize atta, they encourage consumers to mix 100 or 50 grams of soya flour with any other flour to make it healthier.

Surprisingly, they got a lot of institutional sales from soya flour. A number of FMCG companies as well as restaurants use the flour for their products. Hence, the individual customer will accept it sooner or later. That is why, two years ago, they launched Proflo and brought it under the Nutrela band. It would have been too expensive to promote a new brand. As Proflo was not selling, we got it under the Nutrela umbrella.

While they were trying to increase the Nutrela portfolio, they considered various options, toyed with the idea of coloured soya chunks like in the US market, where reddish-coloured chunks are sold that resemble meat. But they decided against it because in any case, non-vegetarians used chunks as fillers in meat dishes. More importantly, we didn't want to confuse or put off our vegetarian audience. They also thought of launching coloured mini chunks for kids, but ultimately decided against it. One reason was the less-than encouraging response witnessed for the natural-flavour chunks. Other options considered — and discarded — are of chunks that resemble paneer cubes, which could be a low-fat option to paneer.

- **The Price of Success**

Success isn't without its own share of problems. Especially in West Bengal, the concept of soya chunks has worked so well, that there are at least 30 look-alike products called Nutella, Nutila and so on. These counterfeit products are priced much lower but we cannot complete with them. The Company could not cut prices because there is a 16 per cent excise duty on packaged soya. Instead, they sold 20 kg. institutional packs of Nutrela — many retailers bought and sold it loose.

To make consumers buy Nutrela packs, they launched flavoured soya chunks — but with a difference. Their inspiration came from products like Nestle's Maggi noodles, which comes with a separate tastemaker. The ready- to-cook soya dish is in granules form. Since granules absorb masala faster than the chunks, a tastier dish is available instantly. They launched three flavours — Chinese Manchurian, Korma Masala and Spicy Curry. We've begun by launching this brand extension in Kolkata. That's because Kolkata is one of the bigger soya markets — 30-40 per cent of Nutrela food sales come from the city. We hope to replicate Maggi's success with Nutrela Flavour.

The promotional efforts are centred on schools in the city. We have found that mothers in Kolkata generally do not return home after dropping their children at school. Instead, they wait outside until the children are through with their classes. They plan to take advantage of this time and conduct cooking demos at schools for the mothers, while the school is in session. They feel the market is opening up to ready-to-cook type of products. They took close to two years to research what flavours to introduce, test them and develop the taste maker. They roped in Research International A.C. Nielsen to do the research because taste varies from region to region. They had to find out what flavours suit all plates on a broad parameter. It was only after that they launched these pan-Indian, ready-to-cook soya dishes.

They are now in the process of launching region-centric flavours too. The challenge is in the south where soya is not accepted. We are in touch with nutrionists and health experts to promote acceptance by adding soya to the dough of chapatis or dosas or even mix it with upma. Until recently, they had not introduced oils under the Nutrela brand simply because Nutrela stands for health, while oil is not perceived as healthy. So there would have been a conflict. They contemplated for a long time on whether it would be right to extend into non-soya oils for the fear of diluting Nutrela's brand identity. But research indicated that in the consumer's mind, Nutrela did not stand for just soya but for health.

So they decided to extend Nutrela into oils. We have recently launched healthy and fortified oil variants like sunflower and soya oil as Nutrela Healthy Oils. They did not launch these oils under the already existing oil brand Ruchi, because Ruchi soya oil is our mass brand. Nutrela is the health brand. The emphasis on advertising and marketing remains unchanged. They have spent close to A 7 crore on promoting Nutrela Oils and A 1 crore on Nutrela Flavour.

QUESTIONS

1. Write a brief summary of the case.

2. Do you think that the company has followed “a market oriented business philosophy?” Explain.

3. Discuss the stages in product development with reference to Nutrela.

- **Comments**

Under market oriented business philosophy, marketing starts with identifying customer wants and then satisfying those wants through products and services. The company produces what customer wants and what it can sell. In this case, RSIL, who are pioneers in soyabean products have spent lot of time, money and efforts in understanding consumer wants through marketing research, field observations and customer feedback. They have created demand for their products through customer-centric promotion (demonstrations, cookery classes, recipe books, TV commercials) and packaging. Planning and co- ordination of all marketing activities are aimed at satisfying customer wants.

CASE STUDY

Marketing Concept (Consumer Orientation)

- **Company**

Scope Inc., founded in 1983, was a high-technology products company. The company specialised in making electronic measuring devices for process control, communication and instrumentation industries. It was largely an owner- managed company. The President of the company, who himself was an inventor, had raised enough capital to finance expanding operations. A major oil company had recently supplied capital in exchange for a minority share in the company. The growth in business was enormous in the last four years.

The company's R&D had made several innovative changes to give Scope an excellent reputation in the industry.

The business growth, however, came because of Scope's new technical advance. The company essentially responded to the customer demand. In 1988, several other companies entered the field with similar products. One of them, 100 per cent subsidiary of a major multinational oil company, was especially aggressive in marketing the devices. It had invested in automatic production line and beat the prices of Scope in the market place acquiring a considerable market share within two years.

In 1983, it was estimated that Scope and its major competitor each held 30 per cent market, while 10 smaller companies had the rest of the market. Recently, it was rumoured that Japanese had come up with a major technological breakthrough that would lower the prices of the electronic measuring devices to half.

- **Marketing Concept**

The Executive Vice-President of the company was alarmed by the recent trends in the marketplace. In spite of the number of competitors, he was confident that the technological capabilities of Scope would enable it to maintain the necessary edge to continue the growth at 30 and 40 per cent each year. He was also convinced that his currents Sales Department was incapable of "marketing" the products as aggressively as the competitors.

There was virtually no market analysis, product-planning was uncoordinated and market intelligence was poor.

He made several recommendations to the President of the company.

1. The Director of sales be given early retirement or should be reassigned to a staff function.

2. The Sales Department should be replaced by full-fledged Marketing Department, composed of four divisions: Sales, Technical Services, Marketing Planning, and Product Management.

3. Marketing Planning should survey the market constantly, recommend innovation and coordinate long-range planning.

4. Technical Services should assist Engineering Department in new product development and render technical support to sales.

5. Product Managers should monitor their products and competitors introductions, look for increased penetration of old products, foster market growth with new products.

6. Sales Department should concentrate on enlarging sales in present markets in coordination with other divisions.

To implement the recommendations, Scope hired a new Director of Marketing. The new Director interviewed all the personnel in the Sales Department and found that Sales Managers more or less ran independent operation making their own pricing decision in many cases. They constantly came up to the Vice-President for reducing price levels complaining that prices were high. The exceptional low price approval became more of a norm. The advertising budget was, one per cent of sales. Most of the budget was spent on advertising aimed at enhancing corporate image in various trade magazines. The company offered numerous products with almost no standardisations. Every order required special design and production considerations. Sales Managers insisted on broad product line to keep customers satisfied. The competitors, on the other hand, had rationalised their production line offered only a few standard products.

QUESTIONS

1. What actions should the Director of Marketing take to implement the marketing concept? How long would it take to implement these actions?

2. Evaluate each one of the six recommendations made by the Executive Vice-President?

3. What are Scope's most pressing problems? Assign priorities for resolution.

- **Comments**

The case reveals lack of marketing research, marketing intelligence as well as absence of coordination between different departments, particularly between Production and Sales. Under systems approach to marketing, and the new marketing concept, these handicaps can be easily removed. The customer will be the centre of the marketing universe and all departments/ divisions will offer coordinated efforts to achieve overall mission of the firm. Product line shall be rationalised to smoothen the production efforts as well as marketing activities. Standardisation without sacrificing customer interest is always desirable.

Marketing (management) concept demands integrated managerial approach to marketing and it rotates around customer needs (discovered by marketing research), customer-oriented marketing planning, evolution of right marketing-mix, co-ordination of all departments, and, above all, adequate serving of market demand. Then only profitability and progress can be assured.

REFERENCE MATERIAL

Click on the links below to view additional reference material for this chapter

Summary

PPT

MCQ

Video Lecture - Part 1

Video Lecture - Part 2

Video Lecture - Part 3

Chapter 2

RECENT TRENDS IN MARKETING

Objectives

After studying this Chapter, you should be able to:

- Understand what is CRM and its characteristics
- Know the concept of E-marketing, Internet marketing, societal marketing and cause-related marketing
- Know about the various CRM programmes
- Understand the recent trends in marketing

Structure:

2.1 Customer Relationship Management (CRM)
2.2 E-Marketing
2.3 Internet marketing
2.4 Marketing through Social Channels
2.5 Societal Marketing
2.6 Cause-related Marketing
2.7 Summary
2.9 Self Assessment Questions

With liberalisation and globalisation, the availability of products and services has increased. The customer has wider choice and he is demanding more and more benefits and the competition is increasing in the market place. The essence of marketing concept is that the customer and not the product shall be the centre of business systems. All business operations revolve around customer service and satisfaction and many companies are following customer-oriented philosophy to ensure growth in sales, profits and market share.

2.1 CUSTOMER RELATIONSHIP MANAGEMENT (CRM)

The opening up of our economy through liberalisation and globalisation has led to increase in production and availability of a variety of products services. The market is flooded with different brands of these products and product differentiation is becoming more and more challenging. Therefore, acquiring and maintaining long-lasting relations with customers would enable the organisation to increase sales and profits.

- **Definition of CRM**

Parvatiar and Sheth (2001) have defined CRM as "a comprehensive strategy and process of acquiring, retaining and partnering with selective customers to create superior value for the company and the customer." Gronroos (1990) stated "CRM is to establish, maintain and enhance relationship with customers and other partners, at a profit, so that the objectives of the parties involved are met."

Practitioners and consultants use Customer Relationship Management (CRM) to refer to technology-enabled processes for customer interactions and relationship building, while marketing academicians prefer the team 'Relationship Marketing' (Ref. G. Shainesh and Jagadish N. Sheth, Customer Relationship Management, MacMillan India Ltd., New Delhi (2006).

- **Features of CRM**

1. Customer Relationship Management (CRM) initiatives focus on building and maintaining profitable and long-lasting relations with the customers and creating superior customer value and customer satisfaction.

2. CRM focuses on co-operative and collaborative relationship between the firm and its customer. The focus is creating, growing, and retaining customers. Normally, a customer buys a product that offers the highest perceived value i.e., the difference between all the benefits and the cost of the product compared to that of competition. Customer satisfaction denotes the extent to which a product's performance matches with the expectation of the buyer. If the

product matches his expectations, the customer is satisfied. If the performance exceeds expectations, then the customer is delighted.

3. Relationship management requires putting customer first and genuine customer involvement through communication and sharing of knowledge.

4. The customer is not to be treated as one-time purchaser but as a person who will patronise the brand for life time. If the customer is taken care, sales volume, market share and profits will grow.

5. CRM should focus on Customers (consumers, users and channel members) and the Brands.

6. CRM makes use of IT and database, interactivity through websites, call centres and other means of contacting customers. CRM solutions are provided by Siebel, Oracle CRM, Mynap CRM and others. These CRM suites have the following facilities.

   - Demand planning
   - Interactive selling
   - Sales and service contact centres
   - Analytics capability
   - Accounts management
   - Automatic routing capability
   - Mobile sales and service support.

Two important factors to be considered while selecting the customers are:

1. Life-time value of the customers is based on the idea that customers who generate revenues throughout their life-time are more valuable than those who only make one transaction. **Example**: When a bank provides credit card, education loan to students for professional courses like MBA, these students may not be profitable in the initial years when they are studying. If the bank retains them after studies, they are profitable since many of them receive high- paying jobs.

2. **Share of the customer:** Some customers are more valuable to the firm than others and over a period of time, the amount of money the customer spends with the firms can increase. **Example:** An automobile

company like Maruti increasing its share of customers expenses through car loans at the point of sales, car insurance and servicing and spare parts, exchange offers, etc.

Customer and dealer research provide valuable inputs for developing CRM activities. Examples: Dealerwise, monthwise productive sales, payment pattern of dealers, key consumers and their offtake of different products etc.

- **Relationship Selling**

Personal selling plays a major role in selling consumer durables and industrial products. Some executives feel that all customers are important and all should be treated equally. This approach is good for building relations with public but does not take into account customer value and contribution to company sales and profits. It is a well established fact that all customers do not contribute the same value to the company. Further, only a small percentage of the customers contribute to a large percentage of the total sales volume and profit. Important factors to be considered while selecting the customers are:

- *Benefits:* Concerned about quality, price, service

- *User status:* Non user, Ex user, potential user, occasional user and regular user

- *Usage rate:* Light user, medium user and heavy user

- *Shop/Brand loyalty:* None, medium and strong

- *Attitude to product:* Enthusiastic, positive, negative and hostile

It is not possible for a salesperson to meet all the customers and develop relationship with them. To start with he has to select a few customers in each market so that he can offer more personalised service, which makes them feel happy and important

- Distribution Channel: The channel members consist of wholesalers (distributors) and retailers and the company has to develop relationship with these channel partners. Distribution channel initiatives are designed to improve sales and profitability of the territory by developing a network of committed retailers and offering value-added services and solutions. In order to be successful in the market-place, the channel partners particularly the distributors, should align their activities with the management objectives of the company. Companies are using Internet and other IT tools to avoid manual processing of data and promote positive channel partner experience.

- **Distributors:** The Company should initiate, at least on an annual basis, Business Development Plan Meeting with all the distributors. The meeting should focus on business performance, during previous year, areas for improvement (applicable to the company as well as the distributor) and plans for the next year. Incentives for achievement of agreed targets should also be discussed and finalised during the meeting. This meeting provides an opportunity for the senior managers of the company to interact with distributors and sort out pending issues, if any. The plan should not remain on paper and, therefore, the sales executive and the reporting manager should do necessary follow up and assess the progress made during the course of the year. All genuine problems have to addressed in the interest of the distributor and the company. The sales executive and the distributor could undertake joint tours and sort out the problems of retailers. The sales executive should also organise training programes for distributors' promotion and sales staff to improve their performance.

- **Retailers** plays a major role in sales, since they have close association with consumers. Further they extend credit facilities and push products where the margins are high. While there may be a large number of retailers engaged in selling, only a small percentage of retailers contribute to large percentage of the sales and profits of the company. The company should create database showing retailer-wise information such as total sales value, volumes of different products sold, cash and credit transactions and company's share in his total business. It has been observed that about 20% of the retailers contribute to about 80% of the business done by a company in a sales territory and, therefore, the sales executive should identify potential retailers and develop relations with them. Some of the activities which will increase the involvement of the retailers are:

  - Detailing the products and highlighting product benefits.

- Involving him in product demonstrations and meetings.
- Credit facilities.
- Sales incentives for achievement of agreed targets.

- **Retaining Customers**

It has been observed that acquiring new customers is a costly process compared to retaining existing customers. Further, a large percentage of profit comes from long-term customers and, therefore, the companies have to focus on existing customer-base. When a company loses a customer, it loses much more than a single sales transaction. It loses the entire business the customer would make over a period of time known as 'customer life time value'. Companies lose customers for a variety of reasons:

a. If the customer finds that the price is high compared to the benefits offered by the product, he may buy another product;

b. When a new product, with more features, is offered in the market, the customer may buy the new product;

c. The customer may buy another product due to personal reasons such as easy availability, influence of friends and relatives and indifferent nature of the service provider;

d. Some customers (Natural floaters) keep on changing brands particularly in the case of FMCG products.

However, many customers do not make complaints about products or services and some of the reasons are i.e.,

a. The supplier may not take action on the complaint;
b. Have to spend lot of time and efforts in filing complaint and follow up;
c. Not aware of the procedure for complaining;
d. Uncomfortable to make complaints;
e. The supplier may argue and bulldoze the customer;
f. The customer does not bother about the problem, he simply switches over to another brand.

- **Customer Relationship Management Programmes**

1. **Customer loyalty programmes** offer additional benefits to loyal customers who patronise company's products and services. Example: Hotels, airlines, shops, Credit card providers offer additional benefits in the form of bonus points, coupons, etc. to customers for repeat purchases.

2. **Customer service centres** deal with customer complaints and offer solutions to their problems

3. **Customer clubs** provide opportunities for interaction between the customer and the company. The company tries to meet the needs of customers and provide them with goods and services that lead to customer satisfaction. **Example:** Many companies have formed 'Achievers club' which offers membership to distributors and dealers based on their sales performance.

4. **Customer retention programmes** aim at retaining loyal customers by offering them target oriented schemes such as achievement of sales targets, new product volumes and prompt payment of outstandings, etc.

5. Many companies have initiated **Customer interaction programmes** through on-line (websites, e-mails, chat room) and off- line (telephone, fax, telephone) and outsourcing (call centres) activities.

6. **Direct Mailing:** It is a way of sending information relating to goods and services directly to prospects and customers. It can be used for sending an offer, reminder or announcement to a particular customer i.e., consumer, retailer, or distributor at a particular address.

   It is employed by company to bring in a personal touch. Some of the points to be considered in preparing mailers are: design of the envelope, personalised sales letter, reply form and postage-free reply envelope. Greeting cards could also be sent during festivals such as Diwali, X-mas, Baisakhi, Durga pooja, etc. E-mail service is useful in the case of customers like corporate executives, dealers and distributors. The message arrives immediately and many companies have started using the same for sending product information and schemes.

7. **Telemarketing** involves use of telephone to contact new and existing customers, to take order and to know the market situation. Telemarketing would be an additional support to the sales executive. Creating a central database of customers, timely communication and answering queries are essential for success of telemarketing programme.

- **Brand**

Many people feel that brand relates to product name, company name or logo. In fact, brand is much more than that. Brand includes company products, services, behaviour of company staff, distribution channel, and use of technology and management processes. It is the sum total of the experience of customers with the company. A company may have high quality products, but if a distributor has to make repeat calls/send reminders for settlement of genuine claims, then the inordinate delay is damaging the brand. The company has to integrate the activities of sales, management, accounts, and logistic departments to develop positive brand image.

Current business environment is characterized by intense competition, more and more new products with less and less differentiation and demanding customers. The organization has to move away from a purely sales approach and initiative customer relationship management programmes to face the challenges in the market.

2.2 E-MARKETING

With a rapid growth of media, companies are able to sell directly to consumers without using the services of channels of distribution. The important media are catalogues, direct mailing, telemarketing,fax machines, electronic mail and internet.

During the recent years, electronic channels are being used for business transactions. Electronic marketing basically involves selling of products and services through electronic channels i.e., use of fax, e-mail, ATMs and smart cards for doing business.

ATM is a computerised telecommunication device that provides customers a method of financial transactions in a public place without the need for bank staff or bank tellers. ICICI bank is the most aggressive provider of ATM in our country. While ATM helps bank to attract customers, there is cost advantage too. An ATM transaction costs about 30% of the cost of transaction in a branch. A **Smart Card** is similar to Credit Card but it contains an embedded microprocessor. It uses electronic cash and transfers from consumer's card to seller's instrument. **Example:** Using Visa Smart Card, one can transfer electronic cash to the card (from bank account) and use the card for buying products on the internet.

- **Advantages of e-marketing**

1. **Time factor:** The company can send messages to distributors, dealers and consumers at any time and the receiver can access the mail at his convenience. The messages are received instantly.

2. **Availability of information:** The consumer has access to updated information on a variety of products and services which enables him to take purchase decision.

3. **Geographical coverage:** The messages can be sent to customers located at far off places including foreign countries and the messages will be received by them instantly. We can say that geography has become history and we are living in a "Global Village."

4. **To and from communication:** There are facilities such as chatting and conferencing and business discussions could be held at short notice without the need for the physical presence of participants in one place.

5. **Shifting of selling process from seller to buyer:** Buyers have become more and more demanding and they can choose from a variety of goods and services available in the market. E-marketing allows the sellers to catch the attention of buyers and also build relationship with them through Internet.

6. **Distribution cost:** E-marketing basically involves direct marketing and, therefore, the distribution channel costs are reduced. **Example:** The adoption of internet banking by customers cost less than that of

ATM and bankers are persuading customers to follow on- line banking. ICICI bank has taken a lead in internet banking and many banks like HDFC, UTI, and SBI have seen increase in the number of customers registered for internet banking services.

- **Types of E-market**

1. **C2C-** In this case, consumers directly sell products and services to other consumers through internet. A good example of consumer to consumer application is e-bay. e-bay is an online auctioning site that facilitates selling of privately owned items between individuals.

2. **B2C:** The organisation sells products/services to consumers: Examples: Travellers can buy tickets from Airlines and Railways through websites. E-retailing is the selling of retail goods on the Internet. Known as electronic retailing, it involves business to consumer transaction. E-retailers do not have to keep expensive show rooms as they can operate through their websites. Example: Flipkart sells books, computers, mobile phones, etc. on the Internet.

3. **B2B:** The transaction is between business organisations using Internet. It includes quotations, purchase orders, payments, etc.

- **E-marketing is a Customer-led Business**

E-marketing makes use of database of customers and prospects and creates constant flow of information between customers themselves. E-marketing is a customer-led business and basic marketing principles apply to online marketing too.

Marketing management can be defined as the management process of identifying, anticipating and satisfying customer needs profitably. Similarly, E-marketing can identify, anticipate, and satisfy customer needs efficiently.

1. A website can fulfil the definition of marketing. It can identify needs from customers comments, enquiries and complaints through the website's e-mail facility, bulletin boards, chat rooms and anticipate customer needs by asking questions and engaging them in a dynamic

dialogue. It recognises your visit to certain sites and without knowing your name, it knows your interest. When you visit a website, a relevant banner drops down — this is not a coincidence and cookies have anticipated your interests. It satisfies your needs through prompt responses, order status updates and helpful reminders.

2. If website is integrated with CRM system and mass customisation, then relationship develops and needs are completed satisfied in an efficient automated two-way process. Companies like Dell and IBM sell PCs online everyday. Many shoppers browse online, collecting information on prices and special offers and then visit shops or pick up phone to negotiate better deals.

3. During the recent years e-advertisement has gained importance. Customers increasingly prefer to surf internet and many companies are making use of e-advertising for promoting products and services.

- e-mail reaches a wide variety of targeted audience and companies develop a customer database and send e-mails.

- Banners are the commonly used form of advertising on the Internet. A banner contains a short text or graphical message to promote a product.

- Sky scrapers are the extra long skimmy advertisements running down the side of a website.

- **Mini-sites Pop-ups:** These advertisements burst upon the screens. **Example:** ICICI, bank and naukri.com.

- Coupons can be printed out and used for online and off-line shopping.

- **Interstitials:** When you visit a site, a new window opens and it is called an interstitial. Example: Railway site and bank window asking you to apply for a loan.

E-marketing is making rapid progress in the following areas:

- **Stock Trading:** On line buying and selling of shares has become popular in urban centres.

- **Music:** Consumers can download recordings from the site instead of buying cassettes or CDs. Since music is recorded and stored digitally it can be distributed over Internet.

- **Tours and Travels:** The industry is already making use of Internet for booking tickets, hotel rooms,etc.

- Sending and receiving gifts.

- Information on Residential flats/Office space available in major cities and towns.

- **Entertainment areas** include downloading films and music and booking cinema tickets.

- **Opportunities and Challenges**

Many organisations such as Indian Railways, Indian Airlines, Jet Air, ICICI Bank, State Bank of India, Taj Hotels, Raj Travels, Bharath Sanchar Nigam Ltd., have taken initiative in E-marketing

1. By making use of Information Technology and Internet, consumers can place orders for a variety of goods and services i.e., Air/Rail tickets, hotel rooms, books, shares of companies, wrist watches, cameras, dress materials, etc. This affects the business intermediaries such as travel agents, merchants, book-stores, and share and stock brokers. However, a new category of intermediaries, who help consumers in finding out low cost hotels, air tickets, etc., has come up. **Examples:** www.yatra.com, www.makemytrip, www.travelguru.com

2. A customer database apart from providing details such as name, address, and telephone number, also gives information on past purchases by individual customers and also demographic and psychographic information. Based on database companies can identify individuals or customer group and customise the messages about products and services to meet specific requirements. Creating database involves investment in terms of men, material and money and a well-prepared database can help the company to increase sales volume.

3. A company can have its presence on the web in two ways. It can rent a space on a commercial on-line service or it can create its own website. The website has to be made attractive through text, sound, and animation to motivate the consumer to visit the website repeatedly. Company can release on-line advertisements by many ways such as banners, pop-up windows and banners that move across the screen.

4. Many of the consumers who use websites, Internet, etc. are young and they form the target group for electronic products, travel and tourism and financial services. While on line shopping is picking up, misuse of credit/debit cards by unscrupulous elements is one of the problems faced by marketers. Of course companies are taking adequate safeguards to ward off such problems.

5. Many people surf the net for getting information about products and services rather than buying the product. There are very large number of websites, which provide voluminous information. The site should be able to draw the attention of people. Otherwise, it will go unnoticed.

6. Websites provide lot of information to the consumers and at the same time consumers may very strongly express their dissatisfaction about the company or the produce or the services and the same will be read by millions of people. Consumers are also concerned about unsolicited e-mails. Internet users are mainly middle class people in urban areas. Only a small percentage of traders/ business use internet. Many consumers are reluctant to buy through Internet as they not sure of the quality of the products and delivery of the products. Further they would like to touch and feel the products and negotiate the prices.

7. In the case of service industries, one has to be either a high- volume low-cost provider or a high-touch customer service provider. For the high-volume low-cost model one can use Internet technology to create self-service approach. By providing lot of information to customers, we can drive a lot of traffic and transactions through Internet site offering best price. Since only a few companies in any market will be the high-volume players, most companies will have to find ways to use the Internet not just to reduce costs, but also to deliver new services.

8. With liberalisation and globalisation, the availability of products and services has increased in the recent years. The companies are trying to

find out effective methods to reach the consumers and e- marketing offers lot of opportunities to the creative marketers. **Examples:** HUL has connected all their suppliers and has launched a project to connect their 7,500 distributors. Further, they have plans to connect key retailers in the market-place. ICICI Bank is attracting customers by offering them a host of special services such as Demat, electronic bill payment, etc.

2.3 INTERNET MARKETING

The advent of computers and Internet has added another important medium for selling products and services. The Internet is a worldwide network of computers to provide an alternative communication network. The Internet is free, but the user has to pay fees to Internet service provider for connectivity. Internet marketing can be defined as the use of the Internet and related digital technologies for achieving the marketing objectives.

The important types of network are:

1. Internet consists of computers and users who can receive and send data files and has facilities for creating, viewing and listening to the contents.

2. Intranet runs internally in a company and connects people within an organisation.

3. Extranet connects vendors, distributors, dealers and consumers within the company. The access can be either partial or restricted.

- **Types of Internet Sites**

1. Company/product sites provide information about company, products/ brands- www.himpub.com

2. Service sites facilitate customer service interface for a company like www.monster.com, www.naukri.com

3. Selling sites for purchase of products like www.amazon.com, e-bay

4. Information sites like www.google.com, www.yahoo.com

- **Types of Stores**

1. **Web Store Format:** It is an online website and the customer could visit the website and buy products. It offers listing of products and payment processing facility.

2. **Brick and Mortar Model** has a commercial address and customers can transact business face to face. Further, the company may also have online services. Many consumers believe that Brick and Mortar Stores are more reliable due to the presence of physical shop with customer service counter. Of course, the younger generation is comfortable in doing Internet transactions.

3. **Brick and Click Model** provides on-line and off-line facilities. The customer can order online and pick up the product from the shop.

- **Internet and Market Segments**

Thee are three market segments:

1. Cyber buyers are professionals who spend considerable time on-line, at their place of business. They have to make major purchase decisions and want to locate sources of supply.

2. Cyber consumers are mainly home computer users who may be interested in on-line shopping and buying.

3. Cyber surfers are typically young people who surf net for fun.

During pre-Internet days, the only way consumers could get goods from most manufactures was through tiers of distributors and dealers. Today, consumers can transact business directly with the manufacturers who offer Internet service. Nowadays manufactures can provide on the Internet, the equivalent of a factory outlet. Before the Internet, gathering all the information for travel, financial products and consumer products required lot of time. A number of service companies made money by collecting and organising the required information for the customers. Today, consumers themselves can go to the Internet to find out much of the information they need. The company can dispense valuable information cheaply by means of Internet with out branch offices. The websites provide information on products and services and the buyer can place orders directly by making use of credit or debits cards. The products are delivered to the address of the customer through courier or messenger service.

Mobile Commerce is the buying and selling of goods and services through handheld instruments such as cellular phone and digital assistants. The users can access Internet without the need for plug in. Mobile commerce would become the preferred choice for digital commercial transactions. The areas covered include mobile banking, mobile ticketing, mobile vouchers, coupons, loyalty cards, information services such as sports results, stock data, and mobile browsing and shopping.

2.4 MARKETING THROUGH SOCIAL CHANNELS

Many of us approach social channels consisting of relatives, friends or neighbours requesting them to recommend a doctor, hotel, hospital, insurance agent, plumber, painter or a lawyer to meet our requirements. Similarly, we take the suggestions of our social channels before buying consumer durables like refrigerators, air-conditioners and automobiles. Since we have confidence in their recommendations, we follow their advice in making a purchase decision.

In such cases, word of mouth publicity plays a major role in product promotion and companies are finding out way and means to stimulate social channels to recommend products and services. Word of mouth is probably the only method of promotion by consumers for consumers. Satisfied consumers make repeat purchases and recommend the products to others. Word of mouth publicity through social channels costs the business relatively little.

Companies can take the following steps to stimulate social channels to recommend the products:

- Identify influential people in the society and convince them about the advantages of the products.

- Offer them products at special rates.

- Use influential people in testimonial advertising.
- Develop rapport with them and request them to recommend products.

  Example: The Insurance agents, mobile merchants and salesmen dealing with household products are already making use of social channels for selling their products and services.

2.5 SOCIETAL MARKETING

It is broadened marketing concept and management is called upon to bring about balance of three factors: (1) Customer demand satisfaction, (2) Public interest (social awareness), and (3) Profitability.

The environmental trends like public welfare, increasing concern for better ecological or living environment on the earth or the higher quality, i.e., enrichment of human life, now stress that all organisations would have to adopt socially responsible marketing plans and programmes in order to assure social welfare in addition to customer satisfaction.

The societal marketing concept is based on the following premises:

1. The marketer has to fulfil the customer demand and also to contribute to enrichment or quality of life.
2. The marketer shall not offer a product to consumers if it is not in the best interests of consumers.
3. The marketer will offer long-run consumer and public welfare.
4. The integrated marketing plans and programmes shall duly consider consumer-citizen wants. Social welfare and corporate needs, i.e., sustained economic growth without ecological imbalances and disturbances. In essence, widened marketing concept will enable marketing management to create and deliver not only materials for good standard of living but also healthy life in the universe free from environmental degradation.

It has been observed that, while meeting customer wants, the marketers have neglected society's needs.

Examples:

- For the convenience of consumers, many companies have introduced carry-away plastic bags, plastic trays, disposable cups and all these items are thrown all over the place causing environmental problems.

- Food products, mineral water, cosmetics, soft drinks are all packed in attractive plastic containers and pose health hazards and disposal problem.

- Increase in demand for two-wheelers/four wheelers has caused high fuel consumption and at the same time adding to traffic congestion, air and noise pollution and safety problems.

Freedom from all types of pollution, enrichment of life and restoration of balance in the ecology have assumed unique significance in all countries since 1985.

The societal marketing concept is a management philosophy that believes in assessing the needs and wants of consumers on target market and to adapt the organization to produce and market goods to give expected satisfaction more effectively than competitors in such a way that preserves the consumers and society's well being.

2.6 CAUSE-RELATED MARKETING

Cause-Related Marketing refers to a type of marketing involving co-operative efforts of a business enterprise and a non-profit organisation for mutual benefit. The term is used broadly and generally to refer to any type of marketing effort for social and charitable causes. Cause-Related Marketing differs from corporate philanthropy as the latter generally involves a specific donation that is tax-deductible, but Cause-Related Marketing is marketing relationship generally not based on donation.

The creation of the term Cause-Related Marketing is attributed to American Express and it was used to describe the campaign led by American Express in 1983 for the Statue of Liberty Restoration Project. American Express made a one cent donation to the Statue of Liberty every time someone used its charge card. The number of new cardholders soon grew by 45 per cent and card usage increased by 28 per cent.

The possible benefit of Cause Related Marketing for business includes positive public relations and improved customer relations and additional marketing opportunities.

2.7 SUMMARY

- The essence of modern marketing is that the customer is the centre of the entire business system. There is a gradual shift from 'buyer beware' to 'seller beware'. All elements of marketing mix have to be geared towards customer satisfaction. Many companies are following innovative marketing practices that focus on customer satisfaction and profitability.

2.8 SELF ASSESSMENT QUESTIONS

1. Explain with examples e-marketing and Internet marketing.

2. Bring out the differences between marketing through social channels and societal marketing.

3. Define CRM and its application in sales and marketing.

4. What is Niche Marketing? Explain with examples

5. "The customer is not to be treated as one-time purchaser, but as a person who will patronise the brand for life-time." Examine the statement and explain the importance of CRM in today's highly competitive marketing environment.

6. Write short notes on the following:

   a. Cause-related marketing.
   b. e-advertisements.
   c. Types of e-markets and network.
   d. Relationship selling.

REFERENCE MATERIAL

Click on the links below to view additional reference material for this chapter

Summary

PPT

MCQ

Video Lecture - Part 1

Video Lecture - Part 2

Video Lecture - Part 3

Chapter 3

MARKETING ENVIRONMENT

Objectives

After studying this Chapter, you should be able to:

- Understand the concept of marketing environment
- Study the marketing management and its environment
- Know the various components of marketing environment
- Understand the strategies used for corporate marketing

Structure:

3.1 MARKETING ENVIRONMENT

The political and economic changes in 1991, resulted in sea changes in the marketing environment through liberalisation. In the field of cellular phone industry, many companies entered India. Rapid technological changes have taken place in the computer hardware/ software industry. Increased competition prevails in passenger car industry and electronics industry. The marketing team has the responsibility to increase sales and profit of the company through effective use of marketing mix. The demand for the products and profitability of the operations depend upon the marketing environment. Therefore, marketing environment influences and shapes the marketing strategy. A marketer has to design his marketing strategies based on the marketing environment.

- **Meaning of Marketing Environment**

Marketing environment means the market situation/atmosphere within which a business enterprise has to operate. The marketing environment has been defined in a variety of ways. According to Philip Kotler, "*the company's marketing environment is made up of the sectors and forces outside the firm's marketing function which infringe upon the ability of marketing management to develop and maintain a successful relationship with the firm's target audience.*"

Marketing environment is the sum total of political, economic, social, technological and other forces which move around the business enterprise. Marketing environment changes due to various external forces and marketing department has to be operate under such dynamic environmental conditions. A firm is exposed to both external and internal environments. The internal environment consists of company's resources such as production, finance, HR, research and development, location and image. External environment has two distinct components: the Micro-environment and the Macro- environment, as shown in Fig. 3.1.

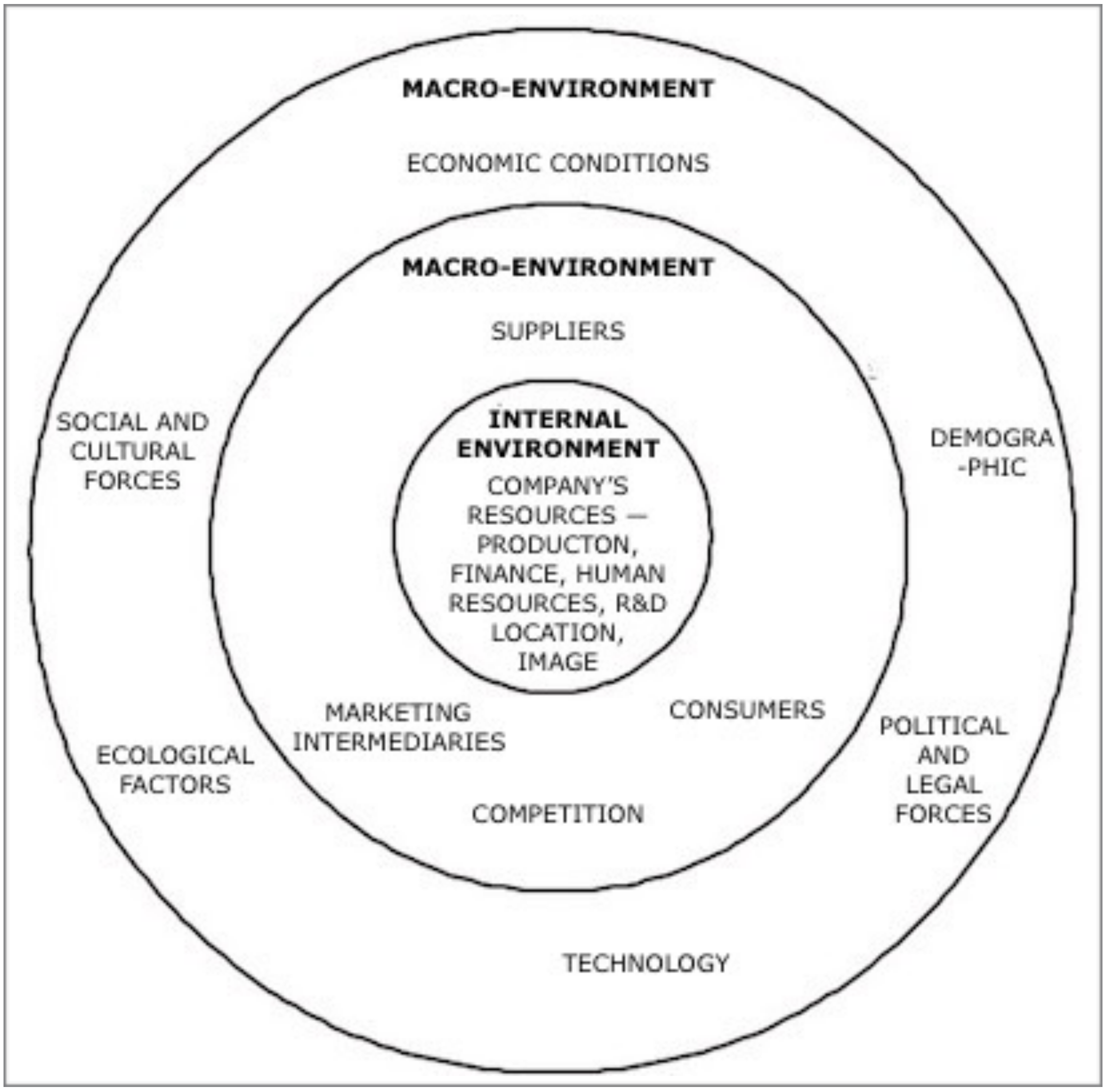


Fig. 3.1 Marketing Environment

- **Micro-environment:** It affects a particular firm and consists of Consumers, Marketing intermediaries like Distributors, Wholesalers, Dealers, Suppliers and Competitors.

- **Macro-environment:** It affects all the firms and include Demographic factors, Economic conditions, Social and cultural forces, Political and Legal forces, Technology and Ecological factors.

- **Importance of Environmental Analysis**

The Marketing Manager needs to be dynamic to deal effectively with the challenges of environment. The business environment is not static and it is changing continuously. The following are the benefits of environment scanning as suggested by various authorities:

1. It creates an increased general awareness of environmental changes on the part of management.

2. It guides with greater effectiveness in matters relating to Government.

3. It helps in marketing analysis.

4. It suggests improvements in diversification and resource allocations.

5. It helps firms to identify and capitalise upon opportunities rather than losing out to competitors.

6. It provides a base of 'objective qualitative information' about the business environment that can subsequently be of value in designing the strategies.

7. It provides a continuing broad-based education for executives in general, and the strategists in particular.

3.2 MARKETING MANAGEMENT AND ITS ENVIRONMENT

It is well-known that environment affects business planning. The more a business understands its environment, the better chance it has for profitable growth. The business environment represents a complex of shifts in the structure of society and the economy, in the state of technology, in the customer demand in the market place, in the policies and requirements of the governments, and in the state and character of international tensions. In short, it is the sum of all the factors outside the control of a company's management, which can change and, when changing, carry with them sizable monetary impacts on the markets for particular products and services.

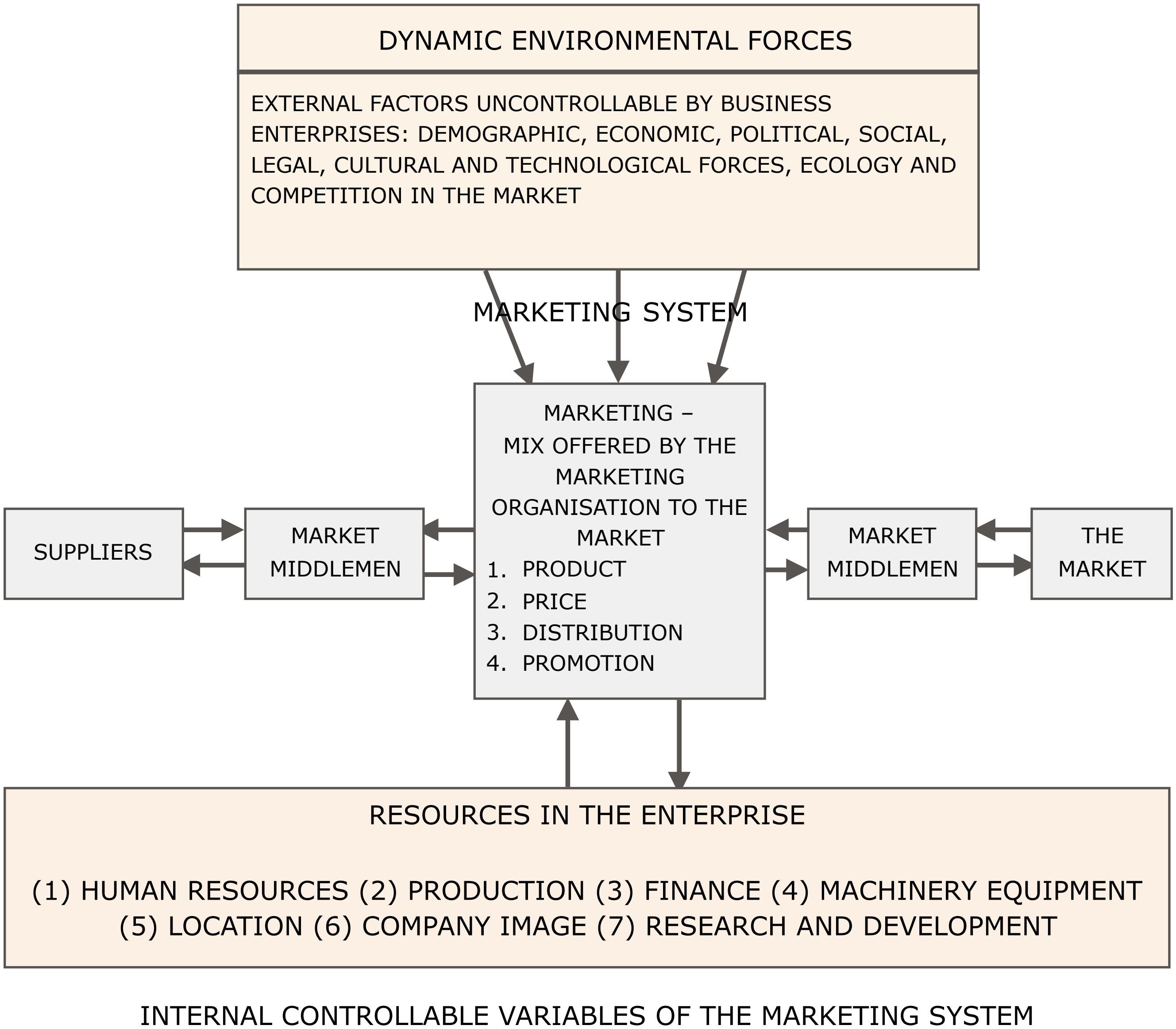


Fig. 3.2 Marketing System Operating within Dynamic Environment

Management should first establish a programme for consistently monitoring the market environment like an early-warning radar system. Second strategies have to be developed for fulfilling a growing need or ways to seize the opportunities and avoid the threats.

According to William J. Stanton "Successful marketing depends largely on a company's ability to manage its marketing programme within its environmental framework." Marketing management is concerned with matching of the organisation with the demands of the business environment. There is a need for the marketer to monitor the business environment on an on-going basis so that opportunities and threats facing the organisation are identified and subsequently reflected in the firm's strategy.

Profitable solutions to marketing problems can only be realised if the significance of environmental change on the firm and its customers is recognised. These external forces which affect marketing opportunities, consumer behaviour and business action must be reflected in marketing policies, plans, strategies, programmes, and decisions. The essential point is that the business organisation must constantly monitor its environment.

The heart of the marketing system of a company is its marketing- mix. Marketing Management evolves the marketing mix in relation to its external environment. Hence, it must respond in time to changes in the marketing environment and it must adopt intelligent forecasting devices to anticipate the trend and intensity of environmental changes. It has to use internal controllable resources in the best manner while adjusting quickly to changing demands of the marketing environment, as shown in Fig. 3.2.

Let us remember that all the environmental forces are subject to change and we are living in a dynamic world. Changes in the environmental forces are challenges to marketing executives and these must be met in order to secure profitable growth by marketing management. A firm ignoring environment will face certain death. An adaptive firm has good prospects of survival and growth.

3.4 MACRO-ENVIRONMENT

External forces have considerable influence on company's marketing activities. They are dynamic, ever-changing and are largely uncontrollable by management.

1. **Demography:** Marketing Management is directly interested in demography, i.e., scientific study of human population and its distribution structure. Demographic analysis deals with quantitative elements such as age, gender, education, occupation, income, geographic concentration and dispersion, urban and rural population, etc. Thus, demography offers consumer profile, which is very necessary in market segmentation and determination of target markets. Growing population indicates growing market particularly for baby products. If a baby boom is anticipated, the market potential is tremendous. But when

we have reduction in the birth rate and the lower rate of growth of population, many companies specialising in baby products will have to adjust their marketing programme accordingly. With a population of 50 crore below the age of 25, our country is one of the biggest youth markets for consumer goods. Quantitative aspect of consumer demand is provided by demography, e.g., census of population, whereas qualitative aspect of consumer demand such as personality, attitudes, motivation, perception, etc., is provided by behavioural analysis. Good demographic analysis combines several factors such as population rate of growth or decrease, income or economic power, life-cycle analysis of consumer, occupation, education, and geographic segmentation. Both demographic and behavioural analyses enable marketing executives to understand the bases of market segmentation and to determine marketing reaction to a new product or consumer reaction to an advertising campaign.

2. **Economic Environment:** People constitute only one element of a market. The second essential element of a market is purchasing power and willingness to spend. Then only we have effective demand. Hence, economic conditions play a significant role in the marketing system. High economic growth assures higher level of employment and income, and this leads to marketing boom in many industries.

   Marketing plans and programmes are also influenced by many other economic factors such as interest rates, money supply, price level, consumer credit, etc. Higher interest rates adversely influence real-estate market and markets for consumer durables sold on instalment basis. Exchange fluctuations, currency devaluation, changes in political and legal set-up influence international marketing. The level of take-home pay determines disposable personal income and it influences marketing programmes directly. Economic conditions leading to recession can influence product planning, price fixing, and promotion policies of a business enterprise. Energy crisis and inflation are the two factors hindering accelerated economic growth in spite of liberalisation.

   Performance of Indian economy during the last few years has been very encouraging and we have achieved a higher growth of 9.4 per cent in the year 2007. Per capita income (at constant prices- 1990-2000) has increased from Rs. 17,432 in 2004 to Rs. 22,483 in 2007. Further, there is a shift from agricultural economy to manufacturing and service economy and this has resulted in increase in income and demand for goods and services.

3. **Social and Cultural Environment:** Marketing management is called upon to make necessary adjustments in marketing plans in order to meet the changing social and cultural environment. It includes social class, values, beliefs, traditions and life-style of people.

   Social class is determined by income, occupation, location of residence of members. Broadly, we have three social classes i.e., upper, middle and lower and each class has its own standards with respect to lifestyle, behaviour, etc. **Example:** An upper class person may like to dine in a star hotel, while a middle class person may prefer a cost-effective restaurant. Social factors consists of opinion of family membeers, friends and reference group. A reference group includes family, a circle of friends, local club, atheletic team etc. When a member of the group is satisfied with a product, he recommends the product to others. **Example:** Film stars and cricketers to promote consumer goods, cars, etc.

   Culture provides people with a sense of identify and understanding of acceptable behaviour in a society. Our food habits, rituals, family life are all influenced by culture. Of course, lot of changes are taking place due to increase in literacy, urbanisation, exposure to mass media and changing role of women from being a simple housewife to an employee taking care of home and office. **Example:** In our country, the younger generation is moving ahead with the times, but the traditional population is not comfortable with the westernisation of our culture i.e., Moving from Lime juice, Buttermilk, Vada Pav, Roti to Cola drinks, Burger, Pizza and excessive importance given to material possessions, selling worthless/insignificant products through heavy advertising, etc.

   There are three aspects of social and cultural environment i.e.,

   1. Changes in our life-styles and social values, e.g., changing role of women, emphasis on quality of goods instead of quantity of goods, greater preference to recreational activities and demand for readymade food, beauty parlour, etc.,

2. Major social problems, e.g., concern for pollution of our environment, socially responsible marketing policies, need for safety in occupations and products, etc.,

3. Growing consumerism indicating consumer dissatisfaction since 1960. Consumerism is becoming increasingly important to marketing decision process. Social environment in many countries is responsible for emphasising social responsibility of business and customer-oriented marketing approach. Societal marketing concept, demanding not only consumer welfare but also citizen welfare, is due to the prevalent social environment and social or cultural values in many countries. Marketers are now called upon not only to deliver higher material standard of living, but also assure quality of life, i.e., environment free from pollution.

4. **Political and Legal Forces:** Political and legal forces are gaining considerable importance in marketing activities and operations of business enterprises. Marketing systems are affected by government's monetary and fiscal policies, import-export policies, customs duties. Legislation controlling physical environment, e.g., anti-pollution laws also influence marketing plans and policies. Then, in many countries we have specific legislation to control marketing, e.g., forward markets of commodities and securities. Consumer legislation tries to protect consumer interests. We have also legislation to control and regulate monopoly and unfair trade practices in many countries. Marketing Management cannot ignore the legislation regulating competition and protecting consumers. Business enterprises may not be allowed to resort to price discrimination, false and misleading advertising, exclusive distributorships and tying agreements, deceptive sales promotion devices, division of markets, exclusion of new competitors, and such other unfair trade practices. Marketing policy- making is influenced by Government policies and controls throughout the world.

   Since 1991, successive Governments have taken initiatives for economic development of the country and have invested heavily in infrastructural facilities like roads, communication, airports, and railways. The new policies and reforms have covered several areas like industrial licensing, foreign investment, subsidies, and price control. Public Sector investment, flow of technology and human resources, banking, insurance, and telecommunication services. During the last few years, several programmes like Employment Guarantee Scheme, Gram Sadak Yojana, Rastriya Krishi Vikas Yojana have been taken up for development of rural areas. While one may attribute some of the measures to win votes, these initiatives have certainly led to increase in income and opportunity for the marketers.

5. **Technology:** Phenomenal development in science and technology since 1980 has created a tremendous impact on our lives and life-styles, in our consumption as well as in our economic welfare. The evolution of global market by 2001 has been due to the wonders of science and technology. It is the driving force behind many new product innovations and the development of many markets. The time between idea generation and commercialisation is now considerably shortened and a technological breakthrough can take place within a few years now. For instance, ideas of frozen foods needed 70 years for their commercialisation. For integrated circuits, commercialisation took place within three years. Advances in electronics, telecommunications, computers, biology, and plastics have very wide impact on all business and marketing activities all over the world. Without computers much of the progress in biology, electronics, and the development of new man-made materials would not be possible.

   Examples of effects of telecommunications on marketing:

   a. FAX machines revolutionising inter-communications.
   b. Use of computers in data processing.
   c. Shopping by television: teleshopping.
   d. Computer-based reorder system reducing inventories.
   e. T.V. commercials, telephone interviews, supermarket scanners.
   f. Increasing consumer information.
   g. Mobile phones.
   h. Video Conference.

Note: Interaction between electronics and communications is called telecommunications.

Electronic industry is the best example of exploiting new marketing opportunities. Digital watches killed the marketing prospects of traditional watches. Artificial fibre cloth has almost taken over the pure cotton textile industries in many countries. Television has adversely affected radio and cinema industries. Eighty per cent of food products now available to a housewife in highly industrialised countries were simply non-existent thirty years ago.

6. **Ecology (Nature)**: Ecology is the science dealing with living things and their environment. All living things are related to other living things and they likewise are related to their physical environment.

   Industrial and computer revolutions have brought us many benefits. Mankind now should be able to live in plenty and peace, and welcome facilities for seeking higher life quality. But look at the reality we face. Exploitation of man by man is carried forward to exploitation of NATURE (natural resources) by man-machine organisations. The human species is proving to be totally unworthy of the free gifts of nature (air, water, natural resources).

   Ecology, economic development, and market economy can go hand-in-hand. Environmental quality, human health and social well- being need not be sacrificed or unduly injured as a result of the developmental activities. Sustainable development, environmental protection can be integrated to assure a healthy, peaceful, and productive life in harmony with Nature, our Earth-Goddess.

   Environmental experts are vigorously advocating the preservation and survival of our entire ecological systems. It is said that pollution is an inevitable by-product of high-consumption economic systems prevalent in the advanced countries. The marketing system of an enterprise has now to satisfy not only the buyers of its products (consumers/users) but also societal wants. In future, marketing executives will have to pay due attention to the quality of our life and our environment. They are expected to take measures to conserve and allocate our scarce resources properly. Above all, they must show active interest in the welfare of community life.

   Science and technology brought about phenomenal industrialisation and commercialisation at the huge cost of indiscriminate and ruthless exploitation of Mother Earth or Nature. Ecological crisis is a burning problem in the global economy. Fortunately marketers and business leaders of the world have come together under the UNO and WTO to bring about sustainable industrial and commercial development free from dangers of pollution and prevent further self- destructive and ruthless exploitation of nature.

3.5 MICRO-ENVIRONMENT

These are factors which are specific to the business concerned and include Consumers, Marketing intermediaries and Suppliers.

Consumers: The wants, desires, preferences, expectations and aspirations of consumers keep fluctuating. Under the market- oriented marketing philosophy, customer needs and desires act as the centre of the marketing programme. Customer demand is ever- changing, unpredictable and also unmeasurable with accuracy. It is also complex and very intricate. Under the market-oriented marketing philosophy, customer needs and desires act as the centre of the marketing universe. In fact marketing system must respond to the customer needs and desires in all aspects. Marketing policies, programmes and strategies are planned, organised and executed with the main objective of customer satisfaction and service. According to P. Drucker there is only one valid definition of business purpose: to create a customer. The business enterprise aims to earn profits through serving the customer demand. Today, marketing in the firm begins and also ends with the customers. First, we have to identify customers, i.e., our markets. Then, we develop our marketing programme in the form of the appropriate marketing mix to reach our customers, i.e., our target market. We offer our output of goods and services primarily to secure continuous customer satisfaction. Repeat sales are possible only on customer satisfaction.

Marketing Intermediaries: The important intermediaries are wholesalers, retailers, and agent middle men such as commission agents, brokers, etc. Channel members are useful to producers as well as consumers. Even if a company has a product that meets the requirement of consumers, it will succeed only if it is made available at the right place as and when required by the customer. The middle men facilitate the movement of goods from the producer to the consumer. The intermediaries carry out distribution activities at a lower cost than the company can do by itself.

Suppliers: The Company purchases raw materials from vendors/ suppliers and it has to ensure regular supplies to maintain continuity of production. Shortage of raw materials can affect production volumes leading to low sales and low profits. Similarly increase in the prices of raw materials can affect sales volumes and profits. Therefore, suppliers play a major role in the profitable running of an organisation.

Competition: Although price competition is still present, particularly in the retail market, non-price competition is of paramount importance for the manufacturer. No marketing decision of major importance should be made without assessing competition in a free market economy. The Marketing Manager has little or no control over the actions of competitors. He can merely anticipate competitive actions and be prepared to deal with them. Competitors considerably influence the company's choice of marketing strategies, particularly in relation to selection of target markets, suppliers, marketing channels as well as in relation to its product-mix, price-mix and promotion-mix. In fact, formulation of marketing-mix is on the basis of anticipation of competitors' moves. Marketing strategy is itself a plan to fight against competition and to win over the competition. **Examples:** The paging industry has been almost wiped out by cellular companies offering short messaging service. Typewriters have become obsolete with the introduction of computers.

3.6 INTERNAL ENVIRONMENT

The marketing efforts are also influenced by internal forces that are controllable by the management. These forces include Production, Finance, HR, Research and Development, Company location, Company image and marketing-mix components of product, price, promotion and distribution. **Example:** A Company wants to increase sales volumes by extending the marketing activities to new geographical areas. It has to consider human resources requirements like number and type of sales people required to cover the new markets.

3.7 CORPORATE MARKETING STRATEGIES

We are witnessing a complete transformation of the consumer markets in our country. The availability of goods and services has increased. The disposable and discretionary income, in general, has gone up. The consumption of non-food items is growing. The consumer has a wide choice and is asking for more and more benefits at lesser and lesser cost. There is cut- throat competition in the marketplace. Companies are wooing the customers with attractive promotional schemes. Many companies have studied the changing marketing environment and have come out with consumer-oriented marketing strategies.

1. **ASIAN PAINTS:** The success of Asian Paints is primarily due to its excellent marketing strategies. The company introduced small packs of paints and expanded the dealer network, particularly in rural and semi-urban markets. These initiatives were aimed at meeting the unmet needs of the customers. The mascot 'Gattu' has become very popular among the customers.

   The company studied the urban/rural markets and found out that huge volumes of 'Chuna' (Lime) was used for painting the houses and walls. Packed distempers, dry distempers and lime wash priced between Rs. 5- Rs. 20 were sold in these markets. The consumers, in general, were not much satisfied with chuna, since it has to be done every year. Further, chuna affected the hands, eyes, and even lungs. There are no choice of colours. Chuna tends to flake off, leaving ugly patches on the walls. However, some people used distemper for painting the houses and walls in the place of chuna. The company developed a special brand of distemper "Utsav" priced at Rs. 25.00 per kg. Utsav was made available in one kg. packing to meet the requirement of small sized houses. The launch of the product in each state/region coincided with festivals. Supplies were made to grocery shops in villages through company dealers. Demonstrations, use of local newspaper, helped in creating demand for the product. The product 'Utsav' has been accepted as a replacement for chuna and has been recognised as a successful marketing strategy in the paint industry.

   The company has entered into technical collaboration with US and Japanese companies for the manufacture of automotive paints to increase its share in industrial paint segment on the IT front, all the 50 depots are connected to the manufacturing plants and Head Office for faster flow of information, monitoring supplies and inventories. Asian Paints is the leader in decorative paint segment with a market share of about 38 per cent.

2. **CAVINKARE:** In 1983, with a single product, CavinKare started out as a small partnership firm. Chik Shampoo was introduced by the company in 1983. The target audience was lower middle class, semi urban, monthly household income Rs. 1500-3000, females in the age- group

of 16 plus. Radio was used as mass medium with popular cinema dialogues. To encourage trials, the sales team contacted school boys to demonstrate how to lather, wash, and comb hair and show the difference. Another method used was through a consumer scheme where anyone could take any four empty shampoo sachets to a retailer and take home a chik sachet free. Chik was the first shampoo to be launched in sachet packing priced 50 paise and the strategy revolutionised the shampoo market in our country. Today, Chik is a Rs. 200 crore brand and about 60 per cent of the Chik sales come from rural markets.

The company now markets ten major brands. Over the years, CavinKare has achieved a competitive edge with sound understanding of mass marketing dynamics. The company offers quality personal care (hair care, skin care, home care) and food products borne out of a keen understanding of consumer needs and keeping up company's values of innovation and customer satisfaction.

- **Product Range**

  Hair Care: Chik Shampoo, Nyle Herbal Shampoo, Meera Badam Shampoo,Indica Hair Colorant.

  Ethnic Care: Meera Hair Wash Powder, Karthika Hair Wash Powder, Meera Herbal Hair Oil.

  Skin Care: Fairever, Spinz Talc/deodorant, Nyle Cold Cream and Lotion

A dedicated Research & Development Centre, equipped with latest equipment and technologies, constantly supports the various divisions in their endeavour. The Company, which primarily relied on contract manufacturing for many years, has now set up its own world- class plant at Haridwar to cater to the demand of both domestic and international market. CavinKare Group has crossed a turnover of Rs. 890 crores in 2009-2010. The Company has employee strength of 1,520, an all India network of 1,300 Stockists catering to about 25 lakh outlets nationally.

3. **GODREJ CONSUMER PRODUCTS LTD.:** Godrej Consumer Products (GCPL) is a leader among India's Fast Moving Consumer Goods (FMCG) companies, with leading Household and Personal Care Products. Their brands, which include Good Knight, Cinthol, Godrej No. 1, Expert, Hit, Jet, Fairglow, Ezee, Protekt, and Snuggy, among others, are household names across the country.

   GPCL is one of the largest marketers of toilet soaps in the country and are also leaders in hair colours and household insecticides. The 'Good knight' brand has been placed at an overall rank of 12 and continues to be the most trusted household care brand in the country in Brand Equity's Most Trusted Brands Survey 2010.

   - **GPCL Product Portfolio**

     Soap: Cinthol, Evita, Godrej No. 1, Fair Glow

     Toiletries: Cinthol Talc, Godrej No. 1 Talc, Fair Glow cream, Godrej shaving cream, Cinthol perfumes

     Hair care: Godrej hair colour dye, Renew woman hair dye, Nupur hair dye, Colour soft hair colour

     Household care: Godrej Dish wash liquid, Godrej Glossy

     Fabric care: Godrej Ezee

   - **Godrej No. 1 Soap**

     Godrej No. 1 soap was launched in 1922. This 88-year-old brand enjoys a volume market share of six per cent. It is the 5th largest selling soap in the country and tops in Punjab/Haryana with a 20 per cent market share. Godrej No. 1 soap relies on below-the- line promotions, and for the past seven years it has been selling at a 3+1 free offer in the market. In 88 years, the brand has spent less than what a major soap brand would spend in a month of heavy promotions (Rs. 12-13 crore), according to the company. Godrej introduced Godrej No. 1 soap enriched with natural ingredients trusted by millions, the flagship brand of Godrej Consumer Products Ltd., is now the largest selling Grade 1 Soap. Grade 1 is the highest standard laid down by the Bureau of Indian Standards (BIS). Godrej introduced it in competition with the Santoor, Breeze. Godrej in the initial stage introduced it as a mid-segment soap but after sometime its price was reduced and targeted to the rural area.

1. **Product Strategy: Godrej No. 1 Soap:** Godrej introduced many variants like Sandal, Jasmine, Ayurvedic, Lavender, etc. to extend the product line of soap. Each variant is a little different from the others. The variants are introduced to satisfy the varying needs of the consumers. It also introduced different product category like talc, shampoo under the name of Godrej No. 1.

   Godrej No. 1 Talc: It is available in two variants. (1) Jasmine, and (2) Sandal.

   Godrej No. 1 Shampoo: Godrej No. 1 launched, for the first time in India, Aloe-Almond combination in a Shampoo.

2. **Pricing Differentiation Strategy**

   In order to reach out to the masses, it was necessary to develop smaller SKUs and hence price them accordingly. Godrej No. 1 soap did just that. Their products came in different sizes and pricing varied accordingly. Following are the various pricing schemes for the different product sizes:

   115 gms (Pack of 4) at Rs. 50/- 90 gms (Pack of 4) at Rs. 40/-

   90 gms (Pack of 3) at Rs. 30/- 70 gms (Pack of 4) at Rs. 30/- and 40 gms singles at Rs. 5/-

   They use bundle pricing strategy to attract the masses.

3. **Distribution Strategy:** The company has ambitious plans to extend distribution to smaller towns and rural markets. The company is setting up a system of stockists and super stockists in small towns with population of 10,000 plus. At present, rural sales contribute one- third of the company's sales with the balance

coming from the urban market. Godrej Soaps' total income was Rs. 1,300 crores in the fiscal 2009-2010.

A. Project Sampark

- Project "Sampark," is a distributor management system used for stock management, billing to retailers, accounting and report generation. The objective of implementing Sampark was to reduce the working capital of distributors. This in turn would give a better return on investment leading to more coverage and hence more sales. It is used by 300 distributors who account for 67 per cent of the company's sales. It provided a virtual platform between company and distributors. Also, comprehensive Business Intelligence enables in depth primary and secondary sales analysis.

B. Increased penetration

- Intensified rural approach: presence in all locations with over 10,000 population with 130 Super Stockists, and 2,450 sub-stockists.

C. Retail thrust

- Focus on availability of all products at all 600,000 outlets; Focus on modern retailing.

- **Events:** Godrej No. 1 hosts a variety of events which helps it to connect with the masses.

- **Godrej No. 1 Sahyadri Navratna Awards:** These awards are held every year. The event for the year 2009 was sponsored by Godrej No. 1 Lime & Aloe Vera. These awards honour the artists who contribute to the growth of the Marathi film industry round the year. Marathi film industry is very close to the masses of Maharashtra. Thus, through these awards, Godrej No. 1 aims to develop a connect with the rural and semi- urban Maharashtra.

- **Godrej No.1 Gold Awards:** The first ever Television Awards for Indian Television was sponsored by Godrej No. 1 in 2007. This is an award show honouring the best in Indian Television, across Hindi TV channels. The television is said to be the silver screen for the middle class. Through such awards Godrej No. 1 managed to reach the middle class household.

- **Yaara Nachle Live:** Godrej No. 1 Lavender Soap presented **Yaara Nachle Live** at alandhar. Identifying the tastes of entertainment of Northern India, Godrej No. 1 held this event to popularise itself in the North.

- **Advertising:** Billboard, Hoarding, Wall painting, Electronic media, Print media.

- Sales promotion

- GODREJ Consumer Products Ltd. (GCPL), has roped in Mona Singh of **Jassi Jaissi Koi Nahin** (a popular serial on the Sony channel) to be the brand ambassador for Godrej No.1 soaps.

- Godrej No.1 soap was the largest selling brand of Grade I Soap in the country and **Jassi** conveyed the importance of using Grade I quality soaps to the viewers.

- The new Godrej No. 1 ad takes a typical situation inside any Indian home. The theme of the campaign revolves around the proverbial statement, "All that Glitters is not Gold ... All soaps are not Grade I quality soaps"

- The campaign educates people about the advantages of using Grade I quality soaps that produce more lather, last longer and thus are a great value-for-money proposition. (75 gm bar of Grade III toilet would last for 28 baths compared to Grade I soap which lasts much longer).

- Godrej Soaps and **Jassi** both stand for the **Sachchi prakritik sundarta** proposition, according to the company.

4. **MICROMAX:** Micromax is one of the leading Indian Telecom Companies with 23 domestic offices across the country and international offices in Hong Kong, USA, Dubai and now in Nepal. With a futuristic vision and an exhaustive R&D at its helm,

Micromax has successfully generated innovative technologies that have revolutionised the telecom consumer space.

In the year 2008, after delivering upon the technology of fixed wireless-powering desired products, the company forayed into telecommunication — Mobile handsets. Since then Micromax has received commendable response for its unique and interesting handsets.

Micromax has a lot of “firsts” to its credit on their versatile product portfolio. It was the first to introduce, Handsets with 30 days battery backup, Handsets with Dual SIM/Dual Standby, Handsets Switching Networks (GSM-CDMA), Aspirational Keypad Handsets, Operator Branded 3G Handsets, OMH CDMA Handsets, etc. One of the major aspects that contribute towards the substantial monthly growth of Micromax is its 80 per cent sales in the rural areas. It has a market share of eight per cent, behind Samsung in second position with 10 per cent market share.

GO-TO-MARKET STRATEGY — Micromax concentrated on the rural market first. Micromax launched its first phone in the rural market with a very unique USP-30 days battery standby time. The first product was a big success — Micromax XII priced at Rs. 2,150 was lapped up by rural market. Established Distribution Network-34 super distributors, 450 distributors and around 55,000 retailers. Micromax managed to make dealers pay in advance by offering them more margins. It offered higher margins of 15 per cent margin, which is higher than the industry average of 6-10 per cent. To increase penetration in the Indian telecom market, Mixcromax is bundling with telecom operators such as Aircel. For better accessibility and prominence in the market, Micromax is coming up with 150 experience zones (exclusive stores) across the nation, in addition to ensuring bigger presence at the multi-branded stores.

They introduced products with comparatively lower prices focusing mainly on adding particular innovative features. This gave them a competitive edge over the others and made micromax a primary choice for the rural consumers.

- **30-day Battery Phones:** April 2008: Rs. 2,249; Now: Rs. 1,999 The X1i, Micromax's first phone, had a battery that could give 17 hours of talk time and go 30 days on a single charge.

- **Dual-Sim Phones:** July 2008: Rs. 1,999-2,999 For those who want two numbers but one handset.

- **Phone-cum-Remote:** May 2010: Rs. 2,999 A mobile that can switch TV channels and even change the temperature settings on AC.

Besides the focus on product development, Micromax has invested heavily in brand building. The brand is one of the big spenders in the latest edition of IPL (2011). Micromax has centered much of its brand building exercise around cricket. The company believes that cricket promotions will prove to be a great platform to reach out to the audience and give the brand an opportunity to bond with the youth. Micromax has taken up the title sponsorship for the entire Indian cricketing season from May 2010. Micromax is also planning an innovative activation across the cricket season, breaking away from the vanilla branding that we are all used to. Activation will see some intelligent product placements, on ground-on air integrated product coverage and mentions, crowd branding and the brand will be visible on a digital platform on the ground throughout, adding to the technology stand-point.

Micromax was one of the principal sponsors of the South Africa vs. India ODI series in 2010. In the just concluded 'Micromax cup', as the name suggests it was the chief sponsor. Micromax, has shelled out a whopping Rs. 100 crore for its brand building initiative. It is targeting a wide base of new and existing subscribers, using a 360 degree media approach via multiple platforms. It has allotted Rs. 60 crore for ATL (above the line) advertising, of which print will take the maximum share, followed by TV and radio, Another Rs. 40 crore will go into the BTL (below-the-line) initiatives. The communication has been launched in the beginning of 2010.

5. **NIRMA CHEMICALS LIMITED:** In olden days, the detergent powder category belonged to Lever's Surf. Common opinion was a quality detergent, had to be a blue powder, packed in a colourful

carton. But Nirma was launched as a white coloured product, packed in pouches, sealed at the top, with no colour or design sophistication on the pack. The product was priced at around 35 per cent of Surf. Nirma's market share grew from 0 per cent in 1976 to about 60 per cent in 1987. Nirma dared to break the rule that a packaged, especially advertised brand needed the paraphernalia of branch office, area managers and sales representatives in order to carry it through wide and complicated network. Nirma went in for a “no-frills” approach in production, sales distribution and organisational arrangements. The title ‘Nirma girl’ going round and round on her feet makes a strong mnemonic for the brand.

Nirma shattered the myth ‘economy at the cost of quality.’ Nirma over a period of ten years has become the largest selling brand and the success of Nirma is due to affordable price, medium quality, distribution reach and effective use of media.

6. **TATA MOTORS:** Tata Motors Limited, established in 1945, is India's largest automobile company, with consolidated revenues of Rs. 92,519 crores in 2009-10. It is the leader in commercial vehicles in each segment, and among the top three in passenger vehicles with winning products in the compact, mid-size car and utility vehicle segments. The company is the world’s fourth largest truck manufacturer, and the world’s second largest bus manufacturer.

   The company’s 24,000 employees are guided by the vision to be “best in the manner in which we operate, best in the products we deliver, and best in our value system and ethics.”

   They have a wide product range including passenger cars like Indica, Indigo, Nano, Fiat; Utility Vehicles like Aria, Sumo, Safari, Xenon; trucks in the form of medium & heavy, small and light commercial vehicles as well as commercial passenger vehicles like buses and defence vehicles.

   Tata Motors commercial vehicles are known for their reliability and durability. Seven out of every 10 trucks on Indian roads proudly carry the Tata logo.

Tata Motors had consciously decided to focus on being a customer-centric company rather than a product-centric one, developing products that fit customer requirements rather than making customers adjust their requirements to suit existing vehicles. With this intention, in 2002, the company remodelled their Tatamobile in response to customer feedback asking for an economical and reliable vehicle for intra-city and local transport, and the 207 DI was born — a sturdier vehicle that drives well on dirt tracks, has a higher operating speed and more applications. "Changing customer attitudes are driving the market today. Issues like reliability and low maintenance costs are now basic requirements, not product differentiators.

- **Who is the Customer?**

With the help of McKinsey, the company classified its customers into a four-level pyramid. At the bottom was the acquisition-price- sensitive customer, who is looking only at price, not performance. Above that is the return-on-investment customer, who is willing to pay price for better value. The third layer is the looking-for-a-balance customer, who weighs both price and performance. At the top is the only-performance customer, who is willing to pay a higher price for it. The rural customer is not too aware of features and benefits, and is found more at the lowest end of the pyramid, while the educated urban customer lies at the second level. In both urban and rural India, there will be customers in all the four segments, in varying percentages. Through its interaction with customers, the company learnt that the five essential attributes they look for in a small commercial vehicle are lower operating costs (as compared to a three-wheeler), reliability, durability, safety and comfort, and — most important of all — a viable business proposition. "Commercial vehicles are actually a business investment. If a customer is not able to earn the money to be able to pay back the acquisition price and earn some profit,he is not going to buy the vehicle.

- **Ace — The Baby Elephant**

The company realised that the entry level for the semi-urban and rural market was a product between a three-wheeler and a pick- up truck, at a price-sensitive level. It put together a team to develop such a vehicle, and it came up with an Ace. A sturdy vehicle that can carry loads up to 1.5 tonnes over distances up to 300 km, the Ace is a four-wheeler at a price slightly higher than a three-wheeler, but offering greater stability, safety and comfort. More important, the operating cost was extended to a product life-cycle cost, which covered purchase cost, operating cost and resale price. "It has the lowest product lifecycle cost; that is our USP. It is essentially a last- mile load carrying vehicle, useful in congested cities as well," says Mani.

The brand communication for the Ace was 'All the goodness of the Tata Truck now in a mini size' — thereby the description of the category as a mini-truck. Using the metaphor of an elephant (a mother elephant representing the Tata truck), the Ace was simply called the baby elephant!" They positioned the Ace as "Chotta Haathi" through rural advertising.

- **Vehicle Finance**

The low-price-high-performance Ace has cast its spell on auto financers in urban areas, who now offer five-year financing for the vehicle (three-wheelers get only two/three-year financing), so that customers pay a monthly instalment approximately the same as hat for a three-wheeler. "The instalment payment has gone down and income has increased, boosting net earnings. The customer is happy and our sales have jumped. It's a win-win situation."

- **Cityride**

Tata Motors has also developed the Cityride bus, a low-end, l6- seater bus built on the existing 407 platform for passenger movement between small towns. As markets continue to move towards semi- urban and rural areas, the company is extending its reach through a unique concept called 1S outlets, that handle only sales. At over

300 such outlets across India, customers can see and buy the product within 50 to 100 km of their village. Apart from its dealers, Tata Motors has tied up with local garages for servicing, and enhanced their service skills through training.

- **Indica/Nano**

Till 1980's, the Indian customer had limited choice of cars as he had to choose between the Ambassador, the Fiat or the Standard. The customer had to make advance payment and wait in queue for a few months to take delivery of the car. The gap between demand and supply was very wide and therefore, there was least focus on customer orientation and customer service.

In mid-1980's the Government took a decision to issue licences to manufacturers to produce passenger cars and this initiative started a revolution in the market. Maruti Udyog introduced Maruti 800 a modern car with fuel efficiency and the company became a leader in the passenger vehicle market.

Following liberalisation in 1990's, many international car manufacturers i.e., Daewoo, GM, Ford, Fiat, Toyota, Daimler-Chrysler, Hyundai entered the car market introducing a wide range of models varying from functional models (Matiz) to classic premium (Mercedes Benz). The Ambassadors and the Fiats entered the decline stage as they were not able to stand in the market.

Among the Indian companies, Telco had developed expertise in manufacturing trucks and they were enjoying a near monopoly position in buses and trucks market. Telco with their experience in manufacturing and marketing, entered the car market successfully.It has introduced own models like Tata Sumo, Tata Sierra, Tata Estate and has a joint venture with Benz, to manufacture/market Mercedes Benz cars in India.

After extensive studies, they were able to design a truly Indian car i.e. Indica for Indian market. Over a period of time, Indica has been accepted by functional buyers both in cities and in semi-urban markets. The company has also introduced Indigo in the lower premium car segment. While Indica competes with Zen, Santro and Wagon R, Indigo is positioned against Esteem and Hyundai Accent.

Telco set up an Engineering Research Centre in Pune with a view to design a small car to meet the requirements of emerging middle class population who wants to move from two-wheelers to four-wheelers. The small car (The Rs. 1 lakh car as it is known) is priced between two wheelers and Maruti 800. Regarding Models, there will be three trim levels (rudimentary, middle and high) and buyers would be able to upgrade from one level to another. It has rear engine (800 cc) and will meet all emission and safety norms. The small car is available in the market from 2010.

3.8 SUMMARY

- The business enterprise is an open adaptive system with its own environment. It does not exist independent of the environment. It has interaction and interdependence with economic, social, political, legal, technological and cultural forces. These environmental variables define the resources, opportunities and threats available to and facing the enterprise. Obviously all of the input factors for processing must come from the external environment. The market place, the place where buying and selling takes place with the help of money and intermediaries, also exists in the external environment. In the market place we have various factors beyond the control of the enterprise. These uncontrollable factors are shaping and influencing the nature and character of customer demand. As these forces continue to develop and change, they determine the new requirements for efficient and effective marketing plans and policies. The main forces operating to create the need for new responses from the firm are: (1) changing customer demand, (2) changing competition, (3) changing technology, (4) changing economic and legal policies of Governments, and (5) changing social and cultural trends. These are the universal constraints on any marketing organisation.

- The marketing manager has definite control over product, place, price, and promotion mixes. But he must work within the limitations imposed by marketing environmental forces, i.e., uncontrollable variables mentioned above. Adaptive firms are affected more by changing environmental considerations. Innovative firms are likely to be less constrained by environmental forces. But it should be clearly understood that no firm, irrespective of its size, influence or style of operation, can venture to ignore or forget the influence of its external environment. Even a multinational corporation cannot have absolute control over the changing environmental factors.

3.9 SELF ASSESSMENT QUESTIONS

1. A company's marketing environment consists of macro and micro environment — Discuss.

2. Why is it necessary to scan the marketing environment? What are the controllable and uncontrollable variables in the marketing environment.

3. Comment on ecology and environment and changing marketing environment.

4. Marketing management evolves its marketing-mix in relation to its external environment — Explain with examples.

5. The Indian market is becoming consumer-oriented. Discuss this statement with examples

6. Is it necessary to scan the marketing environment while preparing marketing strategy? Explain.

7. Do you agree that consumers and marketing environment are mutually inclusive and cannot exist without the other? Explain with examples.

8. Write short notes on the following:

    a. Ecology and Marketing
    b. Internal controllable factors
    c. Meaning of marketing environment
    d. Components of marketing environment.

CASE STUDY

Issues Management

Many corporations feel that their strategic and marketing planning groups focus too narrowly on forecasting of products and services provided by the company and thus, fail to spot important trends in the business conditions. If such trends are detected early enough the corporate management can be alerted as to the consequences of the trend and can select an appropriate strategy to mitigate its impact on the corporation revenues. For example, the business and economic planners failed to predict the Arab oil embargo or the environmental revolution.

To supplement the business and marketing planning activities, top management executives set up trend-spotting departments. The mission of these departments is to deal with the upcoming issues. The issues manager considers the immediate future and the next one to five years, and is charged not only with identifying issues but also setting forth specific ways the company might deal with them. Essentially, the issues managers were assigned tasks previously, done somewhat haphazardly by top executives. By tracking trends and issues early in their cycle, the top management could eliminate unpleasant surprises.

Today, about 70 corporations have issues managers. These include large oil companies, banking and insurance concerns and retailers. There are several examples that demonstrate the usefulness of this new kind of executive. When President Reagan cut the federal budgets, the issues managers at Atlantic Richfield Oil Company saw trouble ahead. They predicted that these budget cuts would prompt one state after another to try to compensate for lost federal money by taxing business. Atlantic Richfield with operations in 28 states felt that it may become a prime target. To deal with this situation, Atlantic Richfield, mobilised corporate resources to defeat many bills aimed specifically at oil companies.

Atlantic Richfield has five clusters of issues: resources, environment, corporate and planning, manufacturing processes, and trade association participation. The group monitors hundreds of publications, opinion polls, and think-tank research reports. The information on any topic is available to top executives on one day’s notice.

At Monsanto Company, an, issues manager organizes a task force of middle managers and other employees to do the work and the results are sent to top executives.

Most issues tend to follow an eight-year cycle. For the first five years or so, nascent issues are emerging in local newspapers, are being enunciated by public-interest organisations and can be detected through public-opinion polling. It is easier to deal with issues at this stage as they are low-keyed and flexible. If it affects the corporate interests, companies can intervene and prevent the issue from reaching the legislative or active stage. In the fifth or sixth year, the national media get interested in an issue; then governmental action typically results in seventh or eighth year.

There are several examples where corporations anticipated issues and recommended actions that saved companies millions of dollars. With the advice of issues managers, S.C. Johnson & Sons, a privately held maker of floor waxes and other chemicals, removed fluorocarbons from its aerosol sprays three years before federal legislation forced others in industry to do so. Sears Roebuck & Co. spotted flammable nightware controversy early and got non-flammable goods into its stores well before governmental action required this.

QUESTIONS

1. Do you feel that issues managers are needed to spot trends and suggest early strategies to prevent later, adverse impacts?

2. Is there a possibility that an early intervention to mitigate the impact of an issue would encourage corporations from discharging their social responsibility?

3. How should the issues management department be organised to supplement corporate and market planning groups?

- **Comments**

Marketers must anticipate well in advance the impending problems or issues due to ever-changing environmental forces, particularly economic, social, political, and legal forces, and on the basis of such contingent changes, formulate most desirable plans and strategies so that changes when they occur can be met successfully and possible losses can be reduced. Issues managers are experts in forecasting issues and offering best solutions to them.

CASE STUDY

Marketing in a Changing Society

As economy expands and education becomes widespread, more and more family units have two or more earning members. The traditional role of men as the bread earner is now diminishing as women enter the work force. Some women work because they like to pursue careers and put to use their education, while others work to supplement family income.

Both types of women groups point to the transformation in society being caused by the expanding ranks of working women. The changing role of women has already affected consumer advertising, politics and other recreational activities.

Many marketers have leaped into the multibillion dollar "working woman" market, with mixed results. They are offering everything from working women magazines to seminars on climbing the corporate ladder. Many are finding that they initially misunderstood the employed woman and her effect, not only on new but also on existing product markets. For example, the perception was that women with pay cheques like to "splurge" on themselves. But women polled said that they feel guilty about such expenditures. In general, there has not been enough thinking about what the changing market really means. But it is clear that this trend has squelched some outmoded assumptions.

Marketing of household products, for instance, should emphasise thrift, convenience, or speed, if it is to succeed. Women no longer find their identity and self-esteem in clean, brighter-than-bright kitchen and house.

Two-income families share decisions about purchases from banking services to bleach. They want plenty of product information which is equally appealing to men and women. Women aren't necessarily doing all of the shopping and meal preparation any more. Men, children and especially teenage girls are making choices of food and other products. New products that promise more leisure will also win favour among employed women. Today's two- income family earns more than the average family but saves a smaller than average proportion of its income. The working couple buys more clothes, cosmetics, transportation, domestic services, child care, restaurant meals, and ready-made food.

QUESTIONS

1. With more women working, why should the traditional advertising concept be changed?

2. In developing new household products, how should the marketers target the buying population?

3. Characterise the changing role of men, women, and children in working family.

CASE STUDY

Planning for New Business

- **Company**

Mr John London was a Sales Manager for a big heating equipment company until he acquired Abbott's Seafoods. This was the first business he owned when an entrepreneurial urge led him to buy the tiny seafood cannery in 1995.

Mr London's initial strategy was to make Abbott's a national firm. He succeeded in getting Abbott's products into 50 East Coast distributors that sell to restaurants and institutions. This was a big step for a firm that sold only within a 50-mile radius, because its previous owner could drive no further and still be home for dinner. Mr London also obtained a grant from the State to develop a new product, a frozen clam fritter.

However, initial successes were misleading. Getting distributors to stock Abbott's products did not create continuing sales. Orders that come from restaurants, institutions and distributors are nothing but order takers. So Mr. London spent long days calling on chefs. But selling to individual restaurants took too much time and energy. Instead, he began to concentrate on sales to institutions. Selling to big users involves a lot of work, but the payoff is much bigger. A contract with a big supermarket chain, for example, resulted in a $3 million business a year. Mr London had to change his marketing plans and the manner in which he marketed to get a gradual business expansion.

Mr. London thought he could bring the clam fritter into the market in 1998. That was two years ago. But the new product is still behind schedule because he had hired a free-lancer who was busy in developing another product for Abbott's to sell to a large catering concern.

Mr London sold this product to a home-office executive of this large catering concern. He approved the new soup and ordered big quantities of it for all company's locations around the country. Soon, however, local managers of the caterer, who had final say over what they served were complaining because they were forced to use Abbott's soup. Abbott's did not lose money on this order but huge anticipated sales disappeared. This disaster could have been avoided if the product had been introduced in one location at a time to gain the local manager's acceptance.

The test marketing of clam fritters with a group of local women turned out to be a disappointment. They said the fritters were too greasy and the colour was too dark as if they had been overcooked. So it was back to the drawing room.

On another front, Abbott's was forced out of its old factory because it violated zoning laws and local officials would not grant a waiver. Mr London knew of this problem when he bought the company but he thought he could win the waiver from the city. So he did not expect to move. He found new quarters in an old commercial neighbourhood but the move extended one year beyond his expectations. Obtaining influence and getting plans approved took twice as long.

Plans go wrong for everyone sometimes; but new business owners usually tend to make unrealistic plans. Optimism and inexperience lead them to believe they can do more in less time than they really can.

QUESTIONS

1. What are the lessons learned from new small business owners?

2. How can planning be improved or is the learning from experience the only alternative?

3. Are some of the disappointments due to lack of resources or underestimation of actual time to complete the tasks?

- **Comments**

Small business, before embarking on a new business or expanding market, must have a comprehensive plan for launching a new business or for expansion of market. Marketers must know the real decison-makers who can influence buying a product. Marketing research can reveal the needs and fancies of customers as well as market intermediaries. Marketing research is a valuable tool in decision-making or solving any marketing problem.

REFERENCE MATERIAL

Click on the links below to view additional reference material for this chapter

Summary

PPT

MCQ

Video Lecture - Part 1

Video Lecture - Part 2

Chapter 4

CONSUMER BEHAVIOUR

Objectives

After studying this Chapter, you should be able to:

- Understand the concept and theories of Consumer Behaviour and the various factors influencing it
- Understand the meaning of buying motives and its classification
- Study the basic model of consumer decision making
- Know the stages in the buying process
- Know the concept of buying centre and its functioning

Structure:

4.1 Buying Motives
4.2 Consumer Behaviour
4.3 Cultural Factors
4.4 Social Factors
4.5 Personal Factors
4.6 Psychological Factors
4.7 Basic Model of Consumer Decision Making
4.8 Buying Process
4.9 Theories of Consumer Behaviour
4.10 Buying Centre
4.11 Summary
4.12 Self Assessment Questions

4.1 BUYING MOTIVES

When a consumer purchases a particular product, he has a reason for it. Motive is a strong feeling, urge, instinct, desire, or emotion that makes the buyer to make the decision to buy. Buying motives, thus, are defined as "those influences or considerations which provide the impulse to buy, induce action or determine choice in the purchase of goods or services." Every human activity is a result of motivation. Each man is motivated by his needs. His need — satisfaction results in the creation of another need. These buying motives may be classified into two:

i) Product Motives.
ii) Patronage Motives.

1. **Product Motives:** Product motives may be defined as those impulses, desires, and considerations, which make the buyer purchase a product. Product motives may still be classified on the basis of nature of satisfaction:

    a. Emotional Product Motives
    b. Rational Product Motives

    Emotional Product Motives are those impulses which persuade the consumer on the basis of his emotion. The consumer does not try to reason out or logically analyse the need for purchase. He makes a buying to satisfy:

    (i) pride, (ii) sense of ego, (ii) urge to imitate others, (iv) his desire to be distinctive.

    Rational Product Motives are defined as those impulses which arise on the basis of logical analysis and proper evaluation. The consumer makes a rational decision after deep evaluation of the purpose, alternatives available, cost benefit and such other valid reasons.

    Product motives may also be classified in the following ways:

    a. Operational product motives.
    b. Socio-psychological product motives.

Operational Product Motives may be defined as impulses arising out of the ability or function that a product is likely to provide.

Socio-psychological Product Motives may be defined as the desires to buy the product, which shall arise as a result of psychological or social significance that a buyer attaches to the product.

2. **Patronage Motives:** Patronage Motives may be defined as considerations or impulses which persuade the buyer to patronise specific shops. Just like product motives, patronage can also be grouped as emotional and rational.

Emotional Patronage Motives are those that persuade a customer to buy from specific shops, without any logical reason behind this action. He may be subjective for shopping in his favourite place.

Rational Patronage Motives are those which arise when selecting a place depending on the buyers' satisfaction that:

i) it offers a wide selection,
ii) it has latest models,
iii) it offers good after-sales service, etc.

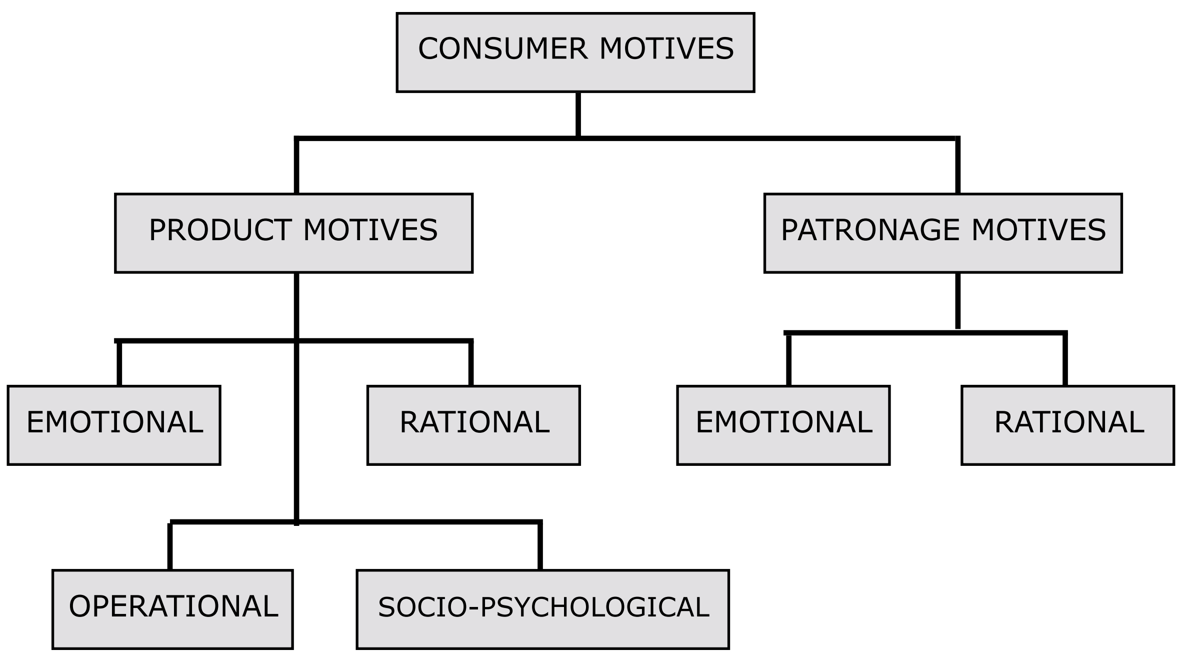


Fig. 4.1 Classification of Consumer Motives

4.2 CONSUMER BEHAVIOUR

Consumer behaviour is a comparatively new field of study. The concept 'consumer behaviour' has been gaining importance since 1960. The evolution of marketing concept from a mere selling concept to consumer-oriented marketing has resulted in consumer behaviour becoming an independent discipline.The growth of consumerism and consumer legislation emphasises the importance that is given to the consumers.

- **Consumer/Customer**

The term 'consumer' is used both for personal consumer and organisational consumer. The personal consumer buys goods and services for his personal use (tobacco products, hair cut), or for household consumption (sugar, television set), or just one member of the family (a pair of shoes for school-going child) or a birth day party to the whole family. In all cases the goods are bought for final uses i.e., end-user or ultimate use by the organisation. Any one who regularly purchases from a store or a company is termed a customer. Thus, customer is defined in terms of specific store or company.

The consumer is a riddle. He is not a simple entity. His needs vary from security needs to self-actualisation needs. He satisfies his needs by his means. When his needs are costlier, he postpones them. With the revolution in the field of mass media, the consumer is exposed to a great deal of information. He does not take all the information, but select those which suit him. When the consumer takes a buying decision, there is no rigid rule to bind him. His decision may either be spontaneous on the spot, or be made after a thorough analysis.

- **Meaning of Consumer Behaviour**

Consumer behaviour is defined as "all psychological, social and physical behaviour of potential customers as they become aware of, evaluate, purchase, consume, and tell others about products and services". In other words, consumer behaviour includes the acts of individuals directly involved in obtaining and using economic goods. These acts are the result of a sequence of decisions made by the buyer. These decisions are influenced by various factors. Hence, consumer behaviour is the process by which individuals decide whether, what, when, where, how, and from whom to purchase goods and services.

The above discussion gives the following information about buyer behaviour:

1. Consumer behaviour involves both individual (psychological) processes and group (social) processes.

2. Consumer behaviour is reflected by post-purchase evaluation which indicates satisfaction or non-satisfaction.

3. Consumer behaviour includes communication, purchasing, and consumption behaviour.

4. Consumer behaviour is shaped by social environment.

5. Consumer behaviour includes both consumer and industrial buyer behaviour.

- **Factors Influencing Consumer Behaviour**

As we have seen, consumer behaviour is affected by a number of factors. They can be classified into cultural, social, personal, and psychological factors.

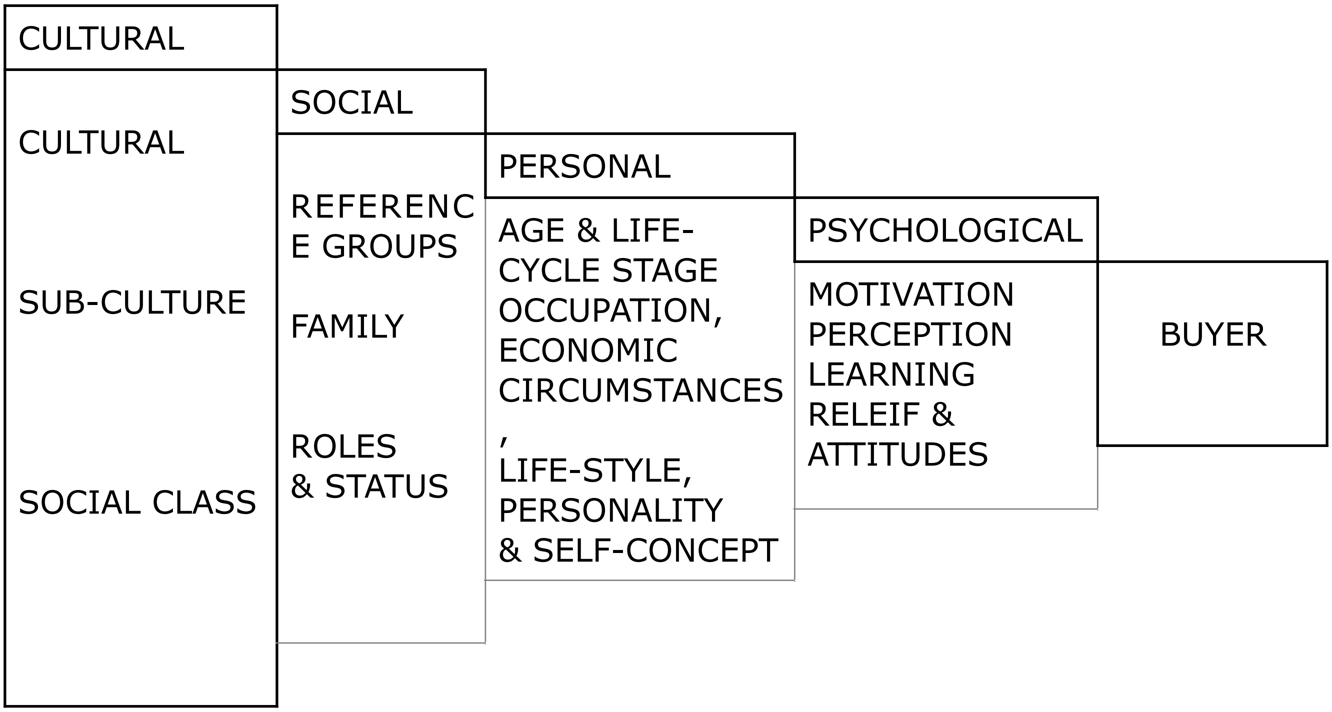


Fig 4.2 Classification of Factors Influencing Consumer Behaviour

4.3 CULTURAL FACTORS

1. Cultural factors have a deep influence on buyer behaviour. **Culture** is the basic determinant of a person's wants. It refers to a set of learned beliefs, values, attitudes, morals, customs, habits and forms of behaviour that are shared by a society. These are transmitted from generation to generation. Culture is always alive, moving, and ever-changing. Culture shapes the pattern of consumption and pattern of decision-making. Food habits, religious practices, the way we dress are all influenced by culture.

   Examples:

   a. Toothpowder usage is in line with traditional mouth-washing habits. The person applies toothpowder to his index finger and rubs it on the teeth. Hence, the reason for the popularity of the toothpowder.

b. Many companies have come out with religious calendars with illustrations of their products and such calendars are preserved for a long time.

2. **Sub-culture:** Each culture consists of smaller sub-cultures that provide more specific identification and socialisation for its members. There are four types of subcultures.

   a. Nationality groups such as Chinese, Irish, Polish, etc.,

   b. Racial groups such as Blacks, Whites, etc.,

   c. Geographical groups such as North Indian, South Indian, etc.,

   d. Religious groups such as Christians, Muslims, Hindus, etc.: While Brahmins prefer to go for higher education and take up employment, Vaishyas are engaged in trading activities. Caste decides a person's status and power in society. During elections, the candidates depend upon the people belonging to the same caste.

3. **Social Classes:** These are divisions in the society which are hierarchically ordered and whose members share similar values, interests, and behaviour. There are three distinct social classes: upper, middle and lower classes. Lower classes show limited sense of choice making. Each class differs in their patronisation, the reading habits, clothing habits, etc. Upper class consumers want products and brands that depict their social status. Middle-class consumers shop carefully, read advertisements and compare prices before they buy.

   For Example, a family from a higher class may wish to eat in a five-star hotel. A middle-class family may opt for a cost-effective restaurant.

4.4 SOCIAL FACTORS

1. **Reference groups** are the social, economic, or professional groups that have a direct or indirect influence on the person's attitudes or behaviours. Consumers accept information provided by their peer groups on the quality, performances, style, etc. These groups influence the person's attitudes; expose them to new behaviours and lifestyles; create pressures on the individual. A family, a circle of friends, a local club, an athletic team, college living groups are examples of small reference groups. When a member is satisfied with a product, he becomes the salesman of the product. He influences other members of the group. The consumer develops positive opinion towards a product or service based on admiration (Cricket players) and aspiration (Film stars) or empathy. The consumers think that, if he uses it, it must be good, if I use it, I will be like him. **Example:** Many marketers have used film stars to promote consumer goods.

2. **Family** constitutes the most influential group on one's attitudes. Personal values, attitudes, and buying habits have been shaped by family influences. The members of the family play different role such as influencer, decider, purchaser, and user in the buying process. A person acquires an orientation towards religion, politics, and economics and a sense of personal ambition, does not interact with the parents, still their influence in the unconscious behaviour can be significant. A person's behaviour is also influenced by his/her spouse and children. With a great exposure to more information through various media of communication, teenagers are occupying a major role in decision-making. In Indian urban families, wife is the purchasing agent. In case of expensive products, there is a joint decision- making. For example,

   Husband dominance: Life insurance, automobiles, television. Wife dominance: Washing machines, carpenting, kitchenware Equal: Housing, vacation, outside entertainment.

   Example: Johnson & Johnson products are advertised to mothers and not to small children who actually are the consumers.

   The three-generation family (husband, wife, at least one child and at least one grand parent) is very common in rural areas. The head of the family plays a major role in buying decisions. **Example:** Purchase of Television, Insurance, Ornaments, etc. Even marriages are settled by elders.

3. **Roles and Status** are factors which also influence decision making. Roles are the activities of the person in a group. A woman plays the role of wife, mother, sister in a family. She plays the role of an employee in an organisation. She may also play the role of a secretary of an association. Each role carries a status. People will choose products that will communicate their status to the society. Example: An executive working in a multinational bank may prefer branded shirts/trousers, expensive watches, perfumes and drive a car to reach office.

4.5 PERSONAL FACTORS

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

1. **Lifecycle:** People buy different goods and services over their lifetime. The **life-cycle** of a person begins with child birth, shifts to dependent infancy, adolescence, teenage, adulthood, middle-age, old age and then ends with death. Under each stage people's buying behaviour is different. Under the first three stages, decisions are not made by the consumer. They are totally dependent on others. In the next stage, buyers not only make their decisions but also influence others' buying decisions. In the later stages of life-cycle, they are back to the early stages. **Example:** With exposure to TV, school- going childern have started influencing buying decisions with regard to biscuits, chocolates, soft drinks, toys and marketers are targeting this segment.

2. A person's behaviour depends upon his **occupation.** A company's Managing Director will prefer expensive suits, air travel, separate cottage, etc. A worker would prefer economic dresses, bus travel, etc. The occupation of a person decides his ability to buy. Hence, his need-satisfaction depends on his occupation, which provides him the means.

3. Occupation gives rise to the **economic circumstances.** A person may have high desire to buy so many things. All his needs do not become wants. This is the result of his purchasing power. People's economic

circumstances refer to their spendable income, savings, assets, borrowing power and attitude towards spending versus saving. **Example:** The Indian middle-class has grown in prosperity and consumption of items such as kithchen appliances, TV, refrigrators, washing machines, redy-made garments, jewellery is growing.

4. **Lifestyle** may be defined as the pattern or way of living of a person which will be indicated through the person's activities, interests, and opinions. A person may reside in an HIG flat. He may have costly furniture. He shall buy his clothings only from Raymonds. He may have his dinner only in five-star hotels. His hobby may be playing billiards. With the above activities, we can understand the lifestyle of a person. Hence, he will choose according to his lifestyle.

5. **Personality** is defined as the person's distinguishing psychological characteristics that lead to relatively consistent and enduring responses to his or her environment. Personality is described in terms of such traits as self-confidence, dominance, autonomy, deference, sociability, defensiveness and adaptability. A person to maintain his personality will decide his purchase accordingly. He buys products and services that reflect his image.

   Example: Rural youth may buy tea and namkeen and urban youth buy popcorn and soft drinks.

   Personality is a complex psychological concept. Its primary features are self-concept, roles and levels of consciousness. The self-concept refers to how a person sees himself and how he believes others to see him at a particular time. Self-concept has three parts: (1) The idealised self — what you would like to be? (2) The looking glass self — how you think others see you? and (3) Self-self — your own concept of what you are like. Each individual plays many roles — loving father or mother, affectionate wife, friendly co-worker, efficient executive, wise home-manager, and so on. The buying behaviour is influenced by the particular role upon which a buyer is concentrating at a given time. Personality traits such as dominance, adventuresomeness, sociability, friendliness, responsibility, aggressiveness, dependence, etc., can indicate how people behave.

4.6 PSYCHOLOGICAL FACTORS

1. **Motivation** is the driving force which makes the person act. Motivation is the drive to act, to move, to obtain a goal or an objective. A human being is motivated by needs. When these needs are backed by purchasing power it becomes a want. Buyer behaviour, hence, is stimulated by motivation.

2. **Perception:** A motivated person is ready to act. How the motivated person actually acts is influenced by his or her **perception** of the situation. To perceive is to see, to hear, to touch, to smell, and to sense something an event or relation and to organise, interpret and find meaning in the experience. Our senses perceive the colour, shape, sound, smell, taste, etc., of this stimulus. Our behaviour is governed by these physical perceptions. Perception has been obtained by social psychologists as the 'complex process' by which people select, organise and interpret sensory stimulation into a meaningful and coherent picture of the world. People can emerge with different perceptions of the same object because of three perceptual processes: Selective attention, selective distortion, and selective retention.

   All persons are not alike. They see the world in their own special ways. For instance, all the members of the family have viewed a particular product advertisment in the television. The members may interpret the same in different ways. **Example:** Even to-day many consumers prefer to deal with Nationalised Banks/LIC as they feel that private companies may not reliable in the long run.

3. **Learning** describes changes in an individual's behaviour arising from experience. Learning refers to changes in behaviour brought about by practice or experience. Almost everything one does or thinks is learned. Learning is the process of acquiring knowledge about products, their benefits, methods of usage and also disposal of product after use. **Example:** Product demonstration is a very effective method to convince the consumer. Products like paints, pressure cookers, fertilisers are promoted through demonstration.

4. **A belief** is a descriptive thought that a person holds about something. These beliefs may be based on knowledge, opinion, or faith. They may or may not carry emotional change. An **attitude** describes a person's

enduring favourable or unfavourable cognitive evaluations, emotional feelings, and action tendencies towards some object or idea. In simple words, attitude is an emotionalised pre- disposition or inclination to respond positively or negatively in a consistent way towards similar objects. For example, once a consumer has developed a brand loyalty, it is hard to change his attitudes and beliefs towards the brand. Attitudes are the result of experiences.

Attitudes interact with perception, thinking, feeling, and reasoning. **Example:** Many health conscious people believe that Cola drinks are harmful and they prefer lassi, lime juice, cocoanut water or even mineral water.

Thus, we find that there are many forces acting on consumer behaviour. A person's purchase choice is the result of the complex forces of cultural, social, personal, and psychological factors.

4.7 BASIC MODEL OF CONSUMER DECISION MAKING

Input	
Marketing Efforts Product Price Place Promotion	**Socio-cultural environment** Reference group Family Culture Social class

Process	
Psychological Motivation Perception Learning Belief/ Attitude	**Buyer Decision Process** Problem Recognition Information Search Evaluation of Alternatives

Output
Buyer's Purchase Decision/Post-purchase Behaviour
Product Choice Brand Choice Dealer Choice Purchase Timing Purchase Amount

Fig. 4.3 Basic Model of Consumer Decision-making (Stimulus-Response Model)

Consumer behaviour is an orderly process whereby the consumer interacts with his environment for making a purchase decision on products or services. Consumer behaviour has two aspects. The final purchase activity which is visible to us and the decision process which involves a number of complex variables and not visible to us.

The study involves what consumers' buy, why they buy it, when they buy it, where they buy it, how frequently they buy it and how they dispose of it after use. **Example:** A study of consumer behaviour will reveal what kind of consumers buy computers, would they buy for home and personal use or for office, what features they look for, what benefit do they seek including post-purchase service, how much they are willing to pay, how many they are likely to buy, are they waiting for the prices to come down, do they look for some free goods offer, etc.

The objective of the study of consumer buying process is to know how a consumer makes his decision regarding buying or not buying a product or service. In most cases, a decision involves the selection of an option from two or more attractive choices. When a product is expensive (buying a car or apartment) it involves detailed thinking and analysis and high level of involvement on the part of the purchaser, compared to buying soap, vegetables, or groceries.

Basic model of consumer decision-making is composed of three stages, i.e., Input, Process and Output as shown below.

INPUT → **PROCESS** → **OUTPUT**

1. **Input** is stimulus variable and it includes marketing efforts of the organisation and socio-cultural environment. The efforts include 4 Ps of marketing, i.e., product, price, and promotion and distribution network. For example, when a company introduces a new model of mobile phone, it may run a series of TV commercials and press advertisements.

   These activities are designed to reach, inform and persuade consumers to buy and use the product. The inputs are basically marketing-mix components that consist of the product, packaging, branding, and advertisement, personal selling, pricing of the product, distribution channel to move the product from the place of production to place of consumption, i.e., the consumer.

   The socio-cultural environment serves as a non-commercial source of information. It includes reference groups (friends, colleagues in the office, members of local club, etc.), members of the family, social classes and cultural factors. These factors have tremendous influence on consumer. The comments from a friend/colleague, opinion of experienced consumer, social status of a person, beliefs, values and customs, etc., are important input factors that influence how consumer evaluates and buy or reject a product. In the case of mobile phone, the consumer may go by the comments received from a colleague or friend regarding the performance of the particular model of mobile phone.

2. **Process** component of the model deals with how consumer makes purchase decision. Psychological factors like motivation, perception, attitude, belief, etc., affect the consumers' decision- making process. The consumer receives the inputs (marketing efforts and socio-cultural factors) and processes the inputs through psychological process of information processing. It includes problem recognition, information search, evaluation of alternatives and benefits that lead to a buying decision. The decision process which involves a number of complex variables is not visible to us.

3. **Output** part consists of purchase behaviour and post-purchase behaviour. There are three types of purchases, i.e., trial purchases, repeat purchases and long-term purchases. Initially, the consumer may buy small quantities of the product (trial purchase) and if he is fully satisfied with the product, he may make repeat purchases(brand

loyalty). During post-purchase evaluation, the consumer evaluates the performance of the product against his own expectations. There can be three outcomes of these evaluations, i.e., Actual performance meets his expectations (satisfaction), performance exceeds his expectations (customer delight) or performance is below expectations (dissatisfaction).

4.8 BUYING PROCESS

The marketer has to understand as to how the consumer actually makes a purchase decision, who makes the decision and the type of decisions and the steps in the buying process.

The following are the roles played by the people in consumer decision-making process.

a. **Initiator:** A person who first suggests the idea of purchasing anything.

b. **Influencer:** A person who influences the purchase decision.

c. **Decider:** One who takes final purchase decision.

d. **Buyer:** One who actually makes purchases.

e. **User:** Person who uses the product.

Example: The idea to buy a new model of television might come from college-going son or daughter. A knowledgeable neighbour or friend might advise on the model of TV the family should buy. The husband might make the final decision and the children will be seeing the television most.

The buying process begins with the discovery and recognition of an unsatisfied need or want. It becomes a drive. Consumer begins a search for information. This search gives rise to various decisions and finally the purchaser evaluates these alternatives and finally the purchase decision is made. Then the buyer evaluates the purchase and decides whether he is satisfied or not. This is described below:

Need Recognition → Information search → Evaluation of Alternatives → Purchase Decision → Post-purchase Behaviour

1. **Need Recognition:** Buying process begins when a person begins to feel that a certain need or desire has arisen. The need may be activated by internal or external factors. The intensity of the want will indicate the speed with which a person will move to fulfil the want. The buyer will postpone the less important motives. Marketing management should offer appropriate cues to promote the sale of the product.

2. **Information Search:** Aroused needs can be satisfied promptly when the desired product is not only known but also easily available. But when it is not clear what type or brand of the product can offer the best satisfaction, the person will have to search for information. This may relate to the brand, location and the manner of obtaining the product. Consumers can use many sources, e.g., family, friends, neighbours, opinion leaders, and acquaintances. Marketers also provide relevant information through salesmen, advertisers, dealers, packaging, sales promotion and window-displaying. Mass media like newspapers, radio and television provide information. Marketers are expected to provide reliable, up-to-date and adequate information regarding their products and services. This is the pressing demand of consumerism.

3. **Evaluation Alternatives:** This is the critical stage in the process of buying. There are several important elements in the process of evaluation:

   a. A product is viewed as a bundle of attributes. These attributes or features are used for evaluating alternative brands. For example, a product like tea has certain common attributes such as taste, flavour, strength, aroma, colour, number of cups per packet, and price.

   b. Information cues or hints about a set of characteristics of the product in brands such as quality, price, distinctiveness availability, etc.

   c. Brand images and brand concepts can help in the evaluation of alternatives.

d. In order to reduce the number of alternatives, some consumers may consider more critical attributes and mention the level for those attributes.

e. Occasionally, consumers may use an evaluation process permitting trade-offs among different alternatives.

4. **Purchase Decision:** The purchase decision may be influenced by attitudes of spouse, friends and relatives, cost of the product, benefits of the product, etc. Purchase decision includes decisions with regard to product/brand, dealer, quantity and quality, timing, and payment.

5. **Post-purchase Behaviour:** Post-purchase behaviour refers to the behaviour of the customer after the purchase and it depends upon his experience of using the product and level of satisfaction. A satisfied customer may make repeat purchases. If the customer is not satisfied he may not buy the product again and may talk bad about the product to his friends, colleagues and relatives. In the case of consumer durables like air-conditioner, television, water purifier, after- sales service is important to achieve high level of customer satisfaction.

   Output: Output is the end-result of the inputs of consumer behaviour. It emerges after these inputs are duly processed by the consumer. Output is composed of purchase and post-purchase behaviour.

   Purchase: Purchase is a consumer commitment for a product. It is the terminal stage in the buying decision process that completes a transaction. It occurs either as a trial and/or adoption. If a consumer is buying something for the first time then from the behaviour viewpoint, it may be regarded as a trial. This trial enables him to accumulate experience about the product purchased. If this experience is positive in terms of the satisfaction derived, then repeat purchases may offer, otherwise not. For example, when a new brand of bathing soap is introduced in the market, the consumer may buy it for the first time as a trial. However, repeat purchases will occur only when he is satisfied with its performance. But the possibility of a trial purchase is not available in all cases. In the case of consumer durables such as scooters, refrigerators and the like, a trial is not possible, because once a product is purchased, it has to be adopted and repeatedly used.

Adoption means a consumer decision to commit to a full or further use of the product.

- **Role of Government**

The consumer behaviour regarding marketing decisions is influenced by a variety of organisational and environmental factors. The Government is one of the prominent ones among these factors which have considerable bearing on the marketing decision-making. Their role as decision-input is, at times, so powerful that they have an overriding influence on marketing decisions. Consumers the worldover have become more and more aware of their due rights and, consequently have become very demanding and choosy. They have started now to look for the ISI, ISO, AGMARK on the product. These trademarks give the consumers a legal gurantee of the quality of the products bearing them. They also help in protecting the consumers against unfair trade practices.

In order to influence the marketing decisions of companies, the role of Government has assumed one or a combination of the following forms:

A. **Participative:** One way for the State to influence marketing decisions of companies is to undertake actively undertake certain marketing activities by itself. It entails active participation of the State and its agencies in the country's marketing operations. The major forms of State participation may be:

1. The Government becomes a manufacturer or a monopoly buyer and/ or seller. In developing countries like India, nationalised companies manufacture steel, cement, fertiliser, coal, etc. so as to augment their supply. The Government procures and sells agricultural commodities such as foodgrains, cotton, jute, etc. through the Food Corporation of India, Cotton Corporation of India and Jute Corporation of India. The aim is to stabilise prices and protect consumers by regulating the supply of the products concerned.

2. The Government distributes or directs distribution of certain goods through specified agencies. In India, Government distributes foodgrains and fertilisers through Government and co-operative institutions and thereby influences the distributive functions of assortment and equalisation.

3. The Government promotes or discourages consumption of certain types of products. For example, the Government of India promotes the sale of family planning devices through its own purchases and mass-communication campaigns.

4. The government provides infrastructural and transportation facilities on preferential basis. For example, the State Warehousing Corporations and Railways extend preferential treatment for dairy products and food items.

Thus, by itself performing marketing functions such as selling, promoting, distributing, storing and transporting, the government exerts a lot of influence on the marketing decisions of companies.

B. **Institutional:** Another option available to the Government is to institutionalise certain types of movements in the country, which exert pressure on the marketing decision-makers. For example, the Government of India has institionalised the movement for product grading and standardisation by establishing the Bureau of Indian Standards. This institution has developed a large number of product standards facilitating product identification, purchasing, selling, and marketing procedures.

4.9 THEORIES OF CONSUMER BEHAVIOUR

- **Economic Theory (Marshallian Model)**

According to economic theory, the consumers are assumed to be rational in their decision-making. They follow the law of marginal utility. Consumers evaluate the alternatives available and they choose that alternative which would provide them with highest utility and lowest cost. The consumer have a set of needs and tastes. He has got a certain amount of purchasing power. He may not be able to fulfil all his needs because his purchasing power is the limiting factor. Hence, he allocates his expenditure over different products at given prices so as to maximise utility. Thus, the law of equi-marginal utility enables him to secure maximum utility from limited purchasing power. The purchasing decision is based on economic calculations and reason.

Economic model of consumer behaviour is undimensional. The following presumptions are made about buyer behaviour:

i) Lower the price of the product, larger will be the quantity bought — price effect.

ii) Higher is the purchasing power, higher will be the quantity — income effect.

iii) Lower the price of a substitute product, lesser the quantity that will be bought of the original product — substitution effect.

iv) Higher the promotional expenditure, higher will be the sales — communication effect.

The model indicates only how a consumer ought to behave. It does not say how he behaves. So this model cannot be applied to real-world situations because the utility cannot be measured. The model also gives importance only to the product and not to the consumer. Basically, it is not the product, but the properties and characteristics of the product which influence the buyer behaviour. Hence, the focus should be towards the consumer needs and motives rather than on the product. But this is not permitted in the model. There is a difference between the goal of satisfying the needs i.e., the goal here is the product in question. The satisfaction comes when the product fulfils the needs of the consumer. This dimension is ignored by this model. Consumer behaviour is multi-dimensional and multi-disciplinary in approach. The economic model is centred only on income of the customer. It ignores all the psychological factors such as motivation, learning, personality, etc. In modern marketing philosophy, the model which deals with mere price and incomes ignoring all other individual and marketing variables is not considered as adequate. Behavioural scientists have pointed out that the black box of consumer behaviour works in a much more complicated way than the economic model.

Economic model assumes that markets are homogeneous. But now markets are assumed to be heterogeneous. Hence, the economic man is a myth. Buying process is not always rational and price is not the only factor of motivation. Buying is not always at the lowest price.

- **Maslow's Theory of Motivation**

Motivation is the drive to act, to move to obtain a goal or an objective. Motivation is a mental phenomenon. It is affected by perceptions, attitudes, personality traits and by outside influences such as culture and marketing efforts. Motivation, in buyer, is concerned with the reasons that impel buyer to take certain actions. It suggests that the reasons behind consumer actions are basically cognitive (attitudes, values and beliefs), but that they involve a dynamic interaction between the person and his or her social environment. A human being is motivated by needs and wants. Our needs may be physiological, social, and psychological. We have a hierarchy of needs. A want is a recognised need. A want leads to activity to satisfy the need. A drive is an activated (or unsatisfied) want. Neither satisfied wants nor wants beyond the aspirations of the persons are motivators of human behaviour. All behaviour must be stimulated by drives.

Maslow's Five-level Hierarchy of Needs is well-known in the theory of motivation. Maslow felt that as each need is fulfilled, another higher level need arises and demands priority in its satisfaction. **Examples:** Marketers are interested in physiological needs as they are closely connected to what the product does: food satisfies hunger, medicines heal a sick person, winter clothing keeps the body warm, etc. Safety needs are selling points of insurance, real estate and so on. Advertisements from toothpaste to baby foods and toys promise love and affection. For many people, refrigerator, car and air conditioners are status symbols and satisfy the needs of self-esteem, prestige and status. According to Maslow, man/ woman is a perpetually wanting animal and the average human being never reaches a state of complete satisfaction. We should regard individuals as need- satisfying mechanisms who try to fill a set of needs, rather than only one or another in sequence.

Marketers know that we may have multiple buying motives for the same behaviour. Important buying motives (stimulated or aroused needs) are: pride, vanity, fashion, possession, fear, safety, and security, love and affection, comfort and convenience, economy, curiosity, social approval, beauty, and sex or romance. Any urge moving or prompting a person to purchase decision is called a buying motive. Motivation research as a part of marketing research tries to answer the 'why' of buyer behaviour. It also contributes to product development and advertising creativity. In matured economies, physiological and safety needs of the majority of citizens are largely fulfilled. In these countries, higher level wants such as psychological and egoistic wants demand special emphasis. Hence, marketers in such countries should offer marketing-mixes to satisfy these higher level wants, e.g., love and belongingness, self-esteem, and self-actualisation (what a man/woman can be, he/she must be, i.e., the desire for self-fulfilment).

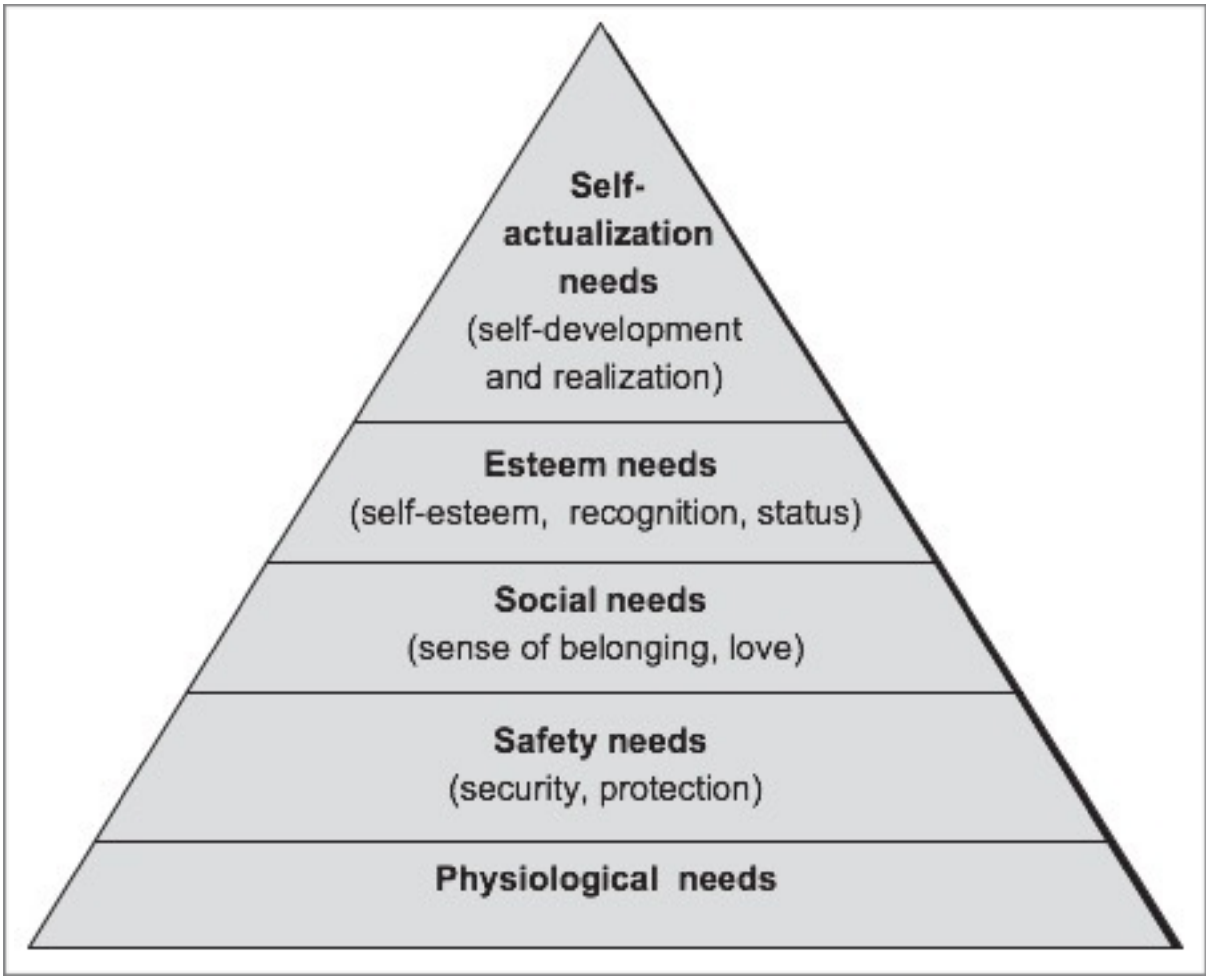


Fig. 4.4 The Ladder of Basic Need Hierarchy (Maslow)

- **Learning Theory (Pavlovian Model)**

All theories of consumer behaviour have been primarily based on a learning model, viz., Stimuli-Response or S-R models. Stimulus- Response learning theory is very useful to modern marketing. Learning is the central topic in the study of human behaviour. Learning is defined as all changes in behaviour that result from previous experience and behaviour in similar situations. It refers to a change in the behaviour which occurs as a result of practice. Thus, learning involves the following steps:

Reasoning; thinking; information processing and perception. Hence, consumer behaviour is critically affected by the learning experiences of buyers.

Psychologists are interested in the formation of needs and tastes. Human beings have innate needs, e.g., hunger or thirst, and learned needs e.g., fear or guilt. Learning process involves three steps:

1. **Drive:** Drive is a strong internal stimulus which impels action and when it is directed towards a drive-reducing object, it becomes a motive. A drive, thus, motivates a person for action to satisfy the need. The objects are stimuli which satisfy our drives.

2. **Cues:** Cues are weak stimuli. Cues determine when the buyer will respond.

3. **Response:** Response is the feedback reaction of the buyer. The individual has to choose some specific response in order to fulfil the drive or the need which was acting as a stimulus. For example, a hunger drive can be satisfied by visiting a shop indicated by an advertisement and buying the ready-made food product. If the experience is satisfactory, this response of satisfaction is strengthened.

This learning of links between stimulus, cue, and response results in habits. Thus, we not only learn these links but also our attitudes and beliefs. In marketing it means learning brand loyalty, brand images as well as store patronage. Repeated reinforcement leads to habit formation and the decision process for the individual becomes a routine affair. Thus, learning model has the following predictions:

1. Learning refers to change in behaviour brought about by practice or experience. Almost everything one does or thinks is learned.

2. Product features such as price, quality, service, brand, package, etc., act as cues or hints influencing consumer response.

3. Marketing communications such as advertising, sales promotion also act as guides persuading buyer to purchase the product.

4. Response is decision to purchase.

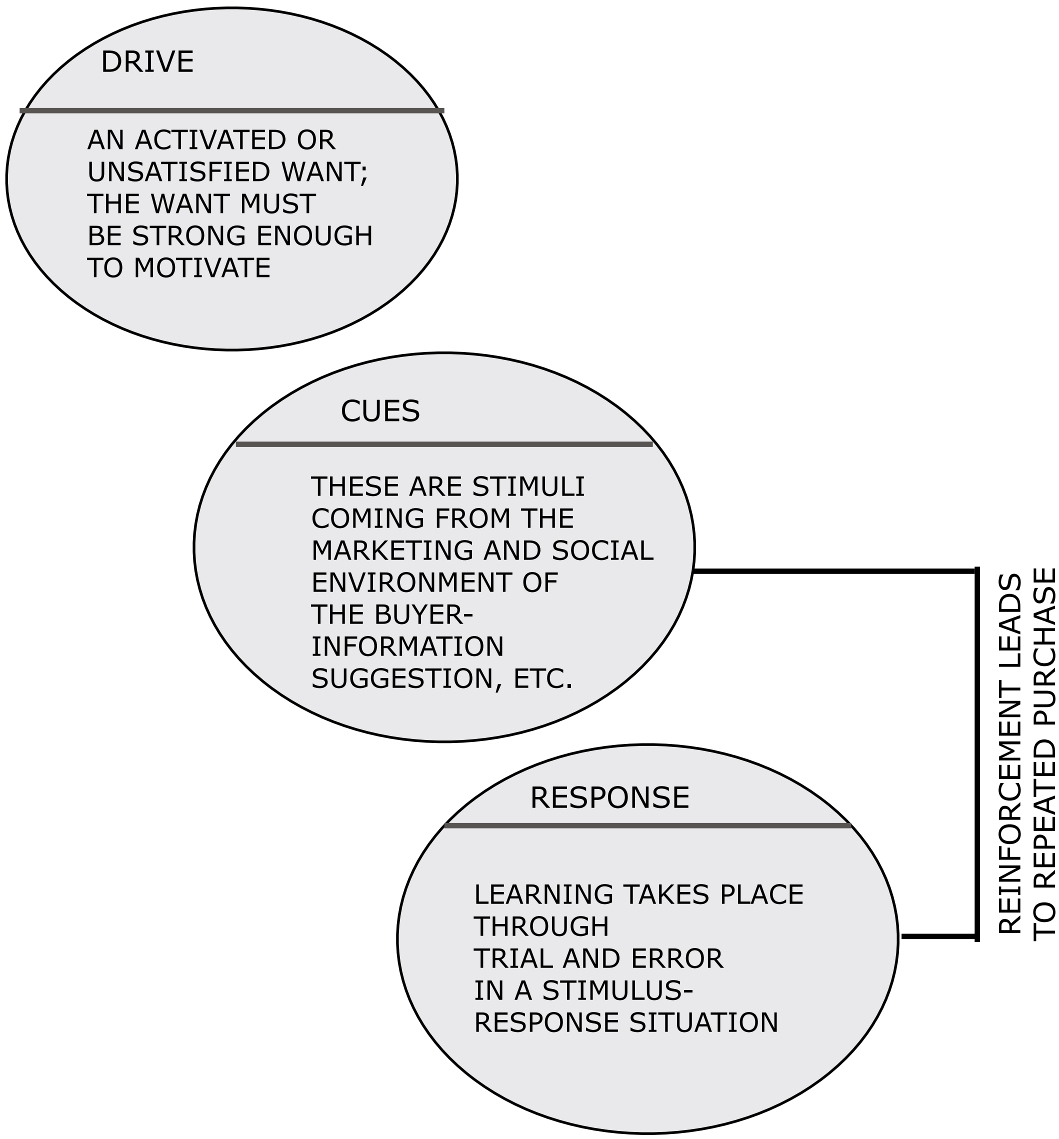


Fig. 4.5 Stimuli — Response Model — Drives, Cues and Responses

- **Psychoanalytic Theory**

According to Freud, human personality has three parts:

1. The id, the source of all mental energy which drives us to action.

2. The super ego, the internal representation of what is socially approved — our conscience.

3. The ego, the conscious director of id impulses for finding satisfaction in socially acceptable manner.

The id represents our animal or basic impulses, instincts and cravings for immediate and total satisfaction. It points out basic instinctive drives which may be antisocial. The super ego or conscience reflects our idealised behaviour pattern. Many a time there may be conflict — between id and super ego. The ego is the intermediary which mediates the dispute. The ego is the rational control-centre acting as a mediator between id and the super ego. For example, id will demand buying luxurious goods in credit. Super ego will prevent the instinct or credit purchase as problematic. The ego will act as mediator which evolves a workable compromise solution, on the basis of financial condition, and ability to pay instalments without any strain on the monthly budget. Such a rational approach evolved by the go satisfies both the id and super ego. Self-image of a consumer is a great motivating force inducing him to buy certain products and to express how he feels about himself. The man or woman who rides a car feels that he/she is made for a such ride. Promotional messages should protect and enhance the self-image of consumers. Then only they can get orders.

- **Howard-Sheth Model**

Howard and Sheth model is an integrated model. It assumes problem-solving approach in buying and adopts input-output or system approach in buying. Howard introduced learning process in buying. Satisfaction leads to brand loyalty. Discontentment creates brand- switching by buyers.

The model shows the processes and variables influencing the buyer behaviour before and during a purchase. It emphasises three key variables:

Perception, Learning and Attitude Formation.

It explains how consumers compare available products in order to choose the best, which fits their needs and desires. Consumers learn by finding out the relevant information about products and there are two sources of information:

(1) Social Sources and (2) Commercial Sources.

This information is used for comparison of alternative brands according to various choice criteria. The basic structure of the model is:

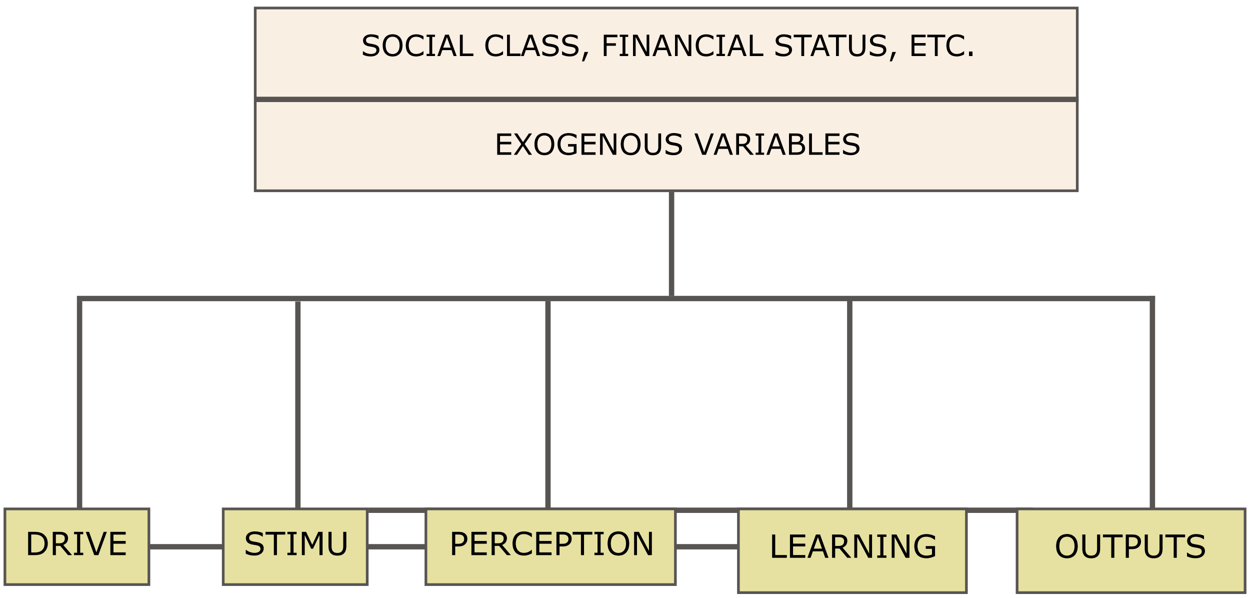


Fig. 4.6 Basic Structure of Consumer Behaviour

The following predictions can be made about the model:

i) Stimuli are perceived. Learning occurs and results in output.

ii) Output occurs on the basis of the perception and learning — non-observable variables.

iii) Exogeneous or outside variables such as social class, financial status, etc. are used to predicting perception and learning.

Thus, the Howard-Sheth model describes buyer behaviour in the following ways:

First Stage: Motives are based on needs insisting satisfaction. Motives lead to goal-directed behaviour satisfaction. Motives ignite a drive to search and secure information from alternatives. Stimulus- input variables are marketing programme and social environment.

Inputs are Stimuli:

a. Products in the market.

b. Commercial information on them, say quality, price, availability, and distinctiveness.

c. Product information obtained from friends, acquaintances, and reference groups.

In this way, a number of products or brands are perceived and considered by the consumer's mind. Thus, the resulting perception is selected.

Second Stage: In the process of evaluation, a number of brands are eliminated or left out of further consideration. Now, only a limited number will receive further consideration. Each will have plus/minus points. These choice considerations play the role of connecting links between motives and selected brand's choice considerations provide a structure to motives and the process of learning and experience. These considerations develop as criteria/ rule of them and for deciding the brand, which will have good prospects of yielding maximum satisfaction. The marketer must offer a good marketing-mix which is used by the buyer to influence the choice criteria.

Third Stage: Choice criteria gives rise to the pre-disposition — the relative preference in favour of a particular brand. There may be sudden hindrances which may stop the process. These hindrances may be in the form of price, inadequate supply of brand, external variables such as financial status, time pressure, etc. If they are not present, the preference results in a response output such as attention, comprehension, attitude, buying intention, and preferably actual purchase.

Fourth Stage: Feedback of purchase experience is sent to the buyer. It brings out whether the actual satisfaction was equal to the expected satisfaction. Satisfaction will lead to repurchase and repeat orders will indicate brand loyalty. The company has interest in this outcome. Buyer behaviour is influenced as the result of learning process partly through experience and partly through information. Buying behaviour is influenced by motives (rational/emotional curiosity), attitudes, perception, social factors, and personal factors.

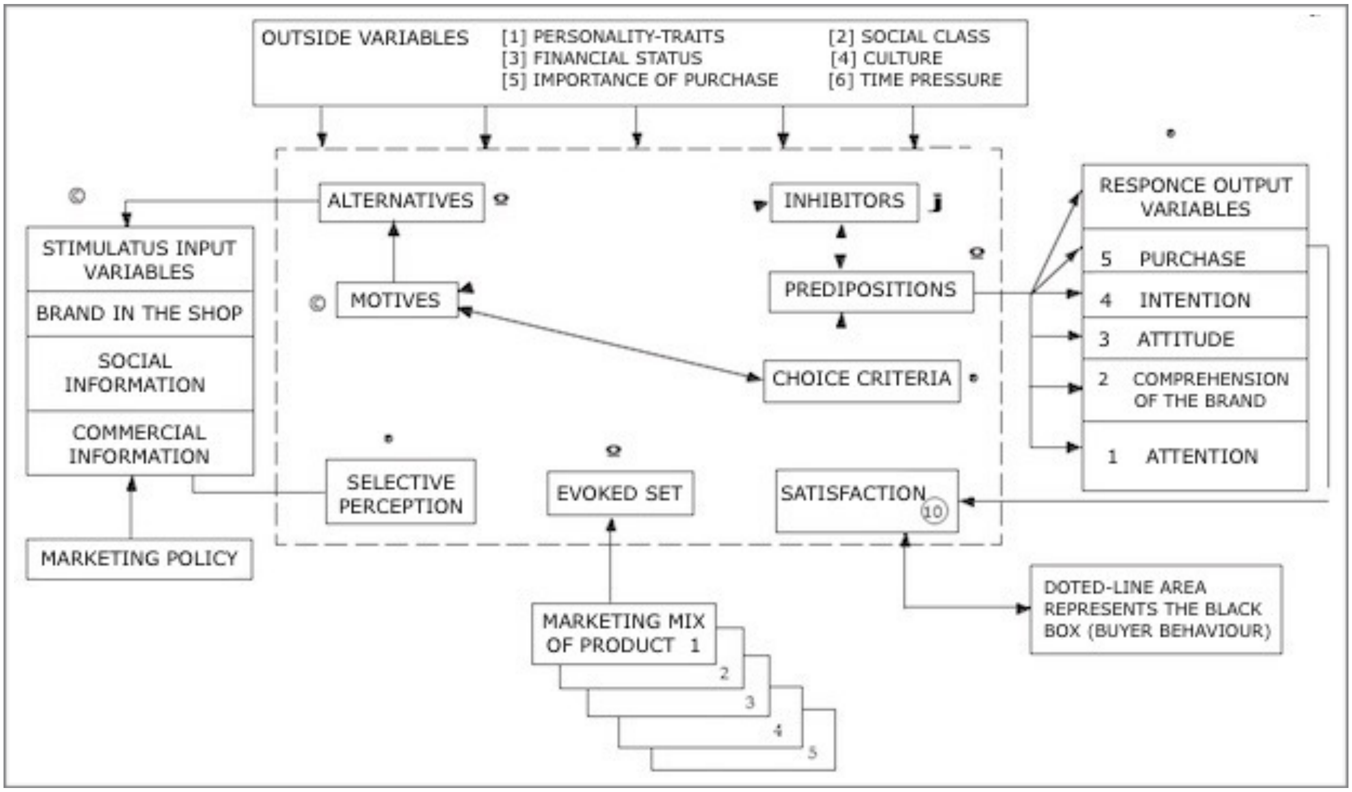


Fig. 4.7 Howard and Sheth Brand Buyer Behaviour Model

Thus, models of buyer behaviour are generally based on certain factors internal to the consumer e.g., learning, personality, attitudes and perceptions. The external factors may be in the form of group, cultural and inter-personal influences and effects of advertising and communications. The actions of individuals are the result of both internal/external factors and interactions to the consumer decision- making processes.

4.10 BUYING CENTRE

The decision making centre of a buying organisation is known as "Buying Centre." Buying centre includes all individuals as well as groups who participate in purchase decision making process. The participants have common goals and take responsibilities for purchase decisions. There are seven different roles played by initiator, user, purchaser, approver, decider, influencer, and gate-keeper. These seven roles are played by several persons and the entire buying' process is quite elaborate. Users are the people or the department who will actually use the product or service. They may initiate the proposal. Technical people are the influencers who come out with specifications and related information to evaluate the alternatives. Buyers are the purchase department and they are responsible for selection of vendors, finalise the terms and conditions of purchases. Deciders approve final vendors. Gate-keepers control flow of information to others. Telephone operators and secretaries fall in this group.

- **Organisational Buyer Behaviour**

The major differences between the behaviour of consumers and the behaviour of industrial and institutional buyers are as follows:

1. Consumers seek need-satisfaction in a highly subjective manner and hence, consumer purchases are dominated by emotions and are not always rational. Organisational behaviour is more objective as the buying behaviour is influenced mainly by the multiple buying goals and objectives of the organisation. The personal needs and goals play a secondary role in organisational purchases.

2. In individual buying behaviour, we have no formalities to be performed in the actual buying. In organisational buying, there is the influence of a formal organisational structure on the buying process.

3. In the buying task, we have seven different roles played by user, purchaser, approver, gate keeper, decider, influencer, and initiator. In consumer markets, two or more of these roles are often played by the same person and the entire buying process involves a few persons. In organisational buying these seven roles are played by several persons and the entire buying process is quite elaborate. It is socially more complex than personal buying. In organisational buying, users are different from buyers, and we have specialised advisers in buying such

as consultants or engineers and there may be approvers like quality-control experts in organisational buying. We have multiple purchasing influences.

4. The buying process in organisational buying is similar to that of consumer buying but it is elaborate and complex. In organisational buying, procedure in many stages is carried out consciously and in a more formalised manner. We may have many persons and agencies involved in the decision-making process. There is considerable need for resolving conflicts.

5. Buying systems are more formalised in Government purchases. They are also less flexible and in all Government purchases we have public accountability.

6. In general, marketing-mix for consumer markets will be dominated by sales promotion, advertising and distribution, whereas personal selling, product design, service, and price will play more important roles in the marketing-mix for industrial and institutional buyers.

- **The process of buying business goods involve the following process:**

a. Identification of needs: Business needs are normally based on derived demand. The demand for petrol/diesel is based on the number of two-wheelers/four-wheelers apart from industrial demand. Derived demand is linked to production and sale of other goods or services.

b. In business buying, specifications (quality, quantity, quality description) are given to the vendors/suppliers.

c. Once specifications are spelled out, potential suppliers are informed to find out if they are interested in submitting quotations.

d. Vendor evaluation is done in three levels i.e., initial screening of the proposal, vendor-audit and sharing of vendor-audit information. Vendor-audit is done to evaluate potential supplier and supplier-ability to meet the demand on time.

e. Selection of suppliers.

f. Purchase negotiations.

g. Placing of orders.

h. Post-purchase evaluation.

A comparison of consumer buying process versus business buying process is given in Fig. 4.8.

- **Factors affecting Organisational Buyer**

Organisational buyers are influenced by a series of organisational and individual factors. These influences can be classified into four main groups:

1. **Environmental factors:** Industrial buyers are influenced by factors such as economic environment (level of primary demand, economic outlook). Technological and political developments also affect the buyers**. Example:** Increase in petrol/diesel price may effect the automobile/aviation industry.

2. **Organisational influences:** Every organisation has policies, procedures, organisational structure, and systems and the marketer should have an understanding of such influences. **Example:** centralised/ decentralised purchases, long-term contracts, payment patterns, etc.

3. **Interpersonal factors:** The Buying Centre Decision-Making Unit. (BMU) consists of several participants having different authority, empathy, and positions in the organisation. They have to work as a team in the purchase decision-making process.

4. Individual factors include the following:

a. Personality features
b. Roles
c. Motivational level
d. Levels of power
e. Attitudes towards risk
f. Levels of cognitive involvement
g. Personal objectives.

Professionalism, attitude, confidence, and other personality features will affect the decision-making role of the individual as well as other members. A person may play an active role in the decision- making process or he may just endorse others' views. If the Head of the Department has asked the Purchase Manager to cut expenses, he may go in for cost cutting measures while making purchases. During buying process, each member may be concerned about his direct responsibilities **Example:** Maintenance engineer has more power in the purchase of maintenance supplies. Many buyers would like to continue with existing suppliers to avoid taking risk with new vendors. Individuals with more cognitive capacity would ask for more information and spend more time discussing with vendors. The buyer

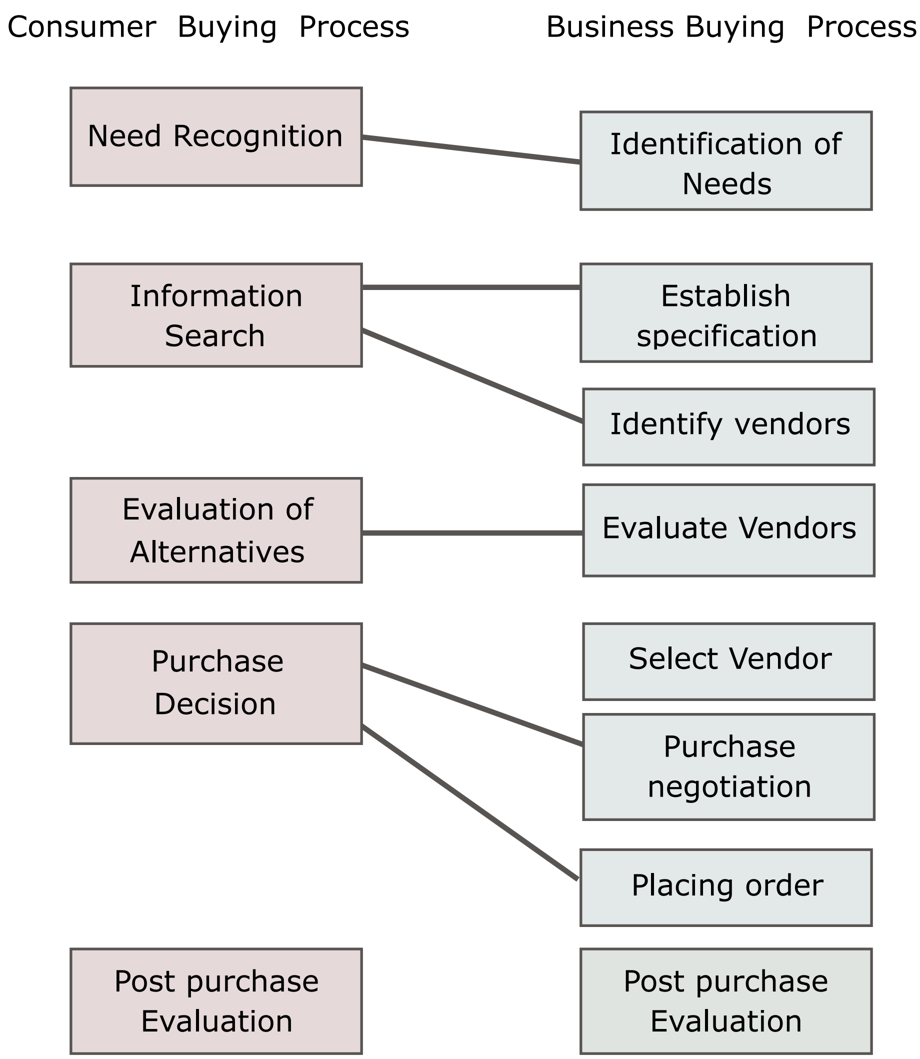


Fig. 4.8 Consumer buying process versus Business buying process

may favour a vendor, though he may not be the best choice. He does it to achieve his personal objectives.

4.11 SUMMARY

- Consumer behaviour is a study of how individuals make decisions to spend their resources like money, time, and effort on consumption-related items. A person's purchase choice is the result of the complex forces of social, cultural, personal and psychological factors. A consumer interacts with his environment for making a purchase decision on products. In organisations, there is the influence of a formal organisational structure on the buying process. Companies must understand individual and organisational buyer behavior to achieve the objectives of marketing plans.

4.12 SELF ASSESSMENT QUESTIONS

1. What do you mean by the term 'buyer behaviour'? Why is it problem-solving behaviour?

2. List and discuss the five 'needs' in Maslow's needs-wants hierarchy.

3. Discuss briefly the functioning of "Buying Centre".

4. Contrast demographic analysis with psychographic analysis.

5. What are the ingredients of the basic model of buyer behaviour? Comment on the person-centred factors.

6. Comment on: (a) Economic model of buyer behaviour. (b) Learning model of buyer behaviour.

7. What are the usual steps of the individual buyer process?

8. Write short notes on the following:

    a. Reference Group
    b. Buyer's Black Box
    c. Product Motives
    d. Personality and Self-concept

CASE STUDY

Selling Silverware

- **Company**

Toll Manufacturing Co. made and sold sterling silver since the company's founding in 1958. Silver business has long been aristocratic. It emphasised design and craftsmanship and aimed its products at the wealthy patrons of exclusive stores.

In 1988, Toll acquired a relatively obscure Leonard Silver Company. Leonard Florence, the self-made founder of Leonard Silver, quickly ascended to the chairmanship of Toll. Toll's solid financial position allowed Mr. Florence to borrow for the acquisitions that have changed it from merely a silver manufacturer to a giftware concern selling china, crystal, cutlery and silk flowers. With diversificatioin came the spectacular growth. The sales turnover in the next three years was expected to rise at the rate of 20 per cent.

- **Strategy**

Mr. Florence firmly believed that middle class housewives want to live like rich, well-to-do wives. With this conviction, Mr. florence began mass merchandising of silver to general public. As silver prices began to climb precipitously, competitors found themselves selling luxury goods to a privileged group whose members were thinning at an alarming rate. Meanwhile, Toll, with its inexpensive silverware, was making steady inroads into mass markets.

Today, Toll is the acknowledged leader in sterling sales. It has near monopoly in the market for silver-plated dishes known as hollow-ware. Selling of silver-plated flatware at affordable prices to general population was the key to Toll's success. Competitors constantly claim that Toll's products are shoddy — the plating on the hollow-ware is thin, and the polishing and welding crude. Competitive products could stand up to 100 years of polishing and wear and tear.

However, general public desiring to enjoy silverware is not interested in a 100-year life. If they can afford it and use it for a few years that is all they can care for. So Toll's sales kept on growing.

Toll also used a policy of deep discounting of sterling silver. Before acquisition of Leonard's silver, an advertisement of Toll's silverware emphasised intricate workmanship and long history of Irish design. Recent advertisements offered silver at a 30 per cent suggested discount with a free microwave oven with a purchase of an entire set of silverware The rest of the industry decried the practice but grudgingly followed Toll's footsteps.

QUESTIONS

1. Toll's marketing strategy of bringing expensive silverware to affordable prices and selling to mass markets paid off handsome dividends. It was more a ploy on people's psychology. What is your opinion and evaluation?

2. Tolls used deep discounting. Do you agree with such practice?

REFERENCE MATERIAL

Click on the links below to view additional reference material for this chapter

Summary

PPT

MCQ

Video Lecture - Part 1

Video Lecture - Part 2

Video Lecture - Part 3

Chapter 5

PRODUCT PLAN AND PRODUCT-RELATED STRATEGIES

Objectives

After studying this Chapter, you should be able to:

- Understand the concept of Product and its components
- Discuss the Product Life Cycle and how it is managed under various stages
- Study the various the product strategies
- Discuss the strategies relating to product planning and development.

Structure:

5.1 Product Concepts
5.2 Product Life-Cycle (PLC)
5.3 Marketing and Innovation
5.4 Product Market Strategies
5.5 Product Plan or Strategy
5.6 New Product Development
5.7 Product Quality
5.8 Total Product Personality
5.9 Branding
5.10 Branding and Marketing Programme
5.11 Brand Strategy and Policy
5.12 Packaging
5.13 Labelling
5.14 Product Warranty
5.15 Service Facilities
5.16 Summary
5.17 Self Assessment Questions

5.1 PRODUCT CONCEPTS

- **Meaning of Product**

The product is the most tangible and important single component of the marketing programme. Product is the vehicle by which a company provides consumer satisfaction. It is the engine that pulls the rest of the marketing programme. The product may be a goods, a service, a goods plus service, or just an idea. A product is all things offered to a market. Those things include physical objects, design, brand, package, label, price, services, supportive literature, amenties, and satisfaction, not only from physical product and services offered but also from ideas, personalities and organisations. In short, a product is the sum total of physical, economic, social and psychological benefits. Marketers must define their market in terms of product functions — what the customer expects from the product. Buyers are not interested in the composition of a product. They are concerned only with what the product does, what the product means to them and to what extent it satisfies their social and psychological needs. The needs will vary between one customer category and another. The needs and expectations are also changing.

A product is any tangible offering that might satisfy the need or aspiration of a consumer. A product is a set of attributes assembled in an identifiable form. There are three attributes for a product:

(a) Any product should have a physical form, (b) it should offer some utility to serve the purpose, and (c) it should give satisfaction to the customer. **Example:** Ball-point pen, shape of the pen serves as a physical form, ink inside the pen serves as a utility, and smooth writing leads to consumer satisfaction.

A manufacturer of cosmetics said: “In the factory we make mascara and skin cleaner, but in the store we sell hope and beauty.” Toothpaste may be a product to the producer. To the consumer it means whiter and cleaner teeth, pleasant taste, fewer cavities, stronger gums and sweet-smelling breath. The consumer buys these hopes and expectations, and not the toothpaste. These expectations of benefits are called market offerings and they act as the selling points of a product. If the performance of the product is on par with expectations, the customer will be satisfied and the seller’s mission is fulfilled. What marketers are selling in a product is the capacity and competence of the product to offer expected use, performance and satisfaction. The concept of product as a bundle of utilities, satisfaction, and benefits cannot be overstressed.

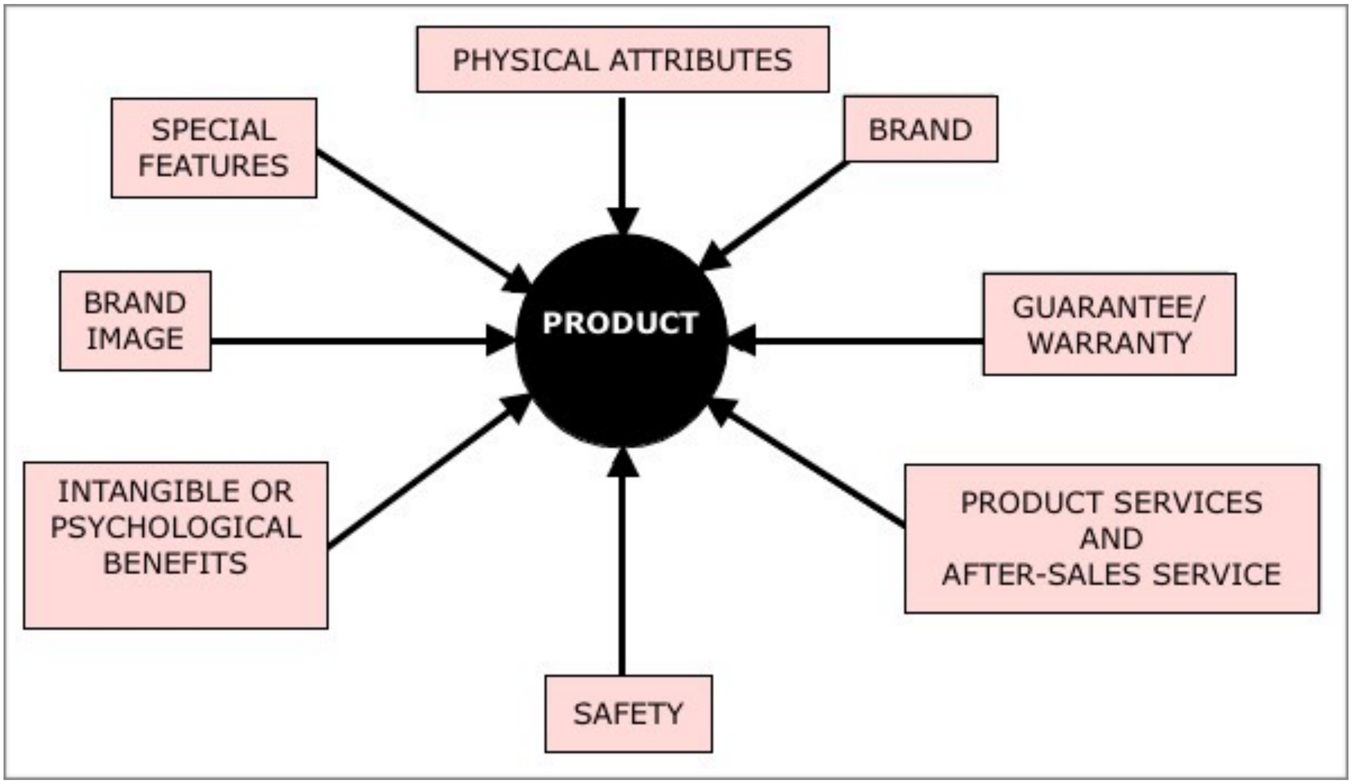


Fig. 5.1 Components of a Product

- **Three Dimensions of Product Concept**

The product policy and strategy is the corner-stone of a marketing- mix. Without a product, there is nothing to distribute, nothing to promote, nothing to price. If the product fails to satisfy consumer demand, no additional cost on any of the other ingredients of the marketing-mix will improve the product performance in the marketplace.

To the marketer products are the building blocks of a marketing plan. Good products are key to market success. Product decisions are taken first by the marketers and these decisions are central to all other marketing decisions such as price, promotion and distribution. Products fill in the needs of society. They represent a bundle of expectations to consumers and society. The product concept has three dimensions, as shown in Fig. 5.2.

1. **Managerial Dimension:** It covers the core specifications or physical attributes, related services, brand, package, product life- cycle, and product planning and development. As a basis to planning, product is second only to market and marketing research. The product offering must balance with consumer-citizen needs and desires. When the offering, i.e., the product, totally wins over the customer, it indicates, the culmination or climax of marketing. Product planning and development can assure normal rate of return on investment and continuous growth of the enterprise.

2. **Consumer Dimension:** To the consumer a product is actually a group of symbols or meanings. People buy things not only for what they can do, but also for what they mean. Each symbol communicates a certain information. Product represents both utility and non-utility aspects, i.e., tangible and intangible things. A product conveys a message indicating a bundle of expectations to a buyer. Consumer's perception of a product is critical to its success or failure. A relevant product is one that is perceived by the consumer as per intentions of the marketer. Once a product is bought by a consumer and his evaluation, i.e., post-purchase experience is favourable marketers can have repeat orders. Consumer accepts products as bundle of satisfactions rather than as physical things.

3. **Societal Dimension:** To the society salutary products and desirable products are always welcome as they fulfil the expectations of social welfare and social interests. Salutary products yield long- run advantages but may not have immediate appeal. Desirable products offer both benefits, immediate satisfaction and long-run consumer welfare. Society dislikes the production of merely-pleasing products, which only give immediate satisfaction but which sacrifice social interests in the long-run. Marketers have to fulfil the following social responsibilities while offering the products to consumers.

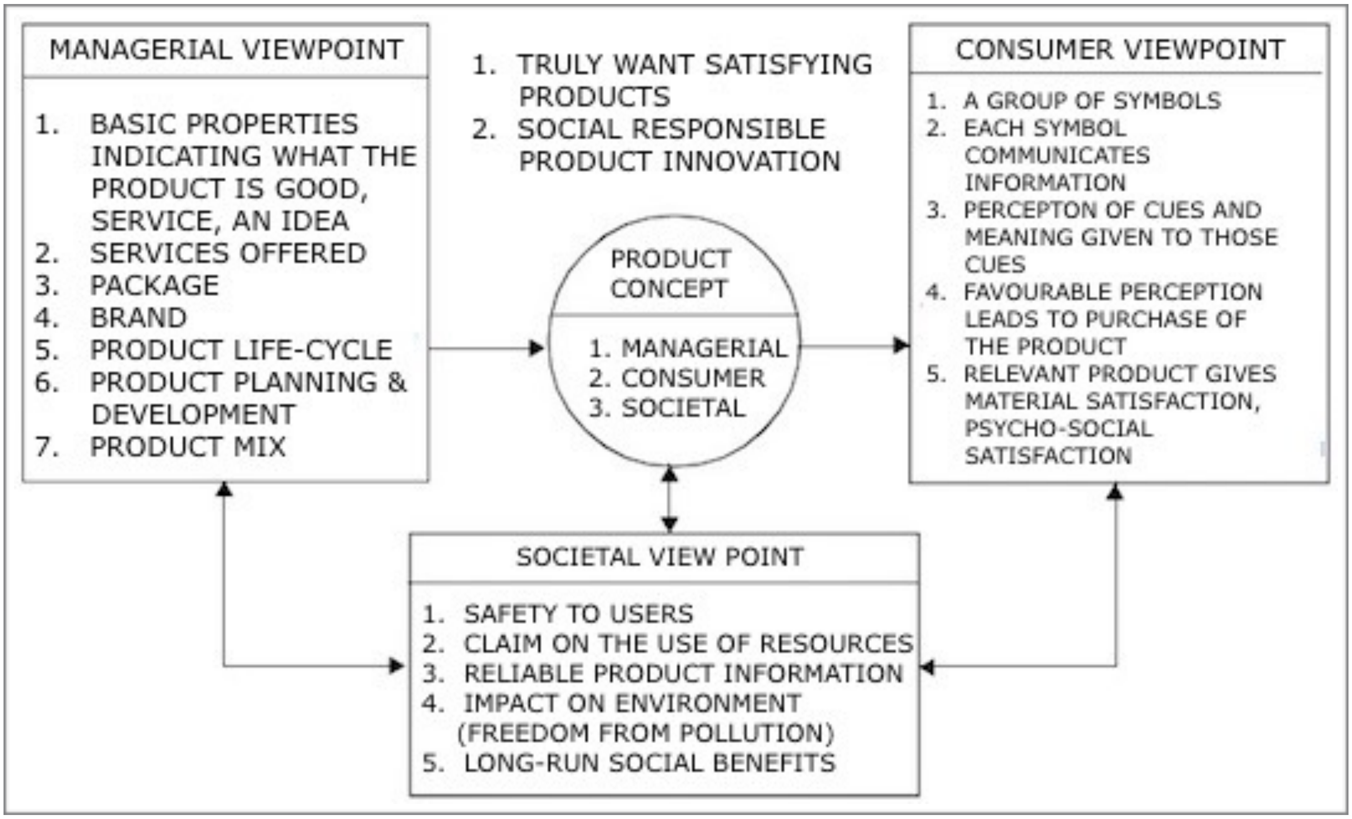


Fig. 5.2 Three Dimensions of Product Concept

(1) Conservation and best use of natural resources, (2) safety to users, (3) long-run satisfaction of consumers, (4) quality of life, concern for better environment, (5) fulfilment of Government regulations relating to composition, packaging, labelling, promotion, and pricing of many products. (6) Eco-marked products would be environment-friendly.

- **Levels of Product**

Products have five levels, which are known as 'customer value hierarchy', with each level adding more customer value.

1. The most basic level is the core product or core benefit. This is what the customer is actually buying. **Examples:** Cosmetics are bought by ladies with the hope of becoming fair and lovely and mobile phone for communication.

2. At the second level, the core benefit is turned into a basic product. This will have features, design, a quality level, a brand name, and packaging.

3. At the third level, it becomes an expected product, a set of attributes and conditions normally expected by consumers when they buy they product. **Example:** Mobile phone-easy to operate, long-lasting battery, ring-tone, etc.

4. At the fourth level, it becomes an augmented product by offering additional consumer services and benefits. **Example:** Colgate Motion- a battery run tooth brush, Suit case with wheels.

5. Finally, it becomes a potential product containing all possible augmentations and transformations that it might undergo in the future. Consumers normally see products as complex bundles of benefits that satisfy their needs. **Example:** Robot for domestic work, Mobile phone with TV Channels, GPS.

- **Importance of Product Analysis and Research**

In marketing, product analysis and research is a study of consumer preferences and habits as well as dealer preferences and habits relating to a given product. Such a study can determine the extent to which the product should be altered, modified or adapted to meet exactly the existing demands of the customers and resellers. The study can also enable us to devise a new product exactly needed in the market.

Intelligent market analysis and research can dictate the taste, colour, size, shape, style, performance and such other specific features on the basis of customer whims, fancies, and preferences. On the basis of such reliable information about customer demand, a manufacturer can bring out a tailor-made product having all the elements in exact tune with the needs, wants, and expectations of customers.

- **Designing Products**

Product design relates to the physical features of the product. A distinctive design creates individuality in the product and can be easily identified in the market from competitive products. In modern self-service strores with mass display, well-designed products attract attention and, through silent sales talk, increases sales volume. A customer will pay more just to get the unique design even though the increase in price exceeds the cost of the design. Designing a product means designing size or shape of the product. Consumer durables, automobiles furniture, etc. also need appropriate design to appeal to the users. **Examples:** Santro from Hyundai-Tall boy design, Le Sancy Soap — Unique bean shape.

- **Classification of New Product Opportunities**

Kotler has suggested a way of classifying new product opportunities. The diagram given below depicts this classification.

1. **Pleasing products, e.g.,** Pan-Masala, cigarettes which give high immediate satisfaction no doubt, but they do harm consumer interest in the long-run.

2. **Deficient products** which have neither immediate appeal nor long-run benefits. Firms are not interested in such products as there is no chance to make any profit at all.

3. **Salutary products e.g.,** eco-friendly goods, detergents with low phosphates. They have long-run advantages but have no immediate appeal to consumers. Hence, firms are not primarily interested in such products. But they can be taken as a challenge and they can be made initially attractive without losing long-run consumer benefits.

4. **Desirable products** which have a happy combination of high immediate satisfaction and high long-run consumer welfare. Tasty, nutritious, ready-made food products are the examples of such desirable products. Socially responsible firms would attempt to find opportunities to produce desirable products.

Pleasing products are less costly than desirable products and consumers may demand pleasing products. Some rival firms may be ready to offer such pleasing products. Socially responsible firms would try to provide some long-run benefit to pleasing products without reducing their immediate satisfaction.

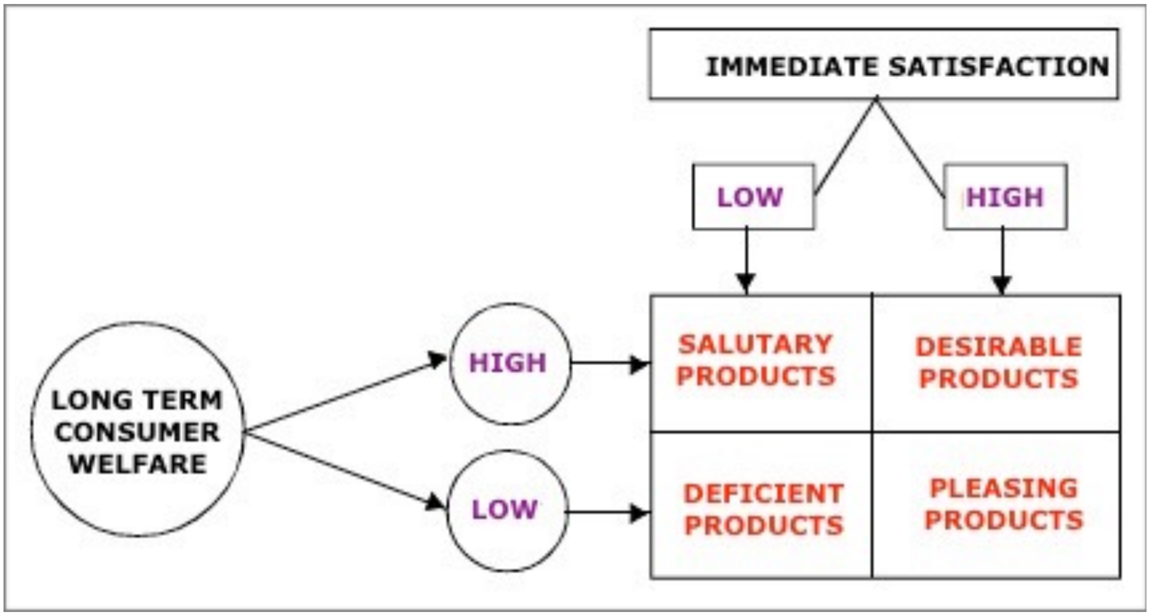


Fig. 5.3 Classification of New Products

Firms have immense opportunities in developing desirable products such as new foods, new textiles, new appliances, etc. They assure initial sales and also sustained profits. Under the socially responsible marketing approach desirable products are at a premium provided they are nearer salutary products.

5.2 PRODUCT LIFE-CYCLE (PLC)

The product life-cycle concept derives from the fact that a product's sales volume and sales revenue follow a typical pattern of five-phase cycle. The life-cycle is a fact of existence for every product. It is similar to the human life-cycle. The length of the life-cycle, the duration of each phase and the shape of the curve vary widely for different products. But in every instance, obsolescence or decay eventually occurs when the need disappears or a better, cheaper and more convenient product may suit the same need or a competitive product due to superior marketing strategy suddenly gains a decisive advantage.

The PLC concept is very useful. It helps a marketer in preplanning the entry of a new product in a market, in prolonging the profitable stage, in meeting competition and in long-term decisions on investment on products. The PLC indicates that product is born or introduced, grows, attains maturity in a particular market and then sooner or later it is found to enter its declining stage, i.e., decay in its sales and ultimate death.The PLC should be termed as product market life- cycle as it is related to a given particular market. For example, a matured product (in the market of USA or UK) will have a new life- cycle when it is introduced in India, e.g., Frostfree Freeze. The PLC of a product is depicted in Fig. 5.4.

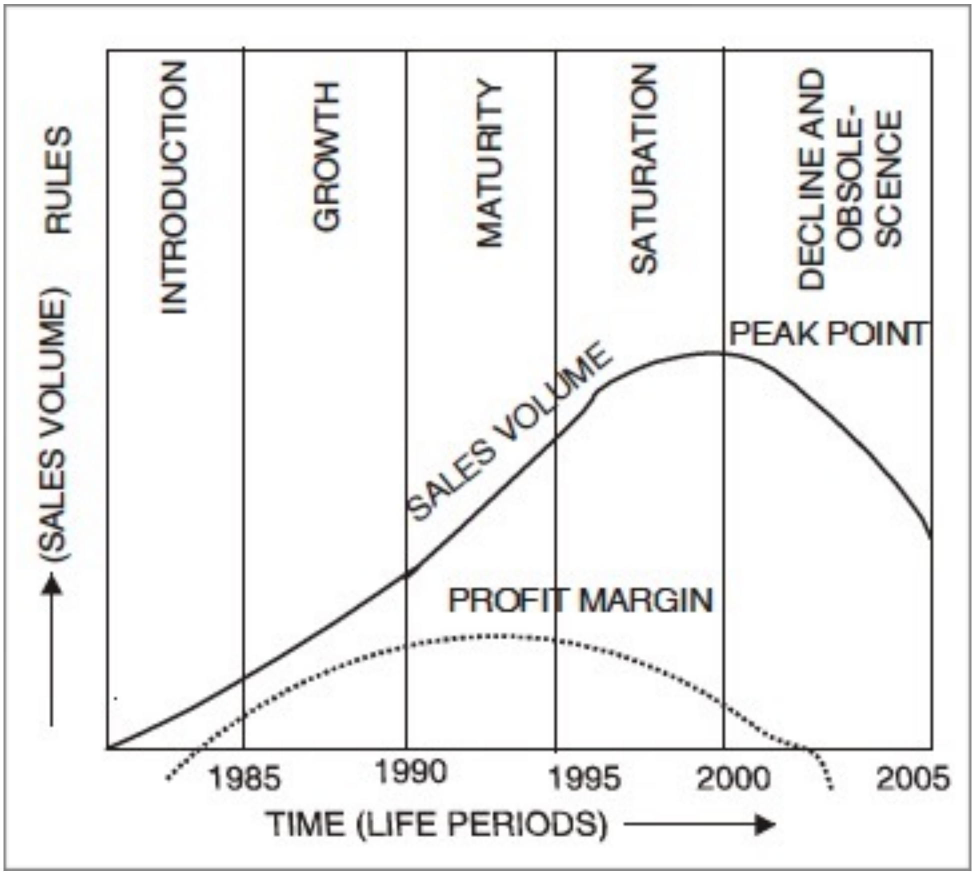


Fig. 5.4 Product Life Cycle Concept

Every product moves through a life cycle having five stages: introduction, growth, maturity, saturation, and decline (some authors include saturation into maturity). The life-cycle gives the sales revenue and profit margin-history of a product over a time frame.

1. **Introduction:** In the early stage when the product is introduced in a market, sales revenue begins to grow but the rate of growth is very slow. Profits may not be there as we have low sales volume, large production and distribution costs. We may require heavy advertising and sales promotion. Products are bought cautiously on a trial basis. Weaknesses may be revealed and they must be promptly removed. Cost

of market development may be considerable. In this stage product development and design are considered critical.

2. **Growth:** It is the period during which the product is accepted by consumers and the traders. During the growth stage, the rate of increase of sales turnover is very rapid. Profits also increase at an accelerated rate. In spite of competition, we may have rising sales and profits. The firm gives top priority to sales volume and quality maintenance may have secondary preference. For marketing success, manufacturing and distribution efficiency are vital factors. In mathematical terms, the end of the growth period is at the inflection point on the sales curve. In this stage effective distribution and advertising are considered as key factors. Word-of-mouth advertising leads to more new users. Repeat orders are secured.

3. **Maturing:** During this stage, keen competition brings pressure on prices. Increasing marketing expenditure and falling prices (in the battle for market share) will reduce profits. Additional expenditure is involved in product modification and improvement or broadening the product line. Marketers have to adopt measures to stimulate demand and face competition through additional advertising and sales promotion. Overall marketing effectiveness becomes the key factor in the stage of maturity. Low prices, increasing competition, rising marketing costs, and declining profits are the features in this stage.

4. **Saturation:** The saturation point occurs in the market when all potential buyers are using the product and we have only replacement sales. Consumption achieves a constant rate and the marketers have to concentrate exclusively on a fight for market share (with higher marketing expenses). Prices may fall rapidly and profit margins may become small unless the firm makes substantial improvements and realises cost economies.

5. **Decline Stage:** Once the peak or saturation point is reached, product inevitably enters the decline stage and becomes obsolete. It may be gradually displaced by some new innovation. Sales drop severely, competition dwindles, and even then the product cannot stand in the market. It may be priced out of the market by other new innovations. A marketer is expected to keep new products ready to fill up the gap created by the demise of existing products. At this stage, price becomes

the primary weapon of competition, and we have to reduce considerably expenditure on advertising and sales promotion. Cost control becomes the key to generate profits.

In real life, many products do not follow the life-cycle curve given above. Time interval for each stage varies widely from product to product. For example, salt remains in maturity stage for ever. Table radios have now moved into declining stage after achieving maturity and saturation. With the introduction of mobile phones, pagers are in declining stage in our country. HUL's products such as Annapurna Salt and Atta are in declining stage (2010) and the company is planning to revive these products. Marketers can alter the product life cycle primarily through product improvement (alterations in product offering) and the changes in the rest of the marketing mix. New products are the real solutions to the problems of maturity and decline.

Table 5.1: Marketing Characteristics seen in different stages of Product Lifecycle

Stage/ Characteristics	Introduction	Growth	Maturity	Decline
Sales Profit	Low Marginal or even less	Fast growth Rapid rise	Slow growth Falling margins	Decline Low margin
Strategic thrust	Market development	Penetration	Defend share	Cut cost, Reposition or Withdraw
Customer targets	Non-users; innovators	Form new segment	Shed segments	explore new market
Competition	Few, less known	Intensive growing with time	Many efficient ones	Limited
Differential advantage	Superior performance; New benefit; features	Brand name, Corporate identity	Price, unique service	Business experience; low- cost producer

- **Product Life-cycle and Marketing Strategy**

The most essential feature of the product life-cycle is the difference between the two curves (sales curve and profit curve). Long before sales decrease, profit margins usually decrease. Hence,

Table 5.2: Marketing Mix in different PLC stages

Stage/ Marketing-Mix	*Introduction*	*Growth*	*Maturity*	*Decline*
Product	Unique offering	Improvement on early innovation	Different variety	Rationalise range
Price	Low or premium	Low with high volume	Maintain margiin	Smaller margin
Promotion	Incentive to use	Heavy	Parity, loyalty formation	Threshold level for reminder
Advertising focus	Awareness-building	Brand name, performance	Value for money	Rationalise
Distribution	Build network	Fast spread out	Choose specific territory vis-a-vis competition	Limited coverage or enter new market and develop distributors

marketer must generate a continuous stream of new products in order to maintain market position, the company image and try to hold profitability at desired levels. Similarly, marketers must consider the changing relationship between sales revenue and profitability in the allocation of marketing and other resources among parts of the product line. Product life-cycle governs strategic marketing planning at all levels. It is involved not only in product planning and development but also in pricing, promotion, and distribution policies.

The Marketing Manager should manage the life-cycle of a product towards better progress and for a healthy growth of the firm. A Marketing Manager, while forecasting the PLC, must also anticipate the limitations and other drawbacks. Thus, he may be able to chalk out programs more successfully. We discuss how the PLC is managed under various stages.

1. **Management of Introduction Stage:** There are a high percentage of product failures in the first stage. When a product is first introduced at the pioneering stage, since the product is new, profits are negative or low because of low sales and heavy distribution and promotional expenses. There is very little direct competition. The promotional program is designed to stimulate demand. By looking ahead, one can know that competition will enter sooner or later and cause prices and its market share to fall. Once the product gains consumer acceptance the sales go up in growth stage. The PLC is the result, not the cause of marketing strategy chosen by the firm. Since the first impression is the best impression, the Marketing Manager should:

   Make proper advertising before the products are released in the market.

   Shorten the period of introduction, as far as possible Formulate new

   pricing and marketing strategies Undertake large-scale promotional work

   Give proper attention to the distribution aspects.

2. **Management of Growth Stage:** This stage is marked by a rapid climb in sales. Potential buyers start buying the product. Buyers compare this product with the rival product, because new competitors enter the market with new product features and, thus, competition increases. The number of outlets are increases. Companies maintain their promotional expenditures at the same or at a slightly raised level to meet competition. Since this is a crucial stage, the Marketing Manager should:

   Improve product quality

   Add new product features and improved

   styling Enter into new market segments

Enter into new distribution channels

Reduce the prices to attract buyers

Increase promotional activities

3. **Management Maturity Stage:** During this stage, a manufacturer gets maximum profit through maximum sales. Price competition becomes increasingly severe. A novel method of pushing sales as creative selling is called for. The sales and profits start to scale down as the products gradually lose their significance in the presence of better substitutes. For an effective management, the Marketing Manager should:

   Improve the quality of the product

   Give proper attention to increase the usage among the current customers.

   Try to convert non-users into users of the product, creating new buyers

   Give proper emphasis to advertisement and promotional programs

   Try to discover new uses for the product.

4. **Management of Saturation Stage:** This is a stage where a manufacturer finds it difficult to expand the sales volume beyond a particular point, that is, sales are at the peak and further increase is not possible. Since the sale of product cannot be increased, the Marketing Manager should:

   Introduce new models

   Pursue new uses for the product

   Introduce new package and re-pricing

   Middlemen’s margin is to be increased.

   If the price is heavy, offer the product on instalment basis.

5. **Management of Decline Stage:** This is the last and most crucial stage. Sales may decline for a number of reasons — technical advances, arrival of new products at low-cost, change in fashion, consumer preference, etc. Sales and profits continue to fall at this stage. If the substitutes are more attractive and in latest fashion, buyers may turn their eyes towards them. At this stage, cost control is increasingly important to generate profits by the following alternatives:

   Improve the product in a functional sense, or revitalise it in some manner.

   Make sure that the marketing and production programs are as efficient as possible.

   Streamline the product assortment by pruning out unprofitable sizes and models. Frequently, this tactic will decrease sales and increase profits.

   'Run out' the product, that is, cut all costs to the bare minimum level that will optimise profitability over the limited remaining life of the product.

   Abandon the product.

- **Advantages of PLC**

Following are some of the identified advantages:

When the product life pattern is known, the management must be cautious in taking advance steps, before the decline stage, by adopting product modification, pricing strategies, style, quality change, etc.

The firm can prepare an effective product plan, by knowing the PLC of a product.

The PLC will greatly help the management in drawing future plans of the firm.

A management may be able to adopt some measures to control the PLC. They include:

Extension of the life at maturity and saturation stage by adopting new packaging, re-pricing or product modification, etc.

Creation of new uses by expansion of the market.

Creation of more varieties of the product among current users. For instance, Amul Milk powder, through advertisement emphasises many uses, in preparing milk, tea, curd etc. It is like having a dairy in your home.

Adoption of the latest technological changes, fashion changes, market acceptance, etc.

The Product Life-Cycle concept is used in formulating appropriate marketing strategy and its prompt implementation. The concept enables the marketer in planning the entry of a new product in a chosen market. PLC assists in the postponement of the desirable life phase of a product, e.g., maturity stage. The Indian Tobacco Company could revive the bread-winner brand, 'Scissors' facing the exit in Indian market through a series of strategies after 1962. It also succeeded in the second revival in 1981. The two revivals are the best examples of successful management of the PLC of a brand. The "Scissors" is an 85 year old brand and continues its dominance. In short, PLC concept is very useful in the management of life-cycle of a product through corporate strategic planning and marketing strategic planning.

- **Diffusion (Adoption) of Innovations**

In a sense, the diffusion (consumer adoption) process, as developed by E. M. Rogers, is the same as the product life-cycle. However, the diffusion process looks at what is happening in the market (buyer behaviour), whereas the product life-cycle merely depicts the flows of revenues and profits to the business unit on account of the diffusion process. The diffusion process is described in the form of the normal distribution curve (the bell-shaped curve).

The life-cycle concept derives its logical base from the diffusion process. Adoption and diffusion of any new product (innovation) develops slowly because of resistance to change and the time taken for communication of the new innovation. When early adopters follow the lead given by innovators, adoption process gains momentum and grows rapidly. The peak point arrives when most of the potential buyers have tried the new product.

1. **Innovators:** They are first two and a half per cent of the market. They are risk takers and act forerunners. They are willing to take the risk in many respects. They show different life style and personality. They are young, educated, well-informed, and richer consumers. they are very important to the success of the new product.

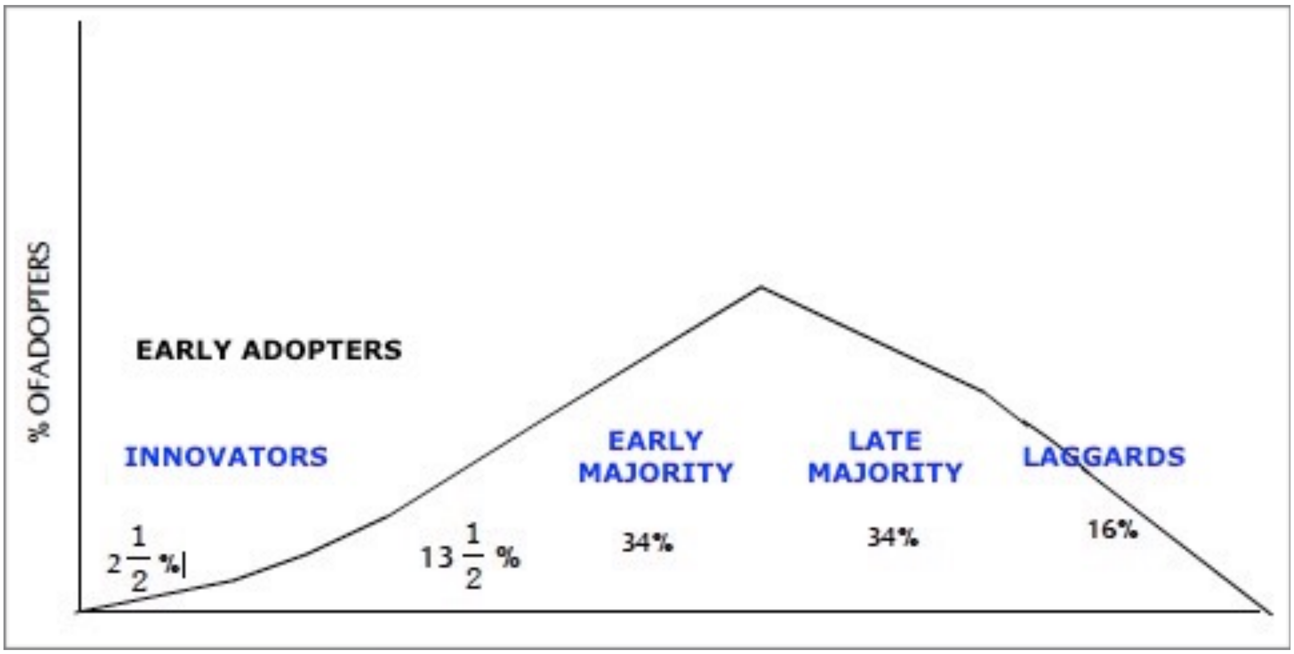


Fig. 5.5 The Adoption Process

2. **Early Adopters:** The next thirteen and a half per cent using the products are early adopters. They are the opinion leaders and taste makers in their circle of connections and friends. They are also social leaders in the community. They are educated, rich, and more successful than average. They are considerably exposed to information from all sources, particularly from mass media.

3. **Early Majority:** The next 34 per cent are the early majority to adopt the new product — bringing the total adopters to 50 per cent. They are average people with regard to income, occupation, age, education. They make the innovation legitimate and it is no longer a luxury or a novelty. They do not hold leadership position. They form a bridge between the

new and the old values of society. They are shrewd buyers and more thoughtful about themselves and their behaviour.

4. **Late Majority:** The next 34 per cent are the late majority buyers to adopt the innovation. They are older and less educated buyers. They have limited purchasing power. Hence, they are skeptical in their purchases. They are more conservative and less responsive to change. Their adoption of the new product is an indication that it is now a clear necessity. They buy the product only when public opinion clearly is in favour of the product. They depend more on the word of mouth and personal guidance by their reference groups. They are less exposed to mass media.

5. **Laggards:** It is the last category of buyers (16 per cent). They tend to be older, with less education, poorer and traditional in their outlook on life. Caution, conservatism and price-consciousness characterise the laggards. Theyhave little contact with mass media, particularlynewspapers. They rely only on radio, TV and reference groups. Rural buyers tend to exhibit the laggards due to illiteracy and poverty.

- **Implications for Marketers**

It is difficult to have five distinct marketing programmes one for each class of adopter. Usually marketers develop two distinct marketing programmes: one for innovators and early adopters and the second for early and late majority and also laggards. The secret of getting a new product introduced in the market is to secure action from a small but significant innovative group to use it. This group must be quickly followed by a larger set of early adopters. Early adopters are approached through specialised media. Late adopters are approached through general appeal media. Marketers direct their marketing programmes, especially promotional activities, to opinion leaders and key influential persons in the diffusion process.

5.3 MARKETING AND INNOVATION

Innovation is purposeful, organised, risk-taking change introduced by a marketer in order to maximise economic opportunities. Successful innovation is a necessary condition for effective marketing. 'Innovate or perish' is a current slogan, which has rich meaning for business operating in an economy with customer-oriented marketing. An innovation is considered a successful invention. An innovation is the act of developing a novel idea into a process or product. For an innovation to be successful, the new product or new process must be feasible and must have commercial acceptability. A successful innovation passes through three stages: (1) the idea or invention, (2) the implementation of the idea, and (3) the market acceptance. Implementation refers to the development of the idea or invention from its conceptual stage to an output — A developed product or service. Market acceptance is the third stage and it is most critical to any successful innovation. A firm can control partially the first two stages. However, the acceptance decision is an external factor and it depends upon consumers and their reactions. Marketers rely on all modes of promotion or marketing communications to exert influence on consumer behaviour and induce the potential customers to adopt the innovation.

- **The Adoption Process**

The adoption of an innovation demands planned management of change (overcoming the resistance to change). An adoption process is a process bringing about a change in buyer's attitudes, and perception. Consumer adoption process covers the steps that a consumer usually goes through in determining the feasibility of buying new products: (1) Awareness, (2) Interest, (3) Evaluation or mental trial, (4) Trial (physical), and (5) Adoption.

1. **Awareness (Knows it exists):** A person learns about a new idea, product or practice. He has general information about it, e.g., through advertisement. He has, however, limited knowledge about special qualities, usefulness, performance, etc., regarding the innovation. He has mere knowledge of its existence.

2. **Interest (Seeks information):** He now develops an interest in the innovation. He demands more detailed information about the new product, its utility, its performance, and so on. He listens with

interest radio or TV ads, reads press ads, and learns more about it from others, and is now inclined to seek actively the desired information from sales persons, opinion leaders, peers, friends, etc.

3. **Evaluation (Weighs whether or not to try it):** The accumulated information and evidences are weighed by the person in order to assess the basic soundness or worth of the innovation. He tries to reason through pros and cons the value of the new product to him and the extent to which it is good for him. In a sense, he conducts mental trial of the new product.

4. **Trial (Tries it once or twice):** The person now is ready to put the change into practice. Competent personal assistance is necessary to put the innovation to use. A sample may be tried and large-scale use would depend upon the success of the small-scale experiment.

5. **Adoption:** It is the final stage in buying decision-making process. The person now decides to adopt the new idea, product or practice for continued use. If post-purchase experience is good, he becomes a repeat buyer and a talking advertisement of the innovation.

- **Product Innovation**

The innovative attitude of marketer is expressed in the watch word "innovate or die". Such an attitude must be an integral part of marketing concept. P. Drucker recognised the equal importance of innovative attitude and marketing concept. He said, "Because it is its purpose to create a customer, any business enterprise must have two and the only two basic functions: marketing and innovation." All growth industries have an important role for innovation in their marketing plans. Innovation alone assures growth and survival while customer-orientation assures survival. The evolution of new products is a practical business function and it is described as a process of product management. The new product programme must be organised and controlled if it is to be effectively managed. The process of product planning and development is always adopted for product innovation. Product development is a general term covering the search for new products and new innovations as well as the improvement of existing products.

Methods of Obtaining Products

1
Internal Development
Discovering and developing new products by the firm itself.
Desirable means.

2
Licensing
Securing right to produce the product from a patent holder — Contractual arrangement, e.g., Coca-Cola

3
Acquisition
Buying the firm that developed or patened the product
Costly means.

Fig. 5.6 Methods of Obtaining Products

Notes:

1. Internal product innovation implies no payment of profits to inventor or developer.
2. Licensing obviates the possibility of internal discovery and may be inevitable or preferable, e.g., complex products like electronics.
3. Acquisition is very costly but gives exclusive rights.

5.4 PRODUCT MARKET STRATEGIES

Marketers have the following alternatives to increase the market share and profits: (1) Market penetration in existing market for existing products, (2) Product development or product differentiation, (3) Market development (new markets) for existing products, (4) New products and new markets, i.e., a strategy of diversification, and (5) Market segmentation and unique marketing-mix for each segment. Strategy of market segmentation may be used for any one of the previous four strategies.

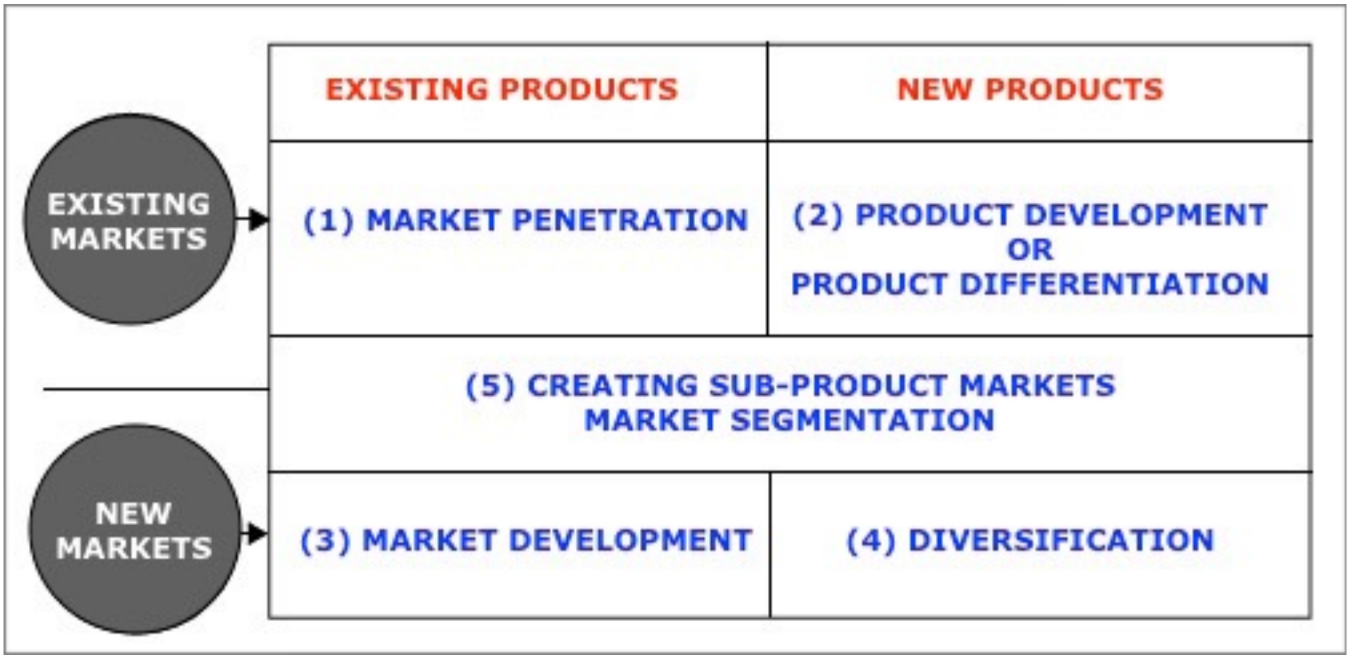


Fig. 5.7 Product Market Strategic Alternative Matrix. (Five Types of Sales Growth Strategies)

1. **Market Penetration:** It involves expansion of sales of existing products in existing markets by selling more to present customers or gaining new customers in existing markets. The firm can market its present products to existing markets. This is done through a more aggressive marketing-mix. Customers from rivals or potential buyers can also be attracted. Existing buyers may be induced to increase their rate of use. We may have temporary price cut to raise the volume of sales and penetrate the market.

2. **Market Development:** In market development a present product is introduced to a new market or segment. Market development is the creation of new markets by discovering new applications for existing goods, e.g., Mini-bus may be made available for goods or passengers. The firm can offer its existing products to new markets (cell 2). This is another alternative to expand market opportunity, prolong product life cycles, profitability and survival.

3. **Product Development:** Product development occurs when a firm introduces new products to a market in which it is well established. Product development is the introduction of new products in the present market, e.g., new synthetic fibres for known textile products.

The firm may decide to create new products for existing market (cell 2). Established firms with high customer patronage may have new product additions upon existing market successes. The firm by offering new or improved products to present markets can satisfy better the present customers.

4. **Diversification:** Diversification occurs when a firm seeks to enter a new market with a completely new product. Such a firm has neither market expertise nor product knowledge. The firm may adopt a daring strategy by creating new products for entirely new markets. The innovations are introduced for the first time in the new markets. Only innovating marketers venture to go in for diversification of products. The strategy is risky but the innovator can have spectacular results. In 1960, polaroid camera and television were in this category in many countries. Micro-wave Ovens and Digital watches are novelties even today in many countries. We have entirely unfamiliar product for unfamiliar market. Factors rating for a new product introduction are: (1) marketability, (2) durability, (3) productive ability, and (4) growth potential. Philips is an example of diversification or lateral integration: light bulbs, radio lamp, television tube, radio sets, taperecorder and wide range of luminaries or lamp shades.

5. **Market Segmentation:** Till 1950, most marketers had adopted a strategy of differentiating products through Branding/Packaging. They did not follow a strategy of differentiating markets. In 1956, market segmentation strategy was introduced. Market segmentation is the strategy of offering a different product, charging a different price, or using a different kind or level of promotion or distribution in one part of the market than in one or more other portions of the market.

Notes: 1. Market penetration, i.e., penetrating the current market for higher usage rate is a conservative choice.

2. Diversification by entering a new market with brand new product is the most radical choice. It is the most difficult strategy as the firm has no market expertise and no product knowledge. Many firms fail with their diversification strategies.

5.5 PRODUCT PLAN OR STRATEGY

A product strategy is a company plan for marketing its products. We lay down product objectives. We develop a product design to achieve the set objectives. We have a product programme suitable to the product's position in the life cycle. Product plan or strategy involves a number of issues to be resolved: (1) product line, (2) product mix, (3) packaging, (4) labelling, (5) branding, (6) service after sale, (7) organising for product planning and development, and (8) product research and improvements.

Product Line: What products or satisfaction should we sell? Product line is a group of products that are related either because they satisfy similar needs of different market segments, or because they satisfy different but related needs of a given market segment. A range of toilet soaps is a product line as it satisfies one need for different market segments. Similarly, a group of cosmetics is a product line as it satisfies different but inter-related needs of one market segment, say, rich urban women. The strategies followed by companies in managing product line are given below:

a. **Line stretching** decisions are taken when the marketer feels that he can increase sales and profits by adding an item to the product line. Product stretching can be upwards, downwards on both ways. **Examples:** P&G's Ariel detergent began at premium end and Tide was added to tap the lower segment. Lifebuoy positioned at hygienic bath soap for masses, has added Lifebuoy liquid handwash for the higher strata of the society.

b. **Line filling:** A product line can be lengthened by adding more items within the product range. **Example:** Cinthol soap is available in different variants Cinthol lime soap, Cinthol fresh and cinthol international. The company has to differentiate each item in consumer's mind.

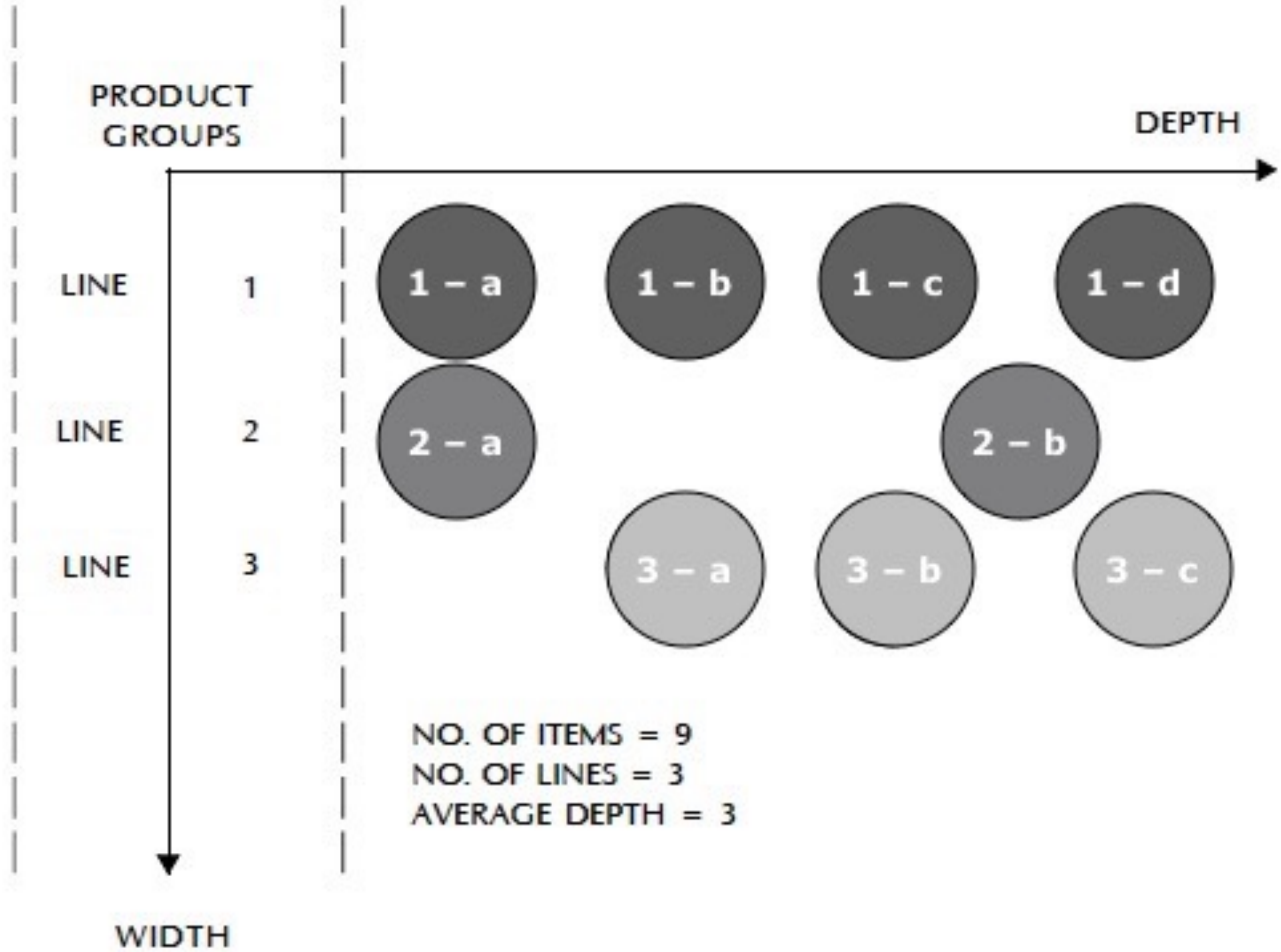


Fig. 5.8 Width and Depth of a Product-Mix

c. **Line modernisation:** Even when the product-line length is adequate, the line may need to be modernised. The issue is whether to overhaul the line completely or one at a time. A piece-meal approach allows the company to see how consumers and dealers respond to the new style. But competitors may see the changes and start modernisation their own line.

d. **Line featuring:** In the case of consumer durable products, the marketers select one or a few items to feature. The idea is to attract the consumers to the show room and then expose them to other models. Many show rooms display large television sets to attract the customers.

Product Mix: It is the entire range of products of a company for sale. Product-mix need not consist of related products. For example, the product-mix of Hindustan Machine Tools includes a diverse range of products such as watches, machine tools, tractors, printing machinery and electric lamps.

The product-mix of a company has three main characteristics: (1) width, (2) depth, and (3) consistency. Width of the product-mix depends upon the number of product groups or product-lines found within the company. Depth depends upon the number of product items within each product line. Consistency of the product mix refers to the question whether or not the products have production affinity, marketing affinity or research affinity. General Electric Corporation of the U.S.A. has thousands of products. But there is an overall consistency as most products involve electricity power.

5.6 NEW PRODUCT DEVELOPMENT

There are seven steps in the planning and development of a new product as shown in Fig. 5.9.

1. **New Product Ideas:** We visualise the detailed features of a model product. Ideas may be contributed by scientists, professional designers, rivals, customers, sales force, top management, dealers etc. We may need sixty new ideas to get one commercially viable product. We have three types of new products:

   (a)**Innovative New Products:** Xerox was a new product. (b) Emulative new product: existing product is copied with some modifications. (c) Adaptive new product: the adaptation of the wet plate camera to the handheld (with flash) camera, adaptation in function, features or form becoming necessary to give better consumer service or satisfaction. Both innovative/emulative products are new to the company. Adaptive product is new to the consumer. Of course any new product must be welcome by the environment. Social costs of a new product should now be incorporated in the cost-benefit analysis e.g., pollution removal costs.

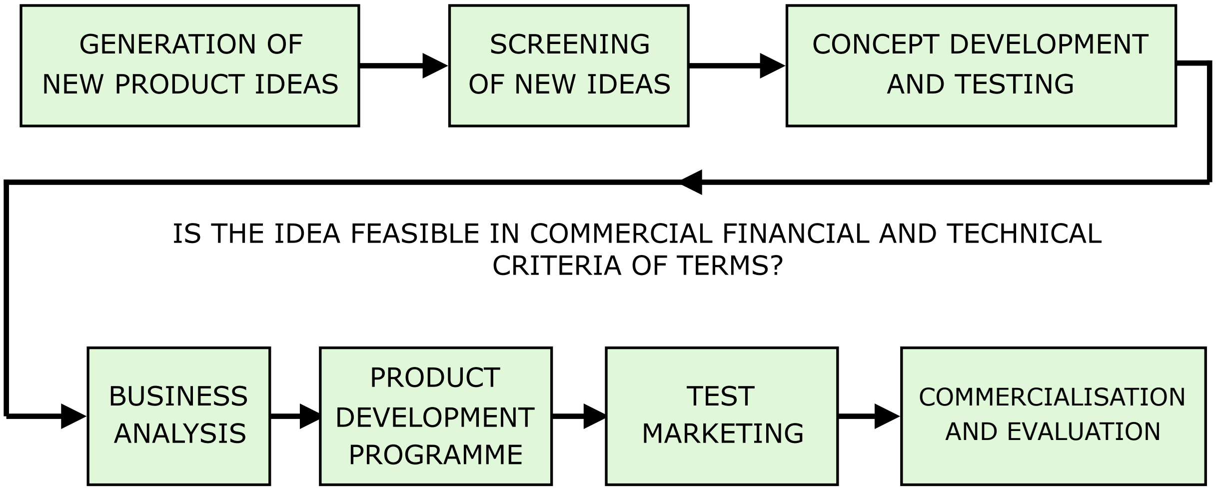


Fig. 5.9 New Product Development Process (Innovation Management)

Notes:

1. Product life-cycle requires the product development programme for new products and new profit opportunities.

2. New product development must be carefully planned and managed.

3. Special organisational wingis necessary tostimulate, collect, screen, evaluate, develop, test, and commercialise new-product ideas.

4. Business analysis is the crucial stage. It concentrates on demand analysis, cost analysis and profitability analysis. It also considers social responsibilities and social costs of marketing the new product.

2. **Idea Screening:** We have to evaluate all ideas and inventions. Poor or bad ideas are dropped and through the process of elimination only most promising and profitable ideas are picked up for further detailed investigation and research. Screening should avoid two errors: (1) Rejecting an idea that could become a very successful product, (2) Accepting an idea that later fails.

3. **Concept Development and Testing:** All ideas that survive the process of screening (Preliminary investigation) will be studied in details. They will be developed into mature product concepts. We will have precise description for the ideas and features of the proposed product. At this stage we can incorporate consumer meaning into our product ideas. Concept testing helps the company to choose the best among the alternative product concepts. Consumers are called upon to offer their

comments on the precise written description of the product concept viz., the attributes and expected benefits.

4. **Business Analysis:** Once the best product concept is picked up, it will be subjected to rigorous scrutiny to evaluate its market potential, capital investment, rate of return on capital, etc. Business analysis is a combination of marketing research, cost benefit analysis and assessment of competition. We have demand analysis, cost analysis (including social costs) and profitability analysis. Business analysis will prove the economic prospects of the new product concept.

   It will also prove soundness and viability of the selected product concept from business viewpoint. Now we can proceed to concentrate on product development programme. The proposed product must offer a realistic profit objective. Profitability can be determined by Break-even Analysis or Discounted Cash Flow method.

5. **Product Development Programme:** We have three steps in this stage, when a paper idea is duly converted into a physical product: (a) prototype development giving visual image of the product, (b) consumer testing of the model or prototype, and (c) branding, packaging and labelling. Consumer testing of the model products will provide the ground for final selection of the most promising model for mass production and mass distribution.

6. **Test Marketing:** Entire product marketing programme is tried out for the first time in a small number of well-selected test markets, i.e., test cities or areas. Test marketing is necessary to find out the viability of full marketing programme for national distribution. Customer reactions can be tested under normal market conditions. It helps the company to learn through trial and error and get additional valuable clues for product improvement and for modifications in our marketing-mix. We can use test markets for testing effectiveness of all ingredients of our marketing mix. Test marketing can answer such questions as: Is the new product lebelled and packaged properly? Is the new product liked by the consumer? Is the firm justified in spending large sums on productive capacity? Has the communication (promotion) programme been right? Positive answers will reassure marketers.

7. **Commercialisation:** Once the test marketing gives green signal for the product with or without expected modifications, the company can proceed to finalise all features of the product. Now marketing management can launch full-fledged advertising and promotional campaign for mass distribution. Mass production will start and all distribution channels will be duly organised. The product is now born and it will start its life-cycle in due course.

   Marketing Management will have to undertake constant checking of a new product throughout its life-cycle. Product improvement search will be a continuous affair to introduce necessary improvements, modifications, innovations, etc., in the existing product on the basis of changing consumer preferences as well as on account of development of science and technology. Your product must be up- to-date and then only it can prolong its life cycle against keen competition. Your product must serve consumer needs in a better way before your rivals do so. Improvements may be in the size, shape, package, taste, flavour, colour combination, etc. First four stages refer to product selection. Then, we have product development, test marketing and finally, commercialisation.

Product Planning and Enhancing the Value Offered by a Product: A clear distinction is to be made between the value of the offer (attributable to the actual product, its positioning in the market and communication message) and the value added by marketing (an outcome of product availability and consumer awareness). This will enable the marketer to better analyse and make due allocations towards marketing activities, i.e., channel management and physical distribution, the other half of marketing. Innovations to existing products must be incorporated on an ongoing basis. The new product must be based on what consumer desires and the price he is willing to pay to secure the satisfaction. Planning and timely decisions alone can assure success in product innovation.

- **New Product Idea**

Excluding the continual search for new ideas, the time and costs involved in the activities relating to product planning and development process, from experience in the U.S.A., is as follows:

Stage	*Time*	*Money Cost*	*Ideas reduced from original 60 to*
1. Screening	3 p.c	2 p.c.	12
2. Business Research	12 p.c	7 p.c.	7
3. Development	40 p.c	31 p.c.	3
4. Testing	20 p.c	15 p.c.	2
5. Commercialisation	25 p.c	45 p.c.	1 (One successful new product)

Fig. 5.10 Time and Cost in New Product Development

Notes:

1. Development, testing and launching are the most expensive stages.
2. They take more than 50 per cent of total time involved in the process.
3. About 60 new ideas may be needed to find one good idea worth commercialisation. About 48 of the new ideas fail to pass the screening stage. Only 12 ideas are compatible with the corporate resources and goals. Of these 12, five ideas are eliminated for lack of profit potential. Out of 7 ideas having profitability, only three ideas survive the product development stage. Finally, two more fail during test marketing and only one new product becomes fit or eligible for market introduction and officially enters its life- cycle.

- **Why New Products Fail?**

Despite careful attention to details in product planning and development as many as 50 per cent of new products actually entering the market have a very short life-span and market failures occur. The following are the reasons given for failure of new products:

(1) inadequate market analysis and market appraisal, (2) insufficient and ineffective marketing support, (3) bad timing of introduction of a new product, (4) failure to recognise rapidly changing market environment, (5) absence of formal product planning and development procedure, (6) failure of the product to fill consumer needs due to ignorance about consumer attitudes about new products, (7) technical or production problems, (8) higher costs than estimated costs; (9) product problems and defects,

(10) failure to estimate strength of competition, (11) too many new products entering the market, and (12) many products not new as perceived by consumers.

External Forces	Internal Forces
Markets: Prime determinants of product success.	*Financial Resources:* Needs of Earnings and Cash-flow affecting Product Decisions.
Competition: Always present and threatening.	Technological *Ability* to develop products and keep them upto date.
Channels: Dealer support a vital factor.	*Supply of Raw Materials and Parts* to ensure smooth production planning and scheduling.
Technology: Continuously involved during Product Life-Cycle.	*Marketing:* the most critical internal aspect of product success.
The Economy: Creating opportunities and threats revealed by economic indicators.	*Production:* second in importance to marketing to cope with expanding and competitive markets.
Government: Positive or negative actions.	*Human Resources:* Personnel abilities in product planning management and implementation
Ecology: Problem of pollution.	

Fig. 5.11 Critical Forces Influencing Management of Products

Notes:

1. Most external forces are uncontrollable by the firm.
2. They need accurate forecasting.
3. Internal forces are controllable. They will vary between firms, between products, and between stages of product life.
4. Ecology, i.e., our Mother Earth, which offers opportunities and reveals threats when there is adverse effect due to our economic development, now demands continuous attention and due precautions by all marketers.

Most of the reasons for failure of new products can be eliminated by the company itself. The faults for new product failure lie within the managerial control. Chances of success of new products are relatively bright if company launching the new product has at least one advantage: (1) product advantage, (2) marketing advantage, or (3) creative advertising advantage. Of course, product advantage is of paramount importance. If your product can fill the customer needs precisely, it is bound to have a bright future. Better marketing research is essential to evaluate market needs and prospects. Marketing begins with consumers and products must fill needs. The marketer must adopt improved screening and evaluation of ideas and products. Integrated business planning must be continuously done to establish profitable relationship with changing customer and changing environment. 'Eco- marked' products will have a bright future in the 21st century.

- **Critical Forces Influencing Management of Products**

Most external forces are uncontrollable by the firm and they need accurate forecasting. Internal forces are controllable. They will vary between firms, between products, and between stages of product life. Ecology, i.e., our Mother Earth, which offers opportunities and reveals threats when there is adverse effect due to our economic development, now demands continuous attention and due precautions by all marketers.

5.7 PRODUCT QUALITY

- **Quality Assurance**

Product quality is one vital issue as it governs the ultimate fate of the entire marketing programme and the fate of the firm in the market place. No firm can really build up sustained bright product image in the market merely through advertising and marketing elegance. Only through continuous managing for excellent quality (performance quality and market perceived quality), the firm can maintain bright product/brand image in the consumer/user mind in a competitive world. Japan and Germany have emerged as business leaders today only through quality assurance and Total Quality Management.

- **Total Quality Management (TQM)**

TQM is a corporate planning strategy. It concentrates on the total company efforts (a high level of excellence) in all areas of management covering leadership, people management, resource management, manufacturing process with continuous technological improvement, and zero defects that satisfy customer needs, policies, strategies, systems and procedures, people satisfaction and contribution to social and ecological obligations. Thus, we have an acceptable quality in all areas of business.

Focus on quality planning establishes a customer driven standard. Focus on quality control maintains this standard. Focus on continuous quality improvement challenges the standard. Customer satisfaction represent 300 points out of a possible 1000 points for The TQM award. Marketer, must continuously monitor the changing customer needs as well as rival offerings and incorporate adjustments in his market offering since the customer perceives his product relative to rival products. Quality is a necessity for customer acceptance/ satisfaction. The marketer gains rising market share and repeat orders. Unique product features and freedom from deficiencies create numerous opportunities to the firm. If product features click with customer needs and expectations, even normal promotion is enough in a competitive market (product becomes USP).

Freedom from deficiencies reduces customer dissatisfaction. The focus on product features is sales, while focus on freedom from deficiencies is costs. When we concentrate on product features higher quality costs more. When we concentrate on freedom from deficiencies, higher quality costs less.

Product quality has to be assured all the way right up to the final use/ consumption by the customer. We may have customer complaints at any stage till the final use or consumption and final satisfaction. No doubt quality assurance involves inevitable costs. But it pays back in the form of long-term goodwill, reliability, and profitability. Consider TQM as an investment capable of giving rich dividends and competitive edge in the global market.

- **ISO: A Measure of Quality Launched in 1987**

Launched in 1987, the ISO series has now been accepted by national standards bodies of 90 countries, including India and all EU member countries.

Issued by one of the several national standards bodies accredited to the International Organisation for Standardisation (IOS), ISO certificates are increasingly gaining acceptance around the globe as the hallmark of quality.

This specialised international agency was set up to promote development of standardisation to facilitate international exchange of uniform quality goods and services. The IOS comprises 180 technical committees, each responsible for one of the several areas of specialisation.

The word ISO (pronounced as ice-o) has been derived from the Greek word ISOS which means equal. The ISO series consists of six standards: a standard terminology on definition and concepts known as ISO 8402 and five quality standards (ISO 9000-4) popularly called the ISO series.

Table 5.3: The ISO Series

Indian ISO	***European Standards***	***Norms***	***Scope***
9000	IS 14000	EN 29000	Selection and use: Quality management and quality assurance standards
9001	IS 14001	EN 29001	Model for quality assurance in design/development, production, installation and servicing
9002	IS 14002	EN 29002	Model for quality assurance in production and installation
9003	IS 14003	EN 29003	Model for quality assurance final inspection and testing

Source: CII-TQM Division.

Notes:

1. ISO certification signifies only 30 per cent of the total TQM requirements.
2. Recertification will have to be done every four years with intermediate evaluations during 4 years.
3. ISO 9000 series is now driven more by 'market-place' than by Government regulations and it is becoming important competitive global marketing tool.

Each certificate specifies that a company possessing it conforms to and implies quality aspects as specified by the IOS. The company's name is subsequently registered with the agency awarding the certificate. Over 36,000 companies around the world have been certified under ISO standards so far (1995).

ISO 9000 Certification certifies a manufacturer's quality system. It indicates the presence of quality control system a company possesses at its place to assure meeting of published quality standards. Please note that ISO 9000 standards do not apply to any particular product. It only certifies the process of production. It cannot guarantee the product quality of any manufacturer.

Even if a company has adopted TQM and the TQM system meets ISO 9000 standards, the company must formally obtain ISO 9000 certificate. Thus, ISO 9000 is gaining commercial importance to enter many global markets, e.g., the EC markets. By 1994-95 exceeding 60 countries have duly adopted ISO 9000 standards as national standards.

Today, quality has become an issue because standards are defined in the contract, whereas previously, they were vague and unmonitored. Naturally, the concern for quality has taken on an institutional and organisational form. It has now become an integral aspect of corporate philosophy. Satisfaction of consumers is the major driving force. TQM involves designing organisations to please customers day in and day out. Over the years customers have become intolerant of low-quality goods and services. This is not only true of the developed economies but also of the developing ones. Unfortunately, in India the movement has not become widespread despite a lot of hype on quality-consciousness.

5.8 TOTAL PRODUCT PERSONALITY

There are two essentials of successful marketing (1) products, and (2) markets. If marketing can bring together products and markets in such a way that products and consumer demand are perfectly correlated, there is no reason why marketing cannot be successful. Both are equally important. In fact, product and market are expected to be the two sides of the same blade, viz., marketing. Product is expected to satisfy all the needs and desires of a customer.

If the product is sound and easily acceptable to the market, if it satisfies reseller's needs and consumer preferences and is carefully fitted to the needs and desires of the customers, sales success is assured. In essence, the right product is a great stimulus to sales. A right product is bound to reduce considerably the problems of pricing, promotion, and distribution. It need not have aggressive advertising and high-pressure salesmanship. It may not demand extraordinary sales promotion gimmicks. Hence, product superiority in want- satisfaction can carry greatest selling load in our marketing-mix, **e.g.,** *Mobile phone camera, Xerox for instant reproduction, TV, AC with remote control.*

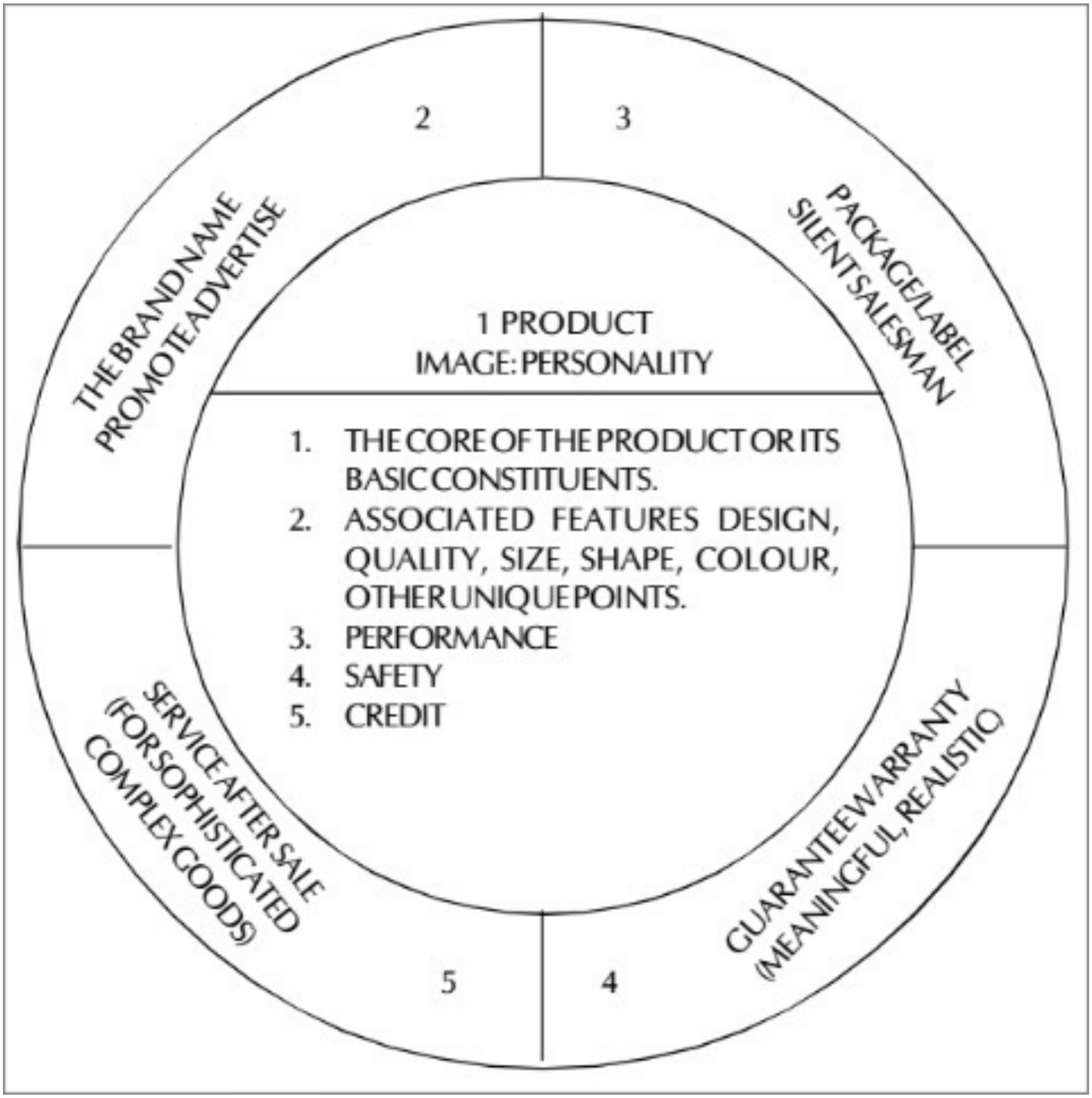


Fig. 5.10 Total Product Personality

Theodore Levit pointed out that a product is not a mere inanimate physical thing. Each product is a combination of tangible plus intangible. The core or the generic thing, **e.g.**, soap, toothpaste, tea, is not the product. The customer never buys the generic product only. To a buyer a product is a complex group of value satisfactions, the total package of expectations and benefits. The major components of the total product personality are five.

(1) The core or the basic elements and the associated features, (2) the brand name, (3) the package and the label, (4) guarantee and warranty, and (5) service after sale.

5.9 BRANDING

- **Meaning of Brand**

Brand Management holds the key in the modern markets. In a world where products are multiplying and becoming more and more similar, management of brands is critical for survival of the products as well as the companies making them.

The long-term brand management starts with the brand concept and name selection. Brand concept refers to the meaning of the brand, i.e., it defines the brand market boundaries. Brand name is like naming a new child. It basically serves to identify the offering. It also helps in establishing the concept. (COLGATE has never shown any compromise to its original concept — Colgate is one word for dental care).

The word "Brand" has its origin in the Norwegian work "Brand", which means to burn. In ancient times, farmers used to put burn marks as identification on livestock to distinguish their possessions.

If livestock were to be replaced by products in today's world, marketers are resorting to branding to distinguish their products from that of the competitors. Additionally, it also means an inherent assurance to the customers for quality.

Many consumer products, besides their basic features, need attractive packaging and, a "brand name." A brand is a symbol or a mark that helps a customer in instant recall, differentiating it thereby from the competing products of a similar nature. According to the American Marketing Association, "A brand name is a part of a brand consisting of a word, letter, group of words or letters to identify the goods or services of a seller or a group of sellers and to differentiate them from those of the competitors." David Ogilvy defined a brand as 'the consumer's idea of a product.' A brand distinguishes a product or service from similar offerings on the basis of unique features perceived by the consumers. The best examples of brand names are: LUX, LIRIL, REXONA, EVITA, PROTEX, HAMAM and LE SANSI in case of toilet soaps, SURF, ARIEL and NIRMA in case of detergents and NIVEA, FEM, OIL OF OLEY, CHARMIS and VASELINE in case of vanishing creams.

A brand mark is a symbol or a design used for the purpose of identification. For example, Air India's MAHARAJA.

The legal version of a brand mark is the 'trade mark', e.g., Ashok Masala and Good Health Atta.

The sole purpose of branding is to distinguish your branded product from those of competitors. The term 'brand' is broadly applied to all identifying marks such as trade names, trade marks, trade symbols, picture, design of the package, distinctive colouring or lettering with or without some attractive slogan. The owner of a registered brand personally stands behind the branded product and offers personal guarantee for maintaining the quality and standards of the product as per advertisement. The pronounceable part of the brand is the brand name. **Example:** Pepsi, Lifebuoy are brand names. The part of the brand that appears as symbol, design or distinctive lettering is brand mark or logo. It is recognisable by sight but is not normally pronounceable.

A brand is more than just a product. It is a contract between the customer and the creator. It embodies a meaning, gives direction, and defines unique identity. Brands are not merely symbols on a product or a graphic and cosmetic exercise. A brand is a signature on a constantly renewed, creative process. A product is what the company makes. A brand is what a customer buys-hopes/expectations/ service. The word 'brand' is a comprehensive term. To brand is to name or mark indeliably as proof of ownership. It means a sign or symbol of quality. It is the best means of advertising and positioning (unique selling point) in the market. Branding is the best means to capture and retain the consumer demand in a competitive market.

Branding is the practice of giving a specified name to a product or group of products from one seller. The specified name creates individuality in the product, hence, it can be easily distinguished or recognised in the market from the rival products.

Trade mark is a legal term. It is a brand duly registered under the Trade Names and Trade Marks Act. It is a brand enjoying legal protection. A registered brand is the exclusive property of the seller. Others cannot use it and legal action can be taken if they adopt it. The letter "R" in a circle on each package will **indicate** that the brand is duly registered® and cannot be used by any other producer.

- **Importance of Branding**

1. The marketer can build up a bright image of his organisation around the brand. It enables national advertisement of a specific product and it is pre-sold through advertising.

2. Branded product can be easily recognised by the customer in the retail shop. It offers protection to the consumer as it identifies the firm behind the product.

3. Branding enables the firm to have control over the market. Repeat sales are stimulated and product substitution is not possible. It creates an exclusive market for the product.

4. When brands are successfully and effectively promoted, the very existence of the middleman depends upon a continued supply of each brand.

5. Branding by differentiating a product from its rivals enables the brand-owner to establish his own price which cannot be easily compared with prices for competing goods. Branding also reduces price flexibility. Price rigidity, however, may not be socially desirable. Of course, price competition is never completely eliminated.

6. If a firm has one or more lines of branded goods, it can add a new item to its list easily and the new item can enjoy all the advantages of branding immediately.

- **Reasons for Branding**

1. In the days gone by, when the demand was greater than the supply, branding was not necessary. Earlier, people wanted a product, and, because not enough of it was available, they bought it. Now, when the

supply is more than the demand, companies not only need to create customers, but also keep them; and to keep customers, one needs to create customer loyalty.

2. To create customer loyalty, one needs to project a personality of a brand to which the customer will be loyal. This personality is what is called a 'brand.'

3. Ever-increasing competition and the need for differentiating the product.

4. Importance of packaging as a distinct marketing function. Branding and packaging go hand-in-hand.

5. Need for advertising and publicity. Branding alone enables advertising.

6. Development of consumer brand-consciousness and brand image in the mind of the customer.

7. Branding gives separate identity and easy recognition to the product and creates special consumer preference. The consumer enters the shop to demand and insist upon specific brand of the product. The dealer is merely a distributing agency of the branded product.

8. Branding constitutes the basis for successful activity of demand-creation. Brands such as Vim, Pears, Lifebuoy, Sunlight, Lux, and Colgate have such a great pulling power that the retail shops draw customer to their stores on the strength of these brands in India.

9. Right kind of brand advertising and personal selling provide ample information to the consumer about the branded products.

10. Branded goods have uniform and standardised quality as the owner of the registered brand is personally responsible to maintain the quality. There is no need of personal inspection and no danger of adulteration.

11. Rapid sales turnover assures fresher product due to frequent replacement of stock with the retailer.

12. There is considerable saving in time in the selection of goods and also in the making up of orders. The consumer demands the product by

quoting the special brand name, **e.g.,** Arrow shirts, Brooke Bond Tea. Retailer is saved from the botheration of separate weighing, measuring, packing, etc. He merely displays the brands and takes money acting only as a distributing agent.

- **Essentials of Good Brand**

Brand name selection is a very critical issue for new products, more so for global brands. Right brand name gets you through more than one-fourth work required for management of a successful brand.

1. A brand should suggest something about a product's benefits — its use, quality, product's nature, purpose, performance or action, **e.g.,** Frigidaire, Lijjat Papad, Tiger locks, Vico Vajradanti, Snowcem.

2. The name should be short, simple, easy to pronounce, spell and remember, easy to identify and explain. It should lend itself to visual interpretation.

3. It should be capable of being registered and protected legally under the legislation.

4. It should have a stable life and be unaffected by time. It should not depend upon fashions and styles as they have a short life.

5. It should create pleasant associations.

6. It should not be used as a general or common name for all products. Examples of brand names which have become general names are linoleum, aspirin, cellophane, kerosene, bandaid, nylon, dalda, kodak, eveready. These were originally brand names but now they have become public names for the products.

7. It should be unique, attractive and distinctive, **e.g.,** Sunlight, Glowhite, Quink, Tinopal, Maggie, Boost, Gold Flake, etc.

- **Types of Brands**

1. **Individual Brand Name:** Each product has a special and unique brand name, such as Ranipal, Surf, Chelpark ink, Ovaltine, Aspro, etc. The manufacturer has to promote each individual brand in the market separately. This creates a practical difficulty in promotion. Otherwise, it is the best marketing strategy (art or tactics).

2. **Family Brand Name:** Family name is limited to one line of a product, i.e., products which complete the sales cycles, **e.g.,** 'Mohuns' for breakfast foods, 'Amul' for milk products, 'Mapro' for fruit squashes and syrups, 'Erasmic' for toiletry. 'Lakme' or 'Ponds' for cosmetics, etc. Family brand name can help combined advertising and sales promotion. However, if one member of the family brand is rejected by consumers, the prestige of all other products under the family brand may be adversely affected. The manufacturers have to take extraordinary care to guard against this danger. This method of branding assumes that end-uses of all products under a family brand are similar and the products are not dissimilar. If 'Kissan' food manufacturers manufacture tractors or agricultural machinery, they should not use the same 'Kissan' brand name for these goods. Similarly, products exclusively for men and those specially for women should not be sold under the same family brand name, as these two classes of customers who demand them are different. Family brand name enables creation of strong shelf-display. It helps to secure quick popularity. It is preferable to separate brands for each product.

3. **Umbrella Brand:** We may have for all products the name of the company or the manufacturer. All products such as chemicals, textiles, engineering goods, etc., manufactured by the Tata Concerns will have the "Tata's" as one umbrella brand. Such a device will also obtain low promotion cost and minimise marketing effort. The pulling effect for all products will be considerable when the company's name or the name of the business house is outstanding and shining in the market. However, a single bad experience in any one of the line of products, a solitary failure, may be very dangerous to the rest of the products sold by a particular business house under the umbrella brand.

4. **Combination Device:** Tata house is using a combination device. Each product has an individual name but it also has the umbrella brand to

indicate the business house producing the product, **e.g.,** Tata Indica. Under this method, side by side with the product image, we have the image of the organisation also. Many companies use this device profitably.

5. **Private or Middleman's Brands:** Branding can be done by manufacturers or distributors such as wholesalers, large retailers. In India this practice is popular in the woollen, hosiery, sport goods, and such other industries. It helps small manufacturers who have to rely on the middleman for marketing. It is also used by big manufacturers. The manufacturer merely produces goods as per specifications and requirements of distributors and he need not worry about marketing. Middlemen enjoy more freedom in pricing products sold under their own brands. They have more control over distribution. Manufacturers make both national and private or middleman brands. Brand label points out either the name of the manufacturer or the name of the distributor but not both. Consumer rarely knows who is the manufacturer of the private or dealer's brand..

5.10 BRANDING AND MARKETING PROGRAMME

A product strategy ignoring the problem of product identification and differentiation through branding omits a most important element in the marketing mix. Branding is a powerful instrument of advertising and sales promotion in order to secure consumer loyalty toward the brand. The reasons for granting unique importance to branding in the marketing programme are given below.

1. **Product Differentiation:** Product differentiation by branding enables manufacturer to establish his own price and eliminate price competition to some extent. A branded product enjoys a separate individuality.

2. **Brand Image** is a mental picture of the product in the mind of the consumers. Consumers make their buying decisions on the basis of the images they form of the different brands offered to them. When a consumer says that the product is good, he means that he has a good image of the product. The seller can build up a bright image of his product around the brand. A brand image is built up through the years by the quality of product produced, services offered, and the company's reputation, policies and marketing efforts. It is very difficult to estimate

a brand image. **Example:** The brand "Godrej" is valued at Rs. 13,000 crores (2010)

3. **Brand personality:** Marketers try to personify the brand as if they are persons, so that the target consumers may associate the product with such a personality: **Example:** Brand personality of Lux soap is that of an urban woman (Age: 17-24 years), upper middle class with college education and concern for beauty.

4. **Creation of Market:** Ever-increasing competition leads to branding of product by a manufacturer to face competition and create exclusive market for the product.

5. **Advertisement and Publicity:** Branding helps advertising, display and sales promotion. Branding and packaging go hand in hand. Package itself can act as a medium of advertisement. Brand names make word-of-mouth advertisement very effective.

6. **Brand Preference:** Branding not only gives separate identity and easy recognition to the product but it also creates special brand preference and brand loyalty. Branding is a powerful instrument of demand creation and demand retention. Popular brands such as Lux, Liril, Vim, Colgate, Sunlight have very great pulling power in the market. Brand preference indicates that the customer regards the brand favourably but will accept a substitute if the said brand is not available in the shop.

7. **Brand Patronage:** Development of loyal customers, acting as talking advertisements and repeat buyers, is the greatest reason in favour of branding. Such customers will always insist on buying their favourite brand. In a competitive market, a clear message of service and appreciation, responsiveness to your customers, and value in the brand name produces consumer loyalty to your brand.

8. **Brand Loyalty:** A satisfied customer continues to use the brand, even when competing products are available in the market. Satisfaction of customers leads to brand loyalty.

9. **Brand Associations:** Customers value certain brands based on the associations linked or to it. **Examples:** Ganga soap with holy river Ganga, Hero Honda with fuel efficiency.

10.Brand Equity:

I. Brand equity is based on brand loyalty, brand awareness, quality of the brand and brand associations. Therefore, brand equity is the intrinsic value or worth of the brand in terms of the kind of money a consumer is willing to pay for it, in prefernce to its rivals.

II. For a company, brands are valuable assets. **Example:** Brands like Colgate, Coke, Lifebuoy, Horlicks have high brand equity.

III. Benefits of Brand equity are (a) trade support, (b) loyal customers, (c) Premium price.

There are three ways to get brand equity. (a) build it, (b) borrow it, (c) buy it i.e., acquire the company and its brand.

Examples: (1) Dabur India acquired Balsara products for Rs. 143 crores in 2005. Balsara products turnover for the year 2004 was Rs. 200 crores. The benefits to Dabur are (a) Addition of household care products — Odomos, Odonil, Sanifresh, and Odopic (total sales Rs. 80 crores (b) Balsara's distribution strength in South and West (c) Strong position in oral crore segments with additional brands, Promise, Babool and Mesvak (total sales Rs. 100 crores). (2) Coca- cola paid Rs. 180 crores for Parle's soft drink brands (3) Colgate paid Rs. 130 crores for acquiring Ciba-Geigy range of toothpaste and brushes. (4) Dabur acquired “30 Plus”, an over the counter energiser for Rs. 50 crores from Ajanta Pharmaceuticals in 2011.

11.**Expanding the Product-Mix:** Many successful multiproduct firms today began with a single product whose success created an umbrella under which additional products could be launched with less risk. Customers remember the familiar and the successful. After winning the battle of customer recognition they have simply to win market acceptance for their new offerings. All products in their product- mix are sold under one blanket or family brand. A new product associated with respected brand is willingly received by consumers and dealers.

5.11 BRAND STRATEGY AND POLICY

Branding Strategy indicates how the firm chooses to use branding as an integral part of its overall marketing strategy. In a sense, branding is simply another dimension of marketing strategy. To the consumer, a brand name is a means of identification of the product as well as means of differentiation of the branded product from its rivals.

The brand name is the centre around which the entire marketing mix is built up. It gives necessary advertising and promotional support in order to make the product recognisable and to create consumer patronage. The brand manager has to take various kinds of decisions while managing a brand and the details are given below:

1. Brand Positioning

Marketers can position their brands clearly in target customers' minds at three levels.

i. Positioning based on product attributes is the lowest level **(e.g.:** face cream – cleansing).

ii. A better positioning is by using the brand name with a desirable benefit to the customer. (**e.g:** face cream – Ponds – softer skin, glowing skin).

iii. Strongest brands are positioned on strong beliefs and values. (**e.g.:** face cream – makes you more attractive).

Example: Clearasil, Halo shampoo.

While positioning a brand, the marketing people have to establish a mission for the brand and a vision of what the brand must be and will do. A brand is a company's promise to deliver a specified package of features, benefits, services, and experiences to the customers.

2. Brand Name Selection

Selection of a brand name starts with a careful analysis of the product and its benefits, the target market, and proposed marketing strategies. A good brand name, after all, will add greatly to a product's success.

The following are the desirable qualities for a brand name:

a. The name should be suggestive of the product's benefits and qualities.

   E.g.: Fair & Lovely, V-guard, Whirlpool

b. It should be easy to pronounce, recognise and remember.

   E.g.: Ariel, Surf, Nokia, Pepsi

c. The brand name should be distinctive.

   E.g.: Kodak, Oracle, Canon

d. It should be extendable.

   E.g.: Amazon.com online bookseller expanded into other categories.

e. The brand name should translate into foreign languages easily, and should not have different meanings in different languages.

f. The name should be capable of registration and legal protection. For this, the name should be original and not copy of other product names.

After the selection is over, the brand name has to be legally protected to prevent competitors using the name. Occasionally, however, some protected brand names become very successful and become generic names used by all. **E.g.:** Xerox, Cellophane, Linoleum, Vaseline.

When the number of product-lines and the variety of products increase, the job of selecting a brand name becomes difficult and complicated. Some alternatives available are:

- **Brand Logo Selection**

Most companies use a logo along with the brand name, for visual identification. A logo is a pictorial symbol intended to communicate with the consumers. Logo improves recognition of the product by customers. It is an accompaniment to the brand name and the two together identify a company's product. Logos can be made of anything — words, letters, pictures, or graphics.

Examples of popular logos:

1. Air India – Maharaja
2. Ceat Tyres – Rhino
3. Amul Butter – Girl
4. Asian Paints – Gattu the boy

3. Brand Sponsorship

There are four major types of brand sponsorship options.

a. The product could be launched as a manufacturer's brand.

   E.g.: Philips, IBM, Bajaj, Amul.

b. The manufacturers may sell the product to resellers who give it a private brand name which is also known as store brand or distributor brand. **E.g.:** FabMall, Nilgiri's.

c. Some manufacturers market licensed brands. Sellers of children's products use many licensed names. E.g. Batman, Bugs Bunny, Mickey Mouse, Donald Duck. Coca-Cola has many licencees all over the world.

d. Sometimes two companies join together and use co-branding with two established brand names. **E.g.,** ICICI Bank – Kingfisher, Idea – HDFC Bank.

4. Brand Development

Development of brands can involve four different strategies. They are:

a. **Brand Extensions:** Brand extension means extending an established and successful brand name to more products, which may or may not be related to the core brand. This is a powerful tool in brand development and management. It helps the new products to acquire instant brand recognition, and faster acceptance. It enables the company to enter new product categories more easily. Brand extension costs much less than launching a new brand. **Example:** Maggie noodles, Maggie ketchup, Maggie soup, etc. Barbie Doll – Barbie books, Barbie cosmetics, Barbie furnishings. Lifebuoy Plus, Lifebuoy Gold, Lifebuoy Liquid (each positioned at different segments). Amul milk powder – Amul ghee, Amul butter, Amul cheese, Amul cheese spread, Amul ice cream, Amul chocolates.

b. **Line Extensions:** Line extensions involve introduction of additional items in a given product category under the same brand name, such as new flavours, forms, colours, ingredients, package sizes, etc. Majority of new product launches by companies are line extensions. **Examples:** HLL's Surf, Surf Ultra, Surf Excel, International Surf Excel. Colgate line extension includes Colgate Gel, Colgate Herbal, Colgate Calciguard, and Colgate Total. Line extensions are low-cost and low-risk ways of launching a new product. But over extended brands often cause confusion to consumers. Also, if marketers are not cautious, sales of an extension may cut into the sales of other items in the line, which is called 'cannibalism'. Cannibal is someone who eats human flesh; or an animal that eats others of its own kind. Similarly, one product or brand of a company could eat into the market share of one or more products or brands of the same company. To work best, the line extension should take away the sales from competitors' brands.

c. **Product Flanking:** Product flanking refers to the introduction of different combinations of products at different prices, and package sizes to tap market opportunities. The idea behind this concept is to flank the core product by offering different variations of size and price so that the consumer finds some brand to choose from. The core product is flanked on both sides by bigger or smaller packs/

costly or cheaper products. **Examples:** BRU instant coffee – original pack size was 200 gms. Flanked by 1 kg, 500 gms on one side and 100 gms, 50 gms on the other side.

Clinic shampoo – original 200 ml pack flanked by 400 ml pack on one side and 100 ml, 50 ml, and 10 ml sachets on the other side.

Another alternative is to develop a **flanker brand** — a new brand of a company in a product category in which it currently has a brand offering. Procter & Gamble's primary detergent powder in India was Ariel. Later, it developed a flanker brand named Tide. This is done to appeal to target segments not reached by Ariel because of its high price. Similarly, HUL had Surf and introduced Wheel as a flanker brand.

d. **Multibrands:** Sometimes companies launch additional brands in the same category. Multibranding facilitates product differentiation, i.e., to establish different features, attributes and appeal to different buying motives. It also helps to lock up shelf-space in retail points. **Examples:** HLL's soaps – Dove, Lux, Pears, Liril, Hamam. HLL's toothpastes – Close-up, Pepsodent

e. **Newbrands:** A new brand name is created by a company when it enters a new product category for which the present brand name is found not suitable. The company may also feel that the power of its existing brand name is waning and a new brand name is needed. **Example:** Honda created the Lexus brand for its luxury car to differentiate from the established line. Titan watches created a new brand name, 'Fast Track' for the watch aimed at teenagers.

5. Brand Rejuvenation

Brand rejuvenation is the act of adding value to an existing brand by improving product attributes and enhancing its overall appeal. The aim is to re-focus consumers' attention on an existing brand. This is resorted to especially when the brand tends to show declining symptoms on its product life-cycle. Brands are re-launched in new shapes, new packing sizes, new containers, new colours, as extra strong, as fresh, etc. Advertising appeals claim that the rejuvenated brand is 'new', 'super', 'special', 'extra strong', etc. The process is just an updation of existing brands. **Example:** HLL's Surf became Surf Excel, Surf Ultra.

6. Brand Relaunch

Occasionally, some brands do not succeed in the market. Some brands reach declining stage after an initial success. Companies try to give the brand one more trial with some modified attributes or features and aggressive promotional campaigns. This process is called brand re-launch. **Example:** Santoor soap of Wipro failed in the market initially. New Santoor was launched, ably supported by a new promotional campaign. The relaunch was successful and New Santoor became an important brand in the premium soaps segment. Close-up toothpaste is another example of re-launch success.

Sometimes re-launch is done for products in declining stage by re-positioning. The best example is Cadbury's chocolates. Changing from the traditional 'sweet for children' position, Cadbury's is now positioned as a product meant for celebrations (Pappu pass ho gaya – ad on TV) and also as a snack-food meant for teenagers and adults.

- **Managing Brands**

Companies must carefully manage their brands. First, the brand's positioning must be constantly communicated to consumers. Major marketers often spend huge amounts on advertising to create brand awareness and to build brand preference and brand loyalty. Expensive advertising campaigns can help to create name recognition, brand knowledge, and even some brand preference. The fact remains that brands are not maintained by advertising but by the brand experience. Today, customers come to know about a brand through a wide range of contacts and touch points. These include not only advertising, but also personal experience with the brand, word-of-mouth, telephone interactions, company web pages, etc. Any of these experiences can have a positive or negative impact on brand perceptions and feelings.

- Disadvantages of Branding

  i) Consumers while buying pre-packed branded goods use the following guidelines to measure quality in relation to price: (a) tips from friend, (b) advertising, (c) slogans, (d) brands and trade marks, (e) labels, and (f) comments from salesman. Generally, price is used as a measure of quality. There is a firm belief in the minds of many consumers that high price is an indication of quality. The sellers fully capitalise this consumer belief.

ii) Lack of confidence and lack of precise knowledge compel consumers to rely heavily on the familiar, heavily advertised, and generally high-priced branded goods.

iii) Repetitive advertisement tells consumers that advertised brands assure high quality, but consumers are rarely given facts and figures or factual evidence to prove higher quality. Price is no reliable indication of quality.

iv) Comparative testing conducted by consumer organisations has led to the conclusion that there is no dependable correlation among brand, price and quality.

v) Though the goods sold under the manufacturer's brand and dealer's brand are produced by one producer in the same factory, the price spread between these two brands is quite appreciable. Manufacturer's brand is a national brand and it is heavily advertised, hence, sold at a higher price.

vi) Branding process may be against public interest. It needs attractive packaging, heavy advertising and promotional expenditure. These raise the retail prices of branded goods even by 20 per cent to 25 per cent.

vii) When goods are sold under a brand name, they appear to be different from each other even though basically they may not be really different. For example, detergents are sold at least under 10 to 15 brands. We are deceived into believing that each brand is unique from the other. Such a practice is wasteful. Consumers get similar experience in different brands of same product.

viii) In Western countries due to numerous brands for similar products, at present, brand names are not dependable guides as to quality and performance and there is no close relationship between brand, quality, and price. To that extent, consumers cannot totally rely on branding as a sure guide of quality.

ix) The variety and complexity of products create a practical difficulty for average consumer in choosing a product to satisfy his wants. Thus, consumer has become dependent on branding.

x) The manufacturers have taken full advantage of this dependency by spending crores of rupees on advertising to keep their brand names constantly before the consumer. Consumers buy Brand X because the advertisements tell them constantly to buy Brand X only and not any other brand.

- **Brand Future in India**

The brand is a proprietary name which has three important legs:

(1) Brand equity which is the intrinsic value or worth of the brand, in terms of the kind of money a consumer is willing to pay for it in preference to its rivals. (2) Brand image/values in the consumer's mind-set, which are beneficial to the purchase of the brand. (3) Brand franchise, which measures the on-going relationship between the brand and its consumers in terms of actual purchase. It is important to nurture, develop, care for, and strengthen these three aspects of the brand on an on-going basis if the brand is to last several lifetimes.

The ever-increasing number of consumers, who are making India and many other developing countries the faster-growing markets, want brands, not anonymous products. The branding phenomenon has taken the Indian market by storm. Many non-branded products like water, salt, essentials like pulses, rice, wheat flour have begun taking the branding route and have joined the "brandwagon". **Examples:** Tata Salt, Ashirwad Atta, Bisleri, etc.

Indian consumers are living in an age of brands. In 1980, there were hardly 10 to 12 brands of bathing soaps. Today, we have over 50 brands. Brand has become a vital tool and the most important element of the total product personality. Launching a brand name in India today costs about Rs. 15 crores or more.

5.12 PACKAGING

- **Packaging**

Once the decision is taken on the brand, we have to consider the design and the make-up of the package and the labelling of the package. In reality it is not the product which is displayed and sold but it is the brand together with the package and the label, which are sold or which enable to sell the product. In a sense, your brand, package and label represent the product personality. Branding, packaging, labelling, the product warranty, and service after sale are the product related strategies and they are responsible to make the marketing programme effective. They also are the best means of promotion. They project the product in the most favourable way. Package is critically important to the buyer's recognition of the product. Aesthetically pleasing package can secure higher sales and profit.

Packaging may be defined as formulating a design of the package and producing an appropriate and attractive container or wrapper for a product. The container itself can act a forceful though silent and powerful salesman at the point of purchase or an effective medium of advertisement encouraging impulse buying. Many a time, package design itself can act as a registered brand. Packing is necessary to prevent flowing out of such liquids as milk, drinks, etc. It is essential to maintain freshness and quality, e.g., ghee, sauce, etc. It can prevent the danger of adulteration, e.g., butter, cheese, spices, edible oil, etc.

However, packaging is much more than mere packing. Packaging is a marketing necessity. The public does not want just the product. They want explanation, assurance, encouragement, confidence, and praise, i.e., pat-on-the-back, all integrated or combined with a pleasant and eye-catching get-up appearance on the top to gain action, i.e., close the sale. Thus, a good package ensures ultimate success of the product as a commercial venture. Under keen competition, the consumer needs an effective means to recognise a difference and establish preference that will ensure repeated repurchases. Packaging does this job in a competitive market. That is why crores of rupees are spent on packaging and branding. Such huge expenditure is made for the simple reason that packaging and branding alone can sell your products. Packaging completes the sales cycle triggered by advertising, and secures a meaningful market share.

In the present age of consumer-oriented marketing approach (i.e., Buyers' Market), packaging has gained unique importance. The utility reasons for packaging viz., protection, identification and convenience are themselves exploited in selling and some features of the package may serve as a sales appeal, e.g., reusable jar. Message on the label is a constant reminder to the user of the product. Packaging decorates and beautifies the product so as to lead the consumer impulsive buying. In modern self-service stores, with mass display, well-designed packages attract attention, and through silent sales talk, increase the sales volume. Packaging itself is a device of sales promotion. A customer will pay more just to get the special package — even though the increase in price exceeds the additional cost of the package, e.g., Supreme Lux Soap sold in an attractive re-usable box.

- **Functions of Packaging**

From the marketer's point of view: (1) Packaging is a sales tool, (2) It identifies the maker as well as the product and carries the brand name, (3) The packaging label informs the buyer about inner contents and how to use them, (4) It is the biggest advertising and promotion tool.

Attributes of a Good Package: A package should: (1) protect the contents from breakage or spoilage (2) be easy to open, dispense from, and close, (3) be safe to use, (4) keep the product from deterioting, (5) be of proper size and shape, (6) be reusable, able to be recycled or be biodegradable, (7) be economical, (8) be available in the sizes appropriate to the market segments served. These are the attributes of a package as a part of the product. However, package also serves a medium of communication. In this capacity, the good package will: (1) be attractive, (2) project a favourable image of the product, (3) play the role of silent salesman, (4) be readily identifiable in a shopping situation, (5) act as a unique selling proposition, (6) have a clearly readable description of the contents, (7) Offer information on assembly, preparation and use, (8) communicate the benefits of the product to the targeted market segment, and not be deceptive or misleading in size, contents, etc.

- **Package Design**

Modern package acts as a multi-purpose arrangement. It must fulfil utility functions such as protection, identification and convenience, when it serves as a container or wrapper of a product. In addition, it is also called upon to play the role of a colourful salesman. Self- service and self-selection have developed and are gaining importance in retail trade. Customers are always in a hurry. The package must have informative labelling. The headlines, illustrations, guidelines and selling points on the package must be clear and prominent so that the matter is readable by every shopper at a glance. Pictures should help to tell the story faster and more effectively. Visibility of the product in the package helps to sell the product better. Hence, glass, cellophane and plastic packages have become very popular.

Truth-in-packaging is absolutely necessary while designing the package. Package label should not misrepresent the realities to make a sale. Information given on the label should be attractive but not bogus or imaginary. Tell the truth more attractively. Then only we shall have fair trade practices regarding packaging and labelling. The deceptions in packaging must be eliminated either through self- regulation or, if necessary, through legislation. Consumerism insists on truth in packaging.

- **Innovative Packaging (Value-added Package)**

With product competition getting to be increasingly difficult in the market-place, marketers are now turning to innovative packaging to establish the distinctive edge. There is now a thin dividing line between value-added package and promotions for a marketer. There has been a spate of packaging innovations that go beyond mere shelf visibility (for impulse purchase) and excitement. Marketers are co-ordinating innovative packaging with brand equity and brand loyalty. Packaging innovations based on consumer needs can help in retaining loyalty to the brand. The Pouch innovation of a neat plastic bag with a zipper lock that could be carried in the pocket, containing five strips of Band-Aid of Johnson is a fine example of a shift in packaging thinking to satisfy a consumer need.

Modern package provides more value addition to products and more benefits during usage. Harpic liquid toilet cleaner with its directing nozzle. Catch 22, salt and pepper in self-contained dispensers saving the consumer the bother of transferring the products into shakers, Bournvita’s 200 gm. reusable mug-cum jar pack, Cadbury’s drinking chocolate in a shaker pack, its cocoa in a special measuring cup are examples of innovative packaging capable of becoming a very effective tool of sales promotion gaining competitive advantage for the brand. In many cases, such packaging can turn out to be a promotional campaign in itself to gain quick short-term market share, to boost sales and retain brand loyalty. The Hindustan Lever's Le Sancy soap with its unique bean shape was sold in transparent plastic soap box moulded to the same colour, shape and appearance (package identical with the soap). Within a few months of launching this package, the marketer won 20 per cent market share in the most premium soap markets. It seems we are coming to a time when packaging itself will be treated as a product worked upon with the same care that goes into developing a consumer product.

- **Revolutionising the Packaging System**

The various types of plastics have not only helped conserve or utilise the depleted natural resources but also revolutionised the concept of packaging. Plastics have proved to be much better substitutes to wood, cotton, metal, cardboard, paper, glass and so on, but not eco-friendly.

The new rigid PVC now manufactured by modern, computerised, and automatic process both in the normal and non-toxic grade with printability and metallising property is going to revolutionise the packaging systems for medical and food sectors and for consumer and industrial usage by thermoforming and twist-wrapping process. In the Food Processing Industry the new plastic package offers strength, protection, presentation and consumer appeal. The recycling process of plastics right from collection of the garbage to segregation and conversion in prime form for reprocess and reuse has solved the problem of pollution. In India, rag pickers contribute enormously to the estimated 40 per cent of plastic which is recycled. The 're-use' culture is more prevalent in India, where plastic containers are re- used several times before they are discarded.

- **Social View of Packaging**

Significance of societal view of packaging is summarised below:

1. Pollution control is a burning issue in packaging particularly in Western countries. Broken bottles, crushed cartons, and bent cans litter the streets and choke municipal dumps. This has created the solid-waste

problem in those countries. All packaging programmes must weigh environmental and ecological issues.

2. Resource scarcity is another problem. The same precious natural resources that are being wasted on non-returnable (disposable) containers, e.g., soft drink bottles and beer bottles, later create litter and pollution problems. Such a consumption pattern cannot be tolerated now.

3. Among the resources which are being wasted, energy sources are the most critical at present. Throw-away bottles use three times the energy of returnable bottles. The efficient, energy- saving, returnable bottles must be introduced.

4. Nutrition labelling, open-dating (how fresh is the product), unit pricing, and grade labelling are the latest demands of consumers on all food products.

- **Consumer Problems with Packaging**

1. Unless the package is transparent, the buyer cannot judge the contents by appearance. If quality information on the package label is absent, the buyer has to purchase almost blindly.

2. If the consumer wants a specific quantity, he may not have that amount when goods are sold in packages.

3. There is no feasible way to check weight and volume of the contents unless a buyer opens the package to ascertain the weight. Prepackaged shortages amount to about 20 per cent.

4. Package sizes and designs inflate the contents. 'One Rupee off' labels proclaim price reduction which may not be real.

5. Deceptive packages have several room-mates in trade practices. They are hidden declaration of contents, fine print, glorified illustrations, unexplainable fractions. **Example:** Sunlight soap - 128 gr. – Rs. 15.00 (2011) Consumers think that they are getting more when, in fact, they may be getting less due to the cunning package design.

6. Packages are same, contents are reduced and apparently same prices are charged. This method is popular in a period of rising prices.

7. Packages may create health hazards for consumers. Certain plastic food-packaging has been shown to cause cancer (vinyl chloride inhaled by humans). Packages stored in godowns are susceptible to infection (rodents and insects nesting in packages).

- **The Total Product Image**

Image means a mental picture drawn by a fancy. A product image is the sum total of: (a) inner value of the product, (b) its ability to perform and give service and safety to user, (c) packaging, (d) branding, (e) labelling, (f) product warranty, and (g) product services. The product image also indicates the goodwill of the product and its producer.

5.13 LABELLING

Packaging, branding and labelling go together and constitute an integral part of product planning and development. Label is a part of a product. It gives verbal information about the product and the seller. The purpose of labelling, like the purpose of branding, is to give the consumer information about the product he is buying and what it will and will not do for him. A label is also a part of a package or it may be attached directly to the product. There is a very close relationship between labelling and packaging as well as labelling and branding or grading.

Labelling is the act of attaching or tagging labels. Label is anything — may be a piece of paper, priinted statement, imprinted metal, leather — which is either a part of a package or attached to it indicating contents, price names of product and produces and such useful information beneficial to the consumer. **Example:** labels on drugs and dangerous products contain factual information.

Labels are classified as: (a) brand, (b) grade, (c) descriptive, and (d) informative. Brand label mentions the brand name or mark. Grade label identifies the quality by a letter, number, or word, e.g., AAA, Fancy Grade, Grade No.1 and 2. Descriptive and informative labels are similar. They give helpful information on the following:

(a) Brand name, (b) Name and address of producer, (c) Weight, measure, count, (d) Ingredients by percentages where possible, (e) Directions for the proper use of the product, (f) Cautionary measures concerning the product and its use, (g) Special care of the product, if necessary, (h) Recipes on food products, (i) Nutritional guidelines, (j) Date of packing and date of expiry, (k) Retail price, and (l) Unit price for comparison.

Labelling, in general, is not a very reliable guide to quality or an assurance of uniformity. The printing of labels costs very little and the superlatives given on the label cost nothing. Hence, consumers should guard against deceptive labels.

Eco-labelling: 21st century has been considered as the century of environmental awareness in all countries. Consumers would now prefer products which are environment-friendly. Eco-label on a product is awarded on the basis of the product's environmental friendliness. Eco-label is at present voluntary. The European Community has issued guidelines on all important environmental effects throughout the product life-cycle, from production to disposal to the final consumer. Eco-labels are only granted for a limited period. The green marketing may be world-wide phenomenon in the 21st century. Many countries may have legislation to control environmental damages, particularly solid-waste disposal.

5.14 PRODUCT WARRANTY

- **Need for Product Warranty**

In modern life, we have numerous products with complicated, intricate and elaborate mechanism, such as radio, television, motor car, electrical appliances, etc. An average consumer does not know the ins and outs of such sophisticated products. He will be at a loss if he/she is compelled to take his/her own care while buying such products. The law has now started to alter the famous maxim "Let the Buyer Beware" and give due recognition to its substitute "Let the Seller Beware." In many countries the law takes into consideration the handicaps and disabilities encountered by average buyers while purchasing such highly mechanised or automated products. Consumerism also aims to make the buyer aware of rival products through consumer testing and survey work. Informative labelling and informative advertisement will also educate consumers in making wise selection while purchasing the products. The Sale of Goods Act has given legal protection in the form of implied conditions and warranties.

Condition is a stipulation essential to the main purpose of the contract. If it is broken, the victimised party, i.e., the buyer will have a right to repudiate the contract.

Warranty is a stipulation collateral to the main purpose of the contract. If it is broken, the victimised party, i.e., the buyer can claim for damages but has no right to reject the contract.

A warranty is an obligation of the producer and seller to stand behind the product and assure the buyer that he will derive certain services and satisfactions from the product. The product warranty must be clear, unambiguous and meaningful. It has become an important selling point and a means of product differentiation in a competitive market. Warranties are also considered as promotional devices. Full disclosure of warranty information will ensure the consumer's "right to know."

- **Warranty as Seller Aid**

1. A warranty is an assurance of the quality, service and performance. It is a written guarantee of the intrinsic value of a product. It points out the responsibility of the maker for repairs, service, and maintenance in the case of consumer durables. The producer should use the word 'warranty' instead of the word 'guarantee'.

2. The warranty is the outcome of the rule of a law viz., 'let the buyer beware." Producers developed warranties to create buyers' confidence and to provide redress to to aggrieved customers. Buyers could rely on the statements made by the seller. For example, a manufacturer may warrant that his product is 100 per cent wool or that the colour of the cloth will not fade. Such a warranty may be supported by money-back guarantee.

3. The value of warranties to consumers depends upon the reliability of the warrantor and the person who has specific responsibility of making good on the warranty. This is true because in practice and in law, the consumer has little recourse. However, courts have started awarding damages for an injury simply if the product is shown to be defective or

unfit for its intended use. There are four guidelines as instruments for meeting social responsibilities of marketing as well as for assuring a continuous customer interest: (1) warranty integrity, (2) education of consumer in the use of the product, (3) product quality control, and (4) service on demand.

4. Warranty must not be used to disclaim legal responsibility by a seller. He must live up to the provisions of warranty or guarantee. Tell the truth to customers as they understand through a warranty. Warranty must build up consumer confidence. False and deceptive warranties compel the consumer movement to demand for additional legislation. The core of any warranty programme ultimately lies in the quality of the maintenance and repair services that can be offered to customers.

If the four guidelines are followed by the manufacturers, repeat sales can be stimulated and Government may not be completed to enact additional consumer legislation. There are millions of appliances being used by consumers all over the world. They are complicated and need honest warranties from the manufacturers. Consumer satisfaction is the key to successful warranty programme. Customer satisfaction with product in use provides the clue as to the effectiveness of the warranty programme.

Implied warranties are promises of the maker that the product is of average saleable quality, will do what the product is normally expected to do, and will last a reasonable period of time. Express warranties are specific promises in writing made by the manufacturer or trader relating to quality, performance, condition or other features. Please note that, when one accepts an express warranty, one may have to give up the implied warranty as a condition of acceptance.

Manufacturer is expected not to give deceptive advertisement of warranties or guarantees as they will defeat the very purpose viz., warranty acting as seller aid. Manufacturer should not give fraudulent waranties and victimise innocent consumers particularly in the case of costly durable goods such as Television, Refrigerators, Motor Cars, Fans, Electrical Appliances, etc. False warranty is an unfair trade practice.

5.15 SERVICE FACILITIES

- **Product Plus Service**

Product + Service = competitive advantage. Today, when the customer has a whole array of products laid out before him, it will be the product plus that will lead him to make a choice of the right core product. No one in the organisation must ever be allowed to forget that the operation exists to serve the customers and not vice versa. For business to survive beyond the year 2000 A.D., Marketing Managers will have to create synergy among customer service and satisfaction, operational productivity and employees performance. This will apply to all public sector undertakings under liberalised economy. Under synergy we have 1+1 = 3 (not two).

'Product Plus' method is a sustainable marketing strategy offering long-term gains. Not only must companies excel at the physical aspects of production, they also need to be skilled providers of services. The core product that a marketer offers may be matched by his competitor, but where he can score is the key supplementary services.

- **After-Sales Service**

After-sales service is an important aspect of a marketing transaction. Every increase in the use of machinery, appliances and equipment in all branches of our economy has created a continuous demand for after-sales service, i.e., for the smooth maintenance and repairs at low charges as well as quick access to spare parts and accessories at reasonable prices.

- **Benefits of After-Sales Service**

1. It can build up and maintain seller's goodwill.

2. Mass distribution of costly consumer durables is possible only through after-sales service and consumer credit, e.g., instalment sale.

3. Complaints and grievances regarding servicing and maintenance will be promptly and efficiently dealt with by the seller. Customer satisfaction is the master-key to further sales and growth.

4. Sales campaign will achieve remarkable success if after- sales service is included in sales promotion.

5. Free service during the guarantee period is the best-selling- point in the sale of machinery and appliances. Many companies provide extensive service facilities in support of their marketing programmes. Lack of adequate service-after-sale in India is a real challenge to marketers from consumerism.

All manufacturers and dealers of costly mechanical and electrical machines and appliances must offer a very efficient after-sales service, i.e., free services during the warranty period and thereafter at fair charges. After-sales service covers repairs, spare parts maintenance. After-sales service is an important selling point helping the customer to take a quick decision to purchase durable and costly goods. Such facilities prevent dissatisfaction, frustration, and ill-will among customers.

Market research emphasises the importance of after-sales service in the marketing campaign of costly and durable goods such as typewriters, duplicators, all kinds of office appliances and machine, refrigerators, TV, radios, washing machines, domestic appliances and such other status-symbol goods. It is also necessary in the sale of machines and equipment. Many companies have service centres.

After-sales service has assumed considerable importance in developed countries having matured economies as, in such countries, there are mechanisation and automation in production and standard of living of masses is very high, and in such a push-button economy, use of mechanical and electrical appliances is very common. All countries having mass consumption of durable goods must have adequate and efficient after-sales service. Almost all industrial products need post-sales servicing. If the product has good after-sales service, the buyer can buy it immediately. After-sales service is much more important than price, style, beauty, get-up and many other factors influencing the prospect.

5.16 SUMMARY

- Product is the most tangible and important component of the marketing programme. Product decisions are central to all other marketing decisions such as price, promotion and distribution. Like human life-cycle, product moves through a life-cycle and it gives the sales revenue and profit margin history of a product over a time frame. Product life-cycle concept is used in formulating appropriate marketing strategy. Product market strategies include market penetration, product development, market segmentation, market development, and diversification. New products are required to face competition and maximise economic opportunities. However, new product development is time-consuming, laborious and expensive and many new products entering the market have short life- cycle and market failures occur. Product quality is one vital issue as it governs the ultimate fate of the entire marketing programme and success of the firm in the market place.

- A brand is a name, trade mark, symbol, picture, or design that helps a customer in instant recall, differentiating it thereby from the competing products of similar nature. A brand name should reflect directly or indirectly some aspects of the product like benefits and functions. Branding is the best means of advertising and regaining consumer demand in the market place. When goods are sold under brand name, they appear to be different from each other and this gives an added advantage to the marketer. The packaging, apart from protecting the contents, acts as a silent salesman at the point of purchase encouraging impulsive buying. Labelling provides valuable information to the consumer about the product. A warranty assures the buyer that he will derive certain services and satisfaction from the products. An efficient after sales service i.e. free service during the warranty period and thereafter at fair charges has become an important selling point and means of product differentiation in a competitive market. Quality product with appropriate brand name, package, label, warranty, and service after sale constitute the total product personality.

5.17 SELF ASSESSMENT QUESTIONS

1. What is a product? How the addition of money-back guarantee, service after sale and credit can improve a total product?

2. What are the selling points of a product? Comment on product-line and product-mix.

3. Discuss the stages in the product life-cycle. What is significance of product life-cycle in the marketing-mix and in product planning and development?

4. Describe the diffusion process in the adoption of an innovation.

5. Discuss the strategies relating to product planning and development.

6. Why new products fail? What are the critical forces influencing the management of products?

7. Describe the strategies followed by companies in managing product lines.

8. Explain how branding plays an important role in the formulation of marketing-mix and marketing strategy.

9. What are the marketing advantages of branding? How does branding facilitate the buyer behaviour?

10. Critically evaluate the role of branding and packaging in the marketing of products.

11. Celebrities like Shah Rukh Khan, Amitabh Bachchan, M.S. Dhoni, Sachin Tendulkar have been endorsing several related and unrelated products. **Example:** Amitabh Bachchan: Reid and Taylor Fabrics, Binani Cement, Navaratna oil. Do you agree with the advertising strategies followed by companies? Discuss.

12. In what way service after-sale can enhance product sale?

13. Discuss packaging from consumer-citizen viewpoints.

14. How can warranty and service after sale help marketing of a product?

15. Write short notes on the following: (a) Product innovation, (b) Product-Mix, (c) Classification of new products, (d) Product obsolescence, (e) Brand Equity, (f) Essentials of a good package, (g) Requisites of a good brand, (h) Labelling.

CASE STUDY

Paging Industry

For the first time, the quarterly report on the telecom sector brought out by the Telecom Regulatory Authority of India, has not recorded the status of the once-thriving paging industry. The six surviving paging operators have also stopped reporting the subscribers numbers to the telecom regulator and are now focussing on revenues from offering call-centre solutions.

"There is nothing to report anymore since the paging subscribers base is very miniscule. Among the six operators, there would be a subscriber base of less than one lakh and the numbers are dwindling day by day. We are losing at least Rs. 25-30 lakh a month on servicing the remaining few customers. India is the first country where paging industry is being wiped out," said Mr. Pravin Kumar, Managing Director, DSS Mobile, which owns the Mobilink brand.

At its peak, there were more than 7 lakh paging subscribers across the country growing at 30 per cent annually. However, the launch of short messaging service by cellular operators sounded the death knell for paging services.

Senior TRAI officials said that paging as a means of communication has lost its hold in the market. "The subscriber base has declined drastically over the last two years and operators do not seem interested in submitting the subscriber base any more. Therefore, the quarterly report did not have the status of the sector."

But operators blame the Government for letting the paging industry go sick. "The argument that technological development has phased out paging in the country is not correct. Paging thrives in more developed countries such as the US and China. It is unfortunate that the Indian Government has been blind to the problems faced by the industry," said a paging operator. Pagelink, Mobilink, RPG Paging and Modipage — paging companies that were once household names — are today running call centres. "The Government and the regulator have completely ignored the paging industry. They are busy doling out tens and thousands of crore rupees as compensation to cellular operators," said Mr. Deepak Malhotra, Chairman and Managing Director of Pagelink, owned by the Delhi-based Himachal Futuristic Communications Ltd. (HFCL) group. Paging operators have also gone to the Telecom Dispute Settlement Appellate Tribunal (TDSAT) seeking compensation. "W hen we signed the licence agreement with the Government, text messaging was the sole domain of the paging companies. Slowly, cellular companies started offering short messaging services, that too, without paying any licence fee. So, the Government should waive our licence fee also — or at least compensate us, from the revenues earned from SMS services," said a paging operator.

QUESTIONS

1. Discuss Product Life-Cycle with refer to "Pagers".

2. What are your recommendations for revival of Paging Industry?

CASE STUDY

Product "Branding" Strategy

- **Company**

The Union Oil Company is a diversified company in the petroleum industry and is engaged in all phases of oil-refining and marketing of oil-related products. It produces and refines crude oil; manufactures and sells refined petroleum products; and sells fuel oils for industrial customers. The refined products of the company include gasoline, naphtas, kerosene, light and heavy fuel oils, industrial oils and lubricants and other specialities. The company has five refineries and has extensive research and development capabilities to introduce new and improved products in the marketplace. The oil industry is intensely competitive. The competition is very keen in marketing and distribution of refined products to industrial and retail consumers. In spite of increased capacities of several competitors, Union Oil was still a major market participant with significant market share in industrial lubricants.

The leadership position of Union Oil was due to its unique technological capabilities developed through its R&D process. The industrial lubricants were blended from selected raw materials and processed using its proprietary blending process. The industrial lubricants had special chemical properties for use in various heavy industrial machinery. Union Oil sold all industrial lubricants under its own brand name. The containers were marked with a special identification number which enabled the company to trace the date and batch of manufacture of the lubricant. Samples from each batch were stored for several years. These samples enabled the company to track changes in the composition over the years and resolve complaints from clients. All customers were thoroughly satisfied with the quality of the lubricant and there were virtually no customer complaints on the performance of the lubricant. Because of Union Oil's strict adherence to the above procedures, it had 50 per cent market share in industrial lubricants.

The Marketing Manager at Union Oil was for two years trying to get a major consumer of a special lubricant to switch to Union Oil. NL Industries was the biggest diversified corporation with significant demand in its various subsidiaries. NL used lubricant from another major oil producer for years and was content with the existing supplier. NL, however, had a unique purchasing policy. Due to its heavy consumption of several raw materials, it bought from various manufacturers with its own name of containers and packages. The purchasing department defined the specifications and acquired supplies on a competitive basis. This permitted NL to buy its raw materials from several suppliers but, at the same time, not depending on any particular brand name. The Purchasing Manager was impressed with the quality of Union Oil's products and expressed willingness to obtain Union Oil's lubricant in order to diversify from the current single source. He explained to Union Oil that NL would buy the lubricant but not under Union's brand name. NL would supply their containers which would be identical to those used for obtaining lubricant from their competitors. He believed that this policy could not be changed under any circumstances.

Union Oil, on the other hand, could not sell lubricant other than under its own brand name. It indicated some willingness to change the policy if NL would allow special identification numbers to go on the containers that would distinguish Union Oil from their competitors. This would allow them to resolve problems if there were any complaints from NL subsidiaries. Union Oil could not allow any other compromises due to its insistence on quality. It appeared that NL would not bend its purchasing policies. Union Oil, on the other hand, stood to gain on increase of 10 per cent in its lubricant market share and possibly more in future years.

QUESTIONS

1. What should Union Oil do in this situation?

2. Should the blending process be altered to match competitors' composition and also match the price?

3. How important is it to increase market share and discourage competition in speciality products?

4. Should the strict "branding" policy be compromised in order to gain' market share?

5. It is said that branding is a device to accelerate sales through product individuality and quality assurance. It is not an end. The end is sale and customer satisfaction at a profit. Union Oil must distinguish between means and ends. What should be the branding strategy of the Union Oil?

REFERENCE MATERIAL

Click on the links below to view additional reference material for this chapter

Summary

PPT

MCQ

Video Lecture - Part 1

Video Lecture - Part 2

Video Lecture - Part 3

Chapter 6

PRICE

Objectives

After studying this Chapter, you should be able to:

- Understand the concept of price and its objectives and importance
- Study the factors influencing pricing decisions
- Understand the pricing strategies and policies
- Know the procedure for price determination

Structure:

6.1 Price
6.2 Factors Influencing Pricing Decisions
6.3 Pricing Strategies
6.4 Pricing Policies
6.5 Procedure for Price Determination
6.6 Summary
6.7 Self Assessment Questions

6.1 PRICE

- **Meaning of Price**

Price is the amount of money needed to acquire a product. It is the cost that has to be incurred by the buyer to acquire a product or service. Economist defines price as the exchange value of a product or service, always expressed in money. Price is the amount charged for the product or service including any warranties or guarantees, delivery, discounts, services or other items that are part of the conditions of sale and are not paid for separately. To the buyer price is a package of expectations and satisfactions. Thus, price must be equal to the total amount of benefits (physical, economic, social ecological and psychological benefits). However, to the seller, price is a source of revenue and a main determinant of profit.

Pricing is equivalent to the total product offering. This offering includes a brand name, a package, product benefits, service after sale, delivery, credit and so on. We can now define price as the money value of a product or service agreed upon in a market transaction. We have a kind of price equation, where: Money (Price) = Bundle of Expectations or Satisfactions. Included in the bundle of expectations may be physical product plus other attributes such as delivery, installation, credit, return privileges, after-sales servicing and so on.

- **Importance of Pricing**

Price is a matter of vital importance to both the seller and the buyer in the market place. In money economy, without prices there cannot be marketing. Price denotes the value of a product or service expressed in money. Only when a buyer and a seller agree on price, we can have exchange of goods and services leading to transfer of ownership.

In a competitive market economy, price is determined by free play of demand and supply. The price will move forward or backward with changing supply and demand conditions. The going market price acts as basis for fixing the sale price. Thus, price is the prime regulator of production, distribution, and consumption of goods. Pricing decisions influence the following marketing variables:

a. Sales volume,
b. Profit margins,
c. Rate of return on investment,
d. Trade margins,
e. Advertising and sales promotion,
f. Product image,
g. New product development.

Fig 6.1 highlights the importance of price in the Marketing Strategy of an organisation.

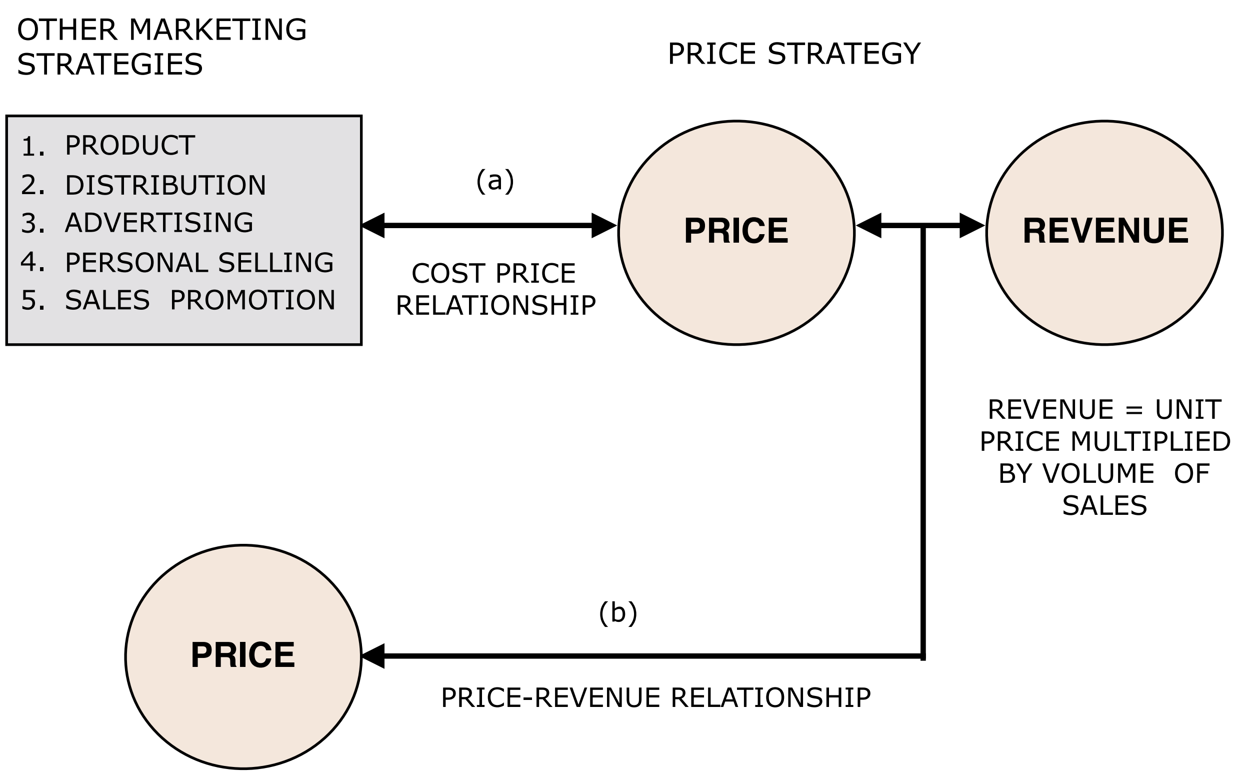


Fig. 6.1 Place of Price in the Marketing Strategy

1. All other elements (except price) in the marketing-mix are called non-price factors. They influence price and are also influenced by price. All elements are interdependent interacting factors.

2. We have two relationships: (a) Cost-Price relationship and (b) Price-Revenue relationship.

3. Price and other marketing-mix variables are complementary factors. They may be partial substitutes for each other.

4. Together, all elements in the marketing-mix collaborate to accomplish a common objective, viz., to produce sales and sales revenues.

5. All non-price factors of the marketing mix are cost factors involving expenditure — outflow of funds.

6. Price is the only marketing variable to determine revenues or income — inflow of funds. Revenues must be high and must exceed production costs as well as marketing costs. Thus, price has a unique role extending beyond the area of marketing policy.

7. A firm is an organisation producing economic utilities. Within the firm, price factor tries to achieve an equilibrium between revenues and costs. It aims at profitability. Hence, revenues must exceed total costs. Price also acts as a balancing force to maintain the balance between firms' own marketing-mix and that of rivals.

- **Typical Pricing Objectives**

A variety of objectives may guide pricing decision as shown in Fig. 6.2.

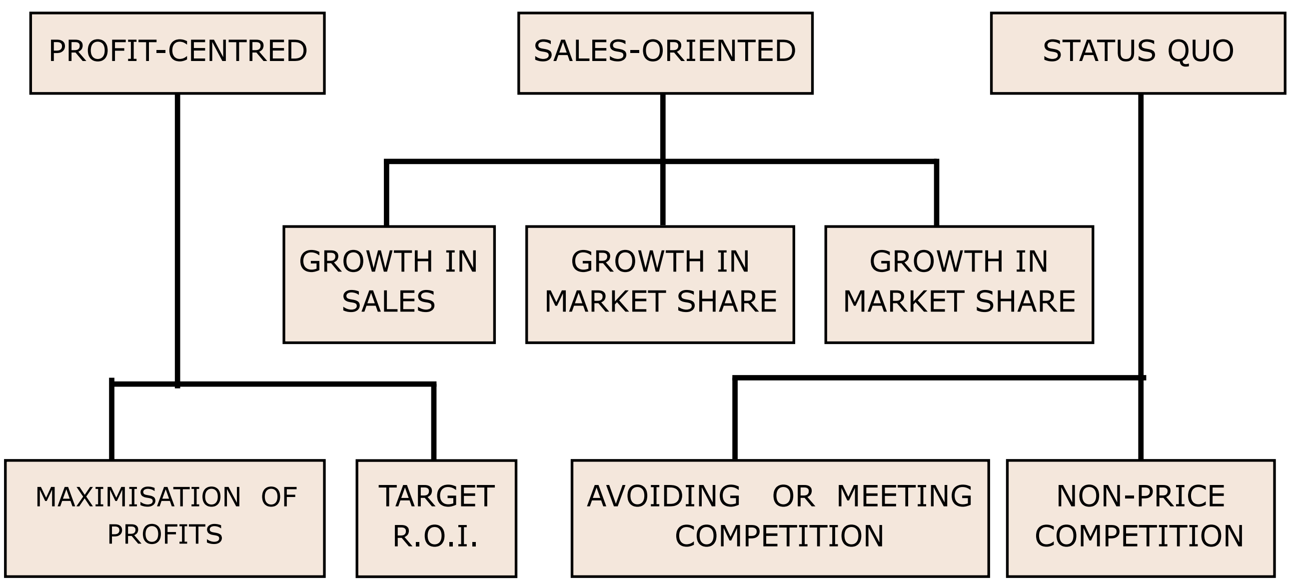


Fig. 6.2 Pricing Objectives

1. **Growth in Sales:** A low price can achieve the objective of increase in sales volume. A low price is not always necessary. Competitive price, if used wisely, can secure faster increase in sales than any other marketing weapon.

2. **Market Share:** Price is typically one of those factors that carry the heaviest responsibility for improving or maintaining market share — a sensitive indicator of customer and trade acceptance.

3. **Pre-determined Profit Level:** Return on Investment, say 20 to 25 per cent is a common decision in marketing. Pricing for profit is the most logical of all pricing objectives.

4. **Counter Competition:** Many firms follow a flexible pricing policy to counter competition. Prices are to be varied depending upon market condition.

5. **Control Cash-flow:** A principal pricing objective is to return cash as much as possible (the funds invested) within a given period. Investment in research and development, market development, promotion, etc., should pay back within a specified period. Capital expenditure on any project must be recovered within 5 to 10 years. Pay-back or cash-flow objectives fit in easily with other corporate objectives.

   While determining objectives of a pricing policy, marketers must take into account reactions of a number parties such as customers, competition, resellers or dealers, Government, public opinion, and so on. For instance, there may be a conflict between sales maximisation objective and a return on investment or profit objective. However, it should be noted that maxmium market penetration in the short-run (in the early phase of the product life-cycle) is the key to maximum ROI in the long run.

6. **To penetrate the market:** Many firms enter the market by charging a very low price for the product. Example: Low-price Chinese toys have flooded the market.

7. **Meet or Follow Competition:** Many firms desire the stabilisation of price levels and operating margins as more important than the

maintenance of a certain level of short-run profits. The price leader maintains stable prices in the industry. Follow the leader.

- **Market Price**

The market price is the price determined by the free play of demand and supply. The market price of a product affects the price paid to the factors of production — rent for land, wages for labour, interest for capital and profit for enterprise. In this way, price becomes a prime or basic regulator of the entire economic system because it influences the allocation (distribution) of these resources (factors of production). For example, when the price of a commodity has a rising tendency, we shall have higher wages attracting more labour, higher interest attracting more capital, and so on, in the industry in which prices are rising. Conversely, under falling prices, low wages, low rent, low interest, and low profits will reduce the availability of labour, land, capital, and risk-takers in a free market economy. Prices direct and control production and consumption.

- **Price as a Measure of Value**

a. Economic theory of price has a few simple assumptions regarding products and buyer behaviour. Buyer's tastes and preferences are considered as given (constant). Buyer is considered essentially a rational human being. The marketing concepts like brand image, brand loyalty and benefit segmentation 'emotional motivation' are outside the scope of price theory. Hence, in practice, the classical price theory, saying price determines value of the product, is not true.

b. Price is the most handy (but rough) available indicator of product quality and value for many customers. Buyers believe in the implicit subjective process viz., "You get what you pay for", "If it costs more, it must be better". Marketers are bound to exploit buyer's emotions, preferences and habits. Price-quality relationship applies to products whose quality is difficult to judge and whose brands vary widely in quality, e.g., cosmetics, jewellery, clothing, wine, floor wax, etc.

   The consumers answer the question (Is it worth it?) in terms of the familiar equation: Satisfaction = Benefit — Cost (The price is the cost part of the equation).

c. Price lining is another psychological dimension of pricing accounting for a common marketing practice. For example, a reasonable price range for a new Television set is between Rs. 8,000 and Rs. 15,000 for most people. Only handful of buyers would seriously consider purchasing a TV set costing Rs. 16,000 or more, and a new TV set costing less than Rs. 4,000 would generate doubts and suspicion.

- **Base Price**

Pricing decisions are guided by overall organisational objectives. A base price is usually established, and adjustments from that base price is made to ensure closer correlation between the product of the firm and consumer wants and desires, i.e., matching the product- offering with the expected bundle of satisfactions (perceived value by consumer). The figure given below indicates number of choices in setting the base price. A base price acts as a reference price. It is a price from which actual prices can be determined by adding extras and deducting discounts. The actual prices reflect differentials from the base price because of market structure, geographical location, competitive conditions, and the terms of individual transactions.

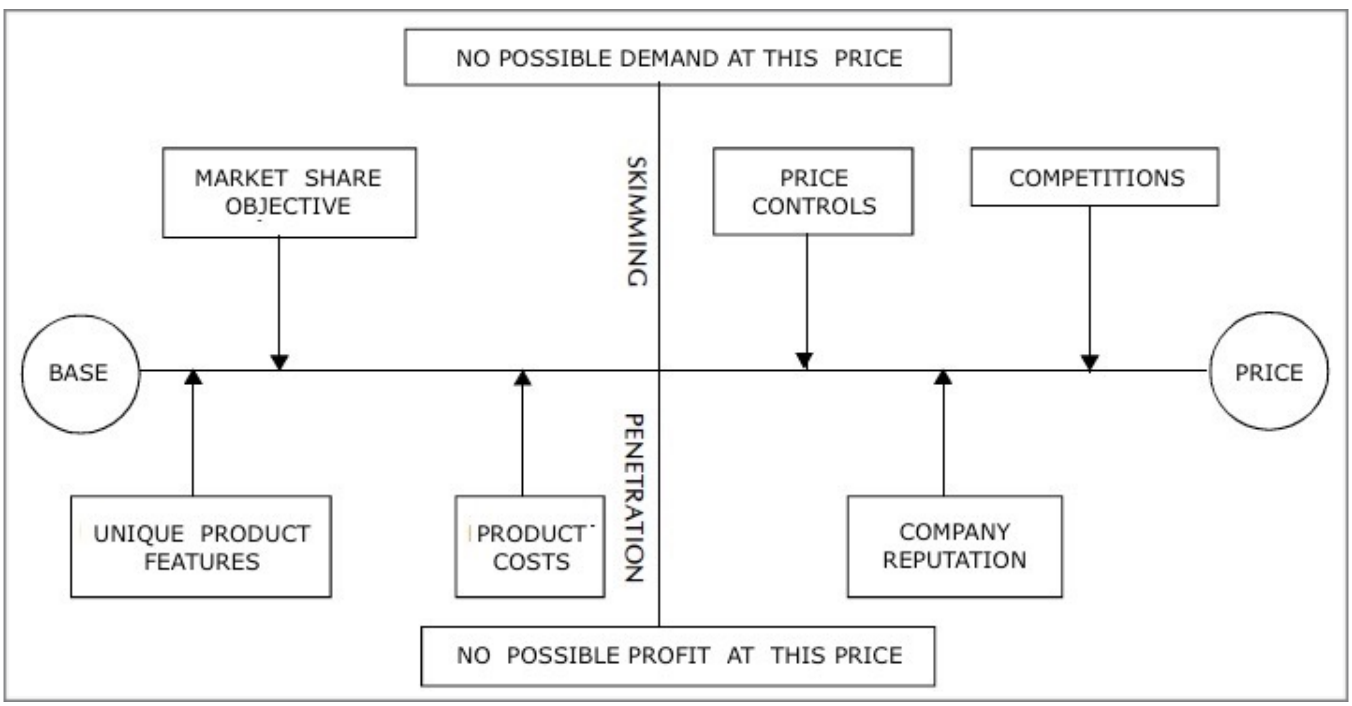


Fig. 6.3 Factors Determining the Base Price Level

- **Comments**

1. At one extreme (at the top) there is a price (too high) at which there is no demand at all. At the other extreme (the bottom) there is a price (too low) at which no amount of demand will yield enough revenues to cover costs.

2. Skimming price (skim the cream) is rather high in the range of possible prices. A new product enters the market with a high price to generate the most profitable sales. At the introduction stage demand is more inelastic. Rich buyers are not price- conscious. Too high price can be lowered more easily subsequently.

3. A low price may be deliberately fixed to penetrate the market easily. It provides maximum product exposure. Sales growth potential is very high.

4. Under usual circumstances, marketer selects base price somewhere between skimming price and penetration price for each product line. Factors influencing the choice of base price are shown in the figure.

5. Unique product features, rising costs or a company reputation for quality and services are the factors influencing the base price in an upward direction. A unique product offered by reputed and respected company can have a high price and buyers may be prepared to buy it. Sophisticated Vimal fabrics of Reliance Industries adopted high premium price to the fashion conscious upper middle class of urban India and buyers welcomed the premium quality fabrics.

6. On the other hand, objective of a large market share, government price controls, intensive competition from rivals would compel the marketer to fix the base price lower and lower.

6.2 FACTORS INFLUENCING PRICING DECISIONS

1. **Objectives:** Many companies have established marketing goals or objectives and pricing is based to achieve such goals. On the basis of the marketing objectives, the pricing policies are adopted. The various policies may be: (1) Cost-oriented pricing policy; (2) Demand-oriented pricing policy; and (3) Competition-oriented pricing policy.

2. **Costs:** The most decisive factor in pricing is the cost of production. In the past, fixing of price was a simple affair: just add up all the costs incurred and divide the final figure by the number of units produced. Adding necessary profits with the cost of production would give the price. The main defect with this approach is that it disregards the external factors, particularly demand and the value placed on goods by the ultimate consumer. Again under this approach, the manufacturer believes that whatever may be the price, the consumer will buy. Furthermore, today, on account of the various lines of production as well as distributing, the overhead costs finding the cost of production is not so simple.

3. **Demand:** In consumer-oriented marketing, the consumers influence the price. Every product has some utility for the buyer. It gives the buyer service, satisfaction, pleasure, the consumer would continue to buy the product. Higher the demand for a product, lesser the need for giving additional discounts, credit etc. to the distributors and dealers. This leads to higher price realisation.

4. **Competition:** Another factor that influences pricing is competition. No manufacturer is free to fix his price without considering competition, unless he has a monopoly. To avoid competitive pricing, a firm may decide that its product may be sufficiently different from that of the others. This is achieved through methods of advertising, branding, etc. Sometimes, a higher price may itself differentiate the product. This is known as prestige pricing. But this is possible only when the product is backed by perfect quality. Sometimes the opposite also takes place. It is seen that many products are sold at low prices, mostly in the initial stages. This is referred to as "Mark Down Prices" or Price Cutting.

5. **Distribution Channels:** Distribution channels also sometimes affect the price. There are many middlemen working in the channel of distribution between the manufacturer and the consumer. Each one of them has to be compensated for the services rendered. This compensation must be included in the ultimate price which the consumer pays. Because of these costs, sometimes it happens that the price of products becomes so high that the consumer rejects it.

6. **Supply of the product:** If the supply is less than demand, then the price of the product will be more.

7. **Achieve planned return on investment:** While fixing the expected rate of return, the cost of the product, inflation rate, profits desired, etc. are taken into account.

8. **Availability of raw materials** in the domestic market will generally enable the firm to bring down cost of production. The firm can fix a low selling price.

9. **Profit expectations:** If the firm expects higher price per unit of the product, they may charge a higher price for the product.

10. **Trade barriers:** Trade restrictions such as duties, taxes, quotas would increase the price of the product and the firm fixes a higher price to recover the taxes and duties.

11. If the **brand** is very popular among consumers, the manufacturer can charge a higher price for the product.

12. If the purchasing power of the consumers is high then the company can charge a higher price for the product.

13. Promotion cost would normally increase the selling price as the company would like to recover the cost from the consumers.

14. **Research and Development:** Many large organisations spend millions of rupees in developing new products and new processes and would like to recover the cost of research by increasing the price of the products.

15. Legal constraints, Government interference such as control of prices, levying of taxes etc. are other considerations which also affect the pricing of the products.

6.3 PRICING STRATEGIES

A firm may choose various kinds of pricing for their products. A few, important ones are explained below:

1. **Odd Pricing:** Odd price may be a price ending in an odd number or a price just under a round number. Such a pricing is adopted generally by the sellers of speciality or convenience goods. For example, Bata shoes are priced at say Rs. 699.95. Odd prices may bring more sales. An article priced at Rs. 99.95 will have more sales than when it is priced at Rs. 100. Under odd pricing, buyers may feel that it is a 'Mark Down Price.'

2. **Psychological Pricing:** The price under this method is fixed at a full number. The price-setters simply feel that certain prices for certain products are psychologically appealing.

   Example: Products like shampoo, ball pen, biscuit, soft drink are sold at prices such as Rs. 2 3, 5 and `10.

3. **Prestige Pricing:** Prestige price is one that is fixed at a higher price than the producer's near-perfect substitute. Prestige pricing is adopted because many customers feel that high price means high quality. They feel that at the low price the product cannot be of good quality. Moreover, the customers feel a high status at high price. At high prices, the customers buy more. If prices are dropped a little bit, then customers may bargain a little. But if the prices begin to appear cheap, they start worrying about the quality and may stop buying.

4. **Consumer Expectations:** Such prices are fixed by consumers. Consumers are familiar with the rates and market condition and expect a particular price to be charged for certain products. Mostly such products are standardised ones. e.g., soft drinks and shampoo packets.

5. **Geographic Pricing:** The distance between the seller and the buyer is considered in geographical pricing. When there is a lot of distance between the production centre and consumption centre, the producer or marketer can adopt different prices in each area without creating any ill-will among customers. For example, petrol is priced in this way, depending upon the distance from the storage area to the retail outlet.

In other words due to geographical distance, the prices will differ. There are three ways of charging transit costs viz.:

a. **F.O.B Pricing:** FOB (Free On Board) may be of two types: FOB origin and FOB destination. In the first case, the buyers will have to incur the cost of transit apart from the price quoted and in the latter, the price quoted is inclusive of transit charges.

b. **Zone Pricing:** In zone pricing, price is equal in the same zone. Market for a product is divided into various zones say south zone, north zone etc. and the price quoted will be the same in a particular zone irrespective of the differences in the distances in the same zone. In other words, prices are uniform within a zone.

c. **Basic/Base Point Pricing:** Under base point pricing, one or more cities are selected as base points and transport cost is collected from the base point to the buyer's location.

6. **Price Lining:** Price lining is found more commonly among retailers than among wholesalers or producers. This system consists of selecting a limited number of prices at which the store will sell its goods. It is the policy of setting a few price levels for a given class or line of goods. The main benefit of price lining is that it simplifies the buying decision of the consumer. For example, a buyer of a shirt can go into a shop where shirts are retailed between Rs. 300 to Rs. 600. It also helps the shopkeeper to plan his purchases.

7. **Dual Pricing:** When a manufacturer sells the same product at two different prices, it is dual pricing. Under dual pricing system, a producer is required compulsorily to sell a part of his production to the Government or its authorised agency at a substantially low price. The rest of the product may be sold in the open market at a price fixed by the producer e.g., sugar.

8. **Company Policy:** The price is fixed not on the basis of cost or competitive pressures or the laws of demand and supply, but fixed purely on the basis of the policy decisions of the company. In theory, this would mean that the company disregards all other considerations except his own desire for maximising profits.

9. **Monopoly Pricing:** Monopolistic conditions exist where a product is sold exclusively by one producer or a seller. When a brand new product moves to the market, its price will be a monopoly price. Under monopoly, competition is absent and there is no substitute. Hence, a seller has a free hand in fixing the price. Monopoly price will normally maximise the profits.

10. **Penetration pricing:** Penetration pricing is intended to help the product penetrate into markets to hold a position. In other words, penetration pricing is intended to capture the market. This can be done only by adopting a low price in the initial period or till such time as the product is finally accepted by customers. Penetration pricing is adopted when substitute product is marketed. Low starting prices sacrifice short-run profits for long-run profits, and therefore, discourage potential competitors.

11. **Negotiated Pricing:** It is also known as variable pricing. This method is invariably adopted by industrial suppliers. In certain cases, the product may be prepared on the basis of specification or design by the buyer. In such cases, the price has to be negotiated and then fixed.

12. **Mark-up pricing:** This method is adopted by wholesalers and retailers in establishing a sale price. When the retailers or wholesalers fix the selling price, they add a certain percentage to their cost price. For example, an item that costs Rs. 20 may be sold for Rs. 25. Here the "mark-up price" is Rs. 5 or 25 per cent.

13. **Sealed Bid Pricing/Competitive Bidding:** This method is followed in the case of specific job works. Big firms or Governments normally get the work done through contractors. The contractors work out the probable expenditure and give their price offers in a sealed cover. The lowest bidder gets the work.

14. **Skimming Pricing/Skim-the-cream pricing:** This method is followed while launching a totally new product into the market. Under this policy, a high price is initially fixed to skim the cream of the market and the price moves downwards step by step until the right price is reached. The idea is that when the marketer is not sure about what price he has to charge, it is advantageous to begin with high initial price and move systematically downwards. It is easier to start with a high price and

then reduce it, than to start with a low price and then try to raise it. The skimming price policy will produce more income in the early stages of a product life cycle [PLC] only when the top of the market is insensitive to price and willing to pay what is asked. **Example:** In the case of books, this method is followed by having a high price for the first/deluxe edition and lesser prices for subsequent editions.

15. **Premium Pricing:** Premium pricing is a mix of 'What the traffic will bear' idea and the 'value for money'. Marketer has a premium product, i.e., superior quality/good variety. He uses best technology. He employs premium promotion programme. He has at his disposal premium distribution process. Hence, he opts out for non-price competition. Thus, he is ready to adopt premium pricing strategy. Of course, under this pricing approach, we need aggressive and proactive (not reactive) pricing. Again, premium pricing can give rich dividend when buyers are not price conscious and they are willing to pay higher price if they get a better product and wider choice.

    Reliance adopted this pricing strategy for Vimal Fabrics. Price is nothing but perceived value — what the customer perceives as value. Reliance assured that its buyers perceived the prices of Vimal textiles as really good value for money. Upper middle-class buyers constitute the target market for premium pricing. In India, this approach is now adopted by renowned marketers. It assures growth and higher profits through higher customer satisfaction and service.

    The Indian cosmetics and toiletries market is now adopting premium pricing. Indian marketers are hurrying into the premium segment in order to pre-empt foreign competition. Exposure to western lifestyles on television, and an increasing trend towards perfect grooming has opened up ample scope for selling beauty at a premium price. Similar trend in favour of premium pricing is noticeable in the sale of fashion clothing, wrist watches (Titan), Ray Ban goggles and colour TV sets.

16. **Charging What the Traffic will Bear:** There are two principles in pricing. One is called 'cost of service principle' and another is called 'value of service principle'. The second one is also termed as charging what the traffic will bear. It is usually adopted by Railways in our country. Professionals like doctors, lawyers, chartered accountants, consultants, etc., adopt this principle of charging what the customer will

bear. They charge their fees on the basis of ability to pay and the cost factor is secondary in their charges. In business, particularly in commodity markets, we do not have such a price discrimination based on the customer's ability to pay. A monopolist, of course, can afford to adopt this principle to maximise his profits. In a sense, such pricing renders justice to customers. Dual pricing of sugar in India is based on this principle of ability to pay. Electricity company also has different rates for domestic and industrial customers.

6.4 PRICING POLICIES

1. **Cost-oriented or Cost-based Pricing Policy:** It is also referred to as 'cost-plus' pricing. This policy assures that no product is sold at a loss but a fixed percentage of profit is added to the unit cost. Under cost-based pricing policy, the price determination of a product is made on the basis of cost of production plus an additional profit margin. That is selling price is equal to cost of production plus anticipated profit. Thus the retail price (of a particular item) might be the manufacturer's cost plus his gross margin plus the wholesaler's gross margin, plus the retailer's gross margin. This method is also known as Sum of Margins method. Under this method, the cost of manufacturing serves as a base for price fixation. Cost-plus policies are often used (by retail traders and in manufacturing industries) where the production is non-standardised.

- **Advantages**

  i) It is a simple system.
  ii) It is socially fair.
  iii) Recovery of cost is guaranteed.
  iv) It can be very well applied in changing situations.

- **Disadvantages**

  i) Demand is ignored.
  ii) Future cost is not considered.
  iii) Inefficiency during the initial stages of manufacture is not considered and finally the ultimate consumers suffer.

2. **Demand-Oriented or Demand-based Pricing Policy:** Under this method, demand is the prime factor for pricing, and price is fixed on the basis of demand for the product. Demand-oriented pricing policy may be adopted in three different ways:

   a. The firm does not fix the price but the price is charged by adjusting to the market conditions. A high price is charged when or where the demand is intense, and a low price is charged when the demand is low. Price discrimination is usually adopted under such market situations.

   b. Another method is that the management may enter into test marketing through different prices and select the price which ensures the maximum revenue.

   c. In certain cases, the management may forecast prices on the basis of historical data available.

   - **Advantages**

     i) Consumer's preferences are considered.
     ii) Inefficiency of the manufacturer is penalised.

   - **Disadvantages**

     i) It is socially unfair.
     ii) It does not ensure competitive harmony.
     iii) Consumers are at a disadvantage because they may be influenced by advertisements and attracted by packings and may be willing to pay much more than its cost.

3. **Competition-Oriented or Competition-Based Pricing Policy:** Most companies set or fix prices after a careful consideration of the competitive price structure. It means, before pricing a product, every firm takes into account the conditions of competition. Under this policy neither the cost of the product nor the demand for the product is considered. But only the prices of the competitors are taken into account. If the competitor changes the price, company has to fall in line. Similarly the company's cost of production and demand for its product may change; but if the competitor's price is constant the company may

not change its price. Sometimes deliberate pricing policies may be formulated to sell above, below, or generally in line with competition.

4. **Cost-Demand-Oriented Pricing Policy:** This is also known as break-even pricing. In break-even point, the sales revenue will be equal to total cost. In other words, at B.E.P. there will be neither profit nor loss. The break-even concept gives the relationship between costs and sales volume. Break-even analysis helps in estimating the effects of different prices on profits.

   The B.E.P. gives an idea that what price must be fixed to get a desired profit. The following illustration gives a clear idea about the B.E.P. concept.

   Illustration:

Budget output	1,00,000 units.
Fixed expenses	Rs. 5,00,000
Variables expenses	Rs. 10/unit
Selling prices	Rs. 20/unit.

If the selling price is reduced to Rs. 18 per unit, what will be the new break-even point?

Solution:

$$\text{B.E.P.} = \frac{\text{Fixed Cost}}{\text{Selling Cost - Variable Cost}} - \frac{\text{F.C.}}{\text{Contribution}}$$

$$= \frac{5,00,000}{20 - 10} = 50,000 \text{ units}$$

i.e. B.E. Sales = 50,000 × 20 = Rs. 10,00,000

If the selling price is reduced to Rs. 18, then the contribution will be Rs. 8, i.e., 18 – 10.

$$\text{the new B.E.P.} = \frac{5,00,000}{8} = 62,500 \text{ units}$$

The break even sales = 62,500 units × 18 = Rs. 11,25,000

6.5 PROCEDURE FOR PRICE DETERMINATION

Once the pricing objective is agreed upon, the executives can move to the heart of price management — i.e., the actual determination of the price. There is no specific procedure applicable to all firms for price determination. However, the steps given below may be followed to determine the price:

1. **Market Segmentation:** The very first step for price determination is market segmentation. Marketers will first decide the type of products to be produced or sold and also decide the types of customers of market segments, they want to tackle.

2. **Estimating the demand for the product:** The second step in pricing a product is to estimate the total demand for it. There are two practical steps in demand estimation. They are: (a) to determine whether there is a price which the market expects and (b) to estimate the sales volume at different prices.

    a. **Determining the expected price:** Expected price for a product is the price what the customers think the product is worth. Expected price can be assessed in three ways: (1) The producer may submit the article to an experienced retailer or wholesaler for appraisal, (2)Comparison of the prices of the comparable rival products, (3)Survey the potential consumers. They may be shown the article and asked what they would pay for it. This can be done in a few limited test areas.

    b. **Estimate the sales at different prices:** Another method of estimating the demand for the product is to estimate the sales at different price levels. For this estimate, demand elasticity of the product should be considered. If the demand for the product is elastic, the price must be fixed low.

3. **Anticipate and analyse the competitive reaction:** Present and potential competition is an important influence on price determination. Even in the case of a totally new product, any possible distinctiveness is limited for sometime. After that some form of competition will be felt strongly. The threat of potential competition is the greatest when the field is easy to enter and profit prospects are encouraging.

   Competition can come from three existing sources viz.,

   i. Directly from similar products. e.g., Soaps

   ii. From available substitutes e.g., P.V.C. pipes as a substitute for G.I. pipes; aluminium products.

   iii. From unrelated products seeking the same consumer's disposable income. For example, people may be spending on luxury items; suddenly they may divert their money on buying plots of lands, or they may spend on tours.

4. **Establish expected share of market:** The next step in price determination is to assess what share of the market the company expects. Larger share of the market can be captured by low-priced products and high-priced product may capture a small share of the market. Larger share of the market can also be captured by advertisements and non-priced competition. Share of the market is also influenced by factors like present production capacity, cost of plant expansion and ease of competitive entry. It would be a mistake for a firm to aim for a larger share of the market than its plant capacity can sustain. If the management feels that there will be easy competitive entry, the initial price can be fixed high.

5. **Selecting Pricing Strategy to reach market target:** A good and proper pricing policy may be employed to achieve the predetermined share of the market. There are two methods: (a) Skimming pricing, and (b) Penetration pricing.

6. **Consider Company's Marketing Policies:** Another major step in pricing procedure is to consider the company's marketing policies with respect to the product itself, the distribution system and promotional programme.

a. **Product itself:** The price of a product is influenced by the nature of product's durability, perishability or non-perishability. Perishable products have to be disposed of within a limited time. e.g., fruits, milk, vegetables, etc. Whereas, the price of durable products like car, radio, cloth, scooter etc. normally need not be reduced. But when the fashion changes, the marketer may compel the stockists to sell out the stocks before they become out of fashion. Whether the article will be sold under a middleman's brand or under the manufacturer's own brand, it will affect the price established by the manufacturer.

   The interdependence of the product-mix is another consideration. Where products are related, the price set on any one item affects all others in the line. For example, Enfield India Ltd., cannot fix the price of Silver Plus without considering the prices of Bullet 350, Explorer, Mofa, Fury 200 etc. On the other hand where the products are unrelated e.g., Godrej products, the company can have greater flexibility in pricing.

b. **Channels of distribution:** The channels selected, the types of middlemen used, and the gross-margin requirements of these middlemen will influence a manufacturer's price. A firm selling through wholesalers and also directly to retailers often sets a different factory price for each of these two classes of the customers.

c. **Promotional Methods:** The promotional methods used are yet another factor to be considered in pricing. If the bulk of the promotional responsibility is placed upon retailers, they ordinarily will require a larger margin than if the product is heavily advertised by the manufacturer. Even when a manufacturer promotes heavily, he may want his middlemen to use local advertising, store-display and other types of promotion to tie in with his national advertising. Such a decision must be reflected in the dealer's margin and consequently, in the manufacturer's price.

7. **Setting the price:** It is the process of price determination, for the products by the producer. There is no specific method for setting the price. Procedures used for setting a specific price vary under different competitive conditions. Complexity of the pricing policy has led to the

development of numerous approaches to price setting. The following are the basic policies generally recognised for pricing:

i) Cost-oriented or cost-based pricing policy,
ii) Demand-oriented or demand-based pricing policy,
iii) Cost-demand-oriented pricing policy, and
iv) Competition-oriented or competition-based pricing policy.

New Product Pricing

Pricing a new product is an art. It is one of the most important and puzzling marketing problems faced by a firm. As far as new product is concerned, pricing is important in two ways because:

a) It affects the quantity of the product to be sold, and (b) It determines the amount of the revenue of a firm.

When new products are introduced, they appeal to many people as novel items. But when the product is being used constantly, the novelty disappears and the people start thinking about the price. Moreover, competitors may also appear in the market. Therefore, new products are hard to be priced, especially with a right price. Incorrect pricing will definitely lead to product failure.

For setting a price on a new product, three guidelines are to be adopted: (a) making the product accepted, (b) maintaining the market, and (c) retaining the profits.

There are two options available for pricing a new product — skimming and penetration pricing.

a. If a product is entirely new in all respects, skimming method could be used. Skimming pricing is recommended on account of the following reasons:

    1. Initial sales would be less,
    2. Helps to take the cream of market through high prices,
    3. People may like to own a new product even at a higher cost,
    4. Helps to develop demand as the price is gradually reduced, and
    5. High sales revenue on account of higher price.

However, it should be noted that high prices may also prevent quick sales.

b. The second option is to adopt penetration pricing. This method of pricing is the most common and is desirable under the following conditions:

1. When sales volume of the product is very sensitive to price,
2. When a large volume of sales is to be affected,
3. When the product faces a threat from competitors, and
4. When stability of price is required.

In the case of new products, pricing has to be made with little knowledge of demand, cost and competition. The new product has also to bear the cost of 'promotion.' The initial cost, therefore, will be definitely higher.

One-Price vs. Variable-Price Policy

Under a one-price policy, a seller will charge all similar types of buyers exactly the same price and there will be no discrimination or difference among the buyers of the same commodity. There is no question of negotiation, bargaining, or haggling. No favouritism is shown to any buyers. Terms of sale are the same for similar quantities of the product. Discounts and allowances are granted on equal terms to all buyers. It is a fair trade practice. It gains customer confidence. A fair and fixed price policy in line with the normal market price and providing for normal margin of profit is the best pricing policy. Through efficient management and best marketing-mix, the manufacturers and dealers should bring down marketing costs and improve quality of services to the ultimate consumers. The consumers should be offered lower price and better quality under any normal pricing policy.

In the U.S.A. and other developed countries, particularly at the retail level, they have adopted one-price policy. In India and many other developing countries, sellers have usually variable-price policy, i.e., prices are subject to negotiation and haggling.

Under variable-price or negotiated price policy, the seller will sell similar quantities to similar sellers at different prices. Certain favoured customers are offered lower prices. The terms of sale, e.g., discounts and allowances, are granted on unequal terms to buyers. Especially in developing countries, sellers commonly use variable pricing for the most consumer items. In retail trade, the price discrimination is usual. A foam leather handbag was quoted by a well-known retailer at Rs. 300 in the first instance. The price was reduced to Rs. 280 and then to Rs. 270. On sensing that the customer was aware of its real price, the price was scaled down ultimately to Rs. 250.

Advantages of One-Price Policy

1. Uniform return from each sale — assured and certain profits.

2. Lower selling costs, saving of time in sale as no question of price-bargaining. Many a time, haggling drags on the sales talk and it is a time-killer.

3. Customer confidence is secured. In the absence of a preferential price, there is no risk of losing of a customer. Timid or weak bargainers are not at a disadvantage. The seller can maintain his goodwill.

4. It is eminently suitable for self-service retailing, mail order selling and automatic vending or selling. Large retailers follow this policy.

Advantages of Variable-Price Policy

1. Seller can have flexibility in his dealings with different customers.

2. Certain valuable customers can be offered lower price, e.g., a promising large-scale buyer in the near future.

3. Flexible price policy enables to attract customers of other competitors and thus, new business can be secured.

4. When the size of the transaction is large, price should be negotiable, i.e., subject to bargaining e.g., sale of a motor car.

5. The sellers of consumer durables often adopt variable-price policy.

6. Some buyers have greater bargaining power or they are able to pay cash. They will always insist on negotiated price.

On the whole, one-price policy is the best policy. Variable-price policy creates ill-will and spoils the seller's reputation. It can lead to a price war and unhealthy competition. Managerial control is also less on selling cost and on profits. It reduces confidence. It is not equitable.

- **Cost-plus or Mark-up Pricing**

This method is considered the best approach to pricing. It is based on the seller's per-unit cost of the product plus an additional margin of profit. There are four items in determining the sale price. (1) Cost of producing / acquiring goods, (2) Cost of operating/selling expenses, (3) Interest, depreciation, etc., and (4) Expected profit margin mark-up. The mark-up as a percentage of selling price is a very common practice particularly in retail trade. Cost-plus pricing is very popular in retail trade and wholesale trade. Some form of customary mark-up pricing or cost-plus pricing is the most practical in trade, as items for sale are innumerable.

Mark-ups are expressed as percentages. The base used as 100 per cent may be either cost value or sale value. Usually mark-up is always stated as a percentage of selling price.

1. When the mark-up is based on cost:

$$\text{Mark-up percentage based on cost} = \frac{\text{Rupee Mark-up}}{\text{Selling Price}} \times 100$$

2. When the mark-up is based on selling price:

$$\text{Mark-up percentage based on sale price} = \frac{\text{Rupee Mark-up} \times 100}{\text{Selling Price}}$$

Illustration:

Cost Price of a wall clock	=	Rs. 400
Mark-up decided by the seller	=	Rs. 100
Selling Price	=	Rs. 500

Mark-up per cent based on cost price	=	100/400 = 25%
Mark-up per cent based on sale price	=	100/500 = 20%

If we know the rupee cost and the desired percentage of mark- up, we can easily calculate our sales price.

Illustration:

Retailer's sale price	Rs. 200	Retailer's mark-up	= 200
Retailer's cost	Rs. 120	Rs. 80 or 40%	= 120
Wholesaler's sale price	Rs. 120	Wholesaler's mark-up	= 120
Wholesaler's cost	Rs. 100	Rs. 20 or 16.66%	= 100
Manufacturer's sale price	Rs. 100	Manufacturer's mark-up	= 100
Manufacturer's cost	Rs. 70	Rs. 30 or 30%	= 70

Thus, producer's price is Rs. 100 per unit, whereas consumer's price is Rs. 200 and the difference of Rs. 100 per unit is accounted for by retailer's mark-up of Rs. 80 and wholesaler's mark-up Rs. 20 per unit.

Mark-ups are usually calculated on the sale price. We should note the relationship between mark-ups on cost price and mark-ups on sale price.

1. Per cent mark-up on sale price $= \dfrac{\text{\% mark-up on cost price}}{\text{100\% + \% mark-up on cost price}}$

2. Per cent mark-up on cost price $= \dfrac{\text{mark-up on sale price}}{\text{100\% + \% mark-up on sale price}}$

Illustration:

1. Retailer has 25 per cent mark-up on cost.

   Then:

% mark-up on sale price $= \dfrac{20\%}{100 + 25\%} = 20\%$

2. Retailer has mark-up of 33.33% on sale price

Then:

$$\% \text{ mark-up on cost price} = \frac{33.33\%}{100\% - 33.33\%}$$

$$= 33.33\%/66.66\%$$

$$= 50\%$$

Cost price = Rs. 60
Sale price = Rs. 100
Mark-up = Rs. 40

The mark-up is 40% on the sale price, by 66.66% on the cost price.

Table 6.1
MARK-UP RELATIONSHIP IN COST-ORIENTED PRICING

Relationship	Manufacturer	Wholesaler	Retailer
1. Cost	20/-	24/-	30/-
2. Mark-up	4/-	6/-	20/-
3. Selling Price	24/-	30/-	50/-
4. Mark-up on Cost	4/20 = 20%	6/24 = 25%	20/30 = 67%
5. Mark-up on Selling Price	4/24 = 17%	6/30 = 20%	20/50 = 40%

Manufacturer's Price = Rs. 24/-Consumer's Price = Rs. 50/-

When there are many middlemen between the producer and ultimate consumer, we have a wide price difference between the price paid by the consumer and that actually received by the primary producer. Each mark-up is bound to inflate the ultimate retail price.

- **Price Leadership**

In every industry, we do have a few big and dominant business enterprises who act as leaders for setting the price by others. When the leader raises or lowers the price, all others usually follow the leader. The non-leading firms have no other practical alternative but to follow the leader in their price-fixing. In many consumer goods industries we do come across one or a few price leaders and the market price is dictated by them. The firm initiating it is price leader and those following it are price followers.

- **Special Problems in Pricing**

After fixing the price, often a producer is faced with a problem of price reduction from the quoted price or list price. Whether it is a business or non-business we have to go with the world. There are certain accepted business practices and any businessman to survive and grow must follow these accepted business practices.

Traders and buyers expect certain concessions from the list prices. This concession or reduction in price i.e., a difference between the price quoted and the net price charged is known as price differential. We have already said that price includes physical products plus bundles of expectations. Among the various expectations discounts and allowances are very important. Therefore, there should always be 'built-in' flexibility in the price structure to accommodate such expectations.

A. Discounts

Discounts are of various types viz., (1) Trade discount, (2) Cash discount, (3) Quantity discount, and (4) Seasonal discount.

- **Trade discount**

Trade discount is a functional discount and it is allowed by a manufacturer to the buyer who buys for resale. Trade discounts are allowed in consideration of the marketing functions which these traders are expected to perform.

Practically speaking, a manufacturer fixes the retail price and trade discount for both the wholesaler and retailers. **Example:** In the case of FMCG, the distributor/wholesaler is allowed a discount of 15 per cent on MRP and a retailer receives 10 per cent on MRP.

- **Purposes of Trade Discount**

1. Trade discount provides the cover for expenses and profit of each middleman in the chain of distribution, when the manufacturer fixes the retail price and it is advertised and printed on the packages. It is a remuneration for marketing services rendered by the traders. It is paid only to the resellers.

2. The catalogue or price list has printed prices. Actual market price may be fluctuating. If the actual price changes, the seller will merely change the rate of discount for adjustment of the two prices — list price and current market price. He need not print a new price list or catalogue. These are revised periodically, e.g., once in three months. Trade discount is altered inversely to change in prices, i.e., falling prices will invite rising discounts, and vice versa.

3. The trade discount can also act as a weapon of price competition. It makes price structure flexible. The seller can offer a larger trade discount to attract business from rivals. The dealer is enabled to sell to consumers at a price even lower than the list price as he is given a higher discount. The dealer can show the price list to the consumer and point out that he is getting a good bargain.

- **Limitations of Trade Discount**

1. The manufacturer may offer a larger trade discount to the wholesaler and retailer so that they do a better selling job and take greater interest in his products. But the traders may pass on the additional margin to their customers in the form of price reductions rather than using it for additional sales promotion efforts.

2. The increased discounts given to the traders may lead to unhealthy competition and competitors may follow the initiator by raising their trade discount. So ultimately there may not be any real gain. In fact, it may result in cut-throat competition.

- **Cash Discount**

It is merely a rebate or a concession given to the trader or consumer to encourage him to pay the bill within the stipulated period. It is a deduction from the amount of the bill amount to be paid.

Illustration:

The wholesaler quotes to the retailer as a term of payment, "two per cent 10 days, net 30". This indicates that if the invoice amount is paid within 10 days he will get a rebate of two per cent of the bill due but if he pays after 10 days and of course within 30 days, he has to pay the net invoice amount without any rebate. It means that if the buyer foregoes the cash discount, he has to pay two per cent of the bill due for 20 days accommodation, in effect he has to pay 36 per cent interest per year. Instead if the buyer would prefer to borrow from his bank at 18 per cent and pay within 10 days of the bill he will gain 18 per cent.

- **Purpose of Cash Discount**

1. The wholesaler need not have a larger working capital as he need not sell on credit to the retailer.

2. There is relief in the recovery of debts and no danger of bad debts. To the seller, cash sales are always welcome. In practice, trade credit becomes necessary, as a lesser evil.

   Cash discount is calculated on the net amount due after first deducting trade and quantity discounts from the initial list or catalogue price. It is a percentage reduction on the net amount due.

- **Quantity Discount**

In order to encourage a customer to make bulk or large purchases at a time, quantity discount may be offered to large buyers. Quantity discount can reduce the prices for bulk purchase order. These may be even cumulative, i.e., on the total volume of purchases made during a certain period. They are really patronage discounts.

Purposes of Quantity Discount:

1. Sales of slow moving items can be stimulated.

2. Manufacturer can have real economies in production as well as in selling. This will reduce his total costs.

3. The manufacturer will have no problem of accumulated stocks or inventories..

- **Seasonal Discount**

Seasonal discount refers to additional discounts offered during a particular season i.e., slack season. For example, air-conditioners are generally sold during summer seasons. However, to encourage sales during winter season (off season) dealers will allow seasonal discount. This will ensure better use of his plant and storage facilities.

B. Allowances

Some special types of allowances are offered to retailers who are expected to perform certain promotional activities to push up sales. Such allowances are of two types viz., (1) Promotional allowances and (2) Brokerage allowances.

1. Promotional allowances: The manufacturer may offer advertising allowance, window display allowance, free samples, free display materials, free training in sales demonstration and sales talk etc.

2. Brokerage allowance: Brokerage allowance is also offered to a trader or a firm who performs the function of linking together the seller and the buyer.

- **Discounts and Allowances**

Discounts and allowances are rarely given in selling to the ultimate consumers. They are offered to resellers only. They are common in wholesale and retail trade — in the sale of manufactured goods. Such price concessions are good weapons of healthy competition and sales promotion. If these price concessions are given to all dealers and merchants without discrimination, there is no problem of ill-will in trade. But in practice, many a time, they are not offered to all competing customers, on proportionally equal terms, in which case they are considered as unfair and unwise trade practices in many countries, promotional allowances are controlled by law to ensure fair trading. We also come across secret or confidential discounts given by manufacturers to preferred customers. It is difficult to control these malpractices by legislation alone. Business itself must evolve a code of conduct to prevent malpractices. Self-regulation and self-discipline are always superior to compulsory rule or forced discipline.

- **Resale Price Maintenance or R.P.M.**

Price leadership change: Resale price maintenance is a marketing policy adopted by a manufacturer whereby he fixes a price for his product to be sold to customers by retailers. R.P.M. is an agreement between the manufacturers and dealers under which all retailers are bound to sell the branded goods at a certain fixed retail price and no retailer shall sell the branded product below the fixed resale price to the ultimate consumers, even though he may be able to sell at a lower price due to his lower operating costs.

The strict enforcement of the suggested price is possible only when a manufacturer uses a selective distribution system. Another condition for R.P.M. is that the brand should have achieved a high degree of customer acceptance and popularity.

- **Advantages of R.P.M.**

1. R.P.M. offers uniform fixed retail prices and prevents unhealthy price competition among the dealers.

2. New firms can easily enter trade as there is no danger from price-war led by established retailers.

3. Consumers have no problem of bargaining as we have uniform fixed prices in all shops.

- **Disadvantages of R.P.M.**

1. R.P.M. practice kills competition and it leads to evils of monopoly. Free price competition alone can safeguard consumer interest.

2. R.P.M. is on the basis of high-cost low-volume retailers, which amounts to premium on inefficiency.

3. Consumers cannot have benefits of price competition. In the absence of R.P.M. practice, large retailers can give the benefit of lower prices to consumers due to their lower operating costs. This advantage is denied to consumers and they are penalised unnecessarily.

In short, R.P.M. prohibits price competition and consequently, consumers are denied the benefits of lower prices. R.P.M. is a boon only to a minority group and hence, R.P.M. is not socially justifiable. Therefore, R.P.M. is now recognised as an unfair trade practice even in India and M.R.T.P. Act, 1969 has given due protection to Indian consumers against R.P.M. practices. In the U.S.A., the U.K. and in many other countries, it was abolished long ago.

Resale Price Maintenance in India

In India, R.P.M. is controlled through Monopoly and Restrictive Trade Practices Act, 1969 (MRTP Act).

As per R.P.M. practice, resale price is fixed in any one of the following ways:

1. A minimum price below which the products cannot be sold;
2. A maximum price above which the product cannot be sold;
3. A stipulated price from which no charges are allowed.

According to MRTP Act, the first and the third are restrictive trade practices. The second one normally allows flexibility for the retailer to fix the final price. Hence, under Sec. 33(6) of the MRTP Act, 1969, the practice of stipulating sale of goods on prices not exceeding the specified price is not considered a restrictive practice. The original idea behind the R.P.M. was to avoid unhealthy competition by retailers. But later this became a source of additional profit for the manufacturer through exclusive or selective distribution system. Through these systems of distribution, a sort of brand monopoly could be developed and a high price could be charged from the consumers.

Consequently, in 1965 the Monopoly's Enquiry Commission was appointed to look into this matter. The commission felt that the agreement regarding resale price maintenance is not conducive to public interest and must be prohibited. The commission felt that "it is obvious that this kills competition and often keeps the price, which the ultimate consumer has to pay, higher than that what it would otherwise have been." The main argument in support of R.P.M. is that it enables small traders and shopkeepers to withstand the competition of the big merchants and powerful chain stores. Apart from this, the R.P.M. is detrimental to ultimate consumers. Therefore, the MRTP Act, 1969 is very strict about R.P.M.

- **MRTP Act, 1969 and R.P.M.**

Under Sec. 39 of Monopolies and Restrictive Trade Practices Act, 1969, RPM has been declared to be void i.e., unenforceable by law. It is no longer being followed by any trade. The defaulter shall be punishable with a 3 months imprisonment or fine of Rs. 5,000/- or with both.

Under Sec. 30

1. No manufacturer or wholesaler can now dictate a fixed minimum price to the retailers.

2. A manufacturer can suggest or recommend retail price. But his price circular must make it clear that the retailer is free to sell the goods below the one mentioned on the goods or in the price list.

3. A manufacturer cannot withhold sales to any dealer even if the dealer sells at less than the price recommended.

4. No retailers should be compelled to sell goods at the retail price fixed by the suppliers.

Thus, it clearly proves that all these regulations are basically meant to protect the interests of the consumers.

Legal Restrictions on Pricing in India

There are various legislations that exist in India, mainly to protect consumers' interests. Government interference has become a major influencing factor in the framing of the pricing policies of a firm. The major laws affecting pricing decisions are:

1. MRTP Act, 1969.

2. Essential Commodities Act, 1955. This imposes price controls on most of the products.

3. Drugs (Price Control) Act.

6.6 SUMMARY

- Price denotes the value of a product or service expressed in money and in a competitive marketing environment it is determined by free play of supply and demand. Price controls the sales volume, determines the total sales revenues, and regulates the return on investment and sales profitability. Pricing policies provide guidelines to Marketing Manager to evolve appropriate pricing decisions. Traders and buyers expect certain price concessions and discounts and allowances are given to promote sales and face competition. Pricing decision has strategic importance in any enterprise because it is only element in the marketing mix accounting for demand and sale revenue.

6.7 SELF ASSESSMENT QUESTIONS

1. What are the objectives of pricing?
2. Discus the factors that influence pricing.
3. What is meant by Resale-Price Maintenance?
4. Explain skimming and penetration pricing.
5. Briefly discuss pricing policies.
6. What are the steps involved in price determination?
7. State how consumers, marketers, and society view pricing.
8. Write short notes on the following:
    a. Premium pricing.
    b. Break-even analysis and pricing
    c. New product pricing.
    d. Maximum Retail Price.

CASE STUDY

United Energy Corporation is one of the leaders In the photovoltaic industry. It manufactures solar electric panels which convert solar energy directly into electricity. Since there are no moving parts, this source of electricity generation is extremely reliable. The solar electric panels are currently competitive in remote applications where electricity from utility grid is not available. It is also competitive with diesel generators in such locations.

The major business of United Energy is divided into two market segments. First segment is direct end users who buy through dealers and distributors, and the original equipment manufacturers who incorporate solar electric panels into their systems. The second segment is a tender market which has to serve the domestic and foreign Government organisations. The tenders tend to be large-quantity orders and are extremely competitive. Assuming that the bidders meet the basic specifications, the award is usually made to the lowest bidder. The direct end-user market is also price-sensitive but the decisions are not made on price alone. Prior experience with sales managers and customer service play some role in the decision-making process.

The major product line of United Energy is a UE-100 panel which generates 40 watts of power. This product-line is based on a second generation technology developed by United Energy’s R&D division. There are two major competitors; both produce panels of 40-watt capacity but with the first generation technology. As far as end-users are concerned all three panels satisfy their electricity requirements. Appearance, which is better looking in United Energy’s second generation technology, is given some consideration but users are still price- sensitive.

Pricing

The President of United Energy was very proud of the new technology. Tile appearance of the panel was much better than that of the competitors. He insisted that the customers would be more than willing to pay a premium price for the new technology look. The new technology was still being fine- tuned in manufacturing and, hence, the cost was almost equal to the first generation technology. The president believed that there was a significant cost reduction potential over the next three years. The current unit prices for solar electric panels are given in the following table:

	Suggested list price	Dealer price	Tender price
ASI Inc.	$ 310	$ 280	$ 260
PES Inc.	$ 350	$ 315	$ 265
United Energy	$ 400	$ 360	No policy

The Marketing Manager at United Energy believed that they were losing the tender business because their bids were generally higher than the bids of their competitors. In the overall market, tender business was 70 per cent of the total industry shipments. United Energy's share was believed to be about 25 per cent. The Marketing Manager thought that, by lowering prices for major tenders, he could gain greater market share.

In the direct marketing to end-users, he thought he could get about 10 per cent premium from 25 per cent of the customers. But, for the remaining customers, the premium had to be less than five per cent. Instead of published list prices, he wanted to go to an informal pricing policy. In this case, the Sales Managers would be given a range and they could decide what price would it take to win the business. He established the range for direct end- user business to be between $ 285 and $ 350. The Sales Manager could not go below $ 285 without prior approval from the corporate Vice-President. On tenders, he established a floor of $ 250. With both price changes, he thought the United Energy's market share could be increased by about 10 percentage points. To keep the Sales Managers from selling at the bottom of the price range, he tied sales incentive to the selling price. Higher the selling price more the commission the Sales Manager would receive. The Marketing Manager was convinced that this pricing scheme was the only response to the competitor and his management. It offered pricing flexibility to the Sales Managers as well as an incentive to obtain higher pricing where possible.

QUESTIONS

1. Does the new technology of United Energy justify 15 to 30 per cent premium over competitors' products?

2. Do you believe the pricing policy devised by the Marketing Manager is adequate to maintain or increase United' Energy's market share? .

3. What other pricing strategies could be used by United Energy's Marketing Manager?

4. To what extent price competition can be replaced by non-price means of competition in order to avoid price war?

CASE STUDY

Quality Bathing Soap

Navin Mehta, a fresh chemical engineer, developed a new detergent during his M.Tech. course. Upon passing out, he invested a small capital to start manufacturing and selling the detergent under the brand name 'Nippo.' Coming from a middle-class family himself, Mehta decided to price his detergent much lower than the other detergents available in the market at that time. His pricing strategy paid rich dividends and Nippo became an instant success. Using his newly acquired financial strength, Navin developed a premium quality bathing soap with a unique colour and perfume combination. Although, the cost price of this soap was itself high, Navin again priced it substantially lower to be a comparable product in the market by maintaining a low profit margin.

QUESTIONS

1. Do you feel Navin committed a pricing mistake in the case of the bathing soap? Give reasons for your answer.

2. Suggest an appropriate marketing plan to Navin Mehta.

   Source: AIMA examination, June 1998.

Comments

The competition is very high in detergent powder and toilet soap segments. The market is dominated by giants like Hindustan Unilever Limited, Nirma, Procter and Gamble and Godrej. Many new entrants are finding it difficult to survive and grow in such a competitive market situation. Navin Mehta followed Market Penetration Pricing to capture the market. Low starting price has helped Navin to increase sales volume, but the profit margin is low.

Navin has developed a unique and luxury bathing soap. He has a considerable customer base for detergent powder and these customers are satisfied with Nippo. The bathing soap is costly and, therefore, Navin should have considered pricing it at a higher price. Alternatively, he can sell bathing soap at a low price till such a time as the product is fully accepted by customers. If he continues to sell both products at low price, it will certainly affect the profitability of the business in the long run.

REFERENCE MATERIAL

Click on the links below to view additional reference material for this chapter

Summary

PPT

MCQ

Video Lecture - Part 1

Video Lecture - Part 2

Chapter 7

MANAGING DISTRIBUTION CHANNELS AND PHYSICAL DISTRIBUTION

Objectives

After studying this Chapter, you should be able to:

- Understand the concept of Channels of Distribution and the importance of different channels
- Understand the meaning of channel conflict and the factors influencing it and also how to resolve the conflict
- Know the major Direct Marketing methods
- Study the concept, types and significance of physical distribution system and decision areas in physical distribution

Structure:

7.1 Channels of Distribution
7.2 Channel Conflict
7.3 Direct Marketing
7.4 Physical Distribution
7.5 Decision Areas in Physical Distribution
7.6 Speedy Distribution of Goods
7.7 Summary
7.8 Self Assessment Questions

7.1 CHANNELS OF DISTRIBUTION

- **Meaning of Channels of Distribution**

Channels of distribution are mainly concerned with distribution of goods and services. It is the distribution network through which a producer puts his products in the hands of the actual user. It is the set of marketing intermediaries or institutions who participate in the distribution of goods and services from the point of production to the point of consumption. In the field of marketing, channels of distribution indicate routes or pathways through which goods and services flow, or move from producers to consumers.

We can define formally the distribution channel "as the set of interdependent marketing institutions participating in the marketing activities involved in the movement or the flow of goods or services from the primary producer to the ultimate consumer."

Marketing institutions considered as channel components are:

(a) All kinds of merchant middlemen, such as wholesalers and retailers.
(b) All kinds of agent middlemen, such as commission agents, factors, brokers, warehouse-keepers and so on. The route or channel includes both the manufacturer and the ultimate consumer as well as all intermediaries. These components are linked in the channel system by one or more of the marketing flows, such as transfer of title or ownership, physical movement of merchandise, transmission of marketing information, and the flow of money in the form of payment of prices and other dues. The channel members right from the producer up to the consumer are inter-related and we have the total distribution system which is responsible for distribution of goods or services in order to satisfy consumer needs or desires.

- **Role of Channels of Distribution**

In an ever-widening market, particularly in consumer goods market, distribution channels have a distinctive role in the successful implementation of marketing plans and strategies. These channels perform the following marketing functions:

1. The searching out of buyers and sellers (contacting).

2. Matching goods to the requirements of the market (merchandising).

3. Offering products in the form of assortments or packages of items usable and acceptable by the consumers/users.

4. Persuading and influencing the prospective buyers to favour a certain product and its maker (personal selling/sales promotion).

5. Implementing pricing strategies in such a manner that would be acceptable to the buyers and ensure effective distribution.

6. Looking after all physical distribution functions.

7. Participating actively in the creation and establishment of market for a new product.

8. Offering pre-and after-sale services to customers.

9. Transferring of new technology to the users along with the supply of products and playing the role of change agents, e.g., in the agricultural green revolution in our country.

10. Providing feedback information, marketing intelligence and sales forecasting services for their regions to their suppliers.

11. Offering credit to retailers and consumers.

12. Risk-bearing with reference to stock holding/transport.

- **Flows in Channels of Distribution**

A flow is a set of functions performed in sequence by channel members. In the flow process, producers, wholesalers, retailers, and consumers are linked. The functions that need to be necessarily performed in a channel system include transfer of ownership through transportation, order processing, inventory carrying, storage, sorting negotiations, and promotions. The same function in a given channel system may be performed at more than one level and in such a case the workload for the function would need to be shared between channel members. A channel symbolises the path for movement of title, possession, and payment for goods and services. Figure 7.1 gives a representation of these marketing flows:

- **Primary Channel Participants**

Primary channel participants are defined as "participants that acknowledge their dependence upon one another in a channel arrangement and assume the risk during the value addition distribution process." The primary participants are manufacturers, wholesalers and retailers.

- **Key Issues in Determining Channel Requirement**

While a manufacturer faces an agenda of issues related to finance, marketing and industrial relations, attention is focused on selected topics that directly impact the marketing channel arrangement. The key issues related to this are:

1. **Product Proliferation and Dynamics:** A major concern throughout industry is the rapid expansion that firms are experiencing in the number of stock-keeping units that they maintain in their product list. Fully understanding basic customer needs through marketing research is viewed as a key to successful new product launch. In practice, a few firms have a highly successful new product track record. A large number of new products fail to remove obsolete inventory. The product life-cycle is useful for planning the marketing and distribution strategy.

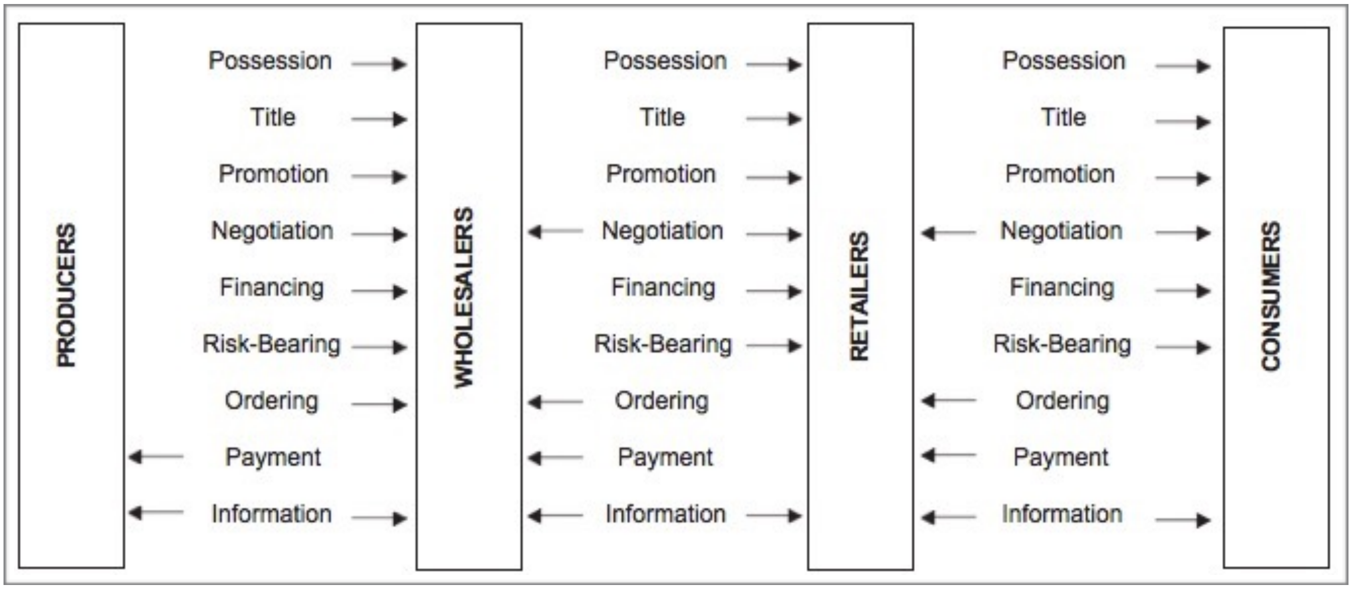


Fig. 7.1 Marketing Flows in a Channel System

Source: Adapted from R.S. Valie, T.S. Grether and R. Cox, "Marketing in the American Economy" (NY, The Ronold Press).

Numerous examples are available from the food industry to illustrate the product proliferation dilemma. The industry is characterised by a constant effort on the part of manufacturers to introduce new products for distribution. Retailers and wholesalers want to enter into an agreement with manufacturers in which they agree to buy all unsold inventory back at the retail price if a product fails. Independent of the fairness of such agreements, the fact remains that the inventory mistakes must be cleansed from the channel.

2. **Total Quality Initiatives:** Total quality initiatives represent the primary focus of the revitalisation drive. The concept of total quality is "do it right the first time." The general concept of total quality is to focus managerial attention on key concepts of manufacturing: People, Process, Design and customer service through distribution channel.

3. **Manufacturing Strategies:** There are two popular manufacturing strategies: (1) Flexible, and (2) Focused.

   The goal of flexible manufacturing is to increase responsiveness of production to consumer demands. Having the capability to manufacture what is needed reduces the amount of inventory. For this strategy to succeed, a manufacturer must have an efficient marketing channel so that the demand of the product can be fulfilled effectively in time.

The goal of focused manufacture is the lowest possible per unit cost and fair quality. The basic idea is to adopt leading-edge manufacturing technology and utilise it to the maximum capacity. Focused manufacturing requires building significant inventories in anticipation of future sale. The operational trick is to plan manufacturing schedules to keep anticipatory inventories balanced to market demand.

Each of these strategies requires a different type of channel management support. The modern concept of manufacturing seeks to involve employees at all levels of the organisation to effect process improvement and to take initiatives related to customer service. Manufacturers, because of the nature of their brand products, are typically held responsible for performance of the entire marketing channel. Both consumers and trading partners expect manufacturers to maintain a high quality product. It is clear that, with emerging manufacturing strategies, a premium is placed on gaining and maintaining customer's satisfaction through speed and quality. Quality is somehow based on manufacturers but the speed fully depends upon the channels.

- **Channel Choice**

A distribution system is a key external resource, equally important with key internal resources. The problem of selecting the most suitable channel of distribution for a product is complex. The most fundamental factor for channel choice and channel management is economic criteria, viz., cost and profit criteria. Profit organisations are primarily interested in cost minimisation in distribution and assurance of reasonable profit margin. However, channel decisions are not made entirely on the basis of rational economic analysis. We have to consider a number of factors such as the nature of the product, market trends, competition outlook, pricing policies, typical consumer needs, as well as needs of the manufacturer himself. The following are other critical factors:

1. Product:

a. If a commodity is perishable or fragile, a producer prefers few and controlled levels of distribution. For perishable goods speedy movement needs shorter channel or route of distribution.

b. For durable and standardised goods longer and diversified channel may be necessary.

c. For custom-made product direct distribution to consumer or industrial user may be desirable.

d. Systems approach needs package deal and shorter channel serves the purpose.

e. For technical product requiring specialised selling and serving talents, we have the shortest channel.

f. Products of high unit value are sold directly by travelling salesforce and not through middleman.

2. Market:

a. For consumer market, retailer is essential, whereas in business market we can eliminate retailer.

b. If the market size is large, we have many channels, whereas in a small market direct selling may be profitable.

c. For highly concentrated markets, direct selling is enough but for widely scattered and diffused markets, we must have many channels.

d. Size and average frequency of customer's orders also influence the channel decision. In the sale of food products, we need both wholesaler and retailer.

e. If ultimate buyers are numerous, the order is small, order frequency is great and buyers insist on the right to choose from a wide variety of brands/goods, we must have three or even more levels of distribution. When service after sale is required, e.g., TV Sets, Refrigerators, etc. selective distribution is profitable.

3. Middlemen:

a. Middlemen who can provide marketing services will be given first preference. Of course, they must be available.

b. The selected middlemen must offer maximum co-operation, particularly in promotional services. They must accept marketing policies and programmes of the manufacturers and actively help them in their implementation.

c. The channel generating the largest sales volume at lower unit cost will be given top priority. This will minimise distribution cost.

4. Company:

a. A company with substantial financial resources need not rely too much on the middlemen and can afford to reduce the levels of distribution. A weaker company has to depend on middlemen to secure financial and warehousing reliefs.

b. New companies rely heavily on middlemen due to lack of experience and ability of management.

c. A company desiring to exercise greater control over channel will prefer a shorter channel as it will facilitate better co-ordination, communication and control.

d. Heavy advertising and sale promotion can motivate middlemen to handle displays and join enthusiastically in the promotion campaign and co-operative publicity. In such cases even a longer chain of distribution can be profitable. Thus, quantity and quality of marketing services provided by the company can influence the channel choice directly.

5. Marketing Environment:

Marketing environment can also influence the channel decision. During recession or depression, shorter and cheaper channel is always preferable. In times of prosperity, we have a wider choice of channel alternatives. Technological inventions also have impact on distribution. The distribution of perishable goods even in distant markets becomes a reality due to cold storage facilities in transport and warehousing. Hence, this led to expanded role of intermediaries in the distribution of perishable goods.

6. Competitors:

Marketers closely watch the channels used by rivals. Many a time, similar channels may be desirable to bring about distribution of your products also. However, sometimes marketers deliberately avoid customary channels (dominated by rivals) and adopt different channel strategy. For instance, you may by-pass retail store channel (usually used by rivals) and adopt door-to-door sales (Where there is no competition).

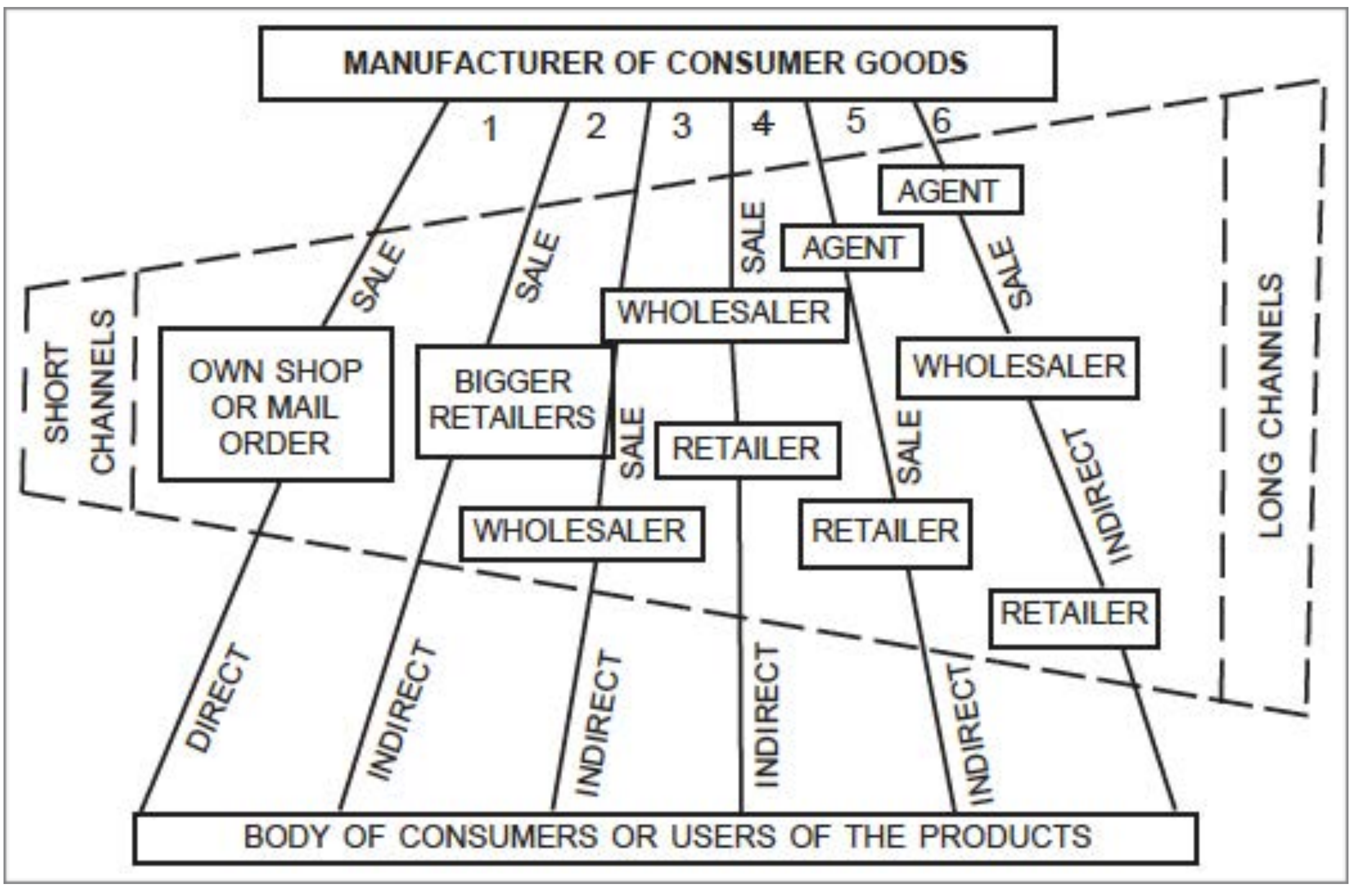


Fig. 7.2 Major Channel Options in Consumer Goods Market

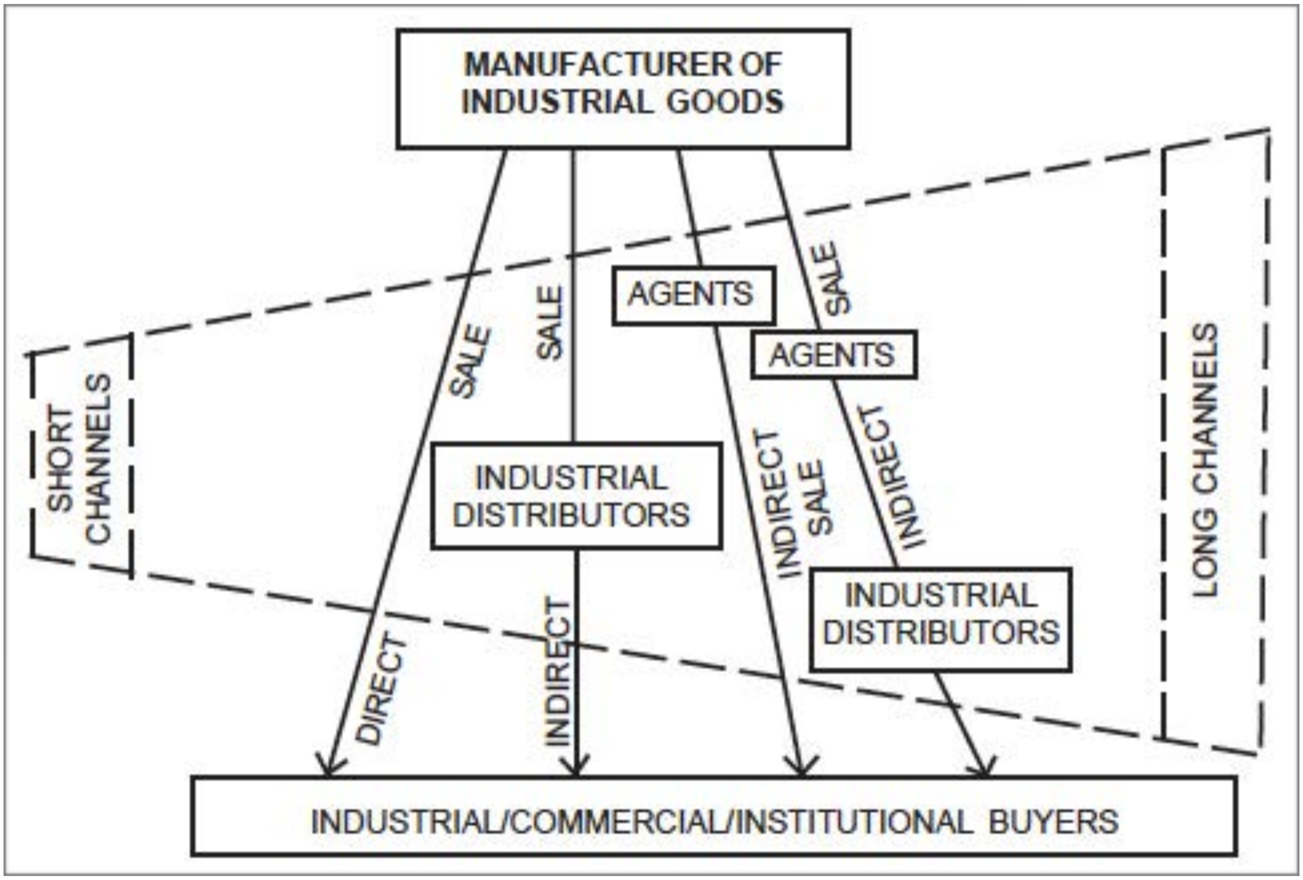


Fig. 7.3 Major Channel Options in Business Goods Market

- **Channel Decision**

The first problem of channel design is whether you want direct sale to consumer or indirect sale i.e., sale through middlemen. The selection of these middlemen begins with the knowledge of ultimate customers — his needs and desires for distribution services. The number of middlemen employed will be determined by customer conveniences and economies of exclusive distribution. The company must choose whether to attempt extensive, selective, or exclusive distribution or combination of all the three types. The decision is made after a careful analysis of product, consumers, dealers, company objectives and policies, and the conflict within the channels and any other relevant factors. The company must resolve channels and bring the product profitably to the market. Once the company has determined its basic channel design and levels of distribution, it has to select middlemen, appoint them, motivate their efforts, evaluate their utility periodically and, if necessary, reorganise the channels in the light of experience.

- **Market Coverage**

Once, the company decides the general channels to be used,it has to decide on the number of middlemen in each channel, i.e., intensity of distribution. There are three alternatives.

1. **Extensive Distribution:** We have maximum number of retail outlets for mass distribution of consumer goods as consumers demand immediate satisfaction and that too at the most convenient retail shops. Extensive or broadcast distribution is essential when the price is low, buying is frequent and brand switching is a common phenomenon. Extensive distribution secures rising sales volume, wider consumer recognition and considerable impulse purchasing. But it creates problem of motivation and control and it may generate unprofitable sales due to higher marketing costs.

2. **Selective or Limited Distribution:** When special services are needed, e.g., TV sets or a prestige image is to be created, e.g., certain cosmetics to be sold only through chemists, we have selective distribution. The number of outlets at each level of distribution is limited in a given geographic area. When we have limited number of middlemen, they can spend more on sales promotion and offer maximum cooperation in the company’s promotion campaign. If the product has long useful life and consumer brand preference can be established, selective distribution will be more profitable.

3. **Exclusive Distribution:** When final buyers do not need any product service, mass or extensive distribution is adopted. If the amount of product service expected by final buyers is considerable, exclusive distribution is preferable. Here, we have one wholesaler or one retailer for a given market to handle the right of distribution in that market. Similarly, if your brand has not only brand preference but also brand insistence and consumers refuse to accept substitutes, selective or even exclusive distribution is feasible. Exclusive distribution creates a sole agency or sole distributionship in a given market area. Such types of distribution are very useful in the sale of consumer speciality goods, e.g., expensive men’s suits. Exclusive distribution privileges offer tremendous loyalty of dealers and substantial sales support from dealers. However, the main sacrifice involved is the rising sales volume that might be obtained through

wider or extensive distribution. The manufacturer can have greater control over prices and markets and he can get maximum co-operation from middlemen. Exclusive dealer can carry complete stock and offer after-sale-service to the buyers of products.

Legal Aspects

There are four major legal aspects of exclusive distribution:

i) **Exclusive Dealing Contracts:** They prohibit the dealer from selling products of rivals. An exclusive dealing contract is not illegal in all situations. It is not allowed to a monopolist. For a new and small manufacturer it is permitted.

ii) **Tying Contracts:** They compel the dealer to carry full line of a manufacturer. Tying contracts are also legal as long as the dealer is not prohibited from selling competitive goods. However, this agreement cannot be made compulsory.

iii) **Closed Sales Territory:** It limits each dealer to sell only to buyers located within the assigned area. Closed sales territories may be illegal because it is an agreement restricting the right of the dealer. It may tend to create monopoly.

iv) **Franchise Selling:** Franchise means a privilege or exceptional right granted to a person. Franchise-selling is a system under which a manufacturer grants to certain dealers the right to sell his product or service, in generally defined areas, in exchange for a promise to promote and sell the product in a specific manner. The franchiser (the parent company) provides equipment, the products or services for sale, and also managerial services to franchisee (the owner of business unit). Under this system, the owner of the product issues a licence to independent dealers in certain areas and encourages them to make profit for themselves. The owner retains control over the technique or style with which the goods or services are sold.

We have three forms of franchising:

1. The manufacturer-sponsored retail franchise system. For instance, car maker licenses dealers to sell its cars, the dealer meeting conditions of sales/services.

2. The manufacturer-sponsored wholesaler franchise system. For instance, Coca-Cola licenses bottlers (wholesalers) in each market who buys its syrup concentrate and then carbonate, bottle and sell it to retailers in all local markets.

3. The service-firm-sponsored retailer franchise system. For instance, fast-food-service, auto-rental business, motel business.

Channels of Distribution

The most common routes used for bringing the products in the market from producer to consumer are as follows:

1. **Manufacturer-Consumer (Direct Sale):** There are three alternatives in direct sale to consumers: (a) Sale through advertising and direct methods (mail-order selling), (b) Sale through travelling salesforce (house-to-house canvassing), Examples: Eureka Forbes, Modi Xerox, Amway. (c) Sale through retail shops of manufacturer, e.g., Mills cloth shops, Bata Shoe Company Shops. This is a shortest channel a product can follow to the market. Business goods may be sold directly to business buyers. Usually we have numerous and scattered consumers who buy in very small quantities. Hence, this channel is not popular for a wider market.

2. **Manufacturer-Retailer-Ultimate Consumer:** This channel option is preferable when buyers are large retailers, e.g., a department store, discount house, chain stores, supermarket, big mail-order house or co-operative stores. The wholesaler can be by-passed in this trade route. It is also suitable when products are perishable and speed in distribution is essential. Automobiles, appliances, men's and women's clothing, shoes are sold directly to retailers. However, the manufacturer has to perform functions of a wholesaler such as storage, insurance, financing of inventories, and transport.

3. **Manufacturer-Wholesaler-Retailer-Consumer:** This is a normal, regular, and popular channel option used in groceries, drugs, goods, etc. It is suitable for a producer under the given conditions: (a) He has a narrow product line. (b) He has limited finance. (c) Wholesalers are specialised and can provide strong promotional support. (d) Products are durable and not subject to physical deterioration or fashion changes.

   The best means of transport and communications, growth of big retailers, computer handling of small innumerable orders of retailers, advances in automatic data processing, information explosion, etc., may reduce the need and importance of wholesalers in future.

4. **Manufacturer-Agent-Wholesaler-Retailer-Consumer:** In this channel, the producer uses the service of an agent middleman such as a sole selling agent, for the initial dispersion of goods. The agent in turn may distribute to wholesalers, who in turn sell to retailers. Many textile mills have sole agents for distribution. We may have a large national distributor such as Voltas, acting as sole sales agent for many manufacturers. Agent middlemen generally operate at the wholesale level. They are common in agricultural marketing. In marketing manufactured goods, agent middlemen are used by manufacturers to make themselves free from marketing tasks. An agent middleman sells on commission basis directly to wholesaler or large retailer.

5. **Manufacturer-Wholesalers-Consumer/User:** Wholesaler may by-pass retailer when there are large and institutional buyers, e.g., business buyers, Government, consumer co-operatives, hospitals, educational institutions, business houses.

6. **Manufacturer-Distributor-Wholesaler-Retailer-User:** A lengthy marketing channel used by FMCG Companies to penetrate rural and semi-urban markets.

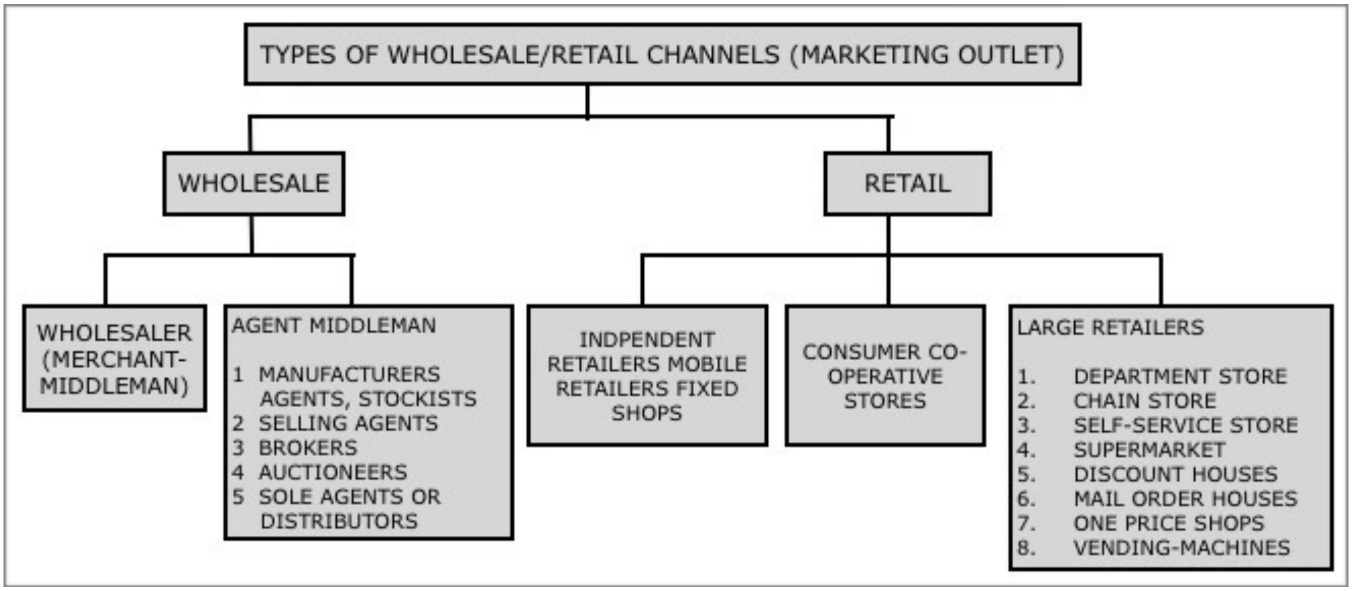


Fig. 7.4 Marketing Middlemen

- **Middlemen in Distribution**

In all commodity markets, whether primary or central, we have a host of middlemen acting as essential functionaries.

1. **Brokers:** Broker is an agent who does not have direct physical possession of goods in which he deals but he represents either the buyer or the seller in negotiating purchases or sales for his principals. Brokers may be organised as individuals, partnership or even companies. They act as agents for their clients — producers, dealers, manufacturers, etc. They buy and sell specific quantities of specific grades of a commodity on behalf of their masters or employers who undertake all market, credit, transport, and other risks.

2. **Commission Agents:** Individuals, firms, or even companies are organised to buy or sell commodities, acting as buying or selling agents of producers, or manufacturers. They may buy or sell on their own account and at their own risk of loss. In that case, they are called commission merchants or factors. They may receive goods for sale on consignment acting as consignees of their employers and the consignment method is used by manufacturers who wish to maintain resale prices of their goods. They may also act as sole agents of their employers.

Selling agents sell the entire output of their principals or all of given lines of goods; they also often have full authority to finalise prices, terms and other conditions of sale. We have also manufacturer's agents to sell goods of a number of a non-competing producers or manufacturers. They are appointed on a continuing agency basis; they often sell within an exclusive area. But they possess limited authority with regard to prices and terms of sale. All commission agents work for a fee or commission, e.g., three per cent to five per cent on sales or purchase.

Manufacturer's agents are very helpful, in the three circumstances: (1) for a small manufacturer with a few products and having no salesforce, (2) for entering into a new market to be fully developed, and (3) for sale of a new line of product, which the present salesforce is unable to manage or the new market is not within their territory.

3. **Sole Selling Agency:** An established firm of good reputation operating in each area may be appointed as a sole agent or distributor exclusively for that locality. When the agent is assured of benefits, he will work hard and with enthusiasm. There should be a regular legal agency agreement covering the mutual rights and obligations of both parties and all questions likely to arise during the agency. The minimum period of an agency should be normally three to five years, with a three months' notice period on either side for agency termination.

   Usually, sales agencies involve exclusive selling rights for a territory. This will prevent competition among agents. Of course, the sole agents must know the area well and must be able to handle the given area effectively. The sole agent is given a special commission.

- **Consignment Sale**

The stock is held on consignment by the agent and the property remains with the seller until it is sold. The agency agreement will mention the maximum amount of stock to be held by the agent at a time. Within the prescribed limit, the agent is free to select his stock.

Under a consignment sale, the goods are consigned to the selling agent called the consignee on a sale or return basis. When the goods are sold, the agent prepares 'Account Sale' and forwards it to the seller. The selling expenses and commission are deducted from the total sale proceeds and the net amount due is remitted by cheque along with the Account Sale. Usually, the selling agent also acts as del credere agent in which case he assumes full responsibility for bad debts against special del credere commission.

Sole agents or sole distributors are given reasonable areas for exclusive selling rights. The seller cannot put too much of his business in the hands of one agent. If a large output is sold through one agent only, the goods of the seller may become identified with the agent to such an extent that a change of agent would be difficult in practice without loss of business and prestige. The manufacturer should not rely upon his agent for demand creation. He must conduct a general advertising campaign with co-operation.

Exclusive dealing agreements are illegal if the supplier has a substantial share of the market. However, in India, exclusive dealership or distributorship is regarded as a restrictive trade practice, subject to approval under the M.R.T.P. Act, 1969.

- **Evaluation of Marketing Intermediaries**

Marketing intermediaries or middlemen in the distribution network are indispensable because they perform specialised marketing functions such as buying, selling, transporting, warehousing, grading, sorting, financing, risk-taking, and dissemination of marketing intelligence. They create time, place, possession, and information utility. Marketing intermediaries survive and prosper only as long as they perform one or more of these essential marketing functions at costs which are competitive with other intermediaries and at levels matched to market demands.

It should be clearly understood that marketing functions or services can be shifted and shared, but they can never be eliminated. Even if a producer takes goods directly to the user, the channel functions cannot be eliminated. The producer under direct sale must perform all marketing functions such as buying, selling, stocking, pricing, promoting, displaying, delivering, financing, and so on. The direct sale may reduce the number of times or the frequency of the functions performed. But it cannot eliminate those typical marketing functions. Besides, the direct route may or may not reduce the cost. Under such circumstances, where is the utility of eliminating middlemen in distribution? On the other hand, it is preferable to utilise middlemen who specialise in those marketing services and who offer the benefits of specialisation at reasonable cost. Wholesalers and retailers, by practising specialisation and division of labour, reduce their operating expense ratios. They can operate on relatively small profit margin.

Middlemen serve as expert purchasing agents for their customers, and expert sales specialists for their manufacturers. Many a time, they offer financial help to their suppliers and their customers. They also act as risk-bearers. They look after storage and transport. They are the clearing house of information. Hence, they are essential in the machinery of distribution.

Functions of Sales Experts: (1) Market information. (2) Promotion. (3) Merchandising. (4) Storage. (5) Finance. (6) Feedback of consumer wants. (7) Risk-bearing. (8) Sales negotiation a title to goods.

Functions of Purchase Specialists: (1) Consumer wants anticipation. (2) Breaking of bulk. (3) Storage. (4) Transport. (5) Finance. (6) Risk bearing. (7) Marchandising. (8) Product guarantee. (9) Products readily available.

To the manufacturer, middlemen are sales experts. To the customers, they are buying specialists.

- **Wholesalers**

Wholesalers are individuals or business firms who will sell products to be used primarily for resale or for industrial use. The wholesaler is a bulk purchaser with the object of resale to retailers or other traders after breaking down his 'Bulk' in smaller quantities and, if necessary, repacking the smaller lots into lots suitable for his customers, viz. retailers.

- **Wholesale Vs. Retail Trade**

Wholesalers operate on a large-scale in the central market and act as the first outlet in distribution, usually specialising in one or a group of allied articles. Retailers operate on a small-scale and in the local markets, selling directly to the consumers a wide variety of goods to satisfy numerous and changing wants of customers.

Wholesale business needs large capital. Wholesale prices and margins are relatively lower, and the business can be carried on with or without a showroom. Retail business requires limited capital, the prices and margins are relatively higher and the business requires a shop with or without display.

- **Typical Wholesale Services**

A middleman in distribution is a specialist in concentration, equalisation, and dispersion. Wholesalers specialise in these three vital functions in the process of marketing. Wholesalers offer typical services as middlemen between producers and retailers in the central market: (1) Maintenance of salesforce, (2) Storage, (3) Delivery to retailers, (4) Financial help to both manufacturer and retailer, (5) Merchandising, i.e., preparations for sale (packing, grading, branding, etc.), (6) Sales promotional work, (7) Product servicing, (8) Marketing information, (9) Risk-bearing, and (10) Finding new retailers.

- **Services to the Manufacturer or Producer**

1. **Order Collector:** Retailers are usually scattered, their orders are small and they are too many in number. The wholesaler acts as order collecting and marketing agency for the manufacturer. The manufacturer can, therefore, concentrate on production and need not worry about distribution.

2. **Risk Transfer:** A wholesaler usually places huge advance orders on the manufacturer. Thus, the manufacturer is insured for sale or disposal. He need not carry large stocks and can concentrate fully on manufacturing goods as per order of the wholesaler. The manufacturer is, therefore, free from bearing of risk of loss.

3. **Financial Relief:** The wholesaler's organisation can be used by the manufacturer for disposal of his goods. The manufacturer need not maintain huge sales organisation for collection of numerous orders and dispatching many small parcels of goods to scattered retailers. The manufacturer need not grant credit to retailers. Wholesalers do not demand credit from the manufacturer and sometimes they make advance payment to small manufacturers. Thus, the manufacturer

enjoys financial relief and employs his capital for more productive purposes, viz., expansion of his manufacturing activities.

4. **Expert Advice:** The wholesaler knows the pulse of the market. He can secure first-hand information of consumer's wants through the retailer's order. The wholesaler's order on the manufacturer can act as an indicator of trend of demand or of public taste. The manufacturer can regulate his production activity in the light of this trend and can bring about necessary modifications in his product so that it will give the desired satisfaction to the consumer.

- **Services to the Retailers**

1. **No Need to Hold Large Stocks of Varied Goods:** A retailer has to maintain adequate stocks of varied commodities especially if his turnover is not quick and he has relatively large number of customers. He encounters two difficulties in holding large stocks of each type of commodity. One is dearth of capital and the other is lack of space. Hence, he cannot maintain adequate stocks of varied articles. Under such circumstances, the wholesaler's warehouse acts as reservoir or a constant source for retailers to draw their supplies as and when they require. Thus, the wholesaler gives a retailer definite assurance to replenish or refill his stocks at frequent intervals. The retailer gets considerable financial relief and need not lock up his capital. He can carry on his business with less amount of capital.

2. **Prompt Delivery of Goods:** In absence of the wholesaler, the retailer may have to wait for a long time for the execution of his order or he may have to place advance orders on the manufacturer. When the wholesaler is present, supplies to the retailer will be available more quickly as the goods are in his warehouse almost ready for delivery. Thus, the retailer gets prompt delivery of goods.

3. **Benefits of Specialisation:** The wholesaler performs marketing functions for the retailer also. A retailer will buy from the best wholesaler who in turn will secure supplies from the best manufacturer. Some of the advantages of specialisation can be passed on to the retailers. A retailer carries varied stocks, therefore, he cannot claim expert knowledge of market conditions for each article. The wholesaler specialises in one line of goods and knows the pulse of the market.

Therefore, he can advise the retailer when to buy, how much to buy at a time. He can also guide him regarding the quality of the product.

4. **Announcement of New Products:** The wholesaler informs the retailer about the arrival of new goods. The new products may be advertised by the manufacturer. They may be kept in the showroom and his travelling salesman may create demand through personal salesmanship. The wholesaler may help the retailer in an efficient window-display of the new products in his shop.

5. **Grant of Credit:** Wholesalers grant credit to their permanent customers. Average size of the retailer's order is large and the order may be placed on different departments of the wholesaler's organisation. Secondly, the retailer makes frequent purchases and cash settlement for each purchase may lead to inconveniences and waste of time. Hence, the wholesaler usually grants monthly or quarterly credit and sends periodical statements of account to the retailers who are granted credit facilities. Such financial help increases in effect the working capital of the retailer. However, he has to forego cash discount when he accepts credit from the wholesaler.

   The wholesaler may grant credit to those retailers whose sales turnover is slow, whose transactions are on credit and who are required to maintain large stocks at a time. Quick sales turnover, and cash sales do not require large stocking of goods. Hence, the wholesaler may not grant credit to such retailers.

- **Is Wholesaler Essential?**

Position of the Retailer in the Absence of the Wholesaler: We may realise the indispensability of a person much more when he is absent rather than when he is present and serving us in different ways. This is true in the case of the wholesaler, who is acting as a connecting link between the manufacturer and the retailer. In the absence of wholesaler, the retailer will suffer from the following inconveniences: (1) He will have to hold large stocks of varied articles, and for this he must have adequate space and ample capital. Very few retailers can command both space and capital. (2) He will have to assemble stocks from different manufacturers. (3) He will have to arrange for their carriage, packing, warehousing, etc. (4) He will have to bear the risk of fluctuations in prices, changes in public taste and demand. Very few retailers are capable of bearing such risk of loss.

- **Retailers**

Retailing is a trading activity directly related to the sale of goods or services to the ultimate consumer for personal, non-business use. A retailer is the last middleman in the machinery of distribution and he is responsible to satisfy recurrent wants of consumers. Retail trade is selling of varied goods in small quantities to the final consumer. There are three distinguishing features of retail trade. The retailer deals in small quantities and his business is usually local in character. Secondly, retail trade always shows tendency towards variety as it has to satisfy innumerable wants of consumers. A specialised retail shop is for approaching specific target market. Thirdly, a retailer, by operating near about the residential areas of consumers, sells his wares directly to consumers. He may extend credit facilities and offer home delivery service. Manufactured goods are worthless until they pass acid-test of retail distribution. The retailer alone can offer safe and reliable goods to consumers.

Retailer

Buying for Consumers

1. Anticipating wants
2. Breaking of bulk
3. Transport and warehousing
4. Financing
5. Product guarantees
6. Repairs and installation.

Selling for Producers

1. Expert Seller
2. Advertiser of goods
3. Bulk breaking
4. Financing
5. Storage
6. Feedback source of consumer needs and reactions.

Fig. 7.5 Role of Retailer

7.2 CHANNEL CONFLICT

- **Types of Conflict**

Even when a company has an effective distribution set up in the market, some conflict between channel members and between the company and channel members may take place. This is normally due to conflicting business interests. **Example:** The company wants the distributor to extend the activities to new and uncovered markets and appoint new dealers for increasing sales volumes. But the distributor focuses on existing, developed markets and loyal dealers and is comfortable to work in the established market. He is reluctant to explore new and unknown markets. There are three types of channel conflict.

1. **Vertical channel conflict** relates to conflict between different levels within the same channel. **Example:** Conflict between distributor and the retailer.

2. **Horizontal channel conflict** means conflict between members at the same level of the distribution channel. **Example:** Price-cutting between retailers in the same market.

3. **Multi-channel conflict:** Here the company selects two or more channels to sell its products in the same market. **Example:** Company makes direct supplies to wholesales as well as key retailers in the same market. The wholesaler is hurt since this arrangement affects his sales in the market.

- **Causes of Channel Conflict**

1. **Conflicting objectives:** The objectives of the company and the channel members differ. **Example:** The company wants the distributor to offer sales incentives for bulk purchases. The distributor wishes to work with high margins and is concerned with his profitability.

2. **Demand for extra discount:** The channel members may ask for additional discount for pushing the products and the company may not be in favour such proposal, leading to conflict.

3. **Unethical practices:** Channel members i.e., distributors and dealers may resort to unethical practices like charging more than MRP (particularly during shortages), not passing on free goods to consumers, selling spurious products, etc. leading to conflict between company and channel members.

4. Some companies may supply directly to key industrial customers bypassing the area distributor. The distributor looses the business and the commission, and this leads to conflict between the company and the distributor.

5. The distributor may sell competitors' products and this will affect company's business.

6. **Reduction in the area of operation:** In order to improve dealer coverage and sales, company may reduce the area of operation of the current distributor and add one or more distributors in the same area. The distributor is upset with the decision of the company as his area of operation has been reduced and his sales may be affected.

7. **Managing Channel Conflict:** Channel members play a major role in growth and development of business. They perform specialised marketing functions such as buying, selling, warehousing, grading, financing, risk taking and provide valuable marketing intelligence to the company. Chosen channels cannot be terminated overnight. Channel decisions require special attention as they are key external resource equally important like internal resource (employees).

   a. **Communication:** Regular communication between the company, distributors and dealers will certainly go a long way in minimising channel conflicts. Circulars, e-mails, news letters, personal one-to-one discussions can be used to communicate with channel members. Taking feedback from key distributors/dealers and involving them in discussions will help the company in improving relations with distribution channel members.

   b. **Aligning goals of the company with these of channel members:** The sales and field activities plan of the company should be discussed and communicated to the distributors/dealers so that both the company and channel members can work together for achievement of common objectives.

c. **Dealer councils** can resolve conflicts between company/ distributors/dealers. It provides an opportunity for dealers to represent the problem in the market.

d. **Arbitration and mediation** facilitate settlement of channel conflicts. If these methods prove ineffective, the member may go to the court. However, it is a time-consuming and very often an expensive option.

7.2 DIRECT MARKETING

Under general marketing, marketer depends upon advertising, sales promotion, and personal selling to promote their products and use some channel of distribution to bring about mass distribution. Advertising is used for awareness, interest and to build the brand image. Sales promotion is required for impulse buying or offering USP to buy now. Personal selling is employed to convince the prospect and close the sale. Under direct marketing all the three means of promotion are compressed to induce direct sale without the help of any middleman traders. Direct marketing is selling product and services to customers without the use of channel members.

A direct marketer is an organisation that uses personal selling, advertising, sales promotion, electronic media, vending machines, etc. to promote and sell products directly to consumers/users. Telemarketing i.e., marketing by telephone has assumed greater importance than even mail-order sale in all developed countries; very soon televised shopping also will grow in importance.

- **Major Direct Marketing (Non-store Retailing) Methods**

1. **In-home Selling:** Marketer can use door-to-door selling through trained sales force. In India Eureka Forbes is marketing its consumer durables, vacuum cleaners and electronic water filters through in-home or direct selling. Initial contact may be made by phone or mailed-in-coupon. This method is costly but effective. We may have a party plan approach. A host invites friends to a party, a salesman makes a sales presentation at the party. The invitees can shop in a friendly and social

environment. In India, manufacturer of Nutrela (Soyabean product) decided to go to the consumers directly, and teach them how to use the product. Demonstrators were housewives who would approach a ladies' Kitty group, a mahila mandal. They would make a few dishes with Nutrela granules. While cooking, they would comment on the goodness of soya and its economy. The consumers would test and also learn what all could be done. 8,000 good demonstrations were held in five years. This method was very successful in creating market for that novel product.

2. **Telebuying/Teleselling:** The dial-n-order, i.e., Telephone- buying and direct phone contact with the prospects to persuade and secure orders on phone is now a popular device in the West and spreading in big cities in India. Telephone-shopping and getting free home delivery is very convenient and also cheaper method for double-income families. In-store sale is supplemented by telephone selling by a marketer as it is cheaper than in-home sale through salesforce. The growing satellite networks can create brand awareness and facilitate phone buying and selling.

3. **e-marketing:** IT and Internet are extensively used for buying rail, bus and air tickets and booking hotel accommodation.

4. **Mail-Order Sale:** Standardisation, grading, branding, and packaging brought about the growth of mail order sale, i.e., selling or shopping by post, described as 'arm-chair shopping'. The seller approaches the prospects by mail publicity, i.e., sending circulars, price-list, catalogue, booklets, pamphlets, samples, etc., through the post office. Up-to-date mailing list is maintained. All selling is done invariably through regular advertisements and direct mail publicity. Sometimes, local agents are also employed for order collection, execution as well as collection of dues, when sale is by instalments. However, usually orders are collected as well as executed through the mail by V.P.P. Marketer may receive orders on phone also.

   Examples of Goods Sold by Mail-Order are: Books, Toys, Cutlery, Watches, Fountain pens, Clothes, Footwear, Small appliances, Common drugs and cosmetics, Ready-made Foods, Household furnishing, etc.

   Follow-up method is usually followed in mail-order by sending a series of letters to persuade and gain action. Readers Digest, Time and many such magazines have perfected the mail-order method for securing renewals or new subscriptions. Anjali mills of Bangalore is selling Anjali sarees in the price range of Rs. 500 to Rs. 1,200 and upwards. It sends coloured picture catalogues providing adequate information. Many mail order sellers regularly send catalogues to consumers on their mailing list. Direct marketing through mail order method is firmly established in all markets. Even industrial goods are also sold by this method. Lakme has also adopted the direct marketing route. Women consumers who have shopped at its exclusive counters are being sent personalised letters with an invitation for a free make- up session with trained beauticians.

5. **Direct Response Marketing (using TV, radio and press media):** Magazines, newspapers, radio, and television are used to present direct response offers to customers. The advertisement includes the company's toll-free telephone number. The customer is requested to secure further information and place an order directly using that toll-free number. Television is a growing medium for direct marketing both through network and cable channels. The customer gives his credit card number while placing an order. Direct response advertisements frequently appear on television and radio. In U.S.A. they have Home Shopping Network (cable network), a retail TV media for 24 hours per day.

6. **Permission marketing** is a form of direct marketing wherein promotional information is sent only to those consumers who give permission to do so. It can be offered on Internet, mobile or direct mail. Those who agree are given incentive for volunteering. The information pertains to company's products or services.

7. **Automatic Vending Machines:** Well-known pre-sold brands with good turnover are sold by vending machines. Cold drinks, coffee, candy, snacks, magazines are suitable products sold by vending machines. They are usually kept at work places, schools, and public places.

- **Integrated Direct Marketing (use of multiple media)**

It has the following sequence: (1) Paid Advertisement with a response mechanism creates awareness and interest. (2) The marketer then sends direct mail to those who inquired. (3) The marketer follows-up the mail within two to four days by phone, seeking an order. (4) Face to face sales call may be arranged if customer so desires. Follow-up on phone is continued to secure an order.

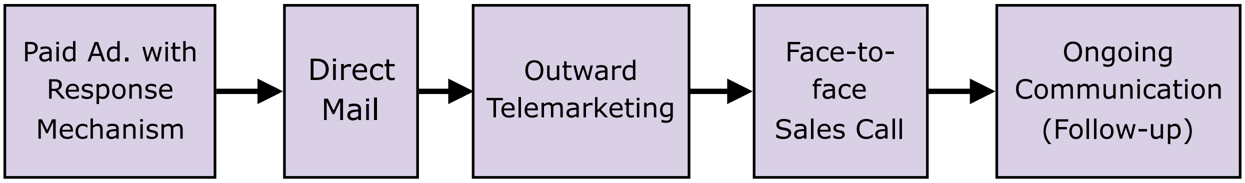


Fig. 7.6 Response Compression

- **Comments on Direct Marketing**

Direct marketing has several advantages when compared with in-store retailing: (1) Direct marketing can focus marketing efforts effectively in terms of selling to the selected target markets. (2) Marketer can contact prospects directly rather than wait for them to appear in the store. (3) It gives great convenience to customers for making purchases. (4) It is a lower-cost way of doing business than through a retail store. (5) It needs less capital to be invested in business. (6) It can be a side activity.

Disadvantages of Direct Marketing: There are a few disadvantages as well: (1) Conventional retailers are not looked with suspicion by prospects. But they do have suspicion towards direct marketers and their claims. The marketer must be well-known and established to remove this fear. (2) Direct marketing, e.g., in-home selling, telemarketing, affects consumer privacy. (3) Except for direct- to-home marketing, goods cannot be inspected prior to purchase. (4) In absence of personal inspection, marketer has to offer liberal return facilities. (5) In-home selling through sales force is costly.

Principles Governing Success in Advertising and Direct Marketing: (1) Advertising is the core of direct marketing. Advertising works best if you promise people something they want and your advertisement is not clever, and shocking. It must be something relevant to consumer needs. (2) People are attracted by quality and performance of a product than what it is. (3) Advertisement must give facts, boldly, firmly, unflinchingly. Say directly what it is, what it has done, what it will do. (4) Much advertisement copy ignores the facts, does not tell what the product is, what it does, how it has performed. Much copy overclaims, boasts, denegrates rival products — a waste of time as the reader ends up believing nobody. In short, advertisement in direct marketing particularly must be entirely based on truth. They say, honesty is the best policy. It will make you pleasantly conspicuous in direct marketing. Direct marketing demands customer-oriented salesmanship in advertisement.

7.4 PHYSICAL DISTRIBUTION

The ingredients of marketing-mix, such as product, price, and promotion constitute the first half of the marketing. To implement the marketing concept fully, the marketing management must not only provide a product that customer wants but also must be prepared to provide the expected level of customer service which accompanies the product, at a profit. Thus, the distribution logistics (physical distribution system) inputs can be termed as the other half of the marketing concept or customer-oriented marketing planning.

The physical distribution function, is responsible for completing the marketing transaction once the buyer and seller come to terms and enter into a contract of sale. It should be noted that, before the sale can be completed, the product must be available at the place the customer wants it, at the time he wants it, and in the quantity he wants. In general, physical distribution programmes strive to accomplish these three objectives at a minimum total cost.

- **Meaning of Physical Distribution**

The objective of physical distribution is to deliver the right goods to the right customer at the right time and place. In a sense, marketing policy must be to put the product within an arm's length of desire or demand.

The marketing process is not complete simply by creating a superior product and by creating a customer by aggressive salesmanship. Delivering the product to the customer at the right time and place is an equally important function in marketing. In a simple language, physical distribution means the process of delivering the product to the user or consumer promptly, safely and in time. Physical distribution involves management (planning, action and control) of the physical flows of (1) raw materials, and (2) finished products from the points of origin to the points of use/

consumption to meet the customer needs at a profit. It covers all activities in the flow of goods between producer and consumer.

- **Types of Distribution Functions**

Marketing represents two different but closely inter-related distribution functions.

1. **Demand-Oriented Functions:** These are concerned with the search for and stimulation of consumer demand. The channels of distribution, viz., wholesalers, retailers and all types of mercantile agents, perform these demand-oriented functions.

2. **Supply-Oriented Functions:** These are concerned with physical product flow. These activities revolve physical distribution as a planned movement (physical flow) of products from the supplier to the firm and from the firm to the dealers or resellers economically, quickly, and efficiently.

   Demand-oriented marketing functions (relating to the search for and stimulation of buyers) are quite visible to consumers. They constitute the visible one-half of marketing. Supply-oriented marketing activities (relating to physical distribution) are not quite visible to average consumers. They constitute the other half of marketing. However, this other half of marketing is really responsible in the offering of customer service and benefits. We must recognise the importance of physical distribution in adding time, place and possession utilities to the products and delivering higher level of customer satisfaction at relatively lower cost.

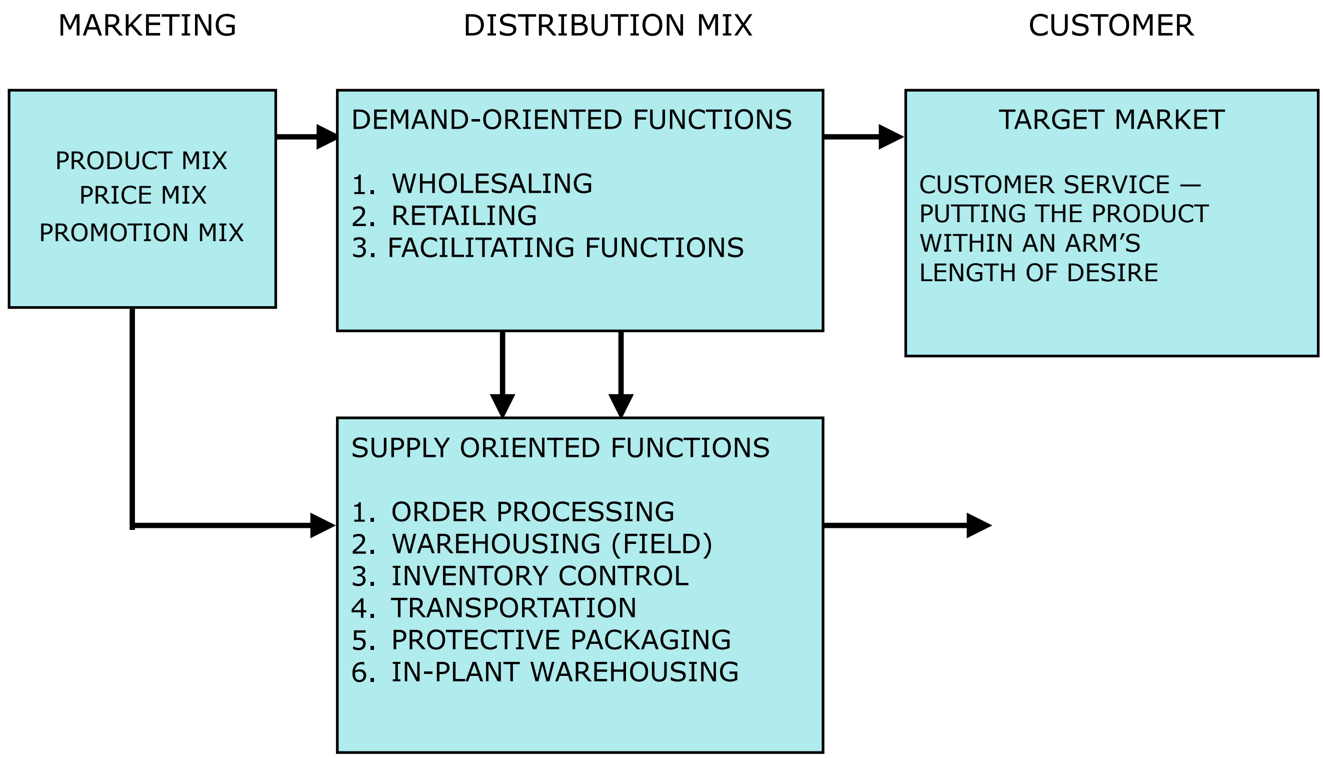


Fig. 7.7 Two Types of Distribution Functions

Notes:

1. Demand-oriented functions represent the primary operations of marketing channels.

2. Supply-oriented functions represent the area of physical distribution in charge of all channel members.

3. Customer service means several things: (a) the speed of order execution and delivery of goods, (b) safe delivery with minimum damages and losses, (c) quick replacement of damaged goods, (d) prompt service after sale, (e) reasonable service charges, if any.

Distribution covers two problem areas: (1) Channel management representing demand-oriented marketing operations, and (2) Physical distribution management (product-flow management) representing supply-oriented marketing operations, i.e., all activities involved in physically moving and storing products in the process of marketing. In marketing parlance it is called 'logistics'.

- **Components of Physical Distribution**

The following are the components of Physical Distribution System:

(1) Distribution planning and accounting, (2) In-bound transport, (3) Receiving, (4) Inventory management, (5) In-plant warehousing, (6) Order processing, (7) Packaging/repackaging where applicable, (8) Dispatch of goods, (9) Out-bound transport, (10) Field warehousing, and (11) Customer service.

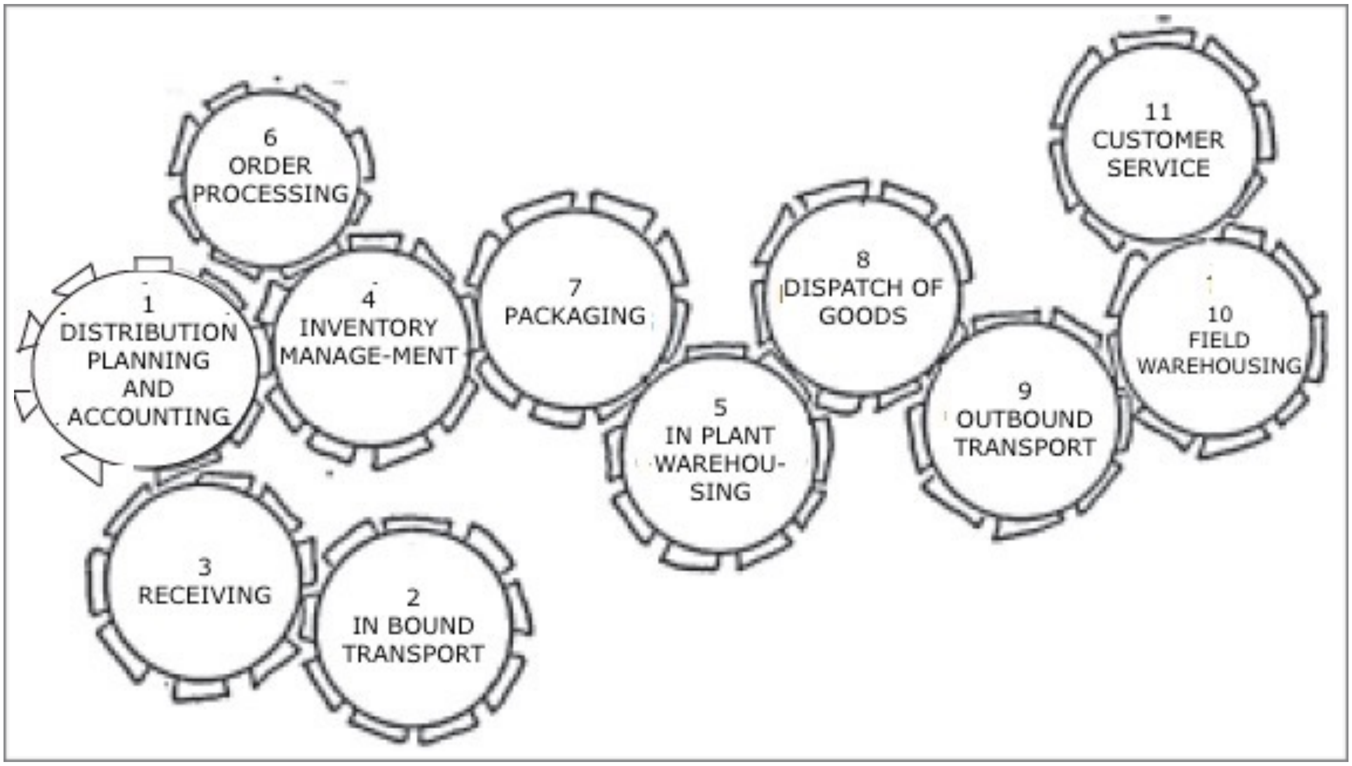


Fig. 7.8 Eleven Components of Physical Distribution

The components are dissimilar but they are all related by the common bond of an efficient flow of goods. The major components are only three: (1) Transportation, (2) Warehousing, and (3) Inventory management. All components are interacting. The decision concerning one component forces a decision affecting another component. A decision concerning them may affect another division or function. For example, multiple distribution points require additional finance for inventory. Physical distribution components or activities can be used as elements of marketing strategy. Reorganisation of physical distribution service can bring about better customer service, increase in sales, cost reduction and higher profit margin.

Figure 7.8 depicts the components of physical distribution system. Eleven different activities are interacting in the physical distribution system. They interact often in an inverse way. For instance, lower packaging cost leads to higher breakages and damages in transport and loss of buyer goodwill. Low inventories may lead to lower inventory cost, but this may result in many stock-outs and back orders.

The whole system revolves around inventory-cost management. Inventory is the connecting link between customer orders and production activity. Materials arrive on in-bound transportation. They are received and held in inventory. Orders are processed and matched against inventory. Orders draw down the inventory level and production activity builds up inventory. Finished goods need in-plant storage, dispatch-room activities, out-bound transportation, field warehousing, prompt customer delivery and service. In its full scope, for manufacturers, physical distribution would involve not only movement of finished goods from the end of production line to the final customer, but also the flow of raw materials from the supplier to the factory. Similarly, dealers and traders will manage the flow of goods into their shelves as well as from their shelves to the customers' homes or stores.

- **Total-System Approach to Physical Distribution**

The total system concept of physical distribution is inevitable. Different components of physical distribution such as transport, warehousing, inventory management, and order processing constantly interact with one another as they are inter-dependent. Hence, their costs are naturally closely inter-related. Many a time one function subsidises another. Higher cost of transport reduces inventory cost as the level of inventory in the field warehouse is reduced due to quicker replacement of stocks. The converse is also equally true. The total-system approach means a total efficiency approach and a total cost approach. Therefore, physical distribution must be recognised as a single well co-ordinated and integrated decision-making on all the components of physical distribution.

- **Importance of Physical Distribution Management**

Planned and integrated management of physical distribution has assumed unique importance in marketing management since 1970, as it can offer a feasible solution striking an optimal balance between physical distribution costs (inputs) and the customer service level (output) that will be satisfactory to the customer and profitable to the seller. A customer gives top preference to reliable and punctual delivery of goods and expects minimum time-interval between the date of placing an order and the date of receipt of goods.

1. **Ever-Increasing Cost:** The costs of transporting by all carriers, costs of warehousing, materials handling, inventories and order processing have risen substantially all over the world due to continuous inflationary conditions. At the same time, customers have been demanding higher and, thus, costlier levels of physical distribution service.

   Average division of physical distribution costs in large enterprises indicates: (1) 44 per cent transport costs, (2) 20 per cent warehousing and handling costs, (3) 18 per cent inventory carrying costs, and (4) 18 per cent order processing costs.

   Cost reductions could be successfully made not only in production activities but also in many areas of marketing with the help of scientific management, rationalisation and marketing research. Marketers now feel that physical distribution should be the new major (perhaps the last) frontier for cost minimisation without of course, adversely affecting customer satisfaction. The elements constituting customer service are now given greater emphasis.

2. **Broader Scope of Marketing:** Physical distribution system is now recognised as an integral part of marketing. Hence, the marketing concept must apply to the management of physical distribution. Physical distribution revolving around customer needs can add the utility or want-satisfying power, viz., the availability of products at the right place and time, and at the lowest possible cost. Physical distribution is not only a cost; it should be regarded as one of the tools in competitive marketing. A marketer can attract additional customer and maintain existing customers by offering better and dependable service or lower prices with fair service through improvements in the physical distribution package. Marketers have to evolve an appropriate physical distribution process which will fulfil the objective of adequate customer satisfaction. The marketing function of warehousing, inventory control, transport, protective packaging, physical handling, order processing, etc., are now managed as an integrated whole. An effective physical

distribution package gives the customers the service they expect and at the same time it assures profitable sales.

3. **The Sales Generating Power:** Marketing management has realised that there is a definite connection between merchandising programme and physical distribution services (particularly delivery service and order processing service). Customers often give more importance to physical distribution than to price and promotion services. Physical distribution is considered by customers second in importance to product quality as a reason for purchasing from a certain firm. Better physical distribution services give higher overall customer satisfaction. In other words, customer's buying behaviour hinges on the offer of adequate physical distribution service. Customer service (the main objective of physical distribution system) can act as a unique selling point to attract business from potential customers. For instance, "Second morning rail delivery anywhere in Maharashtra State," "the prompt availability of instalment and repair services and parts from the supplier", "many sales shops close to the points of demand" and so on can generate accelerated sales and profits. Due to the growth of consumerism, customer is now insisting on better service and quality. Integrated physical distribution package can satisfy this pressing demand.

4. **Rising Competitive Demand:** When some firms through physical distribution management, got the benefits of lower costs and higher levels of customer service and thereby could reduce their operating expenses by 10 to 15 per cent, many other competing firms were also compelled to adopt scientific management of physical distribution services. Thus, many companies have now started giving more attention to the management of physical distribution operations in an integrated manner.

5. **Management Science:** The development of management science or operations research has made possible the integration of physical distribution functions. Physical distribution problems have large number of variables which are readily measurable. Operations research techniques (statistical and mathematical techniques) can be easily applied to secure solution of physical distribution problem particularly in the location of warehouses, in arriving at the optimum size of inventories, and in determining transport routes and methods. The computer and operations research are now at our disposal to evolve the

most appropriate and viable physical distribution packages which can achieve the physical distribution objective of getting the right goods to the right place at the right time for the least total cost.

- **The Cost of Distribution**

Various studies have shown that the total marketing costs are about 50 per cent of the price of all goods. Physical distribution costs amount to about 50 per cent of the total marketing costs, or about 25 per cent of the finished, or total price of most goods. Physical distribution is, thus, a major marketing activity. Since 1970, there is a steady rise in the cost of physical distribution services, such as transport (freight), warehousing, inventory and packaging. Substantial savings can be secured in the physical distribution area through planned and controlled physical distribution activities. Therefore, physical distribution is regarded by marketers as the last frontier for cost economies.

- **Physical Distribution in India**

Physical distribution in India has gained special importance due to following causes:

1. Physical distribution costs are continuously rising. Hence, physical distribution has become the most desirable area for cost control. Savings in physical distribution costs (without reducing reasonable level of customer service) will certainly enable business units to gain a competitive edge in the market in the form of lower prices.

2. In India there are problems of transportation, problems of warehousing, and also problems of inventory control. We do no yet possess adequate and efficient facilities in transport, warehousing and inventory control. These constitute the infrastructure of effective physical distribution and marketing of goods. As long as these constraints are not removed, physical distribution costs cannot be effectively controlled in India.

3. On the one hand, marketer has to face rising costs of transport, warehousing, energy and borrowing. Whereas, on the other hand, competitive marketing environment compels the marketers to enhance their customer service level. Marketers in India consider physical distribution the most crucial of all marketing functions.

- **Distribution Policy**

Traditional marketing policy concentrated on the generation of demand for products and on the motivation of consumers to purchase these products. These aspects of marketing are only one part of the marketing equation. The stimulation of the consumer purchase mechanism would be fruitless unless marketers assure availability of supply of goods at the right place, right time and right cost. In other words, physical distribution must be recognised as a vital part of the total marketing effort. Physical distribution activities are responsible for completing the marketing transaction once the buyer and seller enter into a contract of sale.

It is obvious that the availability of a product is demand-determining factor: The more readily available a product is the greater will be the demand for it. A slight improvement in customer service can produce accelerated sales. The physical distribution policy assumes unique importance in offering desired level of customer service at a reasonable cost. The distribution policy attempts to optimise time and place utility (through storage, transport and physical handling of products) for marketable products, while minimising the total cost of physical distribution. The management of physical distribution activities emphasises the systems approach designed to achieve a trade-off between optimum customer service and optimum operating costs in physical distribution. Under the systems approach, marketers have to recognise the integrated and interrelated character of all components of physical distribution. The costs of transport, warehousing, inventories, packaging, order processing etc., are closely inter-dependent and integrated. The total-cost approach is desirable in practice.

- **The Total-Cost Approach**

The following is the usual breakdown of total distribution cost:

(1) transport cost, (2) order processing cost, (3) cost of lost business (cancelled orders), (4) inventory carrying cost (warehousing charge, interest, insurance, obsolescence, deterioration, etc.), (5) protective packaging cost, and (6) material-handling cost. These distribution costs are interdependent. They do interact and often in an inverse manner.

It is not important to minimise the cost of any one component of physical distribution. Sub-optimisation of one cost should be avoided. Marketers must minimise the costs of all components in the physical distribution system. We should not consider separately the optimisation of the costs of warehousing, inventories, handling, transportation and packaging. It is not desirable to minimise one single cost.

Marketers will choose a level of desired customer service (objective to be achieved). Then they should evolve a physical distribution package which can achieve this level of customer service, while minimising total cost of physical distribution. Marketers should strive to secure an optimum (best) balance between total distribution costs and level of customer service. Sometimes, the company has to incur something above the minimum total cost in order to accomplish the objective of desirable level of customer service and satisfaction.

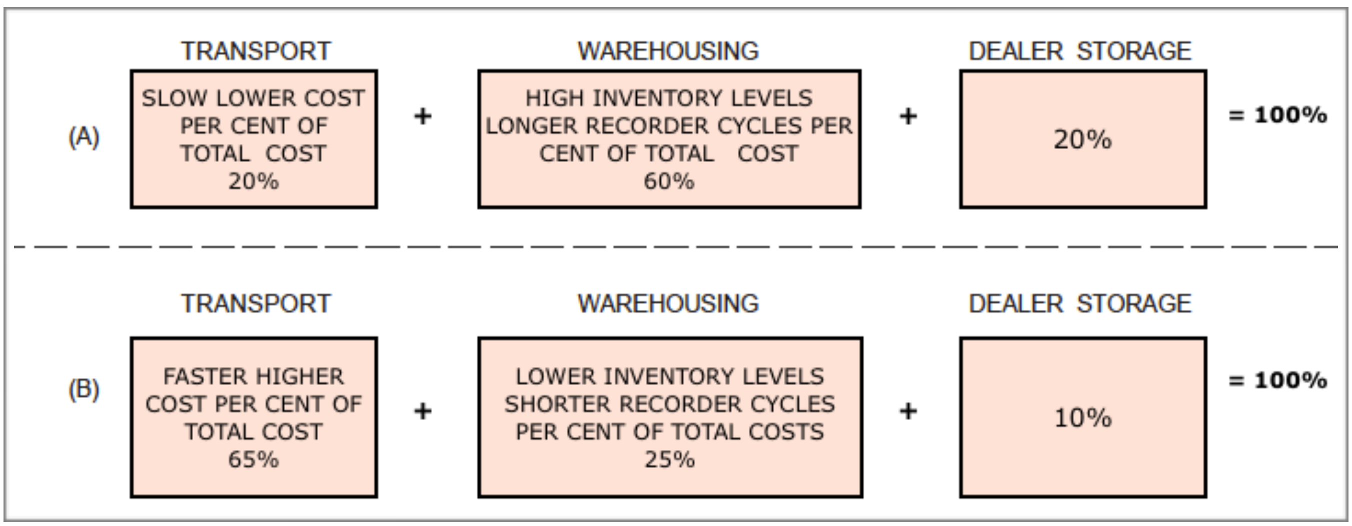


Fig. 7.9 Physical Distribution Elements

In Fig. 7.9(A), a lower freight (transport cost) may lead to a rise in the expenses of warehousing and inventory storage for the manufacturer as well as traders (resellers).

In Fig. 7.9(B), faster means of transport will naturally speed up order processing and thereby we may have shorter reorder cycles. In that case we will need smaller inventory in the channel. Thus, faster transport can cut back lead time or delivery interval and a reduced lead time can lead to lower inventory storage and also lower warehousing charges.

The total cost approach can reduce our costs in actual rupees, and at the same time, we can provide much better customer service. The total-cost concept has the idea of cost trade-offs. In some supply activities costs may rise, whereas in other supply activities we have appreciable cost reductions. Management can choose a desired level of customer service which will, of course, be on par with that of rivals. Then a physical distribution package can be evolved which will accomplish the objective of customer satisfaction while minimising the total costs. High freight rates of air transport could be more than justified under certain circumstances, when we have cost trade-offs from lowered inventory storage, reduced warehousing charges and packaging charges. Similarly, a company spending more on packaging can reduce its storage cost (losses due to mishandling). In evaluating cost trade-offs, marketing management must ensure that under no circumstances cost cut should lead to substandard level of customer service and satisfaction.

- **Tightening the Chain of Physical Distribution**

The traditional distribution systems are coming in for a critical relook by all corporations with the emergence of global economy and global competition. The Total Quality Management (TQM) is now becoming the focus in all the areas of management in production as well as in marketing and distribution.

Distribution is now recognised as a vital area to cut costs and improve considerably customer service and satisfaction. The final consumer must get the product when he wants (just in time). The process of distribution from the company to the retailer is one chain. Pruning costs apart there is a new consciousness (due to keen competition) about speeding up of delivery of goods to retailers. Many companies are lessening cycle time, supplying stockists less but faster and indirectly increasing returns to distributors and retailers who are their immediate customers. Distributor or retailer wants maximum R.O.I. Rather than increase margins, marketers prefer faster stock turnover, as ensuring faster turnover has the double benefit of increasing returns to dealers while saving costs for the company. Reducing the inventory that the dealer holds increases his spendability, to better the market, e.g., dealer can spend more in promotion or wholesaler may have more vans to reach retailers.

Faster stock turnover for distributors or retailers is achieved by: (1) More frequent servicing, (2) More accurate prediction of demand (refined sales forecasting to enable a more predictable retail order). Along with improved forecasting, companies are also trying to smoothen demand (evening out sales). Example: Colgate aims at supplying stocks to retailers within 72 hours in the near future.

The increased need for demand forecasting makes information systems a vital part of managing inventories. Co-ordinating vastly spread-out distribution systems is a very big task. HUL has 50 depots and over 7500 distributors reaching over one million retail outlets. It already networks between supplier, depots, and factories. It is also investing heavily in information technology.

Larger courier companies, e.g., DHL Worldwide Express now offer new services. Many clients are linked with the couriers by computer, allowing them to track their consignments themselves. Couriers are assuring timely delivery. In this way, in India, companies have learnt that innovations are possible within many constraints, e.g., poor transport infrastructure, different sales tax structures in states, erratic demand, etc.

More efficiency through the entire selling chain ensures that everybody wins: the company, its distributors, dealers and retailers, and finally, the consumer, Indian marketers are finally realising that winning the distribution battle puts them in a better position for the final, big victory in the market place.

SUPPLIER	FACTORY	WAREHOUSE	DISTRIBUTOR	RETAILER	CUSTOMER
More frequent deliveries mean lower raw material inventory.	Reducing Switchover times between product lines will increase flexibility.	Using information links will allow reduction of inventory held and prevent pile up or loss sale.	More frequent visits will mean better servicing and lower inventories.	Better servicing by distributors will lessen inventory and increase R.O.I.	The customer ultimately benefits through Just- In-Time (J.T.I.) availability.
Vendor development will cut time spent on internal quality checking.	Accurate demand projects will allow a better match with manufacturing.	Mother Warehouse will allow more efficient distribution of stocks.	This increases the return on investment and frees funds for market development.		
Tightening the chain of distribution from the supplier of raw material to the factory and then, in turn, from the producer of consumer goods right upto the ultimate customer. Thus, the battle of distribution can be won. Computer network and other new means of fast communications and refined courier services can assure just in time supply to customers.					

Fig. 7.10 Tightening The Chain Upto Customer

7.5 DECISION AREAS IN PHYSICAL DISTRIBUTION

Physical distribution process involves coordination and integration of five managerial decisions: (1) Laying down procedure for order processing, (2) Maintaining an inventory control system, (3) Choosing a warehousing system, (4) Determining a material handling system, and (5) Selecting a method of transport.

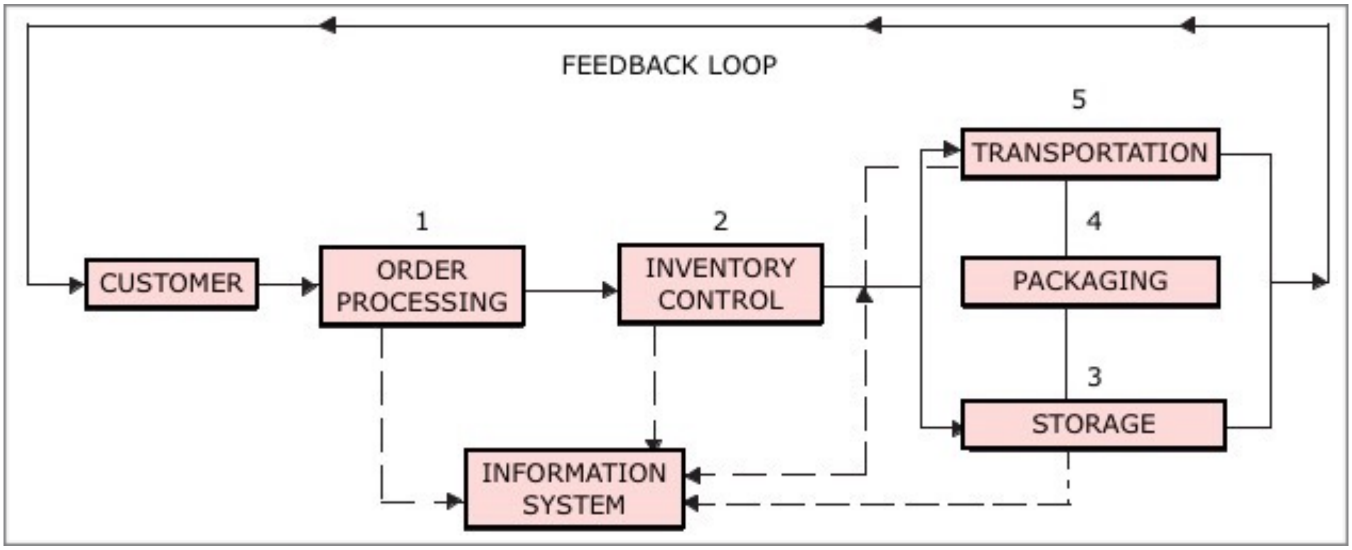


Fig. 7.11 Main Decision Areas of Physical Distribution System

Total-distribution-cost concept involves a physical distribution package in which several cost elements are balanced and marketers attempt to secure minimum total cost without, of course, reducing the desired level of customer service. The costs taken into account are: (1) cost of storage, (2) cost of carrying inventory, (3) cost of material handling including protective packaging, (4) cost of transport, and (5) cost of lost sales (due to poor order processing).

1. Order-Processing

We saw that as an extension of the marketing concept, physical distribution must be customer-oriented. Hence, order processing is considered the key to customer service and satisfaction. Order processing includes receiving, recording, filling, and assembling of products for despatch. The amount of time required from the date of receipt of an order up to the date of despatch of goods must be reasonable and as short as possible. Order cycle time must not exceed eight days. The product must be delivered to the customer within eight days (assuming that delivery time is four days). Marketers are now using a computer system to speed up order handling. Quality control procedure should ensure proper execution of orders. If a customer has specifically demanded orange tablecloths, despatch of red tablecloths would naturally invite a disaster. A firm must have standard procedure for handling of orders; this procedure should also include grant of credit, invoicing and collection of accounts. Customer ill-will may be generated if there is delay in the execution of orders or errors and omissions in the despatch of goods. Electronic data processing expedites order processing and minimises possibility of errors and omissions. Customer service can be measured on the basis of the speed of filling and delivering normal orders or percentage of customers who should get their orders in 'X' days. Many a time, even a slight increase in customer service can produce an increase in customer patronage to the extent of even 20 per cent.

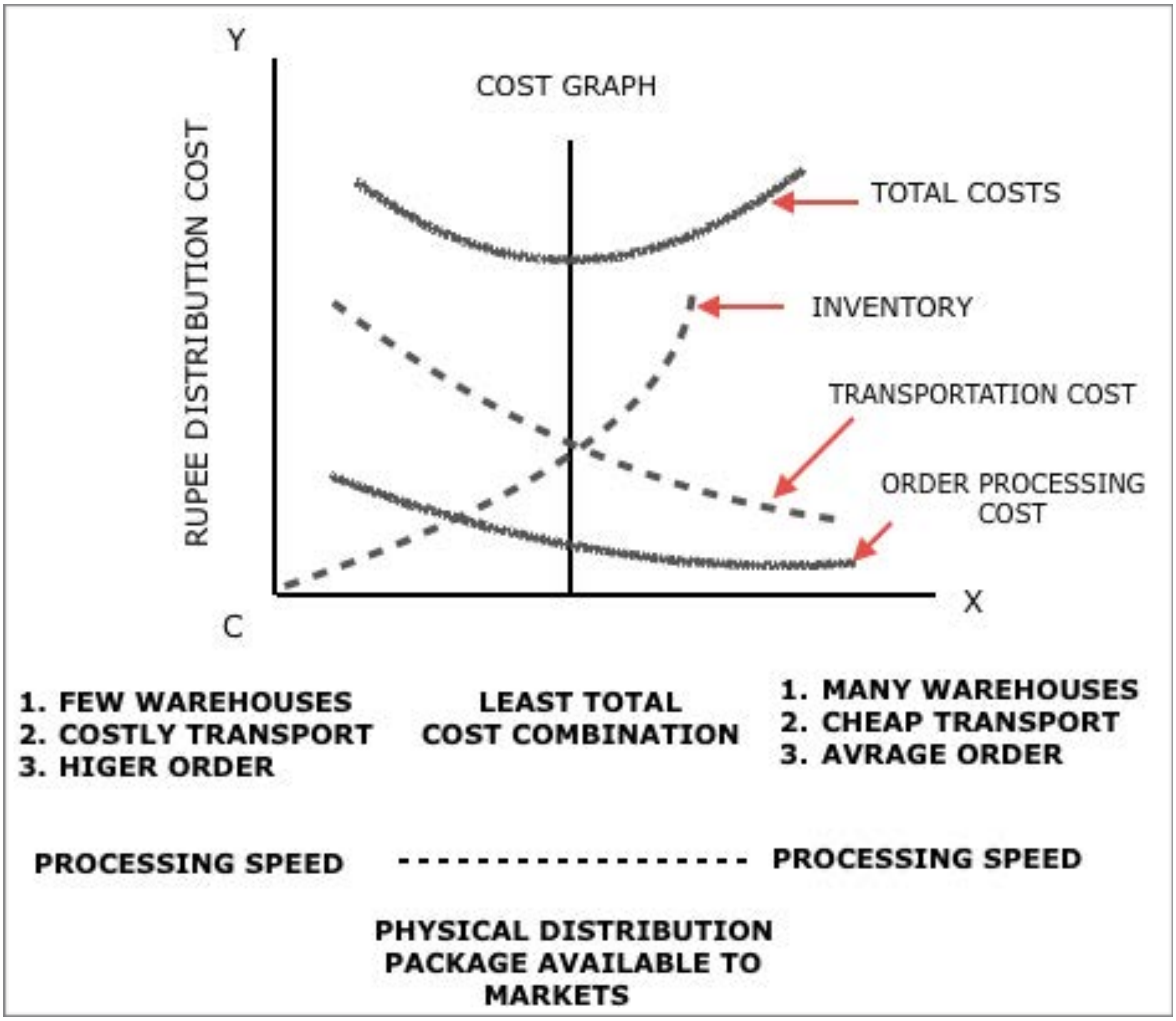


Fig. 7.12 Trade-off among:

(1) Transport Cost, (2) Inventory Cost, and (3) Order-processing Cost

Notes:

1. The cost graph gives a simplified idea of the concept of total distribution.
2. On the right side of the cost graph we have high cost of inventory, low cost of transport, cheaper but slower process in handling of orders.
3. On the left extreme of the graph we have lower inventory cost, but higher transport charges and faster order processing.
4. Central position indicates least total-cost combination — the goal of a marketer.
5. The Just-In-Time (JIT) methods of production and inventory controls enables a manufacturer to carry on much lower levels of inventory and still meet customer-order-fulfilment standards.

Order-processing procedure affects customer service level in two ways: (1) It affects re-order time (interval between two orders), and (2) It affects the consistency or uniformity of delivery time. Your customer is interested much more in the consistency of delivery time, i.e., assured delivery within a fixed period always. Buyers tend to shift their orders to suppliers who can provide superior order processing service. In fact, order-serving time can act as a competitive advantage in the marketing-mix. Customer is primarily interested in prompt, punctual, safe, and reliable delivery services.

2. Inventory Management

Marketing management is directly interested in effective management and control of inventories as inventory management is a powerful tool in the process of creation and satisfaction of customer demand. Inventories are reservoirs of goods held in anticipation of sales. Inventories are kept to meet market demands promptly. Inventory is the link interconnecting the customers' orders and the company's production activity. In fact, the entire physical distribution management rotates around the inventory management.

Inventory management is the heart of the game of physical distribution. Managerial decisions regarding: (1) size, (2) location, (3)handling, and (4) transporting of inventories assume unique significance in physical distribution system.

Inventory (all classes of materials, including finished goods) is money temporarily in the form of raw materials, component parts, supplies, in-process goods and finished goods. However, it is money on which you pay interest. On the average, nearly 30 per cent of the total assets of a firm are locked up in inventory. Too much inventory is painless — even pleasant. Production is continuous. Customer is very happy. We can have even 100 per cent customer service level. Even then it is bad because huge capital is locked up and hence, it is very costly. Besides, unwanted inventory means waste of scarce financial resources. In a competitive market, such a practice is suicidal.

The relationship between inventory investment and customer- service level points out that inventory cost increases at an accelerated rate as the customer-service level approaches 100 per cent. For example, to serve 85 per cent of its customers, a firm will have to maintain inventory worth Rs. 8 crore. If the service level is increased to 90 per cent the firm would require an additional investment of Rs. 2 crore and a further 5 per cent increase in the customer service level, i.e., 95 per cent level, a firm will need Rs. 4 crore worth additional investment. Thus, for 85 per cent service level, we need Rs. 8 crore whereas for 95 per cent service level we need about Rs. 14 crore.

It is obvious that marketers should have some compromise in inventory management. We must reconcile inventory cost and the desired customer service. We must balance the added cost of maintaining inventory against expected profit from the additional sales resulting from the increased ease in the availability of products. Inventory management is essentially a balancing activity. By striking a balance or a compromise between cost and service, a marketer has to assure optimum inventory level.

Inventory control aims at the following triple objectives: (1) never run out of anything (out of stock), (2) never build up a very large inventory, i.e., having too much of anything on hand (unwanted stock), and (3) never send out too many small orders for more, i.e., never pay high prices and incur high freight and lose quantity discount because of buying in small quantities. You must avoid hand-to-mouth buying (as a reseller) or making (as a producer). Effective inventory management and control can assure at least 10 to 15 per cent savings in our total investment.

Inventory management involves reconciliation of two apparently contradictory goals: (1) on the one side, we have to offer maximum service and satisfaction to our customers with regard to fulfilling rigidly the due delivery dates as per orders. The sole aim of business is to create and retain satisfied customers, and (2) on the other side, management is interested in minimising capital investment and cost of storage and transport. Better sales through improved level of customer-service, lower costs through smoother production operations, and lower investment needs through reduced inventories are no doubt legitimate aims of any business. But usually they are in conflict.

Please note the efficient inventory management cannot eliminate business risk but it can certainly reduce it. We can only assess risk, plan a strategy and accept risk and meet it on most favourable terms. Production planning and control, purchasing plan, marketing plan and inventory management and control go hand-in-hand to achieve over-all basic corporate mission and goals. Systems approach emphasises proper co-ordination and integration of all sub-systems (departments) of a business organisation.

In a customer-oriented firm, the most important consideration in inventory control is not in any one functional area of management such as, purchase, production, or sales. In fact, the most important consideration in inventory control depends on the demand of the final customer. After all, the most important place for a can of tomato soup is in the customer's bowl! In this sense, all the efforts of a firm as a whole will strive at evolving the most economical as well as the most satisfactory way of physical distribution.

- **Standards in Inventory Control**

1. **The Maximum:** It indicates the upper limit of inventory or stocks. It is the largest quantity to be kept in the interest of the economy.

2. **The Minimum:** It is the lower limit of inventory. It is also called safety or reserve stock. It must be always on hand. It acts as a safety valve.

3. **The Ordering Point:** It indicates when to order or re-order. It is the level of inventory necessary to protect against exhaustion of the stock during the time-gap between the order date and the date of receipt of stock. The supplier can help his customer by assuring

delivery within a certain period, eight days from the date of receipt of an order. Under such assumed delivery time, the ordering point can be easily determined. A customer is primarily interested in such an assured time-interval of delivery in order-processing. When the level of inventory or the balance of stocks on hand reaches this ordering point, it is an indication that a new order or re-order must be placed at once. Of course, sufficient margin must be provided for contingent delay or transport bottlenecks.

4. **The Standard Order:** It is the quantity of inventory to be requisitioned for purchase at any one time. A re-order or repeat order for a commodity is always the same quantity until conditions change, necessitating a revision of the standard order. The standard order is the quantity for replenishment of stocks.

   The size of inventory is determined by balancing the market demand and inventory cost factors. Market demand is anticipated by analysing the sales forecast. If our sales forecast is accurate and reliable, we can easily arrive at the optimum inventory size. The inventory cost factors are: (1) Cost of making or buying goods. (2) Cost of holding goods, i.e., warehousing expenses, interest, losses due to spoilage, pilferage, etc. The upper limit of inventory is influenced by desired level of customer-service.

Timing of Inventory Purchases (Whom to Order?): Assuming that inventory exhaustion rate is two units per day, and the delivery time from the date of order is 10 days, the marketer can maintain a 100 per cent customer-service level by re-ordering when inventory falls to 20 units. The inventory level required to meet the customer- service standard under known rate of stock depletion and delivery time interval is called the base stock (in our case 20 units). In addition to the base stock, marketers usually maintain a safety stock — a hedge against fluctuations in the delivery time-interval. In times of high demand a firm carries safety stocks to guard against shortages.

- **Just-in-Time (JIT) Inventory Control**

JIT concept of production and inventory control originated in Japan and is being adopted all over the world. A buyer buys in small quantities "Just-in-time" for use in production and then produces right quantities "Just-in-time" for marketing. By buying in small quantities and keeping low levels of stocks of parts and finished goods, a marketer can secure remarkable cost savings. We have shortened schedules of production and delivery and these are more reliable and flexible. Even quality levels are better with JIT buying. Of course, it is absolutely essential to have an environment of good co-operation, co-ordination and understanding between buyers and sellers. Then only we can have effective implementation of the JIT concept. We have long-term relationships between buyers and sellers. We can rely upon limited sources of supplies of raw materials.

3. Warehousing System

The word 'storage' means holding the stock of goods for a relatively longer period as the goods are not immediatety in demand. Warehousing involves more than storage. Warehouses perform many of the usual functions of wholesalers, e.g., breaking bulk, dispatch of smaller consignments to retailers, holding the stocks for retailers, regulating the goods flow to retailers, providing market intelligence and many other merchandising services of manufacturers. A full service warehouse is called distribution centre.

Storage warehouses are fixed facilities where we store our inventories usually for longer period. Warehousing creates time- utility and can stabilise prices over a certain period. It can regulate market supplies according to changing market demand time-wise. We have private warehouses owned by the user. There are also public warehouses owned and operated by professional firms who sell storage space and perform many warehousing functions on reasonable commission or fee.

Every firm requires a certain number of warehouses to offer a desired level of customer service, i.e., prompt delivery of goods. However, it has also to minimise total physical distribution cost. Marketers know very well that customer service does not rise appreciably when the number of warehouses increases beyond a certain number. In one study it was discovered that twelve warehouses could give first day service to 90 per cent of the firm's market and all its market could be served within two days through only 12 warehouses. Inventory saving takes place when the number of stock points (warehouses) is reduced. The firm, however, had

50 warehouses, and it had to reduce drastically the number of warehouses from 50 to 12.

The Distribution Centre: The distribution centre is a new idea developed after World War II. It is a full-service warehouse, primarily related to market. It emphasises movement of goods rather than their storage. A big enterprise in the U.S.A. (The Phillsbury Company) had nearly 100 small grocery branch warehouses and about 33 sales offices. But the customer order cycle was even then more than one week. It was the pioneer in adoption of the distribution centre idea. It now offers 90 per cent of its market, third-morning delivery, to any customer within the U.S.A., through only 14 distribution centres. All customer orders are directly sent to the distribution centres in that region. Orders are processed on the same day. A customer gets goods within three days of the placing of an order.

A distribution centre provides services with the help of a computer and modern material-handling equipment. It serves a regional market. It consolidates large consignments from production points, processes, and re-groups products according to customer's orders and maintains a full product-line. A distribution centre facilitates movement of goods to customers. It can reduce cost of inventory, storage, handling, and transports. Products are shifted from the factory to the distribution centre directly and not to a storage warehouse.

A company may set up one distribution centre in one region around the market to be served and not around transport facilities merely. Under one roof we have an efficient and integrated system for the flow of products (not merely for storage). Under one roof orders are taken, filled in, and goods are delivered to the customers directly. Distribution centre concept has given a new look to traditional warehouses, which were acting only as places for storage of goods and which were usually located near the centre of production or centers of transport (big cities).

Distribution centers have at their disposal latest equipment for data processing, materials handling and inventory control. This new system of distribution has reduced the total cost of distribution and at the same time it has improved substantially the level of customer service by offering prompt delivery of goods. Faster and better customer service at lower cost of distribution became a reality under the concept of distribution centers. We can have a few warehouses, no excessive inventories, no out-of-stock conditions. The new distribution system can cut both storage time and

delivery time to the minimum. Emphasis is now on selling goods and not merely on storing them.
Many companies are shifting steadily from storage warehouses to distribution centers in their plans of physical distribution. These companies have succeeded in reducing appreciably the number of storage warehouses. With the help of centralised accounting system, invoices can be dispatched immediately and earlier payments can be ensured. The range of services distribution centre (well-run full- service warehouse) offers can be matched with those offered by a wholesaler. However, a wholesaler is a merchant middleman whereas a distribution centre is merely an agent-middleman.

- **Modern Links with Warehouses**

At Colgate, the company has modern links with warehouses, which allows supply to be matched with demand, avoiding pile-ups at some points and loss of sales in others. By the end of the year 1995, Bombay stockists have been linked to warehouses. Salesmen have laptop computers, on which data relevant to their area will be downloaded.

Using information technology has other benefits. Colgate will now experiment with having six warehouses, each of which will receive only 80 per cent of its demand forecast. A mother warehouse will monitor and supply the rest as shortfalls are anticipated. Ultimately, the company aims to be able to supply within 72 hours — something that is currently difficult to achieve in far-flung places.

Thus, using information links in warehousing, a company can reduce inventory held and prevent piles up or loss of sales. Mother warehouses will allow more efficient distribution of stocks. The customer ultimately benefits through just-in-time availability.

4. Packaging and Material-Handling System

The dimension of the package must ensure efficient use of containerisation and palletisation. Higher cubic footage will increase warehousing costs. Accompanied baggage of a passenger in a jumbo jet travelling demands specific maximum cubic footage (length, breadth, and height).

The effect of packaging in physical distribution is measured in terms of its effects on three costs: (1) warehousing, (2) transport, and (3) damage. If the damage cost is brought down from Rs. 20,000 to Rs. 10,000 on account of better packaging and the additional cost of packaging is Rs. 3,200, the marketer will incur a loss of Rs. 13,200 (instead of Rs. 20,000) due to extraordinary packages. The best package is expected to reduce the three costs mentioned above to a minimum.

In highly industrialised countries we have automated material- handling services and manhandling has been practically eliminated. New concepts of packaging containerisation and palletisation have contributed to cost reduction appreciably. Improved conveyor systems and forklift equipment has brought about almost total mechanisation in material-handling. Containerisation is the packing and transporting of goods in standard-sized containers. These metal or wood or containers can be stored on pallets, or small platforms, which can then be moved easily by mechanical devices such as forklift trucks, cranes, and conveyors. These containers are unopened during entire transport from the forwarding point to the destination point. The modern mechanised handling services and protective packaging have improved the level of customer service and at the same time lowered physical distribution costs. Material handling and packaging services have also speeded up the order-processing and movement of consignments.

5. Transport System

Warehousing and transportation of inventories constitute the core of physical distribution package. In a sense, physical distribution system is nothing but a network of activities consisting primarily storage at multiple points, inter-connected by a series of transport links in the machinery of distribution. Transportation is the crux of the problem of physical distribution. It is sometimes called the Gordian knot of physical distribution management.

Material-handling can be reduced by reducing the number of times an item is handled and also reducing the amount of time for each handling.

Costs of packaging warehousing, handling and transport have risen substantially since 1970. For instance, cost of transport of sand, cement and stone many a time is higher than cost of extracting or manufacturing these items. Postal cost of transport of letters and magazines has gone up due to inflation.

We have five means of transport at our disposal: (1) railway, (2) road, (3) water, (4) airplanes, and (5) pipelines. The choice of transport is governed by a few criteria, such as speed, frequency of service, dependability, availability, safety, operational flexibility and, above all, the element of cost. Please note that decisions on means of transport are closely related to the size of inventory and on the location of warehouses. We must consider the overall total-cost of physical distribution and not merely the cost of transport. Railways offer widest variety and, therefore, flexibility in transport. Water transport is the cheapest. Road transport offers unlimited geographic locations which can be served easily and it also gives flexibility. Pipelines are excellent for transport of oil or petroleum products, which can be delivered on scheduled times. Air transport is the fastest and suitable for costly or perishable goods where speed is very important. Bulky products are usually sent by rail transport. Rail transport is suitable for long distances. Road transport is suitable for short distances and costly goods.

Railways have pioneered and promoted the use of containerisation to facilitate material-handling aspect of transport. All means of transport can cooperate with the help of container services and the entire transport process becomes more efficient and flexible. Containers can fit on both trucks and open rail wagons. This is called ‘piggyback’. When containers can be fitted on trucks, wagons, and ships, it is called ‘fishyback’. When goods are transported in containers, which can be fitted on trucks and airplanes, it is called ‘birdyback’.

Physical distribution management has assumed great importance as it alone can reduce the costs of transport, storage, material- handling, order-processing, and holding of inventories. These are the basic building blocks of a planned physical distribution system. Marketers are giving special attention to physical distribution because it can assure a competitive level of serving demand while holding down the total cost of distribution as much as possible. The total-cost approach, the idea of cost trade-offs, the systems-approach and avoidance of sub-optimisation of costs are the principal supporting concepts of the modern physical distribution system.

Conclusion: In general, rail transport is always preferred for bulky and heavy products and for long-distance traffic. Truck transport is preferred for lighter goods or perishable products and for short- distance traffic. Water transport is very cheap but it is also very slow. Air transport is very fast but apparently very costly. However, it leads to lower insurance, packaging and warehousing costs. It also allows a firm to maintain lower level of inventories. Hence, in reality, air transport may improve the cash-flow and profitablility of a firm. Decentralisation of warehousing, development of distribution centres, i.e., full-service warehousing companies and decentralisation of inventory can lead to lower cost of transport and ultimately lower cost of distribution.

7.6 SPEEDY DISTRIBUTION OF GOODS

Earlier, General Electric (GE) required three weeks after an order to deliver a custom-made industrial circuit breaker box. Now, it take only three days.

Benetton found that the fastest way to run a distribution system is to create an electronic loop linking sales agent, factory, and warehouse. If a saleswoman in a shop at Los Angeles finds that she is starting to run out of a best-selling red sweater in early October, she calls one of 80 sales agents, who enters the order in his personal computer, which sends it to a Super Computer in Italy. Red sweater was created on a Computer-Aided Design system. The super computer has all measurements on hand in digital code, which can be transmitted to a knitting machine. The machine makes the sweaters, which workers put in box with a bar code label having the Loss Angeles store address and the box goes into the warehouse. One warehouse serves Benetton's 5,000 stores in 60 countries around the world. It costs $ 30 million but this distribution centre is run only by 8 persons and moves 230,000 pieces of clothing in one day alone.Once the red sweaters are supplied to one of 3,00,000 slots in the warehouse, a robot finds the right box and any other boxes being shipped to Los Angeles store, picks them up and loads them into a truck. Including manufacturing time, Benetton can get the order to Los Angeles in 4 weeks. Benetton, the Italian sportwear company, makes and distributes 50 million pieces of clothing worldwide each year — sweaters, slacks, dresses.

Speed is catching on fast in the global market. Speed is now at the heart of strategy of marketers.

The corporate speed is now a basic topic of study among management Gurus and business schools. It has influenced every operation in every company. JIT, TQM, Quality circles, small self- managed and autonomous teams of cross-functional members, lean and learning organisation, involvement of all people in planning action — control cycle, automated factory, warehouse, material handling, computer-networks, modern telecommunications and, above all, value-oriented holistic management providing value-based skills have enabled modern marketing management to offer adequate customer satisfaction and even customer delight. Now, suppliers are regarded as partners of the team to offer speedy production, marketing, and distribution.

The theme of distribution is that the whole business is built on values and speed and customer satisfaction derived from speedy production and distribution of products and services at affordable prices. Speed reflects higher efficiency. Values manifest effectiveness, particularly in quality. In a lean organisation, team management is granted more power and responsibility to solve problems and make decisions.

7.7 SUMMARY

- Basic marketing functions consist of searching out buyers and sellers, matching of goods to the market requirements, pricing to facilitative profitable production and marketing. Channels of distribution consisting of wholesalers, retailers play a major role in movement of goods from the producer to the ultimate consumer. Middlemen act as risk-bearers and look after storage and transport and provide valuable information to the enterprise. Of late, many products and services are being sold through direct marketing i.e. generally without the use of channel members. Several issues in marketing such as reduction in selling cost, improvement in customer services, advertising, sales promotion, and competition can be resolved through effective management of channels of distribution.

- Physical distribution involves delivering the product to the user or consumer promptly, safely and in time. The product must be available at the place the customer wants it, at the time he wants it and in the quantity he wants and physical distributions strive to accomplish these three objectives at minimum total- cost. The management of distribution activities emphasises the system-approach designed to achieve a trade off between optimum customer-service and optimum operating cost in physical distribution.

7.8 SELF ASSESSMENT QUESTIONS

1. Define a channel of distribution. Indicate the relative importance of different channels.

2. Discuss the factors governing the channel choice.

3. What are the typical functions of middlemen in distribution? Evaluate the role and utility of these middlemen.

4. Comment on the role and utility of merchant wholesaler and agent wholesaler in marketing and distribution.

5. What are the functions of retailers?

6. What is direct marketing? Comment in brief on the different alternatives for marketing directly to consumers.

7. What is channel conflict? How to resolve channel conflict?

8. What do you mean by physical distribution system? How is it related to the marketing concept?

9. How can physical distribution contribute to the creation of time, place, and possession utilities?

10. How does physical distribution contribute to the firm's marketing programme?

11. "Physical distribution system should operate at the lowest possible total distribution costs." Explain.

12. "Managing physical distribution involves balancing distribution costs against acceptable level of customer services and satisfaction." Explain.

13. What are the components of an effective physical distribution package? Explain the significance of inventory control in physical distribution.

14. How are transport, warehousing and packaging decisions interrelated?

15. Write short notes on the following:

a. Order-processing,
b. Distribution centre in physical distribution system.
c. Total-cost approach in physical distribution.
d. Just-in-Time Inventory Control.
e. Extensive and selective distribution
f. Mail-order Sale.
g. Commission Agents
h. Franchisee Selling.

CAST STUDY

Switchex Company

Switchex is an eight-year-old organisation manufacturing an entire range of switchgear products. It has a foreign collaborator. Its manufacturing unit is near Delhi but sales are spread over the entire country. The market of switchgears is dominated by two major companies having a market share of 40 per cent and 37 per cent, respectively. Switchex has established a market share of 14 per cent and remaining nine per cent of the market is divided between three other manufacturers. The competition between the first three organisations is quite fierce. During the initial years, Switchex concentrated in the northern region and established itself as a reputed manufacturer of switchgears. For the last two years, the company has been trying to establish its presence in the western region. The pricing strategy of the company is to be always lower than the two major competitors by about eight to10 per cent. Its discounting policy is also flexible and sometimes it deals directly with the customers and offers them discounts.

It has appointed dealers in all its markets, which are usually district-based. For servicing its dealers in the western region, Switchex has opened a regional office at Mumbai and branch offices at Pune, Vadodara and Indore. Its Pune office is headed by Mr. Patil, a competent electronics engineer with a postgraduate degree in management. Since the company wants to establish itself in the western region, Mr. Patil is pressurised to 'accept' higher quotas. In turn, he has had no option but to increase the quotas of the dealers. These days, Mr. Patil is faced with a tough decision. His dealer at Kolhapur is the major cause of concern. The dealer is a partnership firm — M/s Kadam Brothers. This dealer has been with Mr. Patil for the past two years. Except for the last six months, the performance of this dealer was highly satisfactory. However, six months ago, one of the partners decided to leave the partnership and had to be paid in cash, causing financial problems. Mr. Patil believes this is one of the reasons for untimely payments to Switchex. Moreover, the sales themselves, have suffered. It is reported that the remaining two partners are also concentrating on their other business activities and consequently have less time for developing business of the Switchex. Those partners have been assuring Mr. Patil that they will soon have another competent partner and, thus, will come out of their problems quickly. But no progress is reported in the matter till now. In the meantime, another dealer from the same area has approached Mr. Patil for the dealership. He is dealing with electric panels till now and has good contacts with switchgear buyers in the Kolhapur region.

Mr. Patil knows that, given time, M/s Kadam Brothers will recover and because of their experience and reputation, as well as contacts, will serve Switchex satisfactorily. But he has no time as the Regional Sales Manager is pressurising Mr. Patil to increase his dealers quotas fast or replace them. 'We want quick sales' is the motto of his Sales Manager.

QUESTIONS

1. What are the alternatives that Mr Patil has to solve his problem?

2. What alternative should he opt for? Why?

3. Critically examine Switchex's policy of 'quick sales' in the context of its product range, viz., switchgears.

   (Source: 4th Semester examination, University of Pune).

CASE STUDY

Motivating Wholesalers

Victor Corporation manufactured and marketed a line of mobile phones with offices located in Washington, D.C., Los Angeles, California and Denver, Colorado. Victor was relatively small compared to other giants in the market. Victor's mobile phones ranged in price from $ 100 for low-priced machines to $ 500 for most sophisticated machines. The market potential was broad for Victor's products. Businesses ranging from small to large as well as governmental institutions were potential customers.

Victor relied on industrial distributors, wholesalers of electronic machines and some direct sales to customers. Its sales force contained four Sales Managers, two covering western region, one for midwest and one for eastern States. Its Canadian business was handled through Lenbrook Industries. Lenbrook was given exclusive territory for Victor's products. Lenbrook made 50 per cent commission on sales made by themselves. The margin was little higher than the average for other distributors in the U.S. If the sales were made by Victor in the United States and shipped to Canada, Lenbrook was given 10 per cent commission.

The Marketing Manager believed that, in spite of a good territory with large sales potential and better than average margins, Lenbrook was not producing sales as expected. An in-depth evaluation showed various causes for the lacklustre sales. Lenbrook had a subsidiary that bought and repaired mobile phones. Used machines were then resold at prices ranging from $ 50 to $ 100. These machines performed well for extended periods of time. This business was not only profitable but there was a large demand for the lower-priced machines from small businesses, non-profit organisations, schools, etc. Victor's sales people were too busy with domestic territories to give any marketing support to Lenbrook. Lenbrook, in addition, felt that Victor should share advertising expenses as it could not bear all advertising and promotion expenditures throughout Canada. Furthermore, Lenbrook wanted a long-term agreement for Victor's products rather than two-year renewals of an existing agreement.

QUESTIONS

1. What should Victor Corporation do to motivate Lenbrook?

2. Should Victor appoint other distributors perhaps segmented by type of customers, industrial and Government?

3. Should Victor consider producing low-price models to compete with used mobile phones market for small businesses?

4. To what extent long-term sales agency agreement can help in promotion of sales in Canada?

CASE STUDY

Computerisation of Distributors' Accounts

John Symon and Company Limited is a fast-moving consumer goods company. The company is in business for the last 20 years. Due to keen competition in major cities and big towns, they had planned at the beginning of 2009 to expand their business in smaller towns on all-India basis. To set up the basic infrastructure they decided to computerise their distributors. The total number of distributors were approximately 200. The implementation was to be completed by middle of 2010.

The purpose of computerisation was to get information from distributors regarding product sales, collections, outstandings, etc. on a more-frequent basis. The information was to be uploaded into the ERP package for consolidation and analysis and then proposed to be sent twice a week to the Head Office through e-mail.

This major initiative was headed by Mr. Krishnan, the finance Head and Mr. Patil, the logistics Head. The programme was to be developed by the I.T. department along with the logistics department. The internal needs of the organisation were assessed and the programme developed for implementation at the distributors. The distributors were informed by means of a letter about the implementation schedule and asked to purchase the computer, printer and get an e-mail connection. The Zonal Sales Managers were similarly informed.

The big distributors were also dealing with other products. Many of them had a computer which was used for financial accounting and keeping track of all their businesses. Some of the small distributors had a computer but it was not compatible for the implementation of the new software. The distributors also complained about lack of back-up support and infrastructural problems. Software had bugs, which were not noticed before. The project was delayed and distributors' resentment was growing. At the end of 2010, the heads of concerned departments sat down to get the project back on steam.

QUESTIONS

1. Do the SWOT analysis of the project.

2. Where did the team go wrong?

3. Was there a better way to implement the initiative?

CASE STUDY

Increasing Cost of Physical Distribution

Company

Ross Construction Inc is a manufacturer and distributor of floor-covering material such as linoleum, synthetic floor tiles and decorative plumbing hardware. It sells to 900 retail and mail-order outlets, which service do-it-self homeowners. For servicing the retail stores and mail order distribution outlets, the company maintains 20 regional warehouses which are close to major metropolitan areas. These warehouses permit delivery to 80 per cent of the customers in two days. This responsiveness has been well above industry average and has kept customers well satisfied. The inventory policy of Ross permits shipping of major items usually up to 85 per cent of the quantity demanded. Rapid delivery and adequate inventory levels have permitted the company to maintain its competitive edge over to last five years.

Physical Distribution

Recently, however, the executives of Ross have faced a squeeze in the profits and have come to the conclusion that one of the major reasons is the increasing cost of distribution. Maintaining high inventory levels in each regional warehouse is becoming impractical due to high cost of capital.

The downturn in housing industry has also caused lower demand for new homes. This is somewhat compensated for by renovations of existing homes, but the trend seems to be downward in the near future. The demand is expected to pick up after about two years of stagnation and increase by 50 per cent in the next five years. As the homes get more expensive the buyers are increasingly concerned about the choices of individual items in home construction. The awareness and selectivity of the buyers indicates that Ross must maintain its quality and reputation to keep its market share.

Although rapid delivery to customers was the attractive feature of Ross construction, the buying of floor-covering is not in the impulse-buying category. Customers did considerable research before buying because they knew that they have to live with the floor-covering for many years.

Because of this nature of customer buying characteristic, some Ross executives felt that extensive physical distribution which enabled two-day delivery was not essential to Ross's business volume. Total inventory costs of regional distribution centres were almost 30 per cent of the capital value of the inventory. The analysis of demand, which required rapid delivery, indicated that the rush orders constituted about 15 per cent of total volume. These rush orders were caused by customers who had underestimated their requirements. Since these customers had their homes under construction, they needed quick delivery. A quick survey of these buyers indicated that they were very happy with two-day delivery but would not complain if it was stretched to five days. They would be very unhappy if it exceeded by 10 days. Since the reputation of Ross was built on word-of- mouth recommendations from satisfied clients, the delivery policy was very critical to maintaining Ross's reputation. Rest of the customers could accept deliveries that could range from 15 to 25 days.

The following choices were identified for management's consideration: Ross could eliminate all branch warehouses and maintain a control warehouse at the factory. The Transportation Manager believed that he could reach 95 per cent of the metropolitan area consumers in 23 days. Rush orders that required the shipment would increase transportation cost three-fold. If Ross maintained three branch warehouse, it could reach 30 per cent of the consumer market in 10 days and the rest would be in 18 days. The inventory costs would be 11 per cent in this scenario. If the company maintained 10 branch warehouses it could reach 45 per cent of the consumer market in seven days and rest of the market in 15 days. The inventory costs would be 25 per cent of the capital value of the inventory.

If Ross maintained only the central warehouse, the finance officer estimated that the company could turn 40 per cent gross margin. Current gross margins were in the range of 20 to 25 per cent. All major competitors of Ross had limited number of branch warehouses and their average time ranges from 15 to 25 days.

QUESTIONS

1. Which alternative should the management adopt for maintaining its physical distribution channels?

2. What policy should the company adopt for customers with rush orders?

3. How should the company executives weigh near-term (short-term) profit pressures against long-term business objectives?

Comments

Physical distribution emphasises systems-approach to achieve a trade- off between optimal consumer service and minimal operating costs. The company has to consider overall costs of physical distribution. e.g., freight rates, labour cost, storage, insurance, etc. Transport, storage, inventory control, order processing, material-handling are considered together for offering fair customer services.

It is not important to minimise the cost of any one component of physical distribution. Marketers must minimise costs of all components of physical distribution system. We should have an optimum (best) balance between total cost of distribution and the levels of customer service (desirable).

The distribution centre is a full-service warehouse. Faster and better customer-service at lower cost of distribution became a reality under the new concept of distribution centres usually located around the market. The company can have a few warehouses, no excessive inventories, no out-of-stock conditions.

REFERENCE MATERIAL

Click on the links below to view additional reference material for this chapter

Summary

PPT

MCQ

Video Lecture - Part 1

Video Lecture - Part 2

Chapter 8

INTEGRATED MARKETING COMMUNICATION

Objectives

After studying this Chapter, you should be able to:

- Understand the concept, process and elements of communication
- Study the various elements of marketing communication mix
- Know the meaning of integrated marketing communication and its objectives?
- Study the important components of IMC
- Understand the important factors that influence marketing communicaton strategy

Structure:

8.1 Communication
8.2 Marketing Communication Mix
8.3 Integrated Marketing Communication (IMC)
8.4 Communication Strategy
8.5 Components of IMC
8.6 Summary
8.7 Self Assessment Questions

8.1 COMMUNICATION

- **The Process of Communication in Marketing**

The word 'communication' is derived from the Latin word communis which means 'common.' We attempt to communicate, that is, to establish a 'commonness' with another person. There are three essential parts of communication, viz., the source, message and receiver. True communication takes place only when the message means the same thing (in common) to both the parties i.e., the sender of the message and its receiver. Marketing communication is undertaken by marketers through the devices of promotion viz., advertising, publicity, personal selling and sales promotion. The effective communication occurs when a sender (source) sends a message and receiver responds to the message which satisfies the sender. Both must have identical meaning of the message. Effective communication is equal to: receipt of the message plus understanding plus acceptance plus action, which means decision to purchase.

- **Elements of Communication**

1. **The Source:** a marketing company, a sender of message.

2. **The Message:** the commercial idea, sales story, the copy theme.

3. **The Channel:** the vehicle carrying the message, a salesman, an advertising medium, sales literature sent through the mail. Telephone, post card, radio or television, newspaper, etc., can also act as the channels of communication.

4. **The Receiver:** a person or a group of persons; the receiver is a potential customer, purchase influencer or a reseller.

5. **The Feedback:** a response, a reaction or a message sent back by a customer to the marketer. The feedback improves the effectiveness of communication.

6. **Distortion and Noise:** Noise creates many obstacles reducing effectiveness of the communication process. Noise is anything that distorts the message. **Examples:** (a) Clutter: A news paper has several advertisements; (b) A Street has a large number of bill boards, (c) The

receiver does not understand the message, (d) The receiver dislikes the advertisement or is offended by the Advt.

In marketing management, the source or communicator is the marketer who desires to promote his product. He attempts to deliver a message to a receiver. The receiver or audience is the target market segment, i.e., the group of consumers for whom the message is sent. Message is received and interpreted by consumers and if their predisposition becomes favourable, they decide to purchase. Feedback is the reverse flow of communication from the consumer to the marketer.

When the message is transmitted through personal salesmanship, the seller may have prompt feedback from the receiver. The sender can find out how the message is being received as we have face-to- face direct communication through sales talk and conversation. The salesman can balance the message on the basis of feedback from the buyer. This is the real advantage of personal selling. Personal interaction is the most efficient form of communication. Under mass communication or advertising, mass sellers must rely for information feedback (returned message from buyer) on dealers, consumerism, complaints from consumers, marketing research or total sales results given through sales analysis. Mass communication is essentially one-way communication. Feedback is difficult and usually delayed. Consumer surveys, electronic devices, and other types of marketing research are used to get the feedback. However, this feedback is delayed and it is of no use in altering a message already sent. Of course, it is useful in altering the future advertising messages.

8.2 MARKETING COMMUNICATION MIX

Marketing communication-mix consists of advertising, sales promotion, personal selling, public relations, publicity and other elements as shown below:

1. **Advertising:** It is defined as any paid form of non-personal presentation and promotion of ideas, goods and services by an identified sponsor. It is impersonal salesmanship for mass selling, a means of mass communication.

2. **Publicity:** It is non-personal stimulation of demand for a product, service or a business unit by placing commercially significant news about it in a publication or obtaining favourable presentation of it upon radio, television, or stage that is not paid for by the sponsor. Public relations focus on building goodwill and creating positive image of the company among stakeholders.

3. **Personal Selling:** It is the best means of oral and face-to- face communication and presentation with the prospect for the purpose of making sales. There may be one prospect or a number of prospects in the personal conversation. Personal selling involves two-way communication. When it comes to convincing the prospect, closing a sale and transferring the title from seller to buyer, personal selling becomes the strongest tool of promotion. During personal interview, the sales person understands the needs and wants of prospect, highlights product benefits and convinces him to buy the product.

4. **Sales Promotion:** It covers those marketing activities other than advertising, publicity and personal selling that stimulate consumer

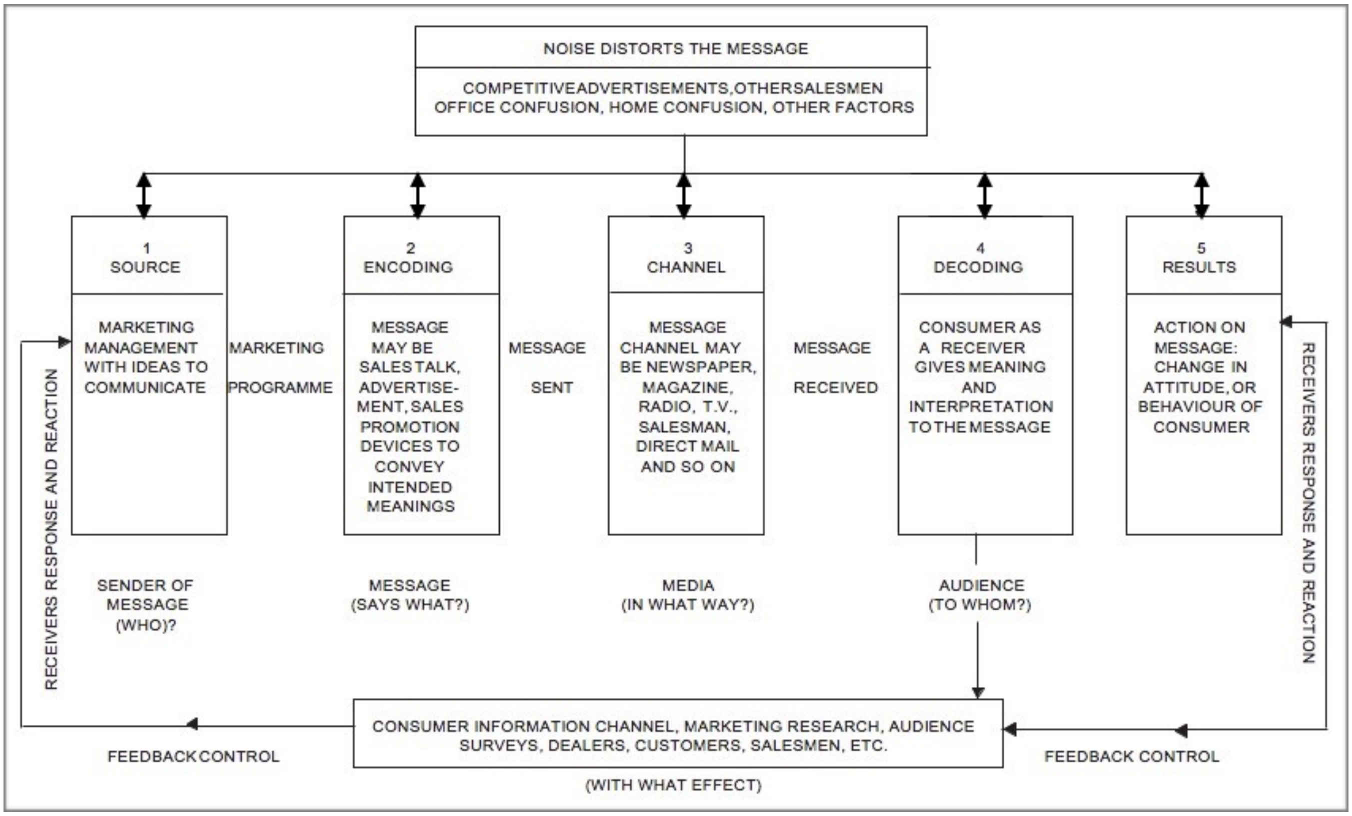


Fig. 8.1: A Marketing Communication Model

purchasing and dealer effectiveness. Such activities are displays, shows, exhibitions, demonstrations, and many other non-routine selling efforts at the point of purchase. Sales promotion tries to complement the other means of promotion given above.

5. **Public relations:** The process of building goodwill towards a business enterprise and securing a favourable public image of the company is called public relations. The marketers should have good relations with customers, shareholders, employees and the community. Participation in social welfare projects enhances public image of the marketer.

6. **Direct marketing:** Under direct marketing, a sale is effected without the help of middlemen traders. **Examples:** Mail order sales, in-home selling, sales through vending machines etc.

7. **Internet marketing** involves use of Internet and related digital technologies for achieving marketing objectives.

8. **Database marketing:** A customer database is an organised collection of comprehensive data about individual customers, prospects that are accessible for marketing purposes such as sale of product or service and maintaining customer relationship.

9. **Sponsorship marketing** means that the company pays money to sponsor someone or some group. A firm can sponsor individuals, activities, or events. For years, companies have been sponsoring sports, arts, festivals, fairs, and annual events. Sponsorship can be used to enhance company's image, increase firm's visibility, differentiate a company from its competitors, and develop relationship with customers.

10. **Event marketing** is similar to sponsorship but in this case, the company supports a specific event.

- **Promotion Messages**

The message transmitted through all forms of promotion must describe the product features in terms of customer wants and desires. The problem-solving or need-satisfaction approach is better while transmitting the message. It develops better understanding of customer needs and problems. Remember that customers are buying a bundle of benefits. The promotion message must communicate effectively these benefits to consumers. Hence, promotion message must achieve two basic objectives: Communication and persuasion. For effective communication, sender and receiver must have a common background of experience, e.g., a common culture, common language, so that they will be clearly able to symbolise certain ideas, concepts and events in a manner easily understandable to each other.

Meaning attached to the various words, ideas and symbols may differ when sender and receiver of the message do not have common frame of reference and common field or background of experience. In the absence of such a consensus, communication may be poor or even impossible. The best example of consensus is the communication of product benefits in French or Japanese language to a villager in India or any other developing country at present. Communicator may be stressing the benefits in which receivers are not interested at all. In that case, there will be a communication barrier leading to bad communication.

Promotion by definition is persuasive communication. The message is arranged to facilitate the consumer in the decision- making process (awareness, knowledge, liking, preference, conviction, and action). Promotion message is one course of information at the disposal of a buyer. The buyer behaviour is influenced by many other sources of information available from many sources. If promotion message is useful, relevant, and credible, the buyer will be influenced and persuaded to take action as desired by the marketer or communicator.

Unfortunately, we come across fraudulent, deceitful and misleading promotion message. The innocent consumer, relying on the promotion message, purchases the product but, very soon he discovers the dissonance and frustration in his post-purchase experience. Without satisfaction, repurchase and consumer loyalty will be impossible. On the other hand, word-of-mouth communication will act as anti-advertisement.

- **The Process of Persuasive Communication**

Buyers welcome persuasive communication provided persuasion does not amount to coercion. Coercion is criticised by consumerism. It compels people to do exactly according to the marketers' directions. Buyers can be induced to visit a store, listen to radio commercials, watch television jingles, read magazines and newspaper advertisements or actually write to the firm for more information.

The individual potential buyer is induced to pass through several stages on his way to buy a product or favour a seller. The AIDA formula proposed these stages as:

(1) Awareness (attention), (2) Interest, (3) Desire, and (4) Action.

Promotion is a systematic attempt to move forward step by step from a stage of unawareness to awareness, then to knowledge and liking, then to preference and conviction and finally to purchase action or a behavioural response.

Broadly speaking, there are three distinct kinds of consumer response to promotion:

(1) Awareness and knowledge emphasising cognitive response, (2) Changed attitudes, emphasizing affective response (consumer moving from cognition to liking and preference) and (3) New behaviour including motivational response (moving to conviction and action, i.e., purchase decision).

The marketer must remember that communication accomplishes its objectives in a series of mental stages as the receiver or audience moves from unawareness to actual purchase. Several messages through several channels are necessary in order to complete the process of promotion. The purpose of communication must be made clear before deciding upon most desirable messages and media. Then again, the marketer must be aware of the fact that his promotion is only one persuasive influence operating among many other influences in a total situation. All marketing communications try to influence pre- dispositions (attitudes, beliefs, values, goals, etc.) of buyers towards the firm and its products. Marketing communications cannot be planned without knowing something about existing buyer behaviour or his inclinations or pre-dispositions. Marketers must know their audience thoroughly. Buyer's pre-dispositions and behaviour are governed by the socio-economic, demographic, and personality characteristics. The receiver is an active participant in the promotion process. The receiver assigns the meaning to the message according to his predispositions. The attitudes and beliefs are learned from experience and the receiver tends to act towards a particular object in the environment in a particular way. Hence, action towards a company and its products. The response to promotion is subjective and it entirely depends upon the mental frame and satisfaction of the receiver of the message. Each receiver finds his own meaning to the message sent by marketers. The consumer/user is the key to the whole exercise of communication. The consumer will accept communication which will interest him.

8.3 INTEGRATED MARKETING COMMUNICATION (IMC)

- **Meaning of IMC**

As per American Association of Advertising Agencies, Integrated Marketing Communication (IMC), is a concept of marketing communication planning that recognises the added value of a comprehensive plan that evaluates the strategic roles of a variety of communication disciplines (advertising, sales promotion, public relation, personal selling and publicity etc.) and combines the disciplines to produce clarity, consistency and maximum communication impact. The purpose of IMC is to unify the company's brand images and messages and communicate a common theme and positioning. AMC helps the company to build a strong brand identity in the market-place.

All kinds of promotion play the role of communication channels between the marketer (the source and the sender of message) and the consumer (the receiver of the message). Promotion as an element of marketing-mix has three broad objectives: (a) information, (b) persuasion, and (c) reminding. The overall objective of promotion is, of course, influencing the buyer behaviour and his pre-dispositions (needs, attitudes, goals, beliefs, values, and preferences).

The promotion-mix elements have a definite role in all stages of the selling process. Publicity is more effective in the awareness stage. Advertising gradually becomes less and less effective over a time-span. Hence, reminder advertisement it necessary. Personal selling becomes more and more effective as interpersonal interaction assumes increasing importance. Closing of sales needs not only personal selling but also sales promotion tools at the point of purchase, in order to provide additional incentives for buyer’s action.

All these tools have one common objective i.e., communicating a message to the customer. For communication to be effective, the receiver has to understand the contents of the message. The message is based on unique features of the product, features that are appealing to the consumers, comparison of brands, competition, and the position of the product in the minds of the customer.

Very often, companies make use of different promotion media and methods to pass on the message about products and services to consumers. Lack of clarity and consistency in the message from different sources may lead to confusion in the mind of the target audience. To avoid such a problem, companies are now following the concept of IMC. IMC involves co-ordination and integration of all marketing communication tools and resources within a company that minimises the impact on target consumers.

The participants in IMC process include the company (the advertiser), Advertising agency, Media organisations and communication specialist. **Example:** Companies such as Xerox, IBM, and Motorola have initiated IMC by bringing together people from advertising, personal selling, public relations and publicity to ensure consistency and uniformity in the messages about product and services.

IMC is based on master marketing plan. The marketing plan makes effective use of marketing-mix including promotion efforts. Promotion is a form of communication with an additional element of persuasion. Marketing communication may be distorted particularly when a message passes through a number of channels and may lead to confusion in the mind of the consumers. Therefore, there is a need for co-ordination and integration of all communication tools and resources to maximise the impact on consumers in a cost effective manner.

Table 8.1

ROLE OF PROMOTION TOOLS IN A PROMOTION-MIX

Criteria	Advertising 1	Personal Selling 2	Sales Promotion 3	Publicity 4
Cost per audience member	*(high efficiency)*	*(low efficiency)*	*(high efficiency)*	*Very low (most efficient)*
target markets	*Poor to good*	*Very good*	*Good*	*Moderate*
Deliver a complicated message	*Poor to good*	*Very good*	*Poor*	*Poor to good*
Interchange with audiences	*No feedback*	*Very good interaction*	*Poor Feedback*	*Poor to good feedback*
Credibility (Believability)	*Low*	*Moderate to high*	*Low*	*High*

Notes:

1. Each tool of promotion has particular strengths and weaknesses. Judicious combination and co- ordination of the tools is the challenge for management.

2. The five criteria are used to determine the role of each promotion tool in the promotion-mix.

3. Personal Selling has only one great weakness, viz., very high cost of reaching an audience member.

4. Typical promotion objectives are: (1) rising sales, (2) higher market share, (3) better brand awareness acceptance, insistence etc., (4) favourable climate for future sale, (5) securing competitive difference (USP), (6) information etc., to consumers.

5. In advertising, strategy is useful for consumer goods. In sales promotion, pull and push strategies have equal importance. In personal selling, push strategy is useful for industrial goods.

8.4 COMMUNICATION STRATEGY

Strategy lays down the broad principles by which a company hopes to secure an advantage over competitors, exhibit attractiveness to buyers, and lead to full exploitation of company resources. The communication strategy depends on the following:

1. **The Product:** The product is one of the factors determining the form of promotion. Toys are effectively shown on television.Press advertisements are unsuitable for children. Mass selling of consumer goods can be easily promoted through radio and television advertising. Industrial and speciality goods should be promoted through technical journals and through sales engineers.

2. **The Buyer:** If the marketers are to provide realistic solutions to the problem of buyers, they must know their customers, their needs and desires, their attitudes, values, aspirations and expectations. Hence, marketers must have up-to-date information about consumer demand and consumer behaviour.

3. **The Company:** The firm has a unique public image in the market. The firm's image must be closely associated with promotional strategy so that its goodwill can be exploited. Corporate advertisements usually emphasise more on the character, reputation, reliability, and responsibility of the marketing firm. Source credibility in promotion plays a very important role in making promotion believable to the receiver. Effectiveness of communication depends upon the firm's image in the market. When the perceived risk in buying a product is higher, the source credibility is an important factor in purchase decisions. A credible or trust worthy source produces much greater change in buyer's pre-disposition than one that is not credible.

4. **The Channel Choice:** The promotional strategy also depends on the channel or route through which products of the firm flow to consumers. There are pull and push strategies in promotion. Pull strategies depend upon mass communication. Products are literally pulled by buyers through the channels, by creating end-user demand. Customers force retail shops to stock those mass-promoted products.

Table 8.2 PROMOTION STRATEGY

Push Strategy	***Pull Strategy***	***Push-Pull Strategy***
It is called a pressure strategy.	It is called a suction strategy.	In consumer goods market very large companies generally adopt a push-pull or a combination strategy to sell their products. Salesmen are employed to push products, through the marketing channels.
Emphasis is on personal selling at all stages in distribution.	Emphasis is on extensive advertising and sales promotion to generate consumer demand.	Extensive advertising is also employed to accelerate sales and to increase the market share.
We have aggressive and high pressure salesmanship.	Product is literally pulled through the marketing channel by consumer.	We need extensive promotion expenditures and only very big national companies can resort to combination strategy.
Conditions favouring push strategy:	Salesmen are mere order takers and distributing agents. Less emphasis on personal selling at all stages in distribution. Lower trade margins are offered to resellers.	All tools of promotion work together as a total communication process.
1. Quality product with unique product features and talking points for salesmen. 2. High-priced product. 3. Higher profit margins to resellers.	Lower retail prices but higher turnover rates. Heavy emphasis on consumer advertising and large investment required.	
Advertising plays a minor role in push strategy.		

Note:

1. Pull strategy lays emphasis on mass promotion. Push strategy lays emphasis on personal selling.
2. In the push strategy, the middleman has an active role for creating demand. In the pull strategy he is responsible for serving the demand.

In turn, retailers demand the highly advertised product from wholesalers. The firms having well-known brands can exercise control over channels through pull-promotion strategies.

A pull strategy is also called a suction strategy. Extensive and heavy use of advertising and sales promotion would be necessary to generate consumer demand. There is less emphasis on personal selling at all stages of the marketing channel. Small firms are unable to depend entirely on advertising and sales promotion, because large investment is involved due to emphasis on advertising and sales promotion. A push strategy is called a pressure strategy. It places heavy emphasis on personal selling.

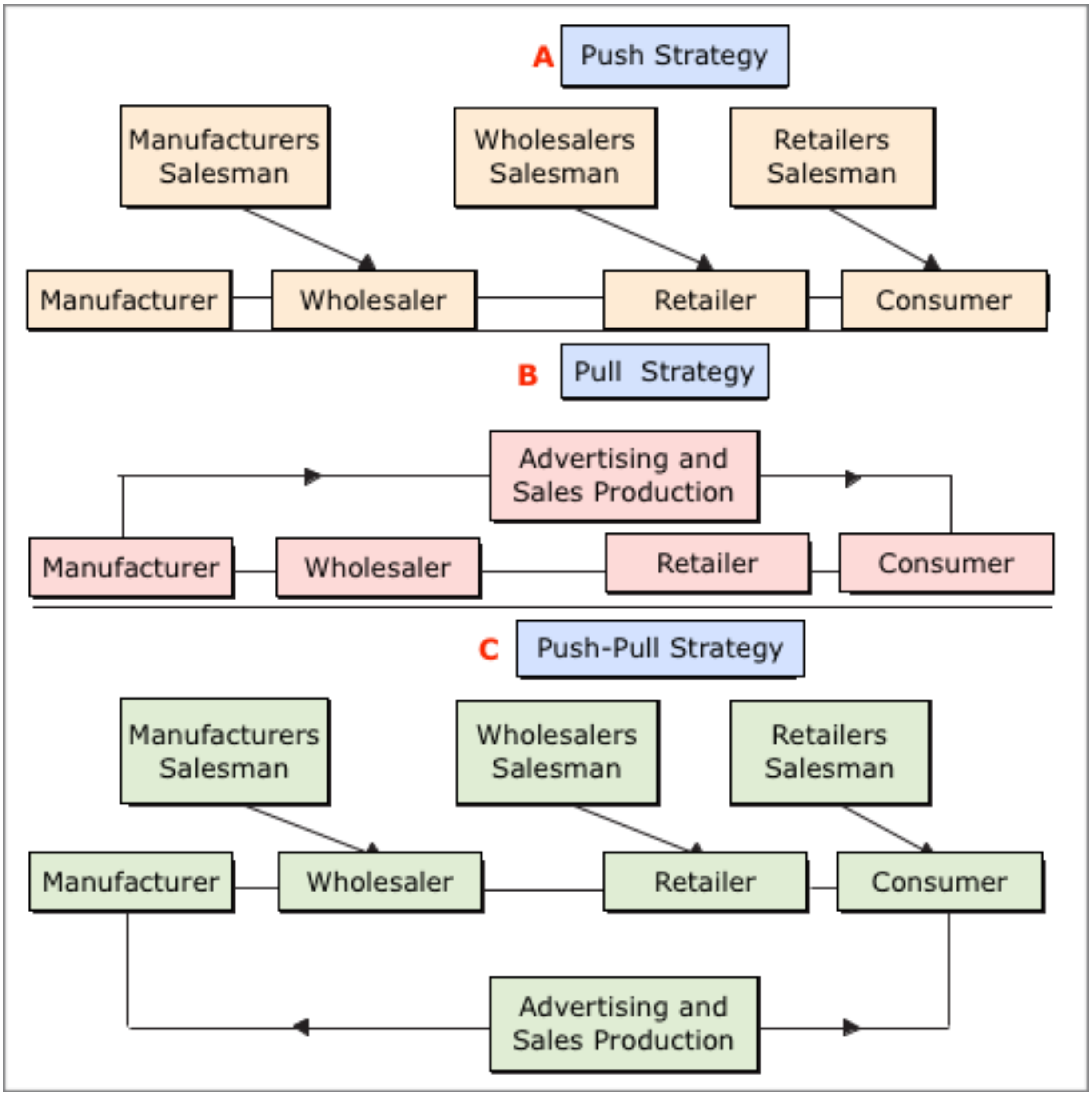


Fig. 8.2 (A) Push, (B) Pull, (C) Push-Pull Promotion Strategies

Most consumer goods manufacturers generally employ a push- pull (combination) strategy to sell their products. The ratio of pull to push may differ according to the requirements of market situation. Salesmen are used to pushing the goods through the marketing channel, while advertising and sales promotion will support personal selling to accelerate sales. Thus, all tools of promotion work together.

Table 8.3

TYPES OF COMMUNICATION (PROMOTION) INFLUENCING VARIOUS STAGES IN BUYER BEHAVIOUR

Components or Dimensions of Attitude	Movement toward Purchase (Six-stage Sequence)	Types of Communication Relevant at each Stage
1. The Conative (Behavioural) Dimension: It is the region of drives or motives, i.e., activated unsatisfied wants. Advertisements and sales promotion must stimulate and direct desires so as to motivate the consumer to buy a product. The buyer should be made ready to respond and he should have the conviction that the purchase would be wise. Purchase is the last step converting this attitude into actual purchase.	↑ 6 Purchase 5 Conviction	Point-of-purchase Material, Retail Store Advertising, Special Deals, 'Last Chance Offer', Price Appeals, Testimonials, Source Credibility, i.e., expertness and trustworthiness of the source, personal selling, inter-personal communication, word of mouth communication, are essential in evaluation and adoption stages. Believability of company as a communicator is called source credibility.
2. The Affective (Feelings and Emotions) Dimension: It is the region of feelings and emotions. Consumer moves from knowledge to liking and preferences. He develops a favourable attitude toward the product (liking) and then develops the point of preference. Promotion tools must stress the effective aspect of behaviour, i.e., the area of feelings and emotions must be tapped. Advertisements and sales promotion will change emotions and feelings.	↑ 4 Preference 3 Liking	Competitive Advertising, Argumentative Advertising Copy, Image Advertising, Status, Glamour Appeals stress on changing emotions and feelings of buyers. Opinion leaders are used as a good source of information and opinion — to change attitude of buyers through inter-personal communication.
3. The Cognitive (awareness) Dimension: It is the region of awareness and knowledge. Promotion tools must emphasize the cognitive aspects of buyer behaviour in order to create awareness and knowledge, Advertising provides adequate information and facts.	↑ 2 Knowledge 1 Awareness	Announcements Advertising, Descriptive Advertising Copy, Classified Advertisements, Slogans, Jingles, Sky Writing, Television, Radio Advertisements. Mass media must be adopted to create awareness and provide knowledge and information

Notes:

1. Buying process involves six-stage sequence related to three basic psychological states: (1) The cognitive dimension (Awareness and Knowledge), (2) The affective dimension (Liking and Preference), and (3) The conative dimension (Conviction and Purchase).

2. A firm does not have separate strategies of advertising, selling and sales promotion. It has one promotional-mix and this mix is an integral part of the overall marketing plan. The elements of promotion mix are not independent strategies. Each one supports the other. They are complementary tools of promotion. Taken together, advertising, personal selling and sales promotion are the "Three Musketeers" of marketing programme. Their motto is: "All for one and one for all." An integrated marketing-mix means this, and nothing short of this can be thought by a marketer.

3. Promotional plan should be in harmony with overall corporate objectives, policies, organisation and its competence. Promotional plan should be evaluated against specific promotional objectives as well as against the rest of the marketing mix.

4. The proper coordination and integration of selling, advertising and sales promotion produces a far more efficient programme than an attempt to carry out these activities without regard to their effects upon each other.

5. Movement towards purchase is upwards. It starts from awareness and ends at purchase action or decision.

6. The company reputation, created through advertising and other forms of mass communication, can enhance the effectiveness of the salesman. Company image is the personality or reputation of the company as perceived by customers, prospects, suppliers, shareholders, and the general public. Company image is created by communications, particularly through public relations.

7. In India, since 1990, we are witnessing surging pupularity in Sales Promotion.

Industrial marketing strategies are mostly the push type strategies relying primarily on personal selling. In the sale of medical products and in life insurance, marketers have to use large number of salespeople to call on physicians and prospects for life insurance. In push-type promotion, after-sale service is also important. In push- type promotion, marketers rely on selective distribution. Push strategy can be successfully used when: (1) There is a high quality product with unique selling points, (2) The company have a high-priced product, and (3) The company can offer adequate incentives (financial) to middlemen and their salesmen.

8.5 COMPONENTS OF IMC

1. **Corporate image** can have positive or negative influence on customers when they make purchase decisions. Corporate image contains tangible elements such as goods and services offered for sale, corporate name/logo, package/labels, employees, advertising promotions and other forms of communication and intangible elements like media reports, personnel policies, culture of the company, etc. Strikes and labour disputes have a negative impact on the image of the firms. The marketing, advertising and sales teams should try to understand the company's image so that they can make decisions about how to overcome any misperceptions and build on the positive image of the company. Corporate image advertising is designed to build the firm's reputation with general public.

2. **Branding:** A strong brand provides customers with assurance of quality and also allows the company to charge more for the products and earn higher gross margins. Two important aspects to be considered to create a strong brand name are: (1) the brand name to be promoted through repeated advertisements, and (2) the brand name to be associated with an important characteristic of the product. **Example:** The name Coco-Cola is associated with refreshing.

3. **Buyer behaviour:** Understanding how a buyer makes purchase decision will enable to company to develop effective methods of persuading people to purchase goods and services. **Example:** Consumer durables are purchased during festival season.

4. **Communication market analysis** includes five areas. i.e., competition, opportunities, target markets, customer and product positioning. **Examples:** Who are the key competitors and what are they doing in the area of advertising and communication, understanding needs of consumers, analysis of customers i.e., current customers, new customers and competitors customers.

5. **Finalising IMC objectives and budget** is based on specific objectives, determining the activities to be performed to achieve the objective and the cost involved in performing the activities. There are four popular methods used to decide promotion budget i.e., affordable method,

percentage of sales method, competitive parity method and objective and task method.

6. **Advertising design and communication channel selection** involve matching the message, media, and audience so that the advertisement reaches the targeted audience. Appeals such as fear, humour, anxiety logic can be used. The message should be conveyed through attractive, credible, and authoritative sources.

   There are two types of communication channels i.e., Personal and Non-personal and within each are many sub-channels. Personal communication channels involve two or more persons communicating directly with each other face-to-face, person-to-audience over telephone or through e-mail. The advantage is that the communicater is able to tailor the message to meet the requirement of the receiver and obtain feed back. Non-personal channel includes media (TV, Radio, newspaper, videotape, CD-ROM etc.). Events such as news conference, sports are very useful to communicate messages to target audience. While mass media create awareness among consumers, personal selling method is effective in closing the sale.

7. **Sales promotion programmes** should match with overall IMC objectives. They should be co-ordinated with advertising programme. Consumer and trade promotions are expensive and therefore expenses should be within the overall IMC budget. **Example:** In the case of FMCG products, personal selling, advertising and sales promotion activities are integrated to achieve the common objective of increasing the sales volume.

8. **Evaluation of IMC is based on:** (a) Short-term outcomes (sales), (b) Long-term results (Brand awareness), (c) Awareness of the company, (d) Product awareness.

   Many marketers are concerned with short-term results without considering the long-term impact of the IMC. IMC programme should be considered a long-term investment for development of business.

8.6 SUMMARY

- Companies make use of communication-mix such as advertising, sales promotion, publicity, personal selling to pass on the message about products and services. Lack of clarity and consistency in the message from different communication-mix may lead to confusion in the mind of the consumers. Integrated marketing communication aims to co-ordinate and integrate all communication tools and resources to create maximum impact on consumers in a cost effective manner.

8.7 SELF ASSESSMENT QUESTIONS

1. Describe the various elements of marketing-communication mix.

2. Discuss Pull and Push strategies with examples.

3. Define integrated marketing communication? What are its objectives?

4. Discuss the important components of IMC.

5. What are the important factors that influence marketing communicaton strategy?

6. Promotion is persuasive communication. Discuss with examples.

7. Discuss the strengths and weaknesses of promotion tools in promotion-mix.

8. Write Short Notes on:

    a. Promotion messages.
    b. Distortion and noise in marketing communication.
    c. Corporate image and IMC.
    d. AIDA Formula.

REFERENCE MATERIAL

Click on the links below to view additional reference material for this chapter

Summary

PPT

MCQ

Video Lecture

Chapter 9

ADVERTISING

Objectives

After studying this Chapter, you should be able to:

- Understand the objectives, types, strengths and weaknesses of advertising
- Study the essentials of good advertisement.
- Study the elements of a good advertisement copy
- Know the characteristics of important media.
- Study the role played by Indian advertising agencies

Structure:

9.1 Promotion
9.2 Advertising
9.3 Characteristics of Important Media
9.4 Creation of Advertising theme or Appeal
9.5 Elements of Good Advertisement Copy
9.6 Essentials of Good Advertisement
9.7 Advertising agency
9.9 Self Assessment Questions

9.1 PROMOTION

Broadly speaking, promotion means to push forward or to advance an idea in such a way as to gain its acceptance and approval. Promotion is any communicative activity whose main object is to move forward a product, service or idea in a channel of distribution.

It is an effort by a marketer to inform and persuade buyers to accept, resell, recommend, or use the article, services or idea which is being promoted. Promotion is a form of communication with an additional element of persuasion. The promotional activities always attempt to affect knowledge, attitudes, preferences, and behaviour of recipients, i.e., buyers. The element of persuasion to accept ideas, products, services, etc., is the heart of promotion.

In any exchange activity, communication is absolutely necessary. You may have the best product, package and so on. It may have fair price. But people will not buy your product, if they have never heard of it, and they are simply unaware of its existence. The marketer must communicate to his prospective buyers and provide them adequate information in a persuasive language. People must know that the right product is available at the right place and at the right price. This is the job of promotion in marketing. Sales do not take place automatically without promotion or marketing communication. In essence, promotion is the spark plug in our marketing-mix. It is said that "nothing happens until somebody promotes something". Promotion is the third element of marketing-mix and it is an important marketing strategy. It fulfils the marketers' need to communicate with consumers.

Promotion is the process of marketing communication involving information, persuasion and influence. Promotion has three specific purposes. It communicates marketing information to consumers, users and resellers. It is not enough to communicate ideas. Promotion persuades and influences the buyer behaviour. Promotional efforts act as powerful tools of competition providing the cutting edge of its entire marketing programme. Promotion has been defined as "the co-ordinated self-initiated efforts to establish channels of information and persuasion to facilitate or foster the sale of goods or services, or the acceptance of ideas or points of view." It is a form of non-price competition.

Essentially, promotion is persuasive communication to inform potential customers of the existence of products, to persuade and convince them that those products have wants satisfying capabilities. Consumers really speaking, buy a bundle of expectations (a package of utilities) to satisfy their economic, psycho-social wants and desires. The promotion offers the message, viz., the communication of these benefits to consumers. Hence, promotion message has two basic purposes: (1) persuasive communication, (2) tool of competition. Promotion is responsible for awakening and stimulating consumer demand for your product. It can create and stimulate demand, capture demand from rivals and maintain demand for your products even against keen competition. Of course, it is taken for granted your product has the capacity to satisfy consumer expectations and can fulfil their wants and desires. It is true that nothing can be sold and nothing can make money (except mint) without some means of promotion.

Promotion mix consists of advertising, publicity, personal selling, sales promotion, public relations, direct marketing, internet marketing, database marketing and sponsorship marketing. All marketing communications or firms of promotiontry to influence consumers attitudes, beliefs, ways of living or life style, values and preference towards a company and its products and thereby influence his behaviour.

9.2 ADVERTISING

The modern age is an era of competition. To withstand competition manufacturers have to think of new and unfamiliar uses for their products or they have to find out new buyers for their products. To put it more clearly demand creation is as important as meeting existing demand. For demand creation what is more important is advertisement. Advertisements could do wonders if they are properly done. The patent medicine people were the first to prove what advertisement could do. They sold "Rivers of tonics and mountains of pills."

- **Meaning of Advertising**

Advertising is that activity by which visual or oral messages are addressed to the general public. Its purpose is to inform or influence them in order to increase the sales of the advertiser. It is done with a view to selling the goods or services, offered by the advertiser. It may also draw the readers or viewers to act favourably towards the idea. It is paid for by a seller (sponsor). The seller or the advertiser has to pay for the space (or time) through which the message (advertisement) appears. The aim is to persuade people to buymore. Advertising creates desire for new products.

"Advertisement is the art of influencing human action, the awakening for the desire to possess and possess your product."

American Marketing Association defines advertising as "any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor."

From the above definitions, it is stated that:

a. Advertisement is a message to large groups.

b. It is the form of non-personal message/communication.

c. It persuades the general public to purchase the goods or services advertised.

d. It is paid for by an advertiser to publisher.

e. Advertising messages are identified with the advertiser.

- **The 5 M's of Advertising**

(1) Mission: Goal and Objectives, (2) Money: Amount available to spend, (3) Message: Message to be sent, (4) Media: Media to be used, and (5) Measurement: Evaluation of Results. Advertising must adopt an open and honest communication. It shall never be false, and deceptive; social and legal norms must be duly honoured. It is a Value-based Mass Communication.

- **Distinguishing Features of Advertising**

1. It is a unique means of non-personal or mass communication announcing the sale of goods or services. It can help to introduce a new product quickly.

2. The advertising is non-personal salesmanship performing similar functions like personal salesmanship. It is a silent but forceful salesmanship. It helps to pre-sell a product.

3. It is an openly sponsored sales message regarding any product or service, i.e., the sponsor can be identified.

4. It is a paid communication — paid for by the sponsor (advertiser) to the media owner (seller of advertising space).

5. Advertising message can be addressed to numerous persons at a time — they may be readers, listeners, viewers, collectively called 'audience' of advertisement. It has the ability to expose large groups of prospects at a low cost per prospect.

- **Differences between advertising and salesmanship**

1. Salesmanship is personal, involving direct personal face-to- face communication. Advertising is a non-personal and indirect means of communication with the prospect through various media forms.

2. Salesmanship is individual (person-to-person) communication through personal interview between the salesperson and the prospect. On the other hand, advertising is mass communication, advertiser reaching a large number of prospects simultaneously. An advertisement is read, seen or heard by a number of prospects.

- **Differences between the advertising and other forms of publicity**

1. Advertising must be carried out by an identified sponsor. Publicity need not have identified sponsor.

2. Advertising is a paid form of communication. Publicity is not a paid form of communication. In a sense, paid publicity is advertising.

- **Importance of Advertising in Marketing**

Nothing except the mint, can make money without advertising. Mass production and mass distribution totally depend on all forms of advertising and publicity. We can tell numerous people about a product or service in the quickest time-interval at the lowest possible cost.

Advertising, by facilitating mass production and mass distribution, has provided immense employment opportunities to people. It is responsible for creating and delivering rising standard of living to innumerable people. It has made possible tremendous industrialisation and economic development in many countries. It is the backbone of modern national and international marketing. Many modern amenities like refrigerators, motor cars, cameras, radios, vacuum cleaners, and other appliances are sold in mass markets at very reasonable prices — much lower than the prices at which they were initially introduced in the market. Modern advertising informs, guides, educates as well as protects buyers, so that they can buy intelligently and raise their standard of living. In the marketing programme of a business enterprise, advertising is an indispensable tool supplemented by salesmanship and sales promotion.

- **Advertising Purposes**

Advertising programme as an integral part of the promotion campaign may have one or more of the following specific objectives:

1. **Promotion of new product:** Advertising can make prospects at least aware of the entry of the new product in the market.

2. **Support to personal selling:** Advertising can move the prospect nearer and nearer to the point of purchase. Under favourable atmosphere, salesman's job is easier and simple. Actual closing of sale is, thus, facilitated by advertising. Selling costs are reduced incidentally. It should be noted that advertising and salesmanship are really complementary and in no way competitive tools of promotion.

3. **Brand patronage:** In the long run, effect of advertising on brands and campaigns may be of great importance. The advertising programme can aim at consumer awareness and attitudes. Buyers may be induced to purchase and re-purchase. If the trial is satisfactory, consumers may stick with the brand. Thus, advertising tries to create and retain brand preference and brand loyalty.

4. **Immediate buying action:** Advertising may attempt to obtain immediate buying action. For instance, mail order advertisement, direct-action retail advertisement, price-deal offers, last-chance offers are special advertisements persuading prospects and securing prompt actions. Direct mail is the usual medium for coupons, samples, and other forms of direct action advertising.

5. **Pre-sold goods:** Well-advertised brands are pre-sold goods. Buyers are pulled by such advertisements. Supermarket advertisers pull customers and goods are sold without active help of counter sales force.

6. **Dealer support:** National or big firms advertise extensively and intensively to support dealers and distributors so that they can assure accelerated distribution. Advertising alone can create mass markets for products which are intrinsically sound and can easily fill the customers' needs and desires. Mass marketing brings about reduction in the cost of production as well as cost of distribution.

- **Advertising and Brand Patronage**

Advertising is an important promotional tool in order to establish brand patronage. Customer preference toward brands indicate the following tendencies:

1. **Brand insistence:** A buyer insists on purchasing only one brand and will not accept a substitute.

2. **Brand loyalty:** A buyer has a strong attachment to the brand and will not accept a substitute if the brand is available.

3. **Brand preference:** A buyer favours the purchase of the brand but will accept a substitute.

4. **Brand acceptance:** A buyer will buy the brand but has an open mind to try another brand.

5. **Brand awareness:** A buyer is merely aware of the existence of the brand but has limited knowledge about it and has no particular emotional attachment to it so far. He may or may not risk purchasing the brand.

6. **Brand unawareness:** A buyer has no knowledge of the existence of the brand.

   Most of the time, and advertiser (seller) tries to build a brand privilege or patronage for his product or service. A seller has a brand privilege if buyers exhibit brand insistence, brand loyalty, or brand preference toward his product or service. By means of advertising or persuasive mass communication, seller tries to move prospective buyers and existing buyers from lower level to higher level, i.e., brand ignorance to brand awareness, or from brand acceptance to brand preference, loyalty and insistence. This can be done through proper promotion tools over a period of time.

- **Advertisability Criteria**

The proponents of advertising very often say that *"it pays to advertise, advertising can sell anything, advertising has the miraculous powers of selling the goods, advertising hypnotises the readers to buy anything, advertising process possesses supernatural powers and so on."* However, the dealer or producer should know how far his product can be advertised or how advertisable his products are or on what factors the effectiveness of an advertisement depends. There are certain determinants of advertisability:

1. **The product should have a primary demand:** A product enjoys a primary demand when it is desirable. The product should offer benefits to consumers, otherwise advertisement will not succeed. Mere flattering illustrations and glorifying descriptions are not sufficient for making the people to buy. Advertising cannot push on to people merchandise that is behind or ahead of fashion, unreasonable or, over-priced.

2. **Advertising must be continuous:** Infrequent advertising is not sufficient to win new customers or to hold the favour of the old. The pitiful, unsystematic advertiser has little chance to earn the patronage of customers. Advertisement is a course of treatment, not a shot in the arm. It is futile to recognise that there is something like "love at first sight" in publicity.

3. **Greater chances for product differentiation:** Product differentiation is still another factor of advertisability. The demand for a product can be

influenced by the technique of product differentiation. By product differentiation we mean that the product is differentiated by bringing about a change in colour, name, shape, size, package, taste, etc. Product differentiation makes the customers believe that a product is superior to others.

4. **Presence of powerful emotional buying motives:** An advertisement must provoke the emotional buying motives of the prospects. The emotional buying motives may be gains, saving, utility, pride, economy, prestige, variety, etc. The buying motives are in the mind of the people and not in the product.

5. **Financial capacity:** Another criterion for advertiser ability is the financial soundness of the company. If very little money is spent on advertisement it will not have any effect. That is why reputed concerns spend money on advertisement.

6. **Price of the product:** The price should represent reasonable value for the brand in the mind of a customer. That is, advertising must not persuade the consumers to pay what a customer considers an unreasonable price.

- **Communication Goals of Advertising**

Advertising should concentrate on clear and measurable communication objectives known as DAGMAR (Defining Advertising Goals, Measuring Advertising Results). Russell Colley, in 1961, pioneered DAGMAR. At that time he wrote: "Advertising succeeds or fails depending on how well it communicates the desired information and attitudes to the right people at the right time and at the right cost."

Advertising objectives must be oriented around the process of communication. Communication tasks are: (1) Developing brand awareness, (2) Changing consumer attitudes, (3) Associating desirable themes with products, and (4) Informing consumers about product attributes.

The ultimate purpose of most advertising is to help the probability of the sale of a product or service. Advertising as a mode of promotion increases propensity to purchase — moving the prospect steadily, inch by inch, closer to a purchase decision. Of course, advertising is only one of several communication forces. It moves the consumer through successive levels such as unawareness, awareness, comprehension or recognition, conviction (intention) to buy and action (purchase).

Advertising goals may be divided into four stages of commercial communication as given below:

1. **Awareness:** The prospect must become aware of the existence of the brand or the company. Awareness is the miimum goal of advertising.

2. **Comprehension:** The prospect must understand what the product is and what it will do for him. Comprehension level indicates that people are not only aware of the brand or company but they also know the brand name and can recognise the package or trademark. But they are not yet convinced that they want to buy.

3. **Conviction:** The prospect must be mentally convinced to buy the brand or the product. The conviction level shows brand preference and intention to buy the product in the near future.

4. **Action:** The prospect takes meaningful action. Purchase decision is duly taken.

Advertising performs its role when it contributes to moving the consumer from one level to another in the communication spectrum: awareness of the existence of the product, comprehension of the features and advantages, rational or emotional conviction of the benefits and, finally, action leading to a sale.

- **Advertising Campaign**

A campaign is a series of operations to achieve a goal. A single idea or theme is the centre of the efforts. All promotional efforts are directed towards preset goals, namely, maximum sales and service. We now concentrate on the advertising campaign:

(1) Determine specific goals to be achieved and decide the central theme and appeals to be stressed to influence buying motives and habits of customers. (2) Determine the allocation of funds to advertising as one of

the promotional tools. (3) Select the appropriate media of advertising. (4) Create suitable advertising message or copy to reach market target in the best manner possible. Copy is the heart of the entire advertising programme. It is the job of experts. (5) Evaluate the effectiveness of the advertising plan or campaign. On the basis of evaluation, we can alter or modify our decisions relating to media and/or advertising copy.

Planning and execution of our advertising campaign can be entrusted to an advertising agency, a specialist organisation for advertising.

- **Classification of Advertising**

The common classification of advertising is as follows:

1. **Product advertising:** When the company tries to sell its products or services through advertising, it may be referred to as product advertising.

2. **Institutional advertising:** Where the advertising is to project the image of a company or its services, it is known as institutional advertising. Institutional advertising is not at all product-oriented, but is designed to enhance the image of the company. Institutional advertisements are not aimed at consumers. Whereas it is aimed at share holders, creditors and various sets of public.

3. **Primary demand advertising:** It is intended to stimulate primary demand for a new product. It is heavily utilised during the introduction stage of the product life cycle.

4. **Selective or competitive advertising:** When a product enters growth stage of the life cycle and when competition begins, advertising becomes competitive and selective. Under this type of advertising, information will be less and it will be more emotional. Pricing also will be used as a key promotional weapon as products become very similar.

5. **Comparative advertising:** When there is severe intensity of competition, comparative advertising is resorted to, comparative advertising stresses on comparative features of two or more specific brands in terms of product/service attributes. This method is adopted in the maturity stage when similar products are fastly appearing in the

market and constitute a stiff competition. Comparative advertising "delivers information not previously available to consumers."

6. **Shortage advertising:** When there is short-supply of products shortage advertising is resorted to. Example: oil crisis. In such kind of advertising, new promotional objectives may be incorporated such as:

   a. educating the people about the most economic use of the product.
   b. making appeal to save resources.
   c. to reduce customer pressure on the sales force.

7. **Co-operative advertising:** When manufacturers, wholesalers and retailers join and share the expenditure on advertising it takes the form of co-operative advertising. Such advertising would carry the names of all the parties involved. From the point of view of the customers this is beneficial as they get the articles directly from the authorised outlets.

8. **Commercial advertising:** It is also termed as business advertising. Such advertising is only meant for affecting increase in sales. Usually the following forms of commercial advertising are recognised.

   a. Industrial advertising — this is exclusively meant for selling industrial products.

   b. Trade advertising — advertising relating to a trade.

   c. Professional advertising — undertaken by professionals like doctors, accountants, etc.

   d. Farm advertising — exclusively used for selling farm products such as fertilisers, insecticides, farm implements etc.

9. **Non-commercial advertising:** These are usually published by charitable institutions preferably to solicit general and financial help e.g., collection of donations or sale of tickets.

10. **Direct action advertising:** Advertising that stresses and persuades immediate buying of the product is known as Direct Action advertising.

Direct mail advertising is capable of achieving immediate action to a greater extent.

- **Media Selection**

In making a decision, we have to consider the following factors:

(1) The financial allocation for advertising, (2) The nature of the product and the demand for it, (3) The type of prospects, their location and other characteristics, (4) The nature of competition and the extent of coverage required, and (5) Cost of media, co-operation and promotional aids offered by media, media circulation.

9.3 CHARACTERISTICS OF IMPORTANT MEDIA

1. **Mural Advertising:** Mural or outdoor advertising has long life. It has a general and wide appeal. It can attract attention of many people. It is good to remind prospects. An advertiser has ample scope to use his skill and art in advertising.

   However, outdoor advertising has certain limitations. It can not have a long message. It is not useful in selective advertising or for specialised products. It has a low retention value. Its effectiveness cannot be accurately measured and it may also lead to considerable wastage. Bill boards and hoardings are not welcome today on the highways due to adverse public opinion. (They spoil the natural beauty and environment).

2. **Press Advertising:** Newspapers have a general and wide appeal. It is a very common method of publicity. Newspapers are flexible and timely. Repeat advertising is possible. Periodical change in size and contents is also easy. Selective advertising to some extent is available. Effectiveness of advertising can be estimated by having keyed advertisements. Newspapers offer promotional assistance. They are the best source of market information.

   Newspapers are truly a way of life to most of the literate people. They have short closing times. Closing times refer to the period before publication when the copy must be submitted. For newspapers, this period is only 24 hours. The adage 'seeing is believing' is applicable to press advertisements. It offers greater prestige and believability.

However, newspapers have short span of life. Waste in advertising is considerable. Illiteracy affects its utility. Magazine and trade journals are other means of press publicity. They are best for coloured and attractive advertisements. They have longer life, greater retentive value as well as reference value. Selective appeal is possible. We can approach particular market segment. Waste can be reduced. However, they need advance planning, do not facilitate repetitive advertisements. They have limited circulation. They have higher unit cost per contact.

3. **Film Advertising:** It has a wide appeal. It can overcome language barriers. Audio-visual (sound and sight) technique has maximum impact on audiences. Sound and sight both are employed for communicating our message. Repeat advertising is possible. However, both cost of production as well as cost of distribution of slides and films are quite high. Selective advertising is not possible. Effectiveness cannot be measured. Waste in film publicity can be considerable.

4. **Radio Advertisement:** Of all the media, radio has the shortest closing times: Radio uses only an audio (sound) signal. The copy can be submitted up to air time. Announcement can be made very quickly. It can secure dealer support. It has a very wide appeal. It is suitable even for illiterate people. Repeat message is quite common. Spoken word has greater impact than written word. However, radio cannot permit selective advertising. It cannot give detailed information. It has low memory value. People remember far more of what they see than of what they hear. Its cost is high. It may not be very effective as listeners may not like it. Many a time, they are bored by repeat messages. The length of time media is momentary. The message may be lost, if the radio is not tuned.

5. **Television Advertisement:** Television uses both video (sight) and audio (sound) signals. Television has all the advantages of radio, namely, sound and explanation, plus the additional advantages of sight. It can appeal through ear as well as eye. Product can be demonstrated with explanation. Television reaches the audience almost like personal face-to-face contact. To that extent it is just like personal salesmanship. Full opportunity exists for product demonstration and the amplification of selling points with audio presentation. It is really a wonderful means

of mass communication for creating a market. Television combines all of the elements of communication: (1) Illustration, (2) Music, (3) Spoken words, (4) Written words. We can have short commercials as well as sponsored programmes combining entertainment with advertisement. It represents typical combination of salesmanship and advertising.

However, television has limited market coverage. Advertising in TV is expensive. In addition to time costs, the costs of producing TV shows are considerable. Both radio and TV messages have no life span like the messages in printed form. TV cannot have a long advertising copy.

6. **Transit Advertising:** Transit advertising consists of car- card advertising, which is located within buses, subways, railways and outside displays, which appear on the fronts, sides, and backs of buses or other public transport and at transportation terminals. Transit advertising is the lowest cost media. It gives geographic selectivity and seasonal selectivity. It has high readership. It can reach pedestrians and travelling public. However, non-riders are not exposed to car-cards located inside the vehicle. Car-cards have small size and they can carry only short copy. Transit advertising is limited in quantity by the number of public vehicles in operation.

7. **Direct Mail:** Direct mail is any advertising sent by mail (postal transmission) including sales letters, folders, pamphlets, booklets, catalogues and the like. Direct mail is the most personal and selective media. It reaches only the desired prospects. It has minimum possible personal features copy can be very flexible. It has maximum possible personal features even without personal contact. It can provide detailed information about the product or service, creating lasting impression. Its effectiveness is measurable. It can be timed as per advertiser's will. It has maximum personal appeal. It can take any size, shape or form permitted by the post office. It is not in direct competition with the rival's matter. Extensive testing can be done on the product, price, appeal or other factors before the entire mailing is sent out. The results of direct mail advertising can be checked by means of an offer incorporated mailing. However, direct mail is costly. We may not have proper mailing list. Receiver may consider it as junk mail as it may not have entertainment value. It is not a good means of mass communication.

8. **Advertising Specialities:** These include a wide variety of items, such as calendars, books, matches, pens, pencils knives, key rings, diaries, memopads, cigarette lighters, blotter, paper weights, purses, rainhats and so on. They are given to advertising targets without cost or obligation. Advertiser's name, address, phone number, a short sales message are imprinted on the item. The advertiser can choose from among 500 specialities in the market. Advertising specialities are reminder type promotion. It is hoped they will lead to customer's orders and re-orders. However, they have limited space available for sales message. They are also costly.

9. **Point-of-Purchase Advertisement Material:** It really represents sales promotion devices. It covers the display material used in advertising programme. Such point-of-purchase material may include advertising on the package, window banners, shelf- talkers, merchandise tags, package stuffers, information folders and booklets and such other displaying materials.

10. Leaflets, folders etc. are used in the case of industrial goods.

9.4 CREATION OF ADVERTISING THEME OR APPEAL

The theme or appeal is the central idea around which the advertisement is created. It is called unique sales proposition. It represents a specific point of view or idea to be stressed in the advertisement. It can arouse desire and induce action on the part of customers. It is the heart and soul of advertising copy or message.

There are various appeals used in advertisement to sell your product or service. The selection of theme or appeal is usually made by means of consumer study and research. We have the following common appeals with which advertising message can be effectively communicated: beauty, pride, health, comfort, economy, fear emulation, distinction, love and affection, ease in operation, speed in performance, romance, etc. The theme or appeal points out the most important reason or driving force leading to the purchase of a certain product or service. It is an appeal based on human emotion, feelings, sentiments, needs and desires. It ignites the will to purchase and acquire the product. A good theme will aim at a basic buying motive, attract the right group of prospects, tie in logically with the product and its qualities and be capable of being used in multiple media.

- **Advertising Layout**

There are two parts of an advertising copy: (1) Advertising theme or appeal that attracts customers and (2) Advertising layout.

Advertising layout deals with proper and attractive physical arrangement for the best presentation of the message or sales communication. A visual layout of an advertisement has the following elements: (1) Headlines — The heading and sub-headings, if any, (2) Illustrations and colours, (3) Text — the heart of advertising message giving the story of the product or service to be sold, (4) Advertiser or sponsor, and (5) Black or white space and the border to create distinctiveness.

1. **Headline:** Headline must put forth the main theme or appeal in a few words. It should be clear, simple, short and, attractive to hold attention of the prospect. It should reflect the contents of advertisement and guide the prospect properly. It may show a promise or a reward and induce prompt action. It should be printed in prominent manner.

2. **Illustrations:** They provide line drawings, cartoons, pictures, symbols, photographs for attracting attention, creating interest and arousing desire. Illustration is the best and most effective way of communication of ideas (far better than hundreds of words) at a glance. We can demonstrate the use of the product through proper visual display.

3. **Colour:** It is an important ingredient of an advertisement. Colour has great attention-attracting power. Judicious blending of colours can evoke emotional reaction which cannot be created by mere description. Each colour has individual meaning and significance in communication of an idea. Nature reflects its beauty in colours. Red, green and black are most popular colours used in advertisement. Colour contrast is more attractive and pleasing to our eyes. An advertisement should be a colourful silent salesman.

4. **Body Copy or Text:** It is the advertising message proper. It is called the heart of advertising copy. It is the sales talk performing AIDAS functions of salesmanship. It will point out the selling points of the product, where it can be secured, what benefits the product will offer, what is its price, how it is to be used. It gives proofs of benefits to convince the prospects. It educates, persuades, reminds, and influences

buyer's behaviour and action. The body copy explains and develops the ideas presented in the headline. It sharpens the prospects' desires and convinces the basic worth of the product or service.

5. **Slogan:** A slogan should be a fundamental sales argument for a product or service, expressed in a few words. It should be original and rememberable. It should contain the brand name and the name of the company.

- **Advertising Copy**

The term 'copy' covers all items appearing in an advertisement, the written words, pictures, design, label, and logo. It is prepared by an expert copy writer. It is written or spoken material of advertising communication and includes the headline, name and address of advertiser, as well as the main text of the message. Advertising copy is a creative business demanding a lot of imagination and foresight. Well-designed advertising copy uses four basic steps in selling: (1) attracting attention, (2) developing interest, (3) arousing desire, and (4) finally, generating action, the so-called AIDA formula. It should adopt problem-solving approach and offer the right solution to the problems of prospect. 'You' attitude is always preferable in the communication. Appropriate appeals or pulls must be given special attention to maximise the pulling effect of advertising copy. Then only it can succeed in its mission, viz., motivating the prospect to take purchase decision and execute it promptly. Advertising copy should be in simple, easily understandable, attractive and persuasive language. Then only it can gain action.

- **Comparative Advertising**

Comparative Advertising wants to prove the superiority of one brand through comparison with one or other brands in the product class. The advertiser may resort to direct and open comparison of his brand and the rival brand (by disclosing its name). He may make indirect comparison of his brand with the rival brand only through mere inferences, i.e., without actually naming a rival brand. In India, advertisers have been continuously battling for a place in the consumer's mind. The latest approach that is gaining ground is comparative advertisement for optimum impact.

Comparative advertising, which directly or indirectly compares a product with a competitor's to show the advertised product to advantage, has been prevalent in the advertising industry for many years. But in the existing scenario, where new brands in parallel categories are springing up at a rapid rate, this kind of advertising is gaining momentum. Most prominent among these have been, besides the new Rin commercial, the new Pepsi, Savlon and Captain Cook campaigns. With the product categories getting overcrowded and players fighting for respectable market shares, we are bound to see more comparative stances being taken. And these are given either by a leader protecting his turf from new entrants, or by new entrants who have no option but to compare with the leader. Comparative advertising must make very relevant and truthful claims. Any false claim or misrepresentation would be considered as an unfair trade practice. The advertiser should be prepared to prove the claim of superiority. In a sense, such advertisements are welcome in a competitive market. The rival company should take up the challenge and meet it through its own advertisements. Conveying technological superiority which translates into product superiority has been used by Tatas against Maruti vehicles.

9.5 ELEMENTS OF GOOD ADVERTISEMENT COPY

A good advertisement copy should possess the following elements or characteristics. (1) Attention value, (2) Suggestive value, (3) Memorising value, (4) Conviction value, (5) Sentimental appeal value, (6) Education value, and (7) Instinctive appeal value.

1. Attention Value

Nowadays, people are very busy and have little time to bother about all types of advertisement. Therefore, an advertisememnt copy must be drafted in such a way that even an indifferent and busy person must read. In other words, the advertisement copy must be designed in such a way that it should be for the eye of the beholder and make him halt for a while to read it. Various devices can be used to make the copy attractive and commending. They are as follows:

a. **Use of pictures:** "One seeing is worth a thousand telling", is a Chinese proverb. It indicates the attention-value of pictures. The picture selected must tell the complete story of the products and have a direct saying on the product. Thus, a photograph of a charming young woman dressed in a fashionable silk saree will attract many readers and at the same time tells its own story. But the indiscriminate use of ladies' photographs to advertise everything, including pens, inks, etc. may not have much of attention-value.

b. **Appropriate heading:** The attention-value of an advertisement copy is enhanced a great deal by the use of appropriate headings. Heading should generally be made up of three or four words and should be printed in bold types. Headings in the form of slogan or query will have mgood effect. "You press the button, we do the rest," used by Kodak Camera has very good effect. It may be a tempting offer like "Shave tomorrow at our expense" as used by Ashoka Blade, "Owner's pride and neighbour's envy" by Onida TV.

c. **Borders:** Attractive borders can be used to separate the text which will compel the reader to focus his attention on advertising/ message. If other advertisements on a page in a newspaper have ornamental borders, the use of a plain border will do the trick. If square borders are in general use, make use of a border with round corners. Here, care should be taken to see that the border is not made more attractive than the advertisement itself. It might distract the readers' attention from the advertisement. Therefore, the border selected must be simple.

d. **Leaving Space:** At the head and foot of the advertisement copy enough space must be given. Some people give space all around. It gives more prominence.

e. **Underlining of key words:** Advertisement copy is prepared not only to attract attention from the general stand point, but also with a view to give the reader's eye a halt at some important point you wish to emphasise. It is preferable to underline important words rather than to use italics.

f. **Price Quotations:** If the price is low the prices can be displayed at a corner of the advertisement. However, where the prospects are expected to care more for quality than price, a price quotation should not be used.

g. **Colour:** Colour plays a very important role in attracting people. Red, green, black, yellow and blue are the most important colours. According to Prof. Harlow Gale red carries the greatest attractive value, green is the next best and black the third.

2. Suggestive Value

Having attracted the eye of the reader to rest a while on a copy, the next task would be to offer a suggestion on the use and utility of the product. The suggestion may be in the form of a command or a slogan or a suggestion — "Drink Coco-Cola, be really refreshed"; "Tired? Drink Super Dust Tea"; New? No, Washed in Rin. All these give effective suggestions to the reader.

3. Memorising Value

The advertisement copy should be drafted so as to create a lasting impression on the minds of its readers about the product. Repetition of the advertisement is, of course, an effective method of creating a memorising value. Lux, Dalda, Aspro, Horlicks, Ponds, Vim and Bru have become household words largely through repeated advertisements of memorising value.

4. Conviction Value

An advertisement copy will be effective only when the suggestions contained in it are or "will not be" of supported by convincing arguments. When an advertisement copy does not carry a picture then convincing arguments of much help. The arguments should be logical. It is no use telling that our product is the best in the market. The advertisement copy must emphasise the special features of the product.

A promise to take back the goods, if found defective, will create better confidence among the people about the quality of the product. Experience has shown that very little risk is involved in making this offer in the case of goods of really good value.

5. Sentimental Value

Sentiments play a very important role in our life. Every person has some feelings and sentiments about various matters and a large number of our action is influenced by sentiments. Therefore, the advertisement copy should carry this point. The advertisement should respect the sentiments and feelings of the people for whom it is meant. This is especially important in the case of foodstuffs. e.g., 'For pure vegetarians', 'Untouched by hands.'

It is not practical to satisfy all the prospects in this respect, but sincere attempt must be made to tackle as many prospects as possible. In no case should the draft be made to include anything which is likely to injure the feelings of readers.

Sentimental value is more important where the product is directed towards educated and cultured sections of the society. Educated and cultured people are more sensitive and sentimental. Advertisements directed towards those people must, therefore, be of high aesthetic standards. Articles like biscuits or sweets should be offered in a tastefully designed packaging than those which are clumsily sold in old fashioned paper bags.

In many cases, an appeal to the national sentiments of the prospect will be made as "use... It is good. It is Indian" etc.

6. Educational Value

The objectives of scientific advertisement is not merely to satisfy the existing demand but is also to find new buyers and suggest new and unfamiliar uses for the products. In other words demand creation is one of the most important objectives of advertising. If the copy is informative and attempt is made to educate the people in the use of new products or in new uses of the same product, demand can certainly be created and extended. Advertisements issued by the Central Tea Board suggest the best method of preparing tea.

9.6 ESSENTIALS OF GOOD ADVERTISEMENT

1. A good advertisement must have the right message communicated through a right medium. It must reach the right people and prospects and that too at the right time and at the right cost.

2. It should fulfil its sole purpose, viz., gain sale or action from the prospects and the cost of communication should be reasonable.

3. The advertisement can be successfully fulfilled when: (a) it is seen by the desired prospects, (b) It is read by them with interest, and (c) It is properly understood by them exactly as the advertiser wants. It is believed by them and it wins their confidence and trust and above all it succeeds in igniting their desire to purchase the product or service offered for sale.

4. Effective advertisement takes the prospect near about the point of closing the sale so that actual sale may be easily completed by the sales force.

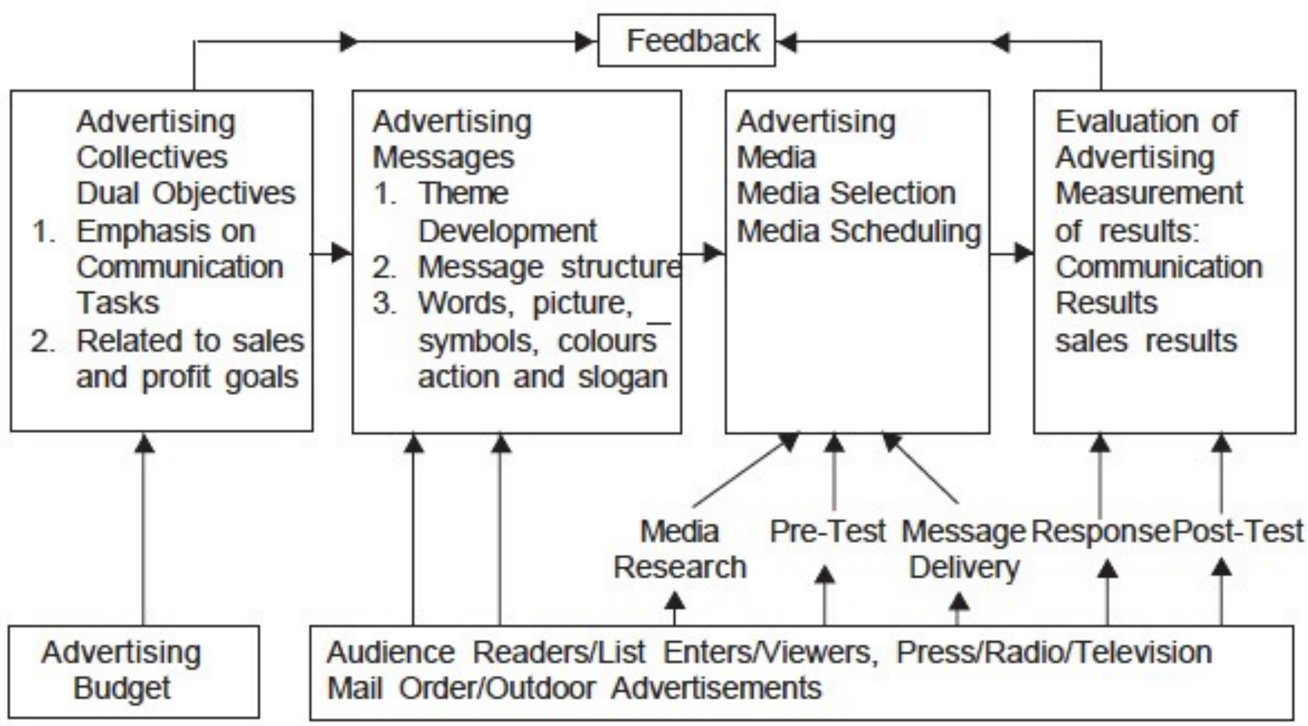


Fig. 9.1 Process of Advertising Management

5. Each advertisement must be a unique selling proposition, invoking maximum force of persuasion to convert a prospect into a customer. Repetitive advertisements build up strong and enduring impression on the customers and help to create favourable brand image of the product. Public must be induced cleverly to look, like, learn, and buy the advertised products.

6. Message creation is called the art of the advertising. Message development is defined as "what is said, how it is said, where it is said, and how often it is said." The message must capture the attention, arouse interest and ignite the desire to purchase. A good advertising theme stresses clearly the differential advantage of the product or service over that of the rivals. The presentation of the message involves the choice of words, pictures, symbols, colours, slogan, testimonial, and action.

7. Advertising campaign can lead the prospect through the various stages of consumer decision processes, such as awareness, comprehension, conviction, purchase and re-purchase.

8. The ultimate purpose of advertising is to sell the product, idea, or service. Ability to generate sales is the acid test of an advertisement. Once the link is duly established between the need and the name (the product is symbolised by the name), advertisement can induce buying action.

9. Success or failure of an advertisement ultimately depends upon the effectiveness of communication of desired information and attitudes. The communication, i.e., the flow of information and understanding, must be to the right people, at the right time and at the right cost.

10. If an advertisement creates anticipated sales volume as per our sales forecast, it means the advertisement is very effective and efficient.

- **Testing of Advertisement**

Advertising involves substantial expenditure. It is one of the most criticised component of the marketing-mix. We have to continuously increase the effectiveness of advertising. Marketing management must know not only which advertisement is better than others but also why it is better. Expenditure on advertising should not be a waste but it should yield rich dividends. Success of any advertisement is due to both: (1) The copy, and (2) The medium.

Copy Testing: Copy testing enables advertiser to determine the best way of presenting the selected appeals (selected through motivation research). The sales volume test attempts to measure the effectiveness of advertising by comparing the sales in two or more similar cities, in which advertising is used in one city and none in the other. Other components of marketing-mix are kept constant in all cities.

The effectiveness of advertisement as a communication tool is measured in terms of its impact upon the behaviour (knowledge and attitudes) of customers. We use attitude and opinion studies, memory tests and non-buying response measures. Except in the case of direct mail selling, the sales effect of advertising cannot be measured directly. It is preferable to attempt the direct measurement of sales under controlled conditions.

Media Testing or Selection: Media-choice is determined by a number of factors such as: (1) Number of readers/viewers/listners, (2) Characteristics of audience — education, sex, income, family size, etc. (3) Relative cost of various media of advertisement. Media selection helps the advertiser to find out the most effective media for conveying the appeal or message to the prospects.

- **Comments**

1. Advertising should not create false values and expectations. Advertiser should prevent deceptive and misleading advertisements. Ultimately, buyers are paying for advertising.

2. Good advertisement must be informative, offering accurate, up-to-date and easily understandable information. It should provide guidance and education to buyers and, above all, it must protect consumer interest.

3. Hard-sell advertisements are blatant, combative, and coercive. They irritate the reader, viewer or listener.

4. Soft-sell advertisements inform, educate, persuade, remind gently and gracefully. They are welcome by the audience.

9.7 ADVERTISING AGENCY

An advertising agency is an independent concern acting as a specialist in advertising. It acts as an agent or consultant of the advertiser who is a manufacturer, wholesaler, or retailer. It is not an agent in the legal sense. Originally, it acted as a space broker for advertisements given to the media owner, e.g., newspapers. Today, they are advertising experts or specialists in planning, creating and placing of advertisement. They plan and execute entire advertising campaigns. They conduct market research also on behalf of business enterprises. They choose the necessary description or brands, design the package or labels on the package. They select the media of advertisement. They prepare entertainment as well as commercial spots for radio and TV advertisements.

An advertising agency receives usually 15 per cent commission from media owners. For instance, out of an advertising bill of Rs. 2 lakh, the magazine owner receives Rs. 2 lakh less 15 per cent, i.e., Rs. 1.7 lakh only. The magazine owner is the media owner. The advertiser (sponsor or source of advertising), will, of course, pay Rs. 2 lakh to the advertising agency. The use of an advertising agency costs nothing to the advertiser. Advertising experts recommend that advertising agencies should now adopt the total marketing concept and develop integrated marketing approach, i.e., holistic approach to the client's (advertiser's) problems. For instance, advertising may be superb but there could be something wrong with branding, packaging, pricing or distribution. If the advertising agency is involved earlier in the marketing chain of decisions, the agency can guide the client in selection of brand name, in package design, in label information, in pricing as well as in the formulational of distribution strategy. Advertising agency, therefore, should adopt such a total marketing concept and actively participate in the marketing-mix. The agency can offer integrated marketing and promotional package of services (covering branding, packaging, labelling, advertising, sales promotion, direct marketing, marketing research, and public relations) to the advertiser. Under such holistic approach, advertising commission becomes a meaningless remuneration. Hence, the commission system must be "done away with". Instead of commission, a fee system linked to performance- related bonuses would be the best way of remuneration to an advertising agency. For each service, the advertising agency should charge a fee to the advertiser. The agency should also receive special incentive bonus in addition to fees for rendering services. In this way, the advertising agency can offer, under one roof, a complete marketing campaign programme. Many advertising agencies are diversifying into all related marketing services. A "fee + bonus" system is considered a better substitute of "15 per cent commission" system. The security of a fee system would allay the constant urge for advertising agencies to choose new business for volumes sake. The total marketing approach also would foster long-term relationship with the advertiser.

- **Arguments in Favour of Advertising Agency**

Even when a company maintains a good advertising department, there are many reasons in favour of use of these agencies. Reasons for using an advertising agency are given below:

1. The company cannot have all types of specialists such as copywriters, artists, design staff, market research experts, etc. The agency can have these highly-paid specialists on a permanent basis, because their costs are spread over many advertisers. Hence, it is economical and cheaper to use an advertising agency.

2. The agency can take an unbiased or objective view of any advertising problem. The agency can see the product, its merits and demerits through the eyes of the buyers who are also 'outsiders.' This objectivity is not possible for an advertising department of the company.

3. The experience of an agency with its many other products and customers is also at the disposal of the advertiser.

4. Company's own department may not have enough time to produce results; the agency feels a greater pressure for giving effective performance.

5. If services offered by the agency are poor or unsatisfactory, the agency can be easily terminated by the company. However, an inefficient advertising department cannot be easily wound up.

6. Finally, the agency is paid by the media owner. The advertiser pays nothing for the use of an agency while buying advertising space. He pays the same cost if he places an advertisement directly with the media owner.

- **The Tasks of an Advertising Agency**

In order to achieve a complete advertising service for its client, the advertising agency has to look after the following tasks:

(1) Copy writing, (2) Art-pictures, photographs, (3) Media planning and buying of space, (4) Radio and Television — producing commercial spots, (5) The work of market research, (6) Production — film or tape for use, (7) Public relations, (8) Merchandising, (9) Sales promotion devices, (10) Forwarding the advertising materials to the media owners and the clients in time. Advertising does more than simply inform; it promotes sales. It tries to persuade, inform and also remind the customers. Soft-sell advertisements are usually simple announcements. Hard-sell advertisements are blatant, combative, and coercive. They irritate readers, listeners, and viewers.

- **Advertising in India**

Since 1980, advertising in India has demonstrated phenomenal growth — growth in size, quality, range of services. In 1950, advertising expenditure was hardly Rs. 5 crore. By 1988, it rose to Rs. 1000 crore. It was around Rs. 30,000 crore in 2010.

There are now over 600 advertising agencies as against just 100 advertising agencies around 1970. In the Indian market, we have more than 1,000 products extensively advertised in all languages. Press advertisements account for about 60 per cent and TV/ Radio account for about 20 per cent of the total advertising costs.

In the media sector we have at present intense competition, e.g., TV/ Radio, newspapers/magazines each attempting an increasing market share. In the press segment we are witnessing regular media war. In the case of the press, competition is total. However, media owners are expected to adopt now customer-oriented approach to get rid of such unhealthy competition. Some of the important advertising agencies are Mudra Communication, Madison Group M, Ulka, Lowe, Walter Thomson, WPP, IPG.

- **Role Played by Indian Advertising**

1. **Creation of High Consumption Economy:** Advertising has played a significant role in fostering large-scale consumption of many comfort and luxury products, which did not exist in the average Indian household before 1980. Indian housewife today has radical changes in need levels as well as in life-style, when compared to her previous generation. Emerging mass consumption for consumer goods, both soft and durable in rural and urban markets, clearly points out the unique role of advertising, sales promotion and publicity in the Indian marketing universe.

2. **Indian Advertising and Socio-economic Programmes:** Just as it enabled effective marketing of various goods and services in the business world, in the same manner, it could help effective marketing of socio-economic silent revolution in India. The tradition and custom-bound Indian society was gradually converted into modern society. Both urban and rural population became receptive to new ideas, new values and new attitudes. In the field of family planning the concept of small family, more comforts, particularly in the era of permanently rising prices, has now entered the minds of Indian citizens even in the rural areas. The dynamic participation of the masses was necessary in all socio-economic programmes under our economic development plans. Advertising agencies in India strongly supported this public participation.

   Another noteworthy example, where advertising helped the management of change, is introducing and developing modern farming, based on liberal use of chemicals, fertilisers, manures and hybrid seeds, and the employment of power-driven machinery in Indian agriculture. The agricultural green revolution demanded a revolution in communication. Advertising performed a double role of education and persuasion in the success of green revolution in India.

   Advertising agencies have brought about communication revolution and thereby contributed in a remarkable way to marketing revolution in India. Indian marketers have at their disposal expert marketing communicators to secure best advertising and sales promotion as well as marketing research services. By adopting research-based advertising and creative development research, they have proved that Advertising works wonder. Practically, all leading advertising agencies have now international collaboration or tie-up. The entry of international advertising agencies will further assure best performance in advertising management in India.

- **'Promise' Toothpaste/Effective Promotion-mix**

Effective marketing communication alone could assure successful entry of 'promise' toothpaste in the Indian market exclusively dominated by only four multi-nationals. Factors producing extraordinary triumph of 'promise' offered by a small Indian company (Balsara) are:

1. There was right product at right price with powerful and Unique or Distinctive Sales Proposition (USP), which could not be copied by rivals (like other features such as fluoride/chlorophyll).

2. 'The clove oil' the chosen USP clicked with the Indian tradition in favour of spices flavour.

3. 'The clove oil' is also traditionally recognised as an effective medicine for toothaches.

4. The strong USP 'The clove oil' was combined with well-planned and effectively-implemented powerful integrated promotional tools: (a) Heavy press campaign, (b) TV, Radio and Cinema commercials, (c) Pre-launch campaign, (d) Heavy resources for advertising and promotion, (e) Post-launch campaign to ensure repeat purchase and build up a brand loyalty around 'Promise' toothpaste (persuasive, serious and informative communication), (f) News campaign on winning twice international gold medals, (g) Right sales promotion steps to supplement intensive advertising efforts of post-launch campaign, and (h) Meeting the unmet desire of Indian customer (discovered by market research) looking for 4 'F's in toothpaste, Finish, Foam, Flavour and Freshness. The Balsara enterprise used a competent and creative Indian advertising agency, 'Chaitra.'

   Within a few years, 'Promise' with the market share of 16 per cent, challenged the lion in its Den — Colgate — whom even other three multinationals could not face squarely. None of those three rivals could carve out even a 10 per cent market share. 'Promise' turned out to be a genuine promise to the Indian consumers primarily through the effective marketing communication package worked out by the advertiser and the advertising agency.

- **Communication Effect**

Share of Advertising → Share of Voice → Share of Mind and Heart → Share of Market

Fig. 9.2 Sales Effect

A company's share of Advertising expenditure gives a share of voice which earns a share of minds and hearts and ultimately achieves a share of market. Share of voice and share of market should have 1 : 1 ratio for known products and 2 : 1 ratio for new products, for Advertising Effectiveness. These ratios show over-spending or mis- spending.

- **Appraisal of Advertising**

Advertising has become an integral part not only of our marketing process but also of our entire economic and social life. It is a double- edged instrument or tool in the marketing-mix. If it is properly used it can be a boon or a blessing in distribution. But if it is abused or misused, it can also act as a curse in distribution. By itself it is no doubt a very fine device of demand-creation and demand-stimulation, and can contribute a lot to investment, economic growth, rising income, rising standard of living and economic prosperity in any country. Most impartial studies of the economic value of advertising point out, beyond a shadow of doubt, that favourable economic effects do counterbalance the unfavourable effects which are primarily due to unsocial and unethical advertisers. Fortunately, such unscrupulous advertisers are in a very small minority.

Consumerism through self-help can be an effective deterrent on deceptive or misleading advertisements. Consumer legislation to ensure truth-in-advertising and truth-in-packaging can also offer reasonable protection to consumers against evils of advertising. However, in the last analysis, self-regulation by business alone can ensure the desirable benefits of advertising to the society. Consumer education, consumer guidance and consumer protection should be the responsibility of both, consumer organisations as well as business enterprises in the bilateral exchange relations between buyers and seller in any country. Legislation is very rough substitute for business self-regulation or mobilisation of self-help by consumerism.

With the big growth of business we have the growing need of marketing communications. Hence, we need continuous collaboration between the advertiser, the media of communications and advertising agencies. Every marketer in any sector of our economy must become an advertiser and communicator. Even the opponents of advertising are compelled to change their stand and use advertising for effective communication in a big way. Even political parties are using services of professional advertisers in their election campaigns. Advertising is thus all-pervading.

- **Criticism against Advertising**

(For details, please refer to Chapter No. 30 on "Ethics in Marketing".)

- **Weaknesses of Advertising as a Promotion Tool**

1. Advertising is only one element of our marketing-mix. Many factors, besides advertising, influence sales success. There are at least seven factors beginning with the letter 'P' that influence actual sale or purchase: (1) Product itself and its performance and want-satisfying power. (2) Point of purchase. (3) Package design. (4) Personal selling at all levels. (5) Promotion or sales promotion aids. (6) Publicity and advertising, and (7) Price; that hard reality. Obviously, advertising alone cannot achieve our sales target, though it is a very vital element in our total marketing effort.

2. It is much less effective than personal selling and sales promotion at later stages in the buying process, e.g., in convincing and securing action.

3. It is less flexible than personal communication. It cannot answer objections raised by prospects.

4. It is essentially a one-way means of communication. It cannot obtain quick and accurate feedback in order to evaluate message effectiveness.

5. It is most efficient communication (very low cost per prospect) but it is least effective as a tool of communication.

6. It may be unable to reach prospects when they are in the buying mood. Hence, we have to repeat advertisements and repetition involves additional cost.

7. Advertising media, e.g., newspapers, magazines, carry many messages competing to secure attention of audience simultaneously. Thus, it creates noise in communication.

8. Advertising, many a time, lacks credibility and trustworthiness.

Many of the aforesaid weaknesses can be eliminated by other elements of promotion when they are combined with advertising.
Notes

9.8 SUMMARY

- The marketing-communication-mix consists of Advertising, Sales Promotion, Personal Selling, and Publicity. Advertising is a unique means of non-personal communication and it is an openly sponsored sales message regarding any product or service. Modern advertising informs, guides, educates as well as protects the buyers so that they can buy intelligently and raise their standard of living. It has become an integral part of not only of our marketing process but also of our entire economic and social life. It is a double edged tool and can be a boon or blessing when used properly. If it is misused it can also act as a curse in distribution. However, most impartial studies have shown that favourable economic effects do counter-balance the unfavorable effects, which are primarily due to unsocial and unethical practices.

9.10 SELF ASSESSMENT QUESTIONS

1. Define advertising and what are the objectives of advertising.

2. Describe briefly the various types of advertising.

3. What are the essentials of good advertisement.

4. Explain the strengths and weaknesses of Advertising

5. Describe the elements of a good advertisement copy

6. How will you assess the effectiveness of advertisement?

7. Describe briefly the characteristics of important media.

8. Write short notes on:

    a. Advertising and brand patronage.
    b. DAGMAR
    c. Advertising Standards Council of India.
    d. Copy Testing.

CASE STUDY

Advertising for Super Flask Ltd.

Super Flask Ltd. company manufactures flasks and thermo-ware products which are commonly used by its customers for keeping hot products warm and cold products cool for a reasonable period of time. The manufacturing plant is located 40 km from Pune city. The present turnover of the company is Rs. 100 crore. The average market growth-rate is estimated to be 20 per cent for thermo-ware and 10 per cent for flasks. The market potential of the country was estimated in the following proportions:

North Zone	25 per cent
West Zone	25 per cent
South Zone	35 per cent
East Zone	15 per cent

In flask range the company was manufacturing the following range of products:

Half litre tin flasks	10 models
Half litre plastic flasks	12 models
One litre tin flasks	9 models
One litre plastic flasks	10 models
Tea pots of different sizes	6 models.
Jugs of different sizes	6 models
Airpots	2 models
Total	55 models

In thermo-ware range, the company manufactures the following range of products:

Water bottles of different sizes	10 models
Casseroles of different sizes	9 models
Tiffin carriers of different sizes	6 models
Water coolers of different sizes	10 models
Total	35 models

The company was making its products available all over the country. The company had its distributors in 500 important towns having a population of more than 2.5 lakh each. The distributors, in turn, were responsible for the local availability of goods with various types of retailers, e.g., crokery shops, utensil shops, etc. Distributors were getting a margin of 15 per cent, whereas retailers were getting a margin of 20 per cent on the sale prices. All the distributors were contacting the head office located at Pune.

The products were supplied in corrugated boxes, either by rail or by road transport. For the distant places of southern, eastern and northern parts of India, goods used to take one month to reach with a lot of transit breakages. This is because goods are dispatched in small lots and not in full truck loads because of small requirements of individual distributors. For promoting the products, the media used were the national daily newspapers and radio with a limited budget of 1 per cent of the total sales value. All the sales promotion activities are centralised. The sales force of 30 consists of Regional Managers for the zone and the sales officers for the states. With the substantial increase in the growth-rate of the market, many new entrants entered the market with better product range, competitive prices, better distribution and promotional back-up. Hence, the company started losing its market share. The Managing Director asked the Marketing Manager to look into the present situation and formulate a competitive strategy for retaining the company's market share and leadership.

QUESTION

1. What promotion-mix strategy do you recommend for the company?

   (Source: Marketing management question paper of Shivaji University, 2002)

CASE STUDY

Need for Advertising

Company

Delta Electrical is a manufacturer of electrical motors. Originally Delta was engaged almost exclusively in the production and sale of small motors manufactured to customer specifications. These motors were used by makers of appliances, hand tools and toys. This market was stable but very competitive as the original equipment manufacturers competed tenders periodically. Delta then decided to enter the market of precision machinery.

The precision machinery market was specialised and catered to a variety of customers such as aircraft manufacturers, control systems for defence products, manufacturers of high-speed printers and space equipment. Products used in these applications require extremely high quality and accuracy, Government contracts require special configuration and designs to meet required specifications. Delta's attention to details, quality, and customer-satisfaction gave the corporation an excellent reputation with various clients in precision machinery industry. This market represented 20 per cent of the Corporation's revenues and approximately 30 per cent contribution to profits. Due to high reliability requirements prices were not major criteria in selection of sources,

Sales and Distribution

Delta has approximately 1,000 active customers mainly located in United States and Canada. In the last fiscal year, the fifty largest customers accounted for 40 per cent of net sales. Delta's customers included industrial clients, U.S.Government agencies, aerospace companies, precision machinery manufacturers. Largest customers accounted for five per cent of net sales. Sales to original equipment manufacturers were made through five regional Sales Managers who were supported by 15 sales engineers. High precision motor sales were primarily made by advanced engineering department, which was responsible for preparation of proposals and quotations.

Advertising

For the last five years, Delta spent $ l,000,000 to $ 1,750,000 on advertising. Twenty per cent of the advertising expenses was made on corporate image advertising in various trade journals. Rest of the advertising was carried on, on television, radio and magazines and was aimed at the consumers at large. The strategy was to make consumers aware of the Delta products used in their day-to-day appliances and tools. Delta had four major competitors in the United States and several foreign manufacturers were getting active in the small electrical motor market. Three months ago, Delta's management went through a major reorganisation. A new President was appointed to direct the operations of the company. He reviewed the business expenses and questioned the advertising expenses directed at consumers. He said that Delta manufactured industrial products which lost its identity in the products made by other corporations. Since the ultimate customer never associated Delta motors specifically with any brand names, the consumer advertising was a total waste. He gave orders to eliminate all of the consumer-oriented advertising.

QUESTIONS

1. Is it important to create demand for Delta's products with advertising directed at the ultimate consumer?

2. How should Delta structure its advertising for its products?

3. What media would you recommend to reach new customers?

4. How much should Delta spend on corporate image advertising?

Comment

The role of business advertising and marketing management will include the following changes:

1. Successful business promotion programme must be based on understanding the customer, his changing problems and needs.

2. Greater emphasis on marketing planning and marketing information research leading to the development of on-line marketing information systems, so that marketing and advertising can be supported by an integrated company-wide market-oriented promotional package.

3. Advertising and promotion must aim at enlargement of market and not merely the maintenance of the market share.

4. Advertising and Sales Department must offer true and vital information services to customers.

REFERENCE MATERIAL

Click on the links below to view additional reference material for this chapter

Summary

PPT

MCQ

Video Lecture - Part 1

Video Lecture - Part 2

Chapter 10

SALES PROMOTION

Objective

After studying this Chapter, you should be able to:

- Know the meaning of promotion and its objectives
- Know the strengths and weaknesses of sales promotion
- Understand the major decision areas in sales promotion
- Study the application of the various tools in consumer sales promotion

Structure:

10.1 Promotion
10.2 Objectives of Sales Promotion
10.3 Major Decisions in Sales Promotion
10.4 Consumer Sales Promotion
10.5 Dealer Promotion
10.6 Business Promotion
10.7 Publicity/Public Relations
10.8 Summary
10.9 Self Assessment Questions

10.1 PROMOTION

Promotion is a form of communication with an additional element of pursuasion to accept ideas, products, services and hence, persuasive communication becomes the heart of promotion, the third element of marketing-mix. In essence, promotion is the spark plug of our marketing-mix and an important marketing strategy. People must know that the right product at the right price is available at the right place. It is said that in a competitive market, without promotion, nothing can be sold.

In marketing, effective communication is absolutely necessary even though you have a superb product, best package and also you offer a fair price. People will not buy your product, if they have never heard of it and they are simply unaware of its existence.

The promotion-mix includes four ingredients ie Advertising, Personal selling, Publicity and Sales Promotion. All forms of promotion influence consumer's attitude, beliefs, ways of living or life-style, values and preferences towards a company and its products, and therefore, influences his behaviour.

- **Meaning of Sales Promotion**

Sales Promotion is an important instrument in marketing to lubricate the marketing efforts. Today, sales promotion is a necessity and not a luxury. It is not an expenditure, it is an investment which can pay rich dividends. It is an integral part of the marketing effort. It covers those marketing activities other than advertising, publicity, and personal selling that stimulate consumer purchasing and dealer effectiveness. Such activities are displays, shows, exhibitions, demonstrations, and many other non-routine selling efforts at the point of purchase. Sales promotion tries to complement the other means of promotion given above.

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

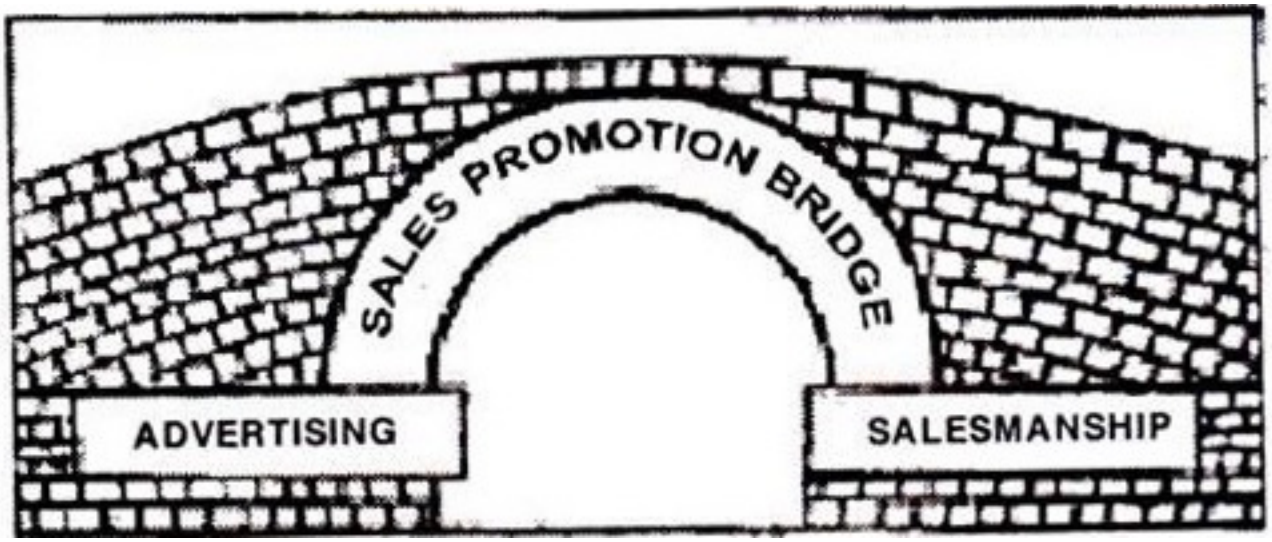


Fig. 10.1 Sales Promotion Bridge

In short, sales promotion is a bridge or a connecting link between advertising and personal salesmanship, the two wings of promotion. The manufacturer or wholesaler may have a good product, reasonable price, attractive package, etc. He may have a good sales force. He has to attract prospective buyers, urge them and persuade them with the above factors to buy his product. Hence, sales promotion aims at stimulating the purchasing at the point of sale and dealers' effectiveness at the retail channel of distribution.

- **Why Use Sales Promotion?**

Sales promotion and publicity, when combined with advertising and personal selling programmes, really add up to more than the sum of the parts. Sales promotion is that "something extra" (2 + 2 = 5). It can arouse enthusiasm, create a buying mood or spark an immediate reaction from consumers, dealers and the firm's salesperson. Many sales promotion campaigns involve the use of incentives. Incentives are something of financial value added to an offer to encourage some obvious behavioural response. Sales promotion is often thought as special selling effort to accelerate sales. Point-of-purchase displays give a real pay off, sales rising by 25 to 50 per cent or even more.

Sales promotion is increasingly being used to accomplish an ever-expanding list of marketing objectives. The company's marketing objectives and strategies influence the development of sales promotion objectives and strategies. There can be a number of sales promotion objectives, depending upon the firm's policies, marketing objectives, nature of the product and its stage in product life-cycle, level of existing and anticipated competitive activity, consumer response pattern, economic conditions, and the target group (consumers, traders, or sales force), etc.

- **Pro-active or Reactive Sales Promotion**

Pro-active Sales Promotion

Sales promotion objectives could be either **pro-active or reactive.** The most common objectives under pro-active category are:

1. To gain additional market share or additional revenue.
2. To expand the target market.
3. To develop favourable consumer experience with the product.
4. To add extra value to the product and develop brand franchise.

Reactive Sales Promotion

Reactive sales promotion objectives are developed in response to some unfavourable market situation, or where the objectives are essentially short-term, such as the following:

1. In response to competitive moves.
2. When excessive inventory piles up.
3. To generate short-term cash.
4. When the decision is to discontinue a product, or close down the business.

- **Options of Promotion Objectives**

In a dynamic and rapidly changing marketing environment, unfavourable conditions may appear with little or no warning. It is difficult for the management to anticipate and plan for such exigencies. However, hasty decisions regarding sales promotion objectives may sometimes produce adverse effects for the firm in the long run.

An important area that concerns sales promotion objectives is directly related to the specific promotional techniques to be used. The techniques could be those where the measurement of results is straightforward, or difficult to measure. For example, it is easy to measure the impact of discount offer on sales, but it is very difficult to measure the impact of premium on the perceived value of the promoted brand.

Perhaps, the most difficult part in managing sales promotion is to decide which particular sales promotion tools should be used for achieving the specific objectives; which of these tools can be and should be combined to produce a synergistic effect, and how can these be delivered to the target audiences, that is, consumers, resellers, or the sales force.

Marketing objectives and strategies are related to the marketing- mix of a company, while the promotion objectives and strategies related to the promotion-mix only. What would be the role of promotion- mix depends directly on the marketing strategy, and on the marketing objectives. All the three different options presented in the Table 10.1, show different marketing objectives in case of each option, and in each case a number of different promotion objectives can be developed. For instance, take the case of Option-1, in the above table. Once the marketing strategy assigns promotion-mix the role of using "pull-push" in case of sales promotion and only "pull" in case of advertising, the promotion objectives have consumer as well as trade orientation, and the sales promotion strategies focus on different consumer promotions and trade deals.

Table 10.1

Examples of three options of Marketing & Promotion OBjectives and Strategies

	Option-1	***Option-2***	***Option-3***
Marketing objectives	Increase market share from 4% to 6% by the end of the current year.	Increase sales by 15% in the current year.	Increase profit by 10% over last year's.
Marketing strategy	Promotion will use "pull-push" combination, while only "pull" advertising will be used.	Increase purchase rate of product by trade and consumer.	Decrease marketing cost while holding sales as high as possible.
Promotion objectives	Increase purchaser rates by consumer and gain 85 per cent distribution for the brand.	Decrease inter-purchase duration from 8 weeks to 6 weeks.	Maintain distribution at 85 per cent.
Sales promotion strategy	Use trade and consumer deals, specially in low-consumption and distribution markets.	Use "pull-push" sales promotions to encourage faster usage rate, and frequent price-cuts.	Stop consumer promotions which are unprofitable. Trade promotions only if necessary to maintain distribution.

(Adapted, with changes, from Blattberg and Neslin, 1990, pp. 384)

10.2 OBJECTIVES OF SALES PROMOTION

Some of the important objectives are mentioned below, and the more important ones have been discussed briefly:

1. Increase sales volume
2. Speed up the sales of slow-moving products
3. To check the fluctuations in sales
4. Attract consumers towards new product and increase trial
5. Encourage repeat purchase
6. Clearance of excessive inventories
7. Motivate dealers
8. Encourage dealers to participate in display and sales contests

9. To gain advantageous shelf-space
10. To increase store traffic
11. Improve relationship with dealers
12. To block competitors' moves
13. Motivate sales force
14. To supplement advertising and personal selling efforts
15. Deflect customers' attention from price

- **Increase in Sales Volume**

The sales volume of any product depends on many basic factors of marketing, such as product quality, price, distribution, effectiveness of marketing communications, and macro-environmental factors (demograhic, economic, technological, political/legal, competitive, etc.). Definitely, sales promotion cannot be a substitute for weaknesses in marketing strategy. There could be a number of reasons for companies to go for short-term increase in sales volume:

a. to reduce inventories before financial year-costing.

b. to increase the stock-holding of retailers, or even consumer before the introduction of a competing brand, or

c. to push stocks of the old brand before the introduction of new model.

Generally, the brand switchers or marginal buyers, who buy when a product is on promotional deal, contribute more toward increasing sales volume. One possibility, though, cannot be ignored is that these brand switchers sometimes get exposed to better products and some of them may become repeat purchasers. Almost every sales promotion that offers immediate value at the time of purchase may contribute to increasing sales-volume. These immediate value promotions can be directed towards those who like trying new products, and those who are regular users of the product. Such promotions can be particularly useful in new markets, and can also be used to introduce a sense of urgency in consumer or the trade to buy the product now.

- **Launch New Products and Increase Trial**

Small budget companies who cannot afford sustained advertising expenditures to introduce new products, or match the competitive advertising blitz, find sales promotion to be more cost-effective and helpful and helpful in generating more sales volume. Companies, who have small market share, cannot match the substantial advertising budgets of market leaders in the same industry. It is also difficult for smaller companies to get proper shelf-space in retail shops without offering incentives to the re-sellers, or encourage trial by consumers without offering incentives to the re-sellers, or encourage trial by consumers without offering some immediate or extra benefit. A free sample, along with a coupon of some value, may prove to be effective in inducing trial of a new product by consumer, and may also lead to purchase of the regular pack from the market. A free sample is generally welcome to almost all consumers and increases the probability of trial, and in some cases, purchase as well. A number of personal care products, such as shampoos, cosmetics, toiletries, soaps, or laundry products, such as detergent powders and cakes, etc., have been introduced successfully in the last few years.

Samples distributed free, with or without a coupon, are often used to introduce a new product or induce trial of even an existing product by consumers. Small budget firms have to exercise extreme caution and use such promotion judiciously, because this may prove to be quite an expensive proposition. For them, it would be appropriate to choose selected markets with high potential.

- **Encourage Repeat Purchase**

Repeat purchase by customers, leads to increased sales volume. Such sales promotions are communicated to encourage existing consumers to forward-buy, for example, promotions such as "get one free on purchase of four." 'Frequent-flier' offer by some airlines is one such scheme, where the customer is allotted certain number of points, and on collecting specified points, gets a free ticket. Credit card users can accumulate points and exchange them from agencies.

- **To Block Competitor's Moves**

In business warfare, it is not uncommon that sometimes challengers resort to offering discounts. New product launches by competing companies are backed up by aggressive advertising and sales promotion campaigns. A firm that feels threatened would like to protect its loyal customers from switching to the new competing brand. Such a threatened firm would plan to load consumers so that they are in no need to go shopping for that product category. The firm may also announce some attractive trade-deals so that shelf- space in retail shops is blocked. To accomplish the objective, normally a combination of "push-pull" strategy is used. To pre-empt competition, presence of certain favourable conditions is necessary. The inter- purchase interval, that is, the interval between two successive purchases should be long for the consumers. The product should be such that it can be stocked without occupying much space. There should be reliable information about the competitive moves, and the inventory holding costs should not be high. Detergent powders and cakes, toilet-soaps, shampoos, oral care products, and other non- durable products, which are consumed everyday, may respond well to such promotions. This objective may also be accomplished for certain consumer durable goods in case of trade segment.

- **Encourage Dealers to Participate in Display and Sales Contests**

An important objective of sales promotion is to encourage re- seller participation in displays and contests. Display is a powerful tool to enhance sales. Displays attract consumer attention who are passers- by, or window shoppers. Displays serve them as reminders, encourage unplanned purchases, and increase store traffic. The space available for displays in retail store is limited. Generally, in an average store there may not be more than ten or fifteen items that get major display space at any given time. Generally, these displayed items generate a higher sales volume.

Contests are used to motivate dealers. A certain sales quota is fixed for dealers, and those who exceed the quota by a specified margin, or by the largest margin are awarded cash or merchandise, and often a certificate, too. Everything about contest, whether display or sales, should convey the idea that it is something special. Such contests should be held infrequently and not become a routine feature, which would reduce their importance and lead to decline in interest. Contests can help in attaining short-term objectives and improve the company-reseller relationship.

- **Deflect Customers' Attention from Price**

Price increase can often have a negative effect on sales. Marketers can develop appropriate sales promotion to accomplish the objective of reducing the negative impact on sales. If the price of the product was Rs. 50 before the price rise, and the new price is Rs. 60, then a coupon with a face value of Rs. 5 is provided that places the product's price between Rs. 50 and Rs. 60, making the effective price only Rs. 55. When the coupon would be available, the new price does not appear to be so high relative to the new price of the product. Consumers develop a new reference price for the product and the increase does not appear to be as high as it was perceived earlier. Of course the coupon should be of immediate value, instantly redeemable "on- package", or the discount should be given at the time of purchase.

- **To Supplement Advertising and Personal Selling Efforts**

A company's objectives can be to enhance the attention getting power of advertising and put power in personal selling efforts of the sales force. A coupon or a premium offer in a print advertisement increases the attention getting ability of ad. When consumers see in bold print "FREE", their attention is focused on the advertisement. They may read not only the headline but also the copy, and may get exposed to the advantages and benefits associated the brand. Bowman (1980) cited the evidence indicating that print advertisements containing coupon are more likely to be noticed and recalled than are the same advertisements not containing coupons.

- **Strengths of Sales Promotion**

1. It stimulates positive attitudes toward the product.

2. It gives extra incentive to the customer to make a purchase.

3. It gives direct inducement to take immediate action now rather than later.

4. It has flexibility and it can be used at any stage of a new product introduction.

   a. when a new brand is introduced,
   b. to communicate a major improvement in our product,
   c. to amplify the results of the advertising,
   d. increase the number of retail stores to sell our products.

- **Limitations of Sales Promotion**

1. Sales promotions have temporary and short-life not exceeding three months. Sales promotion alone cannot build up brand loyalty.

2. Sales promotions are only supplementary devices to selling efforts of other promotion tools.

3. They are non-recurring in their use. They have seldom reuse values.

4. Too many sales promotions may adversely affect the brand image, suggesting its lack of popularity or overstocking by a company.

5. Advertising agencies accord low status to sales promotions and usually employ junior staff for sales promotion so that they may be trained for more creative jobs.

6. Sales promotions are ineffective: (a) when established brands have a declining market, (b) there are no product improvements, (c) when there is intensive competition on consumer sales promotion.

10.3 MAJOR DECISIONS IN SALES PROMOTION

In using sales promotion, a company must establish the objectives, select the tools, develop the programme, pre-test the programme, implement and control it, and evaluate the results. These steps are explained below:

1. Establishing the Sales-Promotion Objectives

Sales-promotion objectives are derived from broader promotion objectives which, in turn, come from marketing objectives. The type of objectives will vary with the target market. For consumers, the objectives may be to encourage purchases, building trial, etc. For retailers, objectives include inducing retailers to take up new items, encouraging higher stock levels, etc. For the sales force, objectives include encouraging support of a new product or model, encouraging more prospecting, and stimulating off-season sales. The company can use sales promotion to achieve many objectives. However, every offer must start by being specific as to what objectives are intended to be achieved. According to Schultz and Robinson (Sales Promotion Management, Chicago: Crain Books), the objectives should be Specific, Measurable, Clear and Concise, Practical, Affordable, and Attainable.

2. Selecting the Sales-Promotion Tools

There are three kinds of sales promotion. They are:

i) **Consumer Promotion:** Activities intended to educate or inform the consumers and those intended to stimulate the consumers.

ii) **Dealer Promotion:** Activities to increase the interest and enthusiasm of dealers and distributors.

iii) **Business Promotion:** Through exhibitions, trade fairs and conventions.

3. Developing the Sales-Promotion Programme

The marketer must make further decisions to define the full promotion programme. The marketer has to determine the size of the incentive, conditions for participation, duration of promotion, the distribution vehicle, timing of promotion, total sales-promotion budget and the incentive cost in order to arrive at a full programme.

4. Pre-testing the Sales-Promotion Programme

The programme thus developed should be pretested in order to check the effectiveness of the programme. This can be done by asking the consumers to rate or rank different possible or trial tests that can be run in limited geographical areas.

5. Implementing and Controlling the Sales-Promotion Programmes

This involves planning, designing and modifying programme, etc. Each programme should have its individual implementation and control.

6. Evaluating the Sales-Promotion Results

The final step is to evaluate the results of the programme in order to determine the effectiveness of the programme. The manufacturers can use three methods to measure the effectiveness of sales-promotion.

i. to examine the sales data, before, during and after a promotion,

ii. to examine the consumer-panel data which would reveal the kinds of people who responded to the promotion, and

iii. to conduct experiments about incentive value, duration and distribution media.

Thus, sales-promotion is used at the time of introducing a new consumer product, to secure maximum dealer stocking, display space and attention of consumers. Sales-promotion involves a lot of expenditure. It also has difficulties. But because it pays rich dividends, sellers have accepted it as an important item in the marketing-mix. Not only does it give profit but it also serves other purposes such as provision of information, creation of demand, repeat buyers, sales stabilisation and quick inventory turnover. The successful promotional effort has many ingredients such as personal selling, sales-promotion devices, advertising, public relations, and publicity.

10.4 CONSUMER SALES PROMOTION

The consumer sales promotion involves application of the following tools:

Samples :	Samples are offers of a free amount or a trial of a product for consumers. The sample might be delivered door to door, sent in the mail, picked up in a store found attached to another product or featured in an advertising offer. Sampling is the most effective and most expensive way to introduce a new product e.g., Hindustan Levers introduced Ariel Trial Pack for its detergent powder Ariel Micro System.
Coupons :	Coupons are certificates which entitle a consumer to buy the product at reduced prices. These coupons can be mailed, enclosed in other products or attached to them or inserted in magazines and newspapers. Coupons are accepted as cash by retailers.
Rebates :	Cash refund or rebate provides a price reduction after the purchase rather than at the retail shop. The consumer sends a specified 'proof of purchase' to the manufacturer, who 'refunds' part of the purchase price by mail. It is a good device for creating new user and to strengthen the brand loyalty.
Price Packs :	Price Packs (also called cents-off deals) are offers to consumers as discount e.g., Rs. 2 off on a Brooke Bond pack of 500 gms. Price Packs are very effective in stimulating short-term sales, even more than coupons. The price pack may be in the form of a reduced price pack (20 per cent extra Five-star at the same price) or a banded pack (tooth brush and tooth paste together).
Premiums :	Premiums (or gifts)are merchandise offered at a relatively low cost or free, as an incentive to purchase a particular product. Reusable jars, key chains, containers.

Prizes: (Contests, Sweepstakes, Games)	Prizes are offers of the chance to win cash, trips or merchandise as a result of purchasing something. A contestant calls forconsumers Co., submit an entry — a jingle, estimate, suggestion to be examined by a panel of judges who will select the best entries. In sweepstakes, the customers submit their names which will be included in a drawing of prize winners. A game presents consumers with some puzzle or missing letters. All of these tend to gain more attention than coupons and premiums.
Patronage Award : (Trading Stamps)	These are values in cash or other forms. Such awards are given to those customers who shop only at a particular place. i.e., when the customers are loyal to a particular shop. Then they are treated as patrons.
Free Trials :	Free trials consist of inviting prospective purchasers to try the product without cost in the hope that they will buy the product.
Product Warranties :	Product warranties are important promotional tools in sensitive consumer markets.
Tie-In-Promotions :	They involve two or more brands or companies that team up on coupons, refunds and contests to increase their pulling power.
Point-of-Purchase (POP): and Demonstration	POP displays and demonstrations take place at the point of purchase or sale.

- **The Quiz/Contest Craze**

The advent of Star, Zee and Metro (Satellite TV) Channels has thrown open to business concerns the possibilities of brand promotion via the countless quizzes and contests now being telecast at a small percentage of normal promotional cost. With quizzes and contests on television gaining increasing popularity, many companies are gifting their own products in an attempt at gaining mileage for their brands.

Sponsor companies on the television are adopting the quiz and contest route as a profitable means of establishing brand equity over a period of time. In programmes like Philips Top Ten, Bournvita, Close-up Antakshari, Bajaj Ke Tarane and Lux Kya Scene Hai, brand equity has been used as a format. These programmes have gained considerable popularity and they will be remembered for a long time. T.V. has gained substantial audience in India.

The basic strategy in contests is to provide an extra-incentive to the consumer for buying a product. Full exploitation of contests at retail level must be planned. Retailers must be briefed about the contest and enough merchandise should be available to satisfy all customer demands. A well-planned quiz contest has to be unique, interesting to the buyer, related to the product being sold, and tied in with sales in some way.

Contests are used to reach short-term sales goals. If properly designed, they can achieve other objectives as well. In fact, they are even used as versatile ways to hit non-sales related targets. As markets evolve, contests will be used for winning the upper hand, by emphasising a particular aspect of a product, coping with competitive pressures or increasing recall. But competitions, like any form of sales-promotion, have their limitations. They cannot, for instance, sell an inadequate product or one with a poor distribution network overnight or work miracles.

Currently the companies are caught up in the contest/quiz fever. Viewers are not complaining either. Marketers should make the most of the quiz and contest opportunity before the magic fades. And then they may latch on to some new fever, for there is never an end to new opportunities.

10.5 DEALER PROMOTION

Sales promotion activities are conducted to stimulate consumer-purchasing and dealer-effectiveness.

1. There is a provision of free display material either at the point of purchase (POP) or point of sale (POS), depending on one's viewpoint. Display reaches consumers when they are buying and actually spending their money.

2. Retail demonstrators are supplied by manufacturers for preparing and distributing the product as a retail sample, **e.g.,** Nescafe instant coffee to consumers for trying the sample on the spot or demonstration regarding the method of using the product.

3. Trade deals are offered to encourage retailers to give additional selling support to the product, **e.g.,** toothpaste sold with 30 per cent to 40 per cent margin.

4. Seller gives buying allowance of a certain amount of money for a product bought.

5. Buy-back allowance is given to encourage repurchase of a product immediately after another trade deal. A buy-back is a resale opportunity.

6. Seller gives free goods, **e.g.,** one free with 11, or 2 free with 10 are common free deals.

7. Advertising and display allowance may be given.

8. Sales contests for salesmen are held.

9. Dealer loader (a gift for an order) is a premium given to the retailer for buying certain quantities of goods or premium for special display done by a retailer.

10. Dealer and distributor training for salesmen, which may be provided to give them a better knowledge of a product and how to use it.

Dealer sales promotion provides the selling devices. Sales- promotion devices at the point of purchase inform, remind, and stimulate buyers to purchase products. People who see these devices are in a buying mood and thus they can be easily persuaded to buy those products. Tell tags are informative labels affixed on the product, describing in detail the features of the product and its unique selling points. Shelf talkers are similar labels attached to the shelves close to product displays. Counter top racks, posters, mechanised signs are other point-of-purchase displays.

Each form of sales promotion is used to encourage quick movement of products along the channel of distribution and enhancing the tempo of sales campaign. It also creates extra incentive or gives extra value to the channel of distribution itself, e.g., retailers. Hence, sales promotion offers a direct inducement which gives an extra value or incentive to the distributors, their sales force and the ultimate consumer.

10.6 BUSINESS PROMOTION

Sales promotion plays a major role in consumer goods promotion and it is used in a limited way in the case of Industrial Goods. Industrial goods marketing may involve provision for financing, training of users, buy-back arrangements and even reciprocal trading. POP materials are used for items that are sold through industrial distributors who maintain show rooms. The major use of exhibits are in conventions, exhibitions and trade fairs. Speciality gifts such as key chains, calendars, coffee mugs, pens with messages, logos, can be handed over to industrial customers which will serve as a reminder of the company.

1. **Joint Promotion:** Some years ago, in an unusual print ad, Mafatlal Fabrics endorsed Procter & Gamble's new detergent product, Ariel. Not that it was only Ariel that stood to gain from this approach, Mafatlal too, gained mileage through the ad. This was, perhaps, the first noticeable instance of joint promotion on the part of two brands that hoped to gain in visibility.

   Joint promotions as a marketing device has finally come into its own. The reasons for this are manifold. Rising advertising rates in the various media makes brand visibility an expensive affair. Also, with the clutter of parallel products in the market and messaging on the media, attempts at establishing brand equity has become a more complex exercise. The days of distinct USPs are by now in the past.

   If two brands that already have an established equity, endorse each other, the likelihood of success even beyond regular advertising stands a good chance. The Godrej-Titan promotional tie-up that was carried out in November 1993, is a case in point. The sales of the Godrej refrigerators trebled. However, in a similar exercise, when an alarm clock made by a small-scale manufacturer was offered free with the Godrej refrigerator, the increase in sales was just 20 per cent.

   Joint promotions between two brands that pose no threat to each other, yet aim at the same target audience and belong to the same usage category (a detergent and washing machine for example), stand to gain in terms of competitive edge by endorsing each other. The most notable examples here are the Surf Ultra-Videocon washing machine tie up, and car dealer Autoriders India Limited's cooperative marketing venture with financial institutions, spare parts dealers and insurance companies. Moreover, even though the target segment is the same, the participants are not in direct competition with each other.

Cost sharing on joint promotions is an attractive benefit for advertisers and promoters, specially in the face of escalating advertising costs. Marketers in the joint-promotions game claim that such strategies can reduce media spend by as much as 70 per cent.

Proponents of Joint-promotions claim that this is the second most important marketing platform after advertising, and is one method of achieving a direct face-off with the consumer. Fears that such cooperative marketing efforts might dilute the brand's identity are discounted on the grounds that, in fact, they serve to provide incremental enhancement for the brand.

Among the most recent and unique joint-promotion platforms has been a promotional tool itself: the Snuggy Club of Diapers India Limited with a strength of 3,000 members who are mothers of children up to three-year-olds, the Club was recently used for the launch of a number of children's products by Wipro, Johnson & Johnson, Milton (the Funny Bunny range) and Leo Mattel.

Joint-promotions may yet be at a nascent stage. Fast becoming an important marketing tool, it is bound to see a lot more innovation and sophistication in the near future, as the need for closer interaction with the consumer increases. Joint promotion, i.e., joining hands for visibility offers also mutual increase in brand loyalty.

2. **Exhibitions and Trade Fairs:** An exhibition stand or stall is a form of showroom, but it is a very distinctive form of showroom. It provides a temporary market place at which buyers and sellers meet. There are various types of exhibitions, international trade fairs, national and local fairs and exhibitions (usually sponsored by a chamber of commerce or trade association). We may have indoor or outdoor public exhibitions and fairs and shows, e.g., agricultural and industrial machinery and equipment, cottage industries and handicrafts, fashion shows and parades, domestic electric appliances, office machines and appliances, etc.

An article shown at an exhibition at least makes a good impression without creating actual demand. A man is greatly impressed with a computer, time-clock or simple appliance. He makes up his mind to buy one sooner or later. Usually, people are in a buying mood when they visit an exhibition.

A successful stand in an exhibition or a trade fair gives three services to the owner:

I. It provides entirely new business which cannot be secured by any other method.

II. Buyers unwilling to meet salesmen or visit the shop or show- room will, on their own account, do a lot of purchases at these fairs or exhibitions. These buyers are usually resellers.

III. Competitors vie with each other for getting maximum business. The conservative buyer can compare the competitive lines displayed in close distance to one another. They need not disclose their identity. They welcome criticism of their regular suppliers only at such exhibitions. Thus, at exhibitions constructive and conservative buyers (resellers) can be easily handled and captured by rival sellers.

In many trades, exhibitions are held annually at the same period of the year. These exhibitions attract a large number of buyers every day. These annual exhibitions become the basis of many sales campaigns. Buyers purchase all their requirements, **e.g.,** utensils, furnishings, appliances, clothing, fittings, at these exhibitions.

3. **Indian Fashion Scene:** The fashion industry has Rs. 20,000 crore internal market and Rs. 3,000 crore export market. About 50,000 jobs are generated each year in the fashion field. Stagnation in this field seems a distant fear as the fashion market is growing at a tremendous rate. Hence, fashion shows and exhibitions are becoming very popular as means of promotion. It is said that if the world is 'sound' then fashion is the 'melody'; if the world is 'sky', then the fashion is the 'rainbow.' Fashion usually means the 'current style'. Life would be drab without fashion.

   The fashion market in the national and the international scenario is increasing at a maddening pace. With the export boom coming through in a very big way, the fashion scenario has received a further boost. Looking at the number of boutiques and studios springing up in the country, one can sense the potential of the fashion business. A number of multinationals have entered and continue to enter into the Indian fashion business.

The fashion show idea can be exploited intelligently in the overall promotional strategy. A series of glamorous fashion shows are held in the metro cities like Mumbai, Delhi, Kolkata, on a massive scale. Currently, they are also organised on the television, the best medium of advertisement to reach the target audience. TV now commands a viewership over 25 crores for a prime-time flash in the national hook-up.

4. Exclusive Showrooms: Generally, the showroom idea is used as a tool of distribution. Currently, in the face of growing competition and unfair undercutting by dealers, a number of consumer durable companies are opening plush, exclusive showrooms, arcades, galleries, as powerful means of sales-promotion to boost their sales. Exclusivity plays the role of Unique Selling Proposition (USP) to increase the sales.

   Onida has set up a number of Arcades in cities. Samsung has exclusive Galleries. Ceat has Ceat Shoppes. Raymond and Vimal textiles have a large number of ultramodern showrooms all over India. Nokia has preferred dealers with show room facilities. Asian Paints have started exclusive Colour Matching Centres known as Colour World.

   A very great advantage the exclusive showrooms offer to a company is the ability to impress the consumer with the whole range of its products, at a time when all companies are going in for diversifications and range expansions.

   Of course, the showrooms are only additional means of sales-promotion/distribution. The distributor/dealer network systems have not been done away with completely. One cannot deny the importance of dealers. A prospect about to invest more than Rs. 15,000 will obviously want to look at other brands in the market before making up his mind. The showroom idea is also to encourage customers to go back to dealers stocking the brands.

The future of such showrooms, particularly for T.V., DVDs, Washing Machines, costly textiles, seems to be bright at the moment. Some companies have franchise-owned showrooms with identical colour schemes, furnishings, flooring and identical services.

5. Sponsorship: Sponsorship consists of giving money or other support to a beneficiary in order to make the activities financially viable or to gain some advertising, public relations or marketing advantage. The support could consist of money, trophies or other items in kind. The beneficiary could be an individual or an organisation. Normally, sponsorship is an investment to gain some advantage in the market place. Along with sponsorship, advertising in the form of boards, banners can be displayed in the sports stadium, cricket field etc. Nokia, Coca-Cola, Pepsi, Hero Honda, Micromax are closely associated with cricket matches.

10.7 PUBLICITY/PUBLIC RELATIONS

Publicity is also called marketing public relations. Publicity is not paid for by the organisation. Publicity comes from news reporters, columnists and journalist. It comes to the receiver as the truth rather than as a commercial. Public relations and publicity taken together become the fourth major ingredient of promotion-mix. These activities are, however, not controllable by the firm. Every firm tries to create a good public relations so as to give good publicity.

Defective products, unfair trade practices, anti-social activities often result in unfavourable publicity, consumer ill-will, bad product image, increased consumer protests, Government regulations and so on. The firm, having a poor public image, will have lower sales and lower profits. Reducing the impact of bad news is as important as creating good publicity.

Under the social marketing concept, publicity and public relations are assuming unique importance in the firm’s promotion-mix. Consumerism is altering consumer attitudes not only towards products, but also towards the firm and dealers selling the products of the firm.

Public Relations: Public relations have now become an important marketing function. The total process of building goodwill towards a business enterprise and securing a bright public image of the company is called public relations. It creates a favourable atmosphere for conducting business. There are four groups of public: (1) customers, (2) shareholders, (3) employees, and (4) the community. The marketers should have the best possible relations with these groups. Public relations complement advertising by creating product and service credibility. Effective marketing communication is not possible without establishing and maintaining mutual understanding between the company and its customers. The lubricant making the wheel of marketing run smoothly is public relations. Bright image is created and maintained only by public relations. Liberal aid in all social welfare projects enhances the public image of the marketer.

10.8 SUMMARY

Four promotion-mix elements have definite roles in all stages of the marketing process. Publicity is more effective in the awareness stage. Advertising gradually becomes less and less effective over a span of time. Hence, reminder advertisement is necessary. Personal selling becomes more and more effective as interpersonal interaction assumes increasingly important. Sales promotion includes promotional activities other than personal selling, advertising, and publicity, which stimulate consumer-purchasing, dealer-effectiveness and business promotion. It is not expenditure but an investment which can pay rich dividends. Sales-promotion is an integral part of marketing effort.

10.9 SELF ASSESSMENT QUESTIONS

1. Define Sales-promotion and what are the objectives of sales promotion?

2. Discuss the strengths and weaknesses of sales promotion.

3. Sales-promotion is a link between advertising and personal selling — Discuss.

4. Explain the major decision areas in Sales promotion.

5. How does a marketer determine the timing, frequency, and duration of sales-promotion.

6. What is Sponsorship? Explain with examples.

7. Explain Pro-active and Reactive Sales-promotion.

8. Write short notes on:

    a. Consumer promotion
    b. Dealer promotion
    c. Evaluation of Sales-promotion results.
    d. Public relations

CASE STUDY

Swan Textile Mills Ltd.

Mr. Advani is a young Sales Manager in a popular textile mill of Mumbai — Swan Textile Mills Ltd. The company sells directly to retailers all over India. Recently, Advani faced tough sales objections from southern retailers. The objection is, we can get the same patterns and fabrics cheaper from Swarna Textile Mills Ltd, Chennai.

Advani found truth in their statement. Swarna Company copied systematically and even printed a trade mark 'Roshini', similar to the trade mark 'Rohini' of Swan Company, at the edge of each yard of the fabric. They supplied their cloth at one-third the price.

As sales started slipping, he thought of a strategy to prove the quality of Swan products. Advani devised a simple demonstration to prove the qualitative difference between the two products. He took fabric samples from both fabrics and demonstrated the differences and explained the reasons. He asked the retailers to find out the customers' views after 2-3 washings of Roshini Brand. Within a month after this demonstration, the irate housewives in the South flooded retail shops with complaints that the cheap Roshini fabric lost its lustre and started falling apart after two or three washings. They started demanding 'Rohini' and not 'Roshini' brand fabrics. Sales of Rohini shot up in a few weeks.

QUESTIONS

1. If you had been in Advani's place, would you welcome or fear this objection? Why?

2. Could Advani have prevented the initial drop in sales of Rohini through better planning?

3. Would this approach be possible in other markets?

   (Source: Bangalore University's second semester MBA examination, September-October 1999)

- **Comments**

The salespersons in the company are entrusted with the responsibility of meeting prospects and customers for selling their products and services. During the personal interview, the sales-person understands the needs and wants of the customer, highlight product benefits and convinces him to buy the products. These salespeople face objections from consumers, dealers and distributors. **Examples:** The quality of the product is poor compared to another product, prices are high in relation to others, discount offered is less etc., has to overcome such objections to obtain repeat orders. Objections are opportunities for the salesperson to convince the customer about the superiority of the company's products.

Product demonstration is one of the most effective methods to show the superiority of the company's product to the customers. It is based on the principle "Seeing is believing". The consumer gets convinced once he sees the result of the demonstration. Products like pressure cookers, vacuum cleaners, agricultural implements, fertilisers, agricultural pesticides are promoted through demonstrations.

REFERENCE MATERIAL

Click on the links below to view additional reference material for this chapter

Summary

PPT

MCQ

Video Lecture

Video Lecture - Part 2

Chapter 11

PERSONAL SELLING

Objectives

After studying this Chapter, you should be able to:

- Understand the meaning, features, merits and demerits of Personal Selling
- Study the role of the different types of salesmen in the channels of distribution.
- Know the essentials of effective selling
- Know the qualities of a good salesman

Structure:

11.1 NATURE OF PERSONAL SELLING

- **Meaning of Personal Selling**

Personal selling refers to oral and face-to-face communication and presentation with the prospect for the purpose of making sales.

There may be one prospect or a number of prospects in the personal conversation. Personal selling involves two-way communication. When it comes to convincing the prospect, closing a sale and transferring the title from seller to buyer, personal selling becomes the strongest tool of promotion. During personal interview, the salesperson understands the needs and wants of prospect, highlights product benefits and convinces him to buy the product. Therefore, we can say that personal selling is highly distinctive and the only form of promotion involving face-to-face relationship between a salesperson and one or more prosperctive customers. Salesmanship involves persuading the people to buy product or service with benefit to the user and profit to the company.

- **Features of Personal Selling**

1. It enhances customer's confidence in the seller.

2. It promotes long-term business relations through personal intimacy.

3. It provides a human touch to business transactions.

4. It helps facilitate the seller to understand each customer's needs and preferences more clearly.

5. It helps satisfy a customer by modifying the product as per the customer's choice and preference.

6. Personal selling followed by personal service helps build long-term relations between the business and the customer.

7. It helps keep up with the competition in the market, based on product's customisation as per customer's preferences.

8. It is a powerful and effective tool in convincing the customer about the product.

9. Through personal selling the time lag between introducing a product through the media and actually selling it, is reduced.

10. It provides prospective customers with a better understanding of product and an interactive opportunity to liaise with the sales personnel.

- **Changing Face of Personal Selling**

In today's competitive markets a personal seller's role is not just confined to persuading prospective customers to buy products. Its scope has widened and corporations have begun to explore the efficacy of personal selling beyond the erstwhile sole objective of promoting sales. In view of the above, the modern sales approach is based on the following parameters:

1. **Value Sharing:** The salespeople share the same values that their customers have and think with the customer's perception with the sole view to serve them better. This helps salespeople study the changing needs and preference of their customers.

2. **Relation Building:** A value-based relationship helps the salespeople to mobilise resources constantly and modify the end product catering to the specifics of the buyer. This culminates in building long-term relationships.

3. **Role Playing:** The salespeople in personal selling go far beyond realising sales volume. They act as consultants to their prospective customers constantly advising them of new products, and impart knowledge to them with respect to the product adaptation, training, installation, trouble shooting, etc.

4. **Changing Approach:** With a view to providing total customer satisfaction, a coordinated approach of salespeople with their colleagues, who are often the specialists in their own areas, is emphatically recognised. As a result, personal selling comes in a package containing the inputs of the experts from different areas such

as maintenance, installation, trouble-shooting, delivery staff, sales, personnel, etc.

- **Efficacy of Personal Selling in the Marketing-Mix**

Product, price, promotion and distribution are the focal strategies that a company uses to achieve its marketing objectives. These factors are also known as the elements of marketing-mix. In view of the fact that markets are growing increasingly competitive each passing day, experts are not only advocating a sensible mix of these facts but also propagating the efficacy of personal selling in implementing marketing strategies under different heads.

1. **Personal Selling with Respect to Product Strategy:** Since salespeople are in direct liason with prospective customers, their input is valuable during the product development. Their inputs help design the product based on customer preferences and needs.

2. **Personal Selling and Pricing Decisions:** Sales personnel undergo requisite interaction with prospective customers to gauge their mood with respect to different price levels. Hence, their inputs are considered useful in formulating pricing strategies. The sales personnel are also well aware of the competitors' price and based on the market reaction and customers' sentiments they can advise a more prudent price policy to the management.

3. **Personal Selling and Distribution:** Whether the channel of distribution is direct or indirect, the salesforce has a significant role to play. The end-result of any distribution effort is the ready availability of the product to the customer, in the right quantity and at the right place. And if the product is not available when it is actually required by the customer then the whole of the business activity and all related efforts are rendered useless, in view of this, the salesforce plays an important role in coordinating, liaising and advocating the product's utility to the end-user.

4. **Personal Selling and Product Promotion:** The salesforce actually stimulates and generates interest in the customer to make the final decision to buy the product. Sharing the same values that the customer does, a sales-person provides confidence in the customer for the

product. Without this effort the whole exercise of advertising and public relations would be futile. Advertising and public relations actually support the efforts of the salesforce. And thus, personal selling promotes a product. As a marketing communication tool, personal selling is more effective in the trial stage of the purchase process. Of course, it has to be ideally supported by the other components of promotion such as sales promotion and advertising.

- **Modern Concept of Salesmanship**

The modern concept of salesmanship is very much different from the earlier concept. In the olden days, a salesman was merely an order taker. He did more or less a mechanical job of showing the goods, waiting for an order and receiving the payment. He made little or no attempt to guide, help or persuade the customer.

The modern concept of salesmanship, on the other hand, is based on the ideas of service. Modern salesmanship is creative in approach. The modern salesmanship tries to create need, awareness of these needs and uses resourcefulness and imagination to persuade customers. It uses the problem-solving approach to ensure customer satisfaction.

Pederson and Wright suggest that salesmanship is "the process whereby the seller ascertains and activates the need or wants of the buyer and satisfies these needs or wants to the mutual, continuous advantage of both the buyer and seller." This definition of salesmanship is customer-oriented. Hence, it honours the marketing concept, viz., the customer-centred marketing approach. It also points out that salesmanship is a positive effort not merely persuading people to do what we want them to do, but rather helping them to buy, what will be beneficial to both the seller and buyer. Salesmanship, in simple term, means persuading the customers to buy products or services with benefit to the customers and pofit to the company.

The fundamental features of salesmanship can be enumerated as follows:

1. **High-pressure Salesmanship:** In the olden days under the production and sales-oriented marketing concept, primary emphasis was on sales volume at any cost. Hence, before 1960, we used to employ high-pressure salesmanship under which innocent buyers were pressurised

and hypnotised by their sales talk and dramatic sales presentation. Such salesmen could sell a refrigerator even to an Eskimo family living in an ice cottage. Buyers were compelled to buy things, which they did not really want or things which they could not afford to purchase. Please note that high-pressure salesmanship in the case of door-to-door salesmen was popular at one time. But it could not have repeat orders. It can never create a permanent customer or offer customer satisfaction during the post-purchase period. Under the modern marketing concept, high-pressure salesmanship has no place at all. Modern salesmanship discounts such salesmanship. It is now based on problem-solving approach. Growth of consumerism and emergence of buyer's market also indicate that high pressure salesmanship has outlived its utility.

2. **Salesmanship is Persuasion:** Salesmanship involves the ability to influence or persuade people. It is the skill in handling people which makes for a successful salesman. The customer has to be led to a favourable buying decision and the salesman has to use all his skill to create a favourable impression in the customer's mind. Modern salesmanship does not rely on pressure tactics or compulsion to force a sale. It is only by the power of suggestion and imaginative handling that the customer has to be guided to a favourable decision.

3. **Salesmanship is Winning the Buyer's Confidence:** Modern salesmanship does not use doubtful methods of influencing buyers. Misrepresentation, cheating, dishonesty have no place in modern salesmanship. There is no attempt to take undue advantage of the ignorance or credulousness of buyers. On the contrary modern salesmanship aims at winning the confidence of the buyer by providing a solution to the buyer's problem, by persuading him and educating him.

4. **Salesmanship Aims at Providing Service to the Buyer:** Modern salesmanship is based on the ideal of service. Salesmen endeavour to find out the wants of their customers and to provide products which will satisfy these wants. Every buyer has a problem and the solution to this problem lies in the use of a certain product or service. Salesmanship aims at discovering the problem and providing a solution to the problem. Thus, salesmanship aims at serving the customer, by using the knowledge and ability to provide the best available solution to the buyer's problem.

5. **Salesmanship Aims at Mutual Benefit:** Salesmanship is not the art of making a profit at the cost of the buyer. On the contrary, salesmanship should benefit both the buyer and the seller. The buyer obtains a solution to his problem, and satisfaction of his want. Salesmanship helps him in obtaining the maximum return for the money he spends. At the same time, it provides a reasonable profit to the seller. It enables the producer to produce more, to increase his sales and his profits.

6. **Salesmanship is an Education Process:** Salesmanship educates people about their needs. Very often people are not aware of their needs or the way in which they could best satisfy them. Salesmen perform the function of educating the customers about their needs and their satisfaction. They also provide information about the products available, their special features, and their utility in satisfying specific needs of customers.

7. **Salesmanship is a Creative Process:** Salesmanship is responsible for creation of demand (not through persuasion amounting to coercion) through a problem-solving approach. It starts with customer knowledge. It studies customer needs and problems through customer's viewpoint. It is said that if you want to sell Sita Samant what Sita Samant needs, you must see Sita Samant through Sita Samant's eyes. Hence, the first step is to learn buyer's problems, buyer's motives and habits. Then suggest a solution to her problem, her needs. Demonstrate how your product or service can fill the need or solve the problem. Such an approach needs a lot of creativity, initiative and empathy.

11.2 TYPES OF SALESMEN

There are three types of salesmen in the machinery of distribution: (1) Industrial salesman, (2) Merchant salesman, and (3) Consumer salesman.

1. **Industrial Salesman (Business Marketing):** Buyer-seller inter-dependence and product complexity are the two unique aspects of industrial marketing. Both, the representative of the selling organisation and the representative of the buying organisation are professionals and experts in their own lines. The interaction takes place between these two professionals.

Industrial salesman may need a technical background in engineering or chemistry to understand the problem and know the language of technically trained purchasing agents. Frequently, more than one person must be sold before a purchase is approved. In most industrial selling, salesman must adopt problem-solving approach.

What his goods or services will do for the customer is of paramount importance. The sophisticated and expert purchasing agent looks for results in the form of increased sales or lower costs, or both. Industrial buyers are appealed mainly through rational buying motives. Usually, we have direct sale (by-passing the wholesaler and retailer) conducted through face-to-face communication between the manufacturer's representative and the industrial customer. For certain industrial goods such as components, spare parts, office supplies, consumable goods, we have industrial distributors as resellers. Personal selling enjoys the lion's share in industrial marketing as the tool of promotion and distribution. Advertising plays a secondary and supportive role in industrial marketing facilitating the job of industrial salesman. In fact, industrial salesman is the company to an industrial customer. The reputation of the company (source) which the salesman (communicator) represents plays a very important role in the buyer's decision to purchase. Salesman must know thoroughly his product, his customer and his company. Customer service, including helping the customer to sell to his customers is more important than the physical product itself. Industrial marketing is now termed as business marketing.

Industrial salesman may represent manufacturers, industrial distributors or wholesalers, manufacturer's agents, or mill supply house. For highly technical products sales engineers having mechanical, electrical, electronic and chemical training are employed to study customer problems, recommend proper equipment, supervise its installation and train users in its operation.

2. **Merchant Salesman:** Merchant salesmanship is involved in selling of all types of consumer goods (convenience, shopping and specialty goods). We have four types of merchant salesmen: (a) Speciality salesman (b) Missionary salesman, (c) Creative salesman, and (d) Detail salesman.

a. **Speciality Salesman:** He is called upon to sell consumer specialties, such as TV, refrigerators, expensive watches as well as business goods, such as industrial products, material supplies, etc. These salesmen specialise in introducing new products or innovations in the market. They adopt the techniques of aggressive salesmanship.

b. **Missionary Salesman:** Missionary salesmen are responsible for promoting sales and creation of demand. They help merchants in arranging store displays, planning store sales, training salesmen of retailers, preparing advertisements of retailers and helping in all merchandising activities. Missionary salesmen assist dealers in all types of sales-promotion activities at the point-of-purchase. They also act as store demonstrators to distribute samples or demonstrate products for customers who come into the retail stores. Normally, they are not engaged in direct selling to customers.

c. **Creative Salesman:** He is a salesman who seeks to introduce a new product or a new brand into the market and create a demand for such a novelty. He is a pioneering salesman. He cultivates and develops sales territories. He is responsible for a lot of spadework before a product is accepted by common consumers. He is diametrically opposite to a mere service salesman or counter salesman in a retail shop. Hence, mere order-collection and servicing of orders assume secondary importance for a creative salesman. He creates a new business, a new market, new customers, and so on. **Example:** Creating the need for vacuum cleaners and water purifiers and medical policy.

d. **Detailing Salesman:** Detailing is a form of specialty selling. The salesmen visit doctors, dentists, architects, engineers to sell them or to recommend a product to their clients. Medical representatives of drug manufacturing companies are detailing salesmen. They visit physicians, hospitals, and drug-middlemen to inform them about the new products and to induce them to recommend these products to their patients or clients.

3. **Consumer Salesman or (Retail Sale):** We have inside (indoor) consumer selling in retail stores as well as outside (outdoor) selling to consumers in their homes or offices. Door-to-door canvassing and selling is done by travelling salesmen.

While advertising attracts prospective buyers to the retail store, the sale depends upon counter salesman of the store. The retail salesman helps the customer to take purchase decision, to buy here, i.e., in the store and to buy now, i.e., on the spot: The counter salesman also creates store patronage and store loyalty to ensure repeat purchases by customers. We need consumer (retail) salesmanship for selling high-cost articles, e.g., automobiles, refrigerators, television sets, appliances, expensive clothing, etc.

There are three types of outside (outdoor) consumer salesmen.

a. **The route salesman** who follows a regular route serving consumers, e.g., baked goods.

b. **The independent consumer salesman** sells on his own account, e.g., street vendors, pedlars, mobile retailers.

c. **The controlled consumer salesman** is the employee of manufacturer, retailer or insurance company. He may be employed for door-to-door selling. Many manufacturers may bypass the usual channels of distribution and sell their products directly to the final consumers right in their own homes or offices. Insurance agents or salesmen sell the service of insurance to the people. Similarly, tangible goods like kitchenware, magazines, books, appliances, cosmetics are sold through outside consumer salesman.

The basic principles of selling apply equally to: (1) The retail salesman, (2) The wholesale salesman, (3) The salesman of consumer goods, (4) The industrial salesman, and (5) The salesman selling services, such as insurance, finance, consultancy, advertising, etc. The procedures are similar. The goals are the same. Each field can offer creative selling opportunities.

- **Salesforce Automation**

Salesforce automation has a unique position in marketing. Sales people are equipped with modern gadgets, e.g., computers, printers, softwares, modems, fax/copier machines, pagers, mobile phones, etc. Salespeople spend much time for selling, and much less time doing paper work. Their productivity increases, if they spend more time in the field.

Lap-top computer based sales support system and electronic mail helps them to send/receive messages quickly and very speedily. We can have automatic expense statement programmes, graphic software package for customers. They receive their salary, commission, bonuses directly to their bank account and advices of electronic clearance by post.

11.3 ADVANTAGES/LIMITATIONS OF PERSONAL SELLING

Personal selling is the most important ingredient in the promotion- mix. It is the largest single operating cost accounting for 20 per cent of net sales in many enterprises. The following are the relative advantages of personal selling:

1. A salesman can pin-point prospect, whereas advertising cannot distinguish precisely a prospect from a suspect. It is a means of mass communication and not an individual communication. Hence, there is minimum waste of effort and expenditure in personal selling or communication.

2. Personal interview in salesmanship assures attention and interest of a prospect. Personal selling has flexibility. Sales talk and sales presentation can be fitted to the individual needs and motives of a prospect. This is not possible in advertising. Even the best advertisements may attract attention and interest of hardly 60 per cent of viewers or listeners or readers.

3. Advertisement has a broad sales message. It cannot be adjusted to reactions and objections of any one prospect. Salesman can adjust sales presentation on the spot to meet objections and reactions of his prospect in order to gain action.

4. Advertising can attract attention and arouse interest but usually it is left to the salesman to close the sale and effect transfer of title.

5. Actual demonstration of the product or its use is recognised as the most powerful means of convincing. Advertising (except TV Ads) cannot use demonstration. But salesmen can use it easily.

6. Personal selling is the best means of two-way communication continuously between the company and its customers. Top management

can be fully informed about many vital matters such as competition, customer reaction and comments, market trend, dealer demands, etc. This feedback of information cannot be adequately achieved through other means of promotion. Hence, personal salesmanship has a permanent place in promotion and distribution. In retail trade we need personalised services and relations with customers and these can be offered only by sales-persons. In marketing of services, e.g., hotels, tourism, personal selling has a unique role.

While personal selling is the most powerful and effective method of convincing the customers it has certain disadvantages.

1. The greatest limitation is the high cost of personal selling, particularly in inflationary conditions. The cost of developing and maintaining efficient salesforce is quite high.

2. Good and competent salespersons are scarce. When compared with other occupations, sales profession is becoming less attractive. General shortages of salesforce in the West has compelled retailers to depend more and more on self- service principle. That is why self-service stores are popular in many Western countries. However, many big companies select and train their salesforce and systematically develop their salesforce. Personal selling, though costly, it is very effective and indispensable.

Table 11.1

COMPARISON OF ADVERTISING AND SELLING

No.	Personal Selling	Advertising
1	Directed at the individual	Directed at mass audiences
2	Personal, direct contact	Impersonal, indirect contact
3	Working in depth	Working in breadth
4	Two-way flow of communication	One-way flow of communication
5	Direct and quick feedback	Organised and delayed feedback
6	High level of adaptability	Less directly adaptable
7	Effective	Less effective
8	Less efficient-expensive and time consuming	Efficient-cheaper per contact
9	Push effect	Pull effect

Notes:

1. Personal selling is both most effective and also the most expensive. In general, the cost ratio of personal selling to advertising is 3:1.

2. Since 1971, due to rising trend of wages and social benefit costs, selling costs per sale-contact are also increasing steadily. Advertising costs on the other hand, have decreasing tendency due to new means of communication like phone, radio, television, etc.

3. In mail order industry, advertising is used exclusively. In insurance industry insurance services are sold almost entirely by personal selling. In consumer goods market, advertising is the main promotional tool. In industrial marketing personal selling is usually dominating.

4. Today, in all channels of T.V. we are witnessing very good advertisements with demonstration by salesman. (Combination of Advertising and Salesmanship).

- **Similarities between Advertising and Selling**

As tools of communication, advertising and selling need to be understandable, interesting, believable and persuasive in order to achieve their purpose. In terms of perceptional process, both must penetrate the sensory mechanisms (e.g., sight and sound) of the customers or prospects in order to be effective in modifying attitudes and preferences of buyers. In terms of cognitive process, both are designed to induce favourable thoughts towards the company, its products and services, and its people. Both aim at conveying an image of different and better as against rivals. Both try to induce favourable feelings.

If the market is considered as having three phases — pre- purchase, purchase, and post-purchase, it is obvious that advertising fits mainly in the pre-purchase and post-purchase phases. In the pre- purchase stage it acts as a market-cultivating force and prepares the market for personal selling efforts. In the post-purchase stage it provides a rationalisation to the buyer — reassuring him about his wise purchase. Rarely, advertising can achieve the purchase action. In contrast, personal selling is of importance in all three phases.

11.4 ESSENTIALS OF EFFECTIVE SELLING

There are seven prerequisites of effective selling: (1) Know your company, (2) Know your product, (3) Know your competitors and their products, (4) Know your customers, (5) Know the process of selling, (6) Know of self, and (7) Day to day working.

1. **Knowledge of Your Company:** Most products, especially costly and complicated products, are not judged on their own merits. They are judged by the name of the company that manufactures them. Hence, salesmen must be company-oriented. A salesman is the company to most buyers: He is regarded as a representative of the whole company. Therefore, he should learn everything about his company. The facts about the company must be at his fingertips. Prospects may wish to know about policies, procedures, service facilities, discounts, guarantees, and so on. As a sales representative, you must satisfy all queries of prospects about your firm so that they may decide to do business with your firm.

2. **Knowledge of Your Product:** A salesman should know all about his product: (a) Materials from which it is made, (b) How it is used and how it is maintained, (c) Product features, (d) Customer benefits, (e) Selling points of the product in relation to its rivals, and so on. Without

adequate knowledge of the product, a salesman cannot convince the prospect and convert him into a customer.

3. **Knowledge of Competition:** A salesman should constantly study the products offered by his competitors and determine their strengths and weaknesses in comparison to his own product. Awareness of competition enables a salesman, if necessary, to compare his product with that of rival on those points in which the buyer seems most interested. Competition should be brought up only when a buyer insists on comparison. Thorough knowledge of the company, its product and its competition constitutes the solid background of essential information for effective selling. Buyers have faith in well- informed salesmen. Then again, knowledge gives salesmen confidence in themselves.

4. **Knowledge of Your Customers:** A salesman must have adequate knowledge about both the customer's wants and desires, and the products offered by the firm to satisfy customers. The matching of supply with demand is impossible without knowledge of your customers representing the demand side of the match. A salesman must find out as much as possible about the customers' wants and desires and about his buying motives as well as buying habits so that the product can be tailored to those specific requirements. The sales presentation should be tailored to those specific requirements. Salesman must know the reasons customers might have for buying his products. Hence, he must have adequate knowledge of buying motives — rational, emotional and patronage motives.

5. **Knowledge of Selling Process:** Selling process runs closely parallel to the consumer's buying process. To move the customer through the stages in the buying process (perceived want, search for information, purchase, use and evaluation) the salesman undertakes the stages in the selling process, viz., prospecting, preparation, presentation and post-sale activities. Prospecting, is similar to seeking function of marketing. Salesman identifies buyers who have both ability to buy (purchasing power) and willingness to buy (motivation). Preparation is similar to the matching function of marketing — matching the supply with demand. The sales presentation is closely related to the buying process of consumers. The salesman uses AIDAS formula — Attention, Interest, Desire, Action and Satisfaction. Post-sale activities are order writing, arranging for its execution, and facilitating grant of credit, if

necessary. The customer should be reassured on his wise purchase decision. Post-sale contacts reduce customer dissonance or dissatisfaction and assure repeat orders.

6. **Knowledge of self:** This is partly a personal quality and partly to be developed by constant self-training. Every individual has certain strengths, weaknesses and limitations. In order to become an effective salesperson, one should seek knowledge in all relevant subjects and apply the same in day-to-day work. This can be achieved by developing regular reading habits, upgrade technical knowledge, managerial and selling skills. He has to improve skills in communication, public-speaking and presentations.

   It is, therefore, apt to say that "salesmen are not born, nor made but they are born and made." There must be definitely certain in-born qualities and these qualities should be strengthened with proper amount of training. Salesmanship is not a matter of personality alone. But a systematic utilisation of one's personality. It is realised that no product could be sold unless 'the presentation' is made in an efficient and convincing manner.

7. **Day-to-day working:** Salesman should also be given training in the following areas:

   a. Customer calls
   b. to draft periodical reports to the firm
   c. receipt of and replying letters
   d. preparation of orders and bills
   e. maintenance of accounts
   f. arrangements of display and demonstration of products.

- **Customer is the King**

The customer is the focal point of the marketing mix. He is not dependent on the seller — in reality, the seller is dependent upon him. He is not an interruption of seller's work — he is the purpose of it. A customer does the seller a favour when he meets the salesman — the salesman is not doing him a favour by serving him. Let the salesman remember three things:

1. A customer is the most important asset a marketer/seller can have.

2. A customer is the hardest thing to get. He is choosy, exacting and well-informed.

3. A customer is the easiest thing to lose.

- **'Sizing-up' of Customers**

A knowledge of the various types of customers, their attitudes and behaviour, and the ability to recognise and handle them, is also a fundamental requirement for success in selling.

A salesman must be aware that all customers are not alike. (Many men, many minds). Each customer has his own personality, his own psychological make-up. All customers will not think or react in the same way. They have different backgrounds, different sets of values, different habits, and different frames of reference. A good salesman must be able to recognise these individual traits (mental peculiarities).

Diagnosing or "sizing up" a customer is an important prerequisite to his proper handling. A salesman can size up a customer reasonably well, by proper observation. The carriage or bearing of the customer, the way and purposefulness with which he enters the shop, says a lot about his character. The clothes he wears are an indication of his taste, and his ability to spend. Conversation with the customer is a very useful source of information about his nature, his attitudes, his likes and dislikes. His actions and expressions are also a guide to his character. An observant salesman can obtain a wealth of information about the customer from his observations.

The purpose of sizing up (to make mental measure of) is to determine the strategy to be adopted in dealing with the customer. A nervous customer must be dealt with in an helpful sympathetic manner. An argumentative or suspicious customer must be handled skilfully, convincingly. A handicapped customer may require special treatment. A pompous, snobbish customer must be tactfully dealt with. Women love latest fashions and styles, they welcome VIP treatment.

- **A-I-D-A-S Formula**

The salesman, in order to effect a sale, must persuade the customer to buy his product. This act of persuasion needs proper planning of the strategy and tactics. The customer must be taken through certain stages of the mind. These stages are very effectively summarised by what is known as the A-I-D-A-S formula. The stages are as follows:

1. **'A' Attention:** It is the starting point in the sale process. The attention of the customer must be attracted to the product, the want that the product is able to satisfy, and the buying motive to which the product appeals. Unless the customer's attention is secured by the salesman, sale process cannot be developed further.

2. **'I' Interest:** The salesman must create an interest in the mind of the customer. The customer must be made to realise how the product will benefit him, and must feel curious to know more about the product, its features, and its merits. Further sales talk or sales demonstration will be useless if the customer is not interested in the product.

3. **'D' Desire:** Salesman must ignite the desire of the prospect after securing his attention and after arousing his interest in the product. From the stage of interest or curiosity must develop the desire to buy the product. The salesman must use all his powers of persuasion and conviction to create an urge to buy. This requires the creation of a want, the appeal to a predominant buying motive, and the matching of the buying motive with the selling points relating to the product.

4. **'A' Action:** It means gaining an order. The culmination of the first three stages should be in the actual purchase of the product. The customer must be induced to buy the product or place an order for the product. The want must be converted into demand. Gaining action means consent of the buyer to purchase the product. It indicates his final decision to purchase and he places an order.

5. **'S' Satisfaction:** Follow-up or post-sale contact is necessary to ensure customer satisfaction and to remove any post-sale problems. It is also a source of feedback from the customer. Service after sale is also necessary in the sale of many costly and durable consumer goods. Satisfaction leads to repeat orders. Customer Delight is the

top objective. Remember that sale is made in customer's mind. You must have empathy — mind-reading capacity. Try your best to capture customer's mind and build up permanent niche in his mind.

11.5 QUALITIES OF A GOOD SALESMAN

There are only two basic requisites for successful salesmanship:

(1) Empathy and (2) Ego drive. The first requisite is the ability to empathise — to understand the feelings, the mood and the role being played by his customer so that he may adjust his own role in such a manner that the interplay of communication is complementary rather than crossed. Empathy is the ability to identity with the customer, his thoughts, feelings and emotions. A salesman with empathy senses the reactions of the customer and is able to adjust his sales talk to these reactions. Ego drive indicates the personal need to make a sale, as a measure of self-fulfilment and not just for the money. Empathy coupled with intense ego drive (craving for achievement of the set goal) enables a salesman to influence the buyer effectively and make the sale. He has the drive, the need to make the sale, and his empathy gives him the connecting tool with which to do it.

Personality is the sum total of the impressions made on people with whom one comes into contact. These impressions are the result of many qualities that one possesses. The qualities that go into the make-up of a successful salesman can be broadly divided into four categories: (1) Physical, (2) Social, (3) Mental, and (4) Character qualities.

- **Physical Qualities**

A good physical appearance is a very big asset for a salesman. The first impression that a salesman makes on his customers is the most important impression. Whether a customer takes interest in the salesman, allows himself to listen to, and be guided by the salesman or not, depends on the favourable first impression that the salesman is able to create. A good physical appearance also gives the salesman more self-confidence. A salesman must be well-built and free from physical defects. He must take sufficient care of his appearance. Good grooming, appropriate dress, clean and tidy appearance, a good posture, and poise go a long way in creating a good first impression.

A salesman must always have a cheerful smile on his face. A smile is considered the mirror of the mind. A good, natural smile can remove tension and awkwardness in the sales interview. Smiling face and humorous nature enable a salesman to enter the mind of a prospect easily during a sales talk.

A good salesman will also take care of his health. A salesman who is not healthy cannot maintain a pleasing appearance. He will also not be able to carry on his duties efficiently. Good health is, therefore, an essential part of a salesman's personality. There is a very close relation between physical health and mental health. Sound mind lives only in a sound body.

- **Social Qualities**

A salesman is required to move in different circles, meet many customers and get along with them. He must, therefore, develop a good social behaviour. A salesman must always cultivate good manners. He must always be polite and respectful and never become unduly familiar with his customer. Courtesy in dealing with customers, the practice of greeting and thanking his customers, using polite expressions, and a sincere desire to please are very necessary for success in salesmanship. A salesman must also be tactful. He must be able to put things in the correct manner in front of his customers. He must never say or do anything which may antagonise his customers.

A desire to meet people, helpfulness and co-operative attitude, and a likeable disposition are essential for a successful salesman. A salesman must be an extrovert (directed outward and not self-centred). The ability to make himself socially acceptable, to mingle with any group, to adapt himself to customers with different attitudes, norms of behaviour and standards of culture will stand a salesman in good stead in his professional career. A person with a social temperament alone should take the job of a salesman.

- **Mental Qualities**

The mental make-up of a salesman must be conducive to success. A salesman must have a good power of memory and observation. He must be able to recognise customers, their characters, their buying motives, and adjust his sales talk accordingly. He must be alert and always on his toes. An absent-minded person cannot be a good salesman.

Imagination and initiativeness are very useful qualities for success. A salesman must be able to handle difficult situations independently and on his own initiative. He should not require continuous direction and goading. He must be resourceful. He must have a creative mind. He must develop empathy, i.e., putting himself in the buyer's position.

The science of selling is to know which wants to arouse; the art is to develop empathy, step into the shoes of the buyer and feel those wants personally and then get the prospect to feel them. This mental quality of reading the thought or mind of the prospect has to be developed. It is called empathy. Self-confidence is necessary for success in any sphere of activity, more so in case of a salesman. The ability to rely on oneself gives self-confidence. A self-confident salesman will also inspire confidence in his customers. Determination and drive are also very important for success. The proper management of time and a systematic attitude are two traits which will help a salesman in the successful completion of his duties.

- **Moral Qualities**

Honesty and integrity are essential character qualities of a salesman. Customers must be willing to depend on the salesman, willing to be guided by him and to rely upon his statements. Creation of goodwill and a name for fair and honest dealings are essential in business. A salesman must be loyal, both to his employer and to his customer. This may appear contradictory, but, in fact, it is not so. The success of the employer depends on the goodwill of the customer. Therefore, a salesman who is loyal to his customer will also benefit his employer. Industry and perseverance are other qualities which a salesman must develop in order to become successful.

The successful salesmen are really made because they go about developing Knowledge, building up Attitude, imbibing Skills and cultivating good Habits. The first letters of these characteristics — KASH — gives more CASH in the pocket of the salesmen and make them reach the height of success which other average salesmen only dream of attaining. Please note that a salesman must develop positive, dynamic and cheerful attitude.

11.6 THE SALES PROCESS

The communication view of the selling process is a much richer and comprehensive view of salesmanship. Personal selling is an oral presentation in conversation (by a salesperson) with one or more prospects for the purpose of making sales. Hence, we have the interpersonal communication of the interaction between the buyer and the seller. Both are active participants in the direct face-to-face communication. Both function as sender and receiver of messages. Both try to influence each other. The process of selling involves a number of steps such as: (1) Pre-sale preparation, (2) Prospecting, (3) Pre-approach and approach, (4) Sales presentation or sales interview, and (5) Post-sale activities. The sales presentation or interview may adopt the AIDAS formula (attention, interest, desire, action and satisfaction). Objections raised by the prospect are handled during the interest and desire stages. The climax of sales presentation is the securing of action, i.e., purchase. Following up is necessary after securing purchase. It will check buyer's satisfaction and reduce his dissonance (after purchase anxieties and doubts) if any. Post-purchase activities ensure buyer-satisfaction and re-purchase. Let us describe in brief the usual steps of sales process.

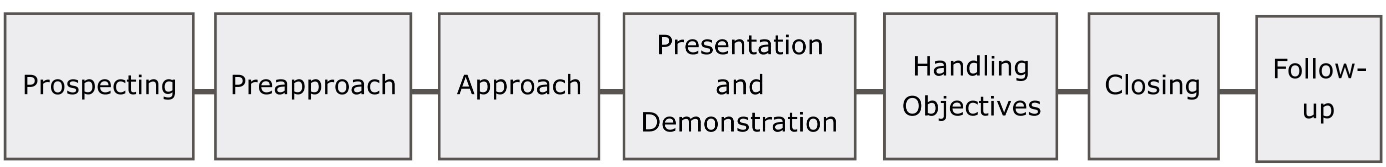


Fig. 11.1 Steps in Personal Selling

1. **Pre-sale Preparations:** Anticipating the sale means getting ready. A salesman has to serve the customer. He must identify a customer's problem, solve that problem and prescribe a solution to the customer accordingly. To do these things, a salesman must be familiar with the product, the market and the organisation and the techniques of selling. He must know his customers, their unsatisfied needs and their problems. He must know himself and his company. He must know buying motives and buying behaviour of the customers or prospects to whom he has to sell his products. He should be aware of current competition and market environment in which he has to operate. Background knowledge (of the company, its products and its rivals) constitutes the essence of pre-sale preparation.

2. **Prospecting:** A salesman has to seek potential customers who are called prospects. A prospect means a probable buyer — the one who brings prospects to the seller's business. A prospect is one who has an unsatisfied need, ability to buy (purchasing power) and willingness to buy (motivation). Prospecting relates to locating of prospects. They can be located through present customers, other salesmen, use of phone directories, or by direct cold canvassing (calling on strangers and developing contacts by scouting out leads). Located potential customers have to be qualified, i.e., they must have need, purchasing power, inclination to buy and buying authority or power. These qualified prospects must, of course, be accessible to the salesman.

3. **Pre-approach:** Once a prospect is located and qualified, salesman should find out his needs, problems to be solved, his preferences, personal habits, nature, behaviour, etc. The product has to be tailored to the specific requirements of the customer. On the basis of adequate information of the customer wants and desires, salesman can prepare his plan of sales presentation or interview. The sales presentation must match the needs of the individual prospect. It should enable the salesman to handle his prospect smoothly through the buying process, i.e., during the sales talk.

4. **Approach:** The next step is the stage where the salesman comes face-to-face with the prospect. The approach consists of the two major parts — obtaining an interview, and the first contact. The salesman may use various means of obtaining an interview. He may use the telephone, obtain an introduction from a customer, or use his business card. What is more important is the first contact. The salesman must be able to attract the prospect's attention and get him interested in the product. It is very important to avoid being dismissed before he can present his product.

5. **Sales Presentation:** Once the salesman has sought and found potential customers and he has matched their wants with his product, he is ready to present that product to the customer formally. The sales presentation should be closely related to the buying process of customers. It should be in the language the prospect understands. The sales interview should generally go according to AIDAS theory. Securing attention is the first step. Attention is attracted through proper approach. Gaining interest is the second step. Many devices are used to

arouse and increase interest in the product. Salesman can do this through lively and interesting sales talk as well as through actual demonstration of product and its operations wherever feasible. Product or sample can be shown. Visual aids can be used in sales demonstration. Sales presentation should be clear, concise, to the point and positive. A planned sales presentation is more effective. Some companies have standardised sales talks which can be used with a few modifications if the situation demands. After explaining the product characteristics and expected benefits, the salesman should find out customer's reactions and objections. These objections or doubts should be welcome and they should be answered with confidence. The customer should be satisfied on all his doubts. Objections and reactions represent feedback to salesman's communication. They reflect growing interest of the customer in the product. Genuine objections should be interpreted correctly and removed tactfully. The prospect must be convinced about the benefits, expected performance and services of the product. The ability to face and meet buyer's objections is acquired with time and experience.

A good presentation must satisfy four main objectives: (1) It must be complete; that means, it must cover every point which is likely to influence the prospect. (2) It must be clear, and should leave no misunderstanding or vagueness in the prospect's mind. (3) It must remove competition by providing that the salesman's product is definitely superior and is the only product that will satisfy the prospect's want. (4) It must win confidence of prospect that the salesman's statements are true and that the salesman is honestly trying to help the prospect.

The salesman uses the sales talk and demonstration of the product, to achieve these objectives. He may also make use of testimonials, guarantees, and other means of creating confidence. He uses comparisons and tests to prove the superiority of his product.

Empathy is an important quality of salesman. It is the ability to sense the reaction one produces in another person and to understand his thoughts and feelings. Thought reading of the prospect enables a salesman to anticipate buyer's objections and reactions and meet these to buyer's satisfaction. The problem-solving approach should be adopted by the salesman. The product offered on sale must offer adequate solutions to buyer's needs, difficulties and specific problems. An objection should be regarded as a cue that your sales presentation is not yet convincing enough and so yet not complete.

6. **Objections:** At any stage during the sales interview the salesman may be confronted by an objection. **Examples:** Your price is high, poor product quality, bad service to customers, etc. Prospects will always try to resist a sale by raising arguments for not buying the product. Unless the objection is satisfactorily answered, the sale cannot take place. A salesman must always welcome objections. He must consider an objection as an indication of how the prospect's mind is working. A prospect who raises objections is easier to satisfy than a prospect who does not show any interest in the proposition. The clever salesman will always welcome an objection, interpret the objection correctly and will remove it tactfully, without arguing with the customer. He may sometimes even anticipate an objection and forestall it.

7. **Close:** The close is the act of actually getting the prospect's assent to buy. It is culmination of the efforts so far made by the salesman, and is, therefore, the climax of the entire sales process.A salesman who cannot close the sale cannot, in the real sense, be called a successful salesman. It is very important for salesman to be alert and find out the right moment at which to close the sale. This is known as the "psychological moment" or the "reaction moment", the moment at which the prospect's mind and the salesman's mind are in perfect accord. The salesman must watch for every sign which may indicate that the prospect is willing to buy, and apply the close. He must also remember that the initiative must come from him. He cannot wait for the customer to ask for the product. A sale is never complete until the product is finally in the hands of a satisfied user. Salesman alone can assure such completion of sale.

8. **The Follow-up (Post-sale contacts):** Moving the customer to the action stage (the purchase decision) does not complete the salesman's task. He must write the order, arrange for despatch and delivery of the product, facilitate grant of credit, reassure the buyer on the wisdom of his decision, and minimise his dissatisfaction, if any. The salesman should contact the customer frequently to maintain his goodwill and smooth over any post-purchase problems. The follow- up is a good source of feedback to the salesman. A sale is made not in the mind of

the salesman, nor over the counter, but in the mind of the buyer. Let the buyer decide to purchase not because you want him to do so but because he himself is motivated (set into motion) to buy your product because it is going to solve his problem and satisfy his wants.

Salesman must develop the faculty of empathy, i.e., mind or thought-reading of the customers. This will provide him accurate information of his (buyer's) motives, feelings, emotions, attitude etc. Buying motives enable the salesman to know why a person buys his products.

A knowledge of various types of customers, their attitudes and behaviour and ability to recognise and handle the different types of customers is a basic requirement for success in selling.

Notes:

1. The first step is to develop a list of prospects — existing and potential customers having need for the product, purchasing power, inclination to buy your product and authority to purchase.

2. The next step is to create a plan of sales presentation. The plan should be flexible so that necessary modifications can be made, whenever necessary.

3. The third step is to conduct an interview with the prospect. The interview follows AIDAS formula — four stages through which the buyer passes mentally — Attention, Interest, Desire and Action.

4. Buyer's interest is gained and desire to purchase is kindled — by exploring needs of buyer and his problems and pointing out how the product is related to the buyer's needs and problems.

5. During interest and desire stages, objections are met to buyer's satisfaction.

6. Securing action is the climax of sales presentation.

7. Following up will prevent dissonance-anticlimax of sale.

11.7 COLLABORATIVE SELLING

Today's salespeople build towards long-term partnerships with buyers. They focus on a new goal: years of repeat business plus a steady flow of referrals to other customers. The new formula for doing so is called Collaborative Selling. Collaborative Selling works because you show a prime concern for the buyer's bottom line.

Alessandra and Barrera detail a six-step collaborative selling plan in client problem-solving that provides larger orders, more repeat business, higher personal income, and more profits to your company.

- **Six Steps in Collaborative Selling**

The key to collaborative selling is not what you sell, but who you are in the buyer-seller relationship. Your mission: to build an on- going relationship that makes you increasingly an expert in your customer's needs. There are six steps in collaborative selling.

1. **Target Your Market:** Understand the uniqueness of what you offer and the people that can use it. The payoff for added time and effort: you focus on prospects most likely to buy.

2. **Contact Your Prospect:** When you meet, be prepared to convey your advantages, credibility, and sincere desire to serve. You develop trust. Have a complete picture of the prospect's needs before you talk about what you're offering. At this stage you communicate, "I'm here to help — not to sell."

3. **Explore Customer Needs:** Pose informative open-ended questions and explore options. Work together to isolate needs.

4. **Collaborate:** Work with the buyer in evaluating options and then choosing the best one. The buyer will be as committed as you are to implementing the solution.

5. **Confirm the Sale:** You've reached the conclusion to the problem-solving process. But unlike traditional selling, you're not ending the process, you're beginning it. Confirmation becomes a question of 'when',

not 'if'. When your prospect has helped co-design the solution, you don't need to "close" him.

6. **Assure Continuing Customer Satisfaction:** After confirming the sale, change hats from "supplier" to "quality control." Help your customer track results and analyse effectiveness. Assured satisfaction builds loyalty, leading to future sales and referrals.

11.8 BUYING FORMULA METHOD

Buying formula concept of selling is also another modern approach similar to collaborative selling. It is buyer-oriented. It emphasis on the buyer's needs and problems. Salesman is to help the buyer to find solutions to his problems. Problem-solving approach is based on the fact that a sale is made in the mind of the buyer. The mental process has four elements: (1) Need or problem, (2) Solution, (3) Purchase, and (4) Satisfaction.

In purchasing, the solution has two parts: (1) Product or service. (2) Brand or Firm's name, i.e., source of supply. The solution must be adequate and it must create pleasant feeling in the buyer's mind. The product or service and the brand must be considered adequate by the buyer. The buyer must experience a (pleasant) feeling of anticipated satisfaction when thinking of the product or service and the brand. The salesman is called first to emphasise the need for the product or service. Then he has to indicate that the product is adequate in solving the buyer's problem. If the prospect knows the problem or need and is also aware of the product which can satisfy his need, the salesman will have to emphasise the brand name and convince the buyer that his brand is the solution to the problem. If the prospect recognises quite well his need, solution to his problem and also your brand name, the only points to be stressed are conviction and purchase. When a salesman presents a rival brand to a customer, he shall lay more emphasis on the adequacy of his brand and the pleasant feelings it is capable to create.

- **Public Relation**

Publicity, public relations and corporate advertising all are promotional program elements that would benefit the marketers and they are the integral part of a promotional program. They must be integrated and coordinated with the other elements of the promotional mix. These activities are designed to bring in change in the attitudes of the consumers towards the organization rather than to just promote specific products.

They are very often confused with advertising and also at times it is considered as free advertising. Advertising is persuasive communication and public relations is unbiased communication. Advertising can be used easily for a product that something people know and understand. Advertising is effective when it is supported by Public Relation. For example, foreign travellers visiting India may wish to go on a holiday to a place like Kerala or Goa, by learning about it from travel articles or TV programs like "wish you were here."

Public relations includes press and media relations such as radio and television. Modern public relations extends into commercial and non-commercial, public and private organizations. PR involves a number of aspects including employee, shareholders, community and political relations.

11.9 SUMMARY

- Personal selling is a highly distinctive form of promotion involving face-to-face communication between the salesperson and one or more customers. It is a two-way communication and the salesperson is able to understand needs of the customers and offer products and services that will meet their requirements. The salesperson should have good knowledge about the company, products, competition, customers, competition and day-to-day working and physical, social, mental and moral qualities to convince the customers about the superiority of his products/services and obtain orders from the customers. In the case of retail trade, industrial goods, travel and tourism, personal selling plays a unique role. Many organisations select and train their salesforce systematically and develop them for taking higher responsibilities in the organisation.

11.10 SELF ASSESSMENT QUESTIONS

1. Explain the six basic steps in a sales process.

2. Comment on the qualities of a successful salesman.

3. Develop a short sales presentation to sell a medical product or cooking range or insurance policy. Do you need aggresive selling?

4. Describe the different types of salesmen and point out their role in the channels of distribution.

5. Comment on the AIDAS formula in the sales process.

6. What do you mean by sizing-up of customers? Comment on three different types of customers.

7. Explain Collaborating Selling and Buying Formula Method.

8. Write short notes on the following:

   a. Essentials of effective selling.
   b. Limitations of personal selling.
   c. Creative salesman/detailing salesman.
   d. Salesforce Automation.

CASE STUDY

Selling/Marketing

Bat Industries has been manufacturing power generation equipment in small and medium sizes. The sales were made directly to customers who had large orders and through distributors to other customers. The power equipment was also sold overseas. The international business accounted for 50 per cent of sales.

The sales department was organised by regional territories. The Regional Sales Manager was responsible for generating sales, making calls on prospective clients and developing new product ideas. The president of the company, realising the marketing weakness, appointed a Marketing Manager. The Marketing Manager immediately created a market development group and tasked them with developing a comprehensive marketing plan which integrated current sales efforts with new product development.

The market development group recommended that Bat Industries should enter the systems market. That is, Bat should put together products that satisfied customer needs such as an irrigation pump used for watering crops. This strategy involved identifying other components such as pumps that could be matched with Bat's power generators and sold to the customers. They felt that to market these systems it was necessary to appoint Product Managers who had complete responsibility to develop and market the system. The clients for these systems were well-defined and sales would have to be specially tailored to their needs. The Regional Managers could continue to sell power generators to other systems companies and original equipment manufacturers. The Regional Managers did not have time to market specialized systems adequately and also lacked customer knowledge and orientation.

The Marketing Manager was, however, opposed creating two parallel sales organisations. He felt that the job of the Product Manager ended with successful development and introduction of a given product. The sales responsibility would then be turned over to Regional Sales Managers and Product Managers moved on to other product-development efforts.

QUESTIONS

1. Should Product Managers sell exclusively their systems across all territories?

2. What are the disadvantages of parallel regional sales and product sales organisations?

3. Is the Marketing Manager right in overruling recommendations of market development group?

4. What would be your decision in structuring the marketing and sales organisations for Bat Industries?

5. Can the Regional Managers successfully handle sales of systems in addition to power generation equipment?

6. How is systems-approach useful for understanding the elements of personal selling strategy?

- **Comments**

It is necessary to bring together customer, a salesman, set of sales techniques and the form of sales or marketing organisation. The company could follow an integrated marketing approach which involves working together of all managerial functions and co-ordination between sales, marketing, product management and focus on customers, and matching their wants with products and services.

CASE STUDY

Performance of four Salesmen

Given below is the performance of four salespersons. Which salesperson has performed the best? Why?

Table 11.2

Sales person	Calls per Week	Number of Orders	Value of Orders	Average Order	Market Potential
A	40	20	1,00,000	5,000	4,00,000
B	90	90	90,000	1,000	9,00,000
C	50	20	2,00,000	10,000	5,00,000
D	200	160	3,20,000	2,000	8,50,000

Source: Faculty of Management Studies, University of Delhi, Oct.-Nov. 1997.

- **Comments**

Evaluation of the performance of salesmen could be based on the value of the orders obtained in relatin to market potential and the efforts put in (calls per week, no of orders) for achieving the sales.

REFERENCE MATERIAL

Click on the links below to view additional reference material for this chapter

Summary

PPT

MCQ

Video Lecture - Part 1

Video Lecture - Part 2

Chapter 12

SALES MANAGEMENT

Objectives

After studying this Chapter, you should be able to:

- Understand sales management and the basic functions and tht different types of sales organisation
- Understand tge salesforce management
- Know the elements of a Good Remuneration Plan
- Study the various methods of training the salesforce

Structure:

12.1 NATURE OF SALES MANAGEMENT

- **Meaning of Sales Management**

Every organisation has people who are entrusted with the responsibility of dealing with prospects and customers for selling their products or services. These people form the 'sales force' in an organisation and are known as salesmen. In many organisations, the salesmen come under the category of officers and are referred to as sales executives, technical executives or even marketing executives. Regardless of the designations used, the major objective of the salesperson is to increase the sales, market share and profit of the sales territory. Sales people are an invaluable human resource of the firm. They have practically unlimited potential for growth and development. The effective management of the sales force is a major task of Sales Management.

Sales Management consists of two words i.e., 'Sales' and 'Management'. Selling is the process of persuading a prospective customer to buy a commodity or a service or to act favorably upon an idea that has commercial significance to the seller. Management is a process. It is a process of carrying out the essential functions of panning, organising, staffing, leading and controlling. The term Sales Management has a broader meaning and it includes the following.

1. **Managing the Sales Force** includes Recruitment, selection, training, motivation, remuneration and controlling the sales force.

2. **Organizing the sales effort:** Deals with creating appropriate organisational structure and effective coordination within the sales department and other departments such as HR, distribution, Product management in the company. It also includes management of external customers like dealers, distributors, direct consumers and opinion leaders. Sales department provides valuable inputs like sales forecast, activities of competitors, performance of the product to other departments.

Therefore, we can say that Sales Management generally refers to the management of sales force. It deals with planning, organising, directing and controlling the personal selling function. While HR,Finance and Distribution are cost centres, Sales department generates revenue for the company and therefore it one of the most important functions in an organization.

Effective management of sales force requires leadership plus administrative skills in planning, organising, directing, motivating and controlling the personnel selling function of the promotion mix.

- **Role of Sales Management in Marketing**

Marketing stresses the importance of satisfying customer needs and wants through a process of exchange. Marketing occurs in virtually every aspect of life.? The advertising and Marketing magazine defines "Business is marketing." Marketing and selling are directly related to each other.

Sales Management is a vital sub-system of marketing management. It will continue as an indispensable part of marketing management as long as sales people are required to interact with the customers, influence them and win them. In reality, marketing plans, strategies and policies are implemented through Sales Management. Hence, sales management acts as the dynamic force (muscle power) behind marketing management. In a modern organisation, Sales Management centres round the management of sales force and sales efforts. Modern sales manager is not only profit-oriented but also customer-oriented.

As consumers of goods and services, we all participate in the marketing process many times each day. Today, however, a new philosophy concerning the relationship between marketing and sales is emerging, with both functions being carried by the same person. Many scholars characterise today's trend-setting salespeople in this way:

- They work in teams;
- The computer is their primary sales tool;
- They do not sell to customers; rather, they partner with them;
- The term 'salespeople' is out, 'relationship manager' is in.

Sales Management plays an important role in marketing, especially for firms in business-to-business markets. Personal selling is the most frequently used promotional technique in business markets and management of the sales force is an important quality component of any selling effort. The relationship between sales and marketing strategies is shown in Figure 12.1.

- **Objectives of Sales Management**

Normally the top management finalises the qualitative objectives for the organization. Examples: Long term growth, Industry leadership, new product introduction, excellent customer service, positive image among customers and public, outstanding technical research. These objectives are translated in to specific quantifiable objectives and passed on the Sales department for execution. Sales Management coordinates with other functions within the organization i.e., distribution, product management, marketing research, advertising and finance and external customers like distributors, dealers and users for achievement of the sales objectives.

Major objectives of Sales Management are given below.

1. Achievement of Sales Volumes/Values
2. Contribution to Profits

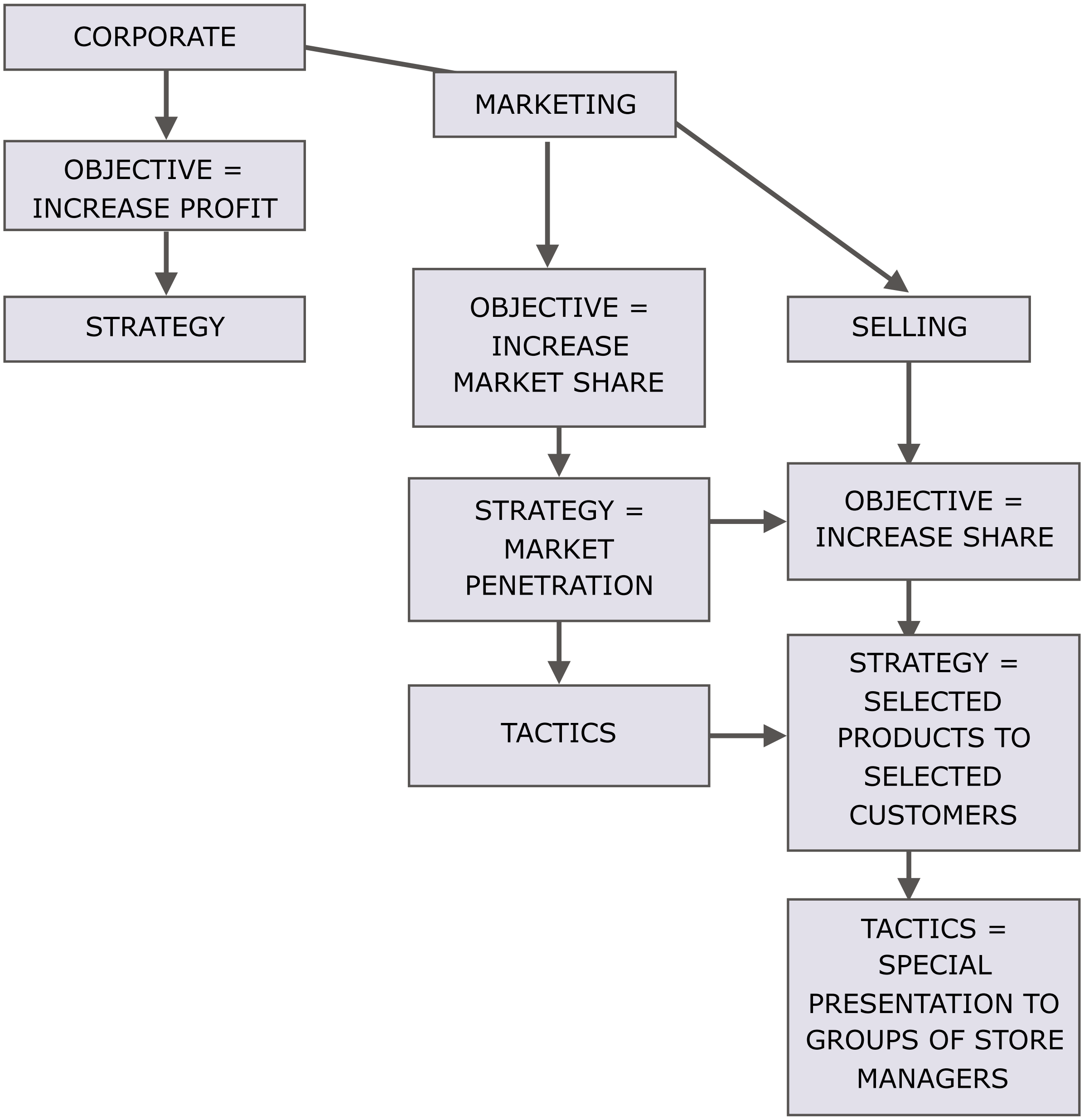


Fig. 12.1 The Relationship of Sales Strategies to Marketing and Corporate Plans

3. Growth in Sales
4. Growth in Market Share

The Sales Manager is responsible for effective execution of sales plan through the sales executives. A few of the important activities that contribute towards achievement of sales target, planned profits, growth in sales and market share are given below.

1. Addition of new distributors and dealers in unrepresented market.

2. Extending field activities to new geographical areas.

3. Increase in sales from existing customers like dealers and direct consumers

4. Increase in sales of profitable products

5. Control of selling expenses

6. Receivable management

7. Improve sales forecasting accuracy and effective management of finished goods

8. Effective use of sales promotion schemes

9. Extend the use of excising products on new market segments

10. Training of sales force

11. Implementation o sales plan for the territory

12. Effective management of sales territory

- **Importance of Sales Organisation**

A good sales organisation is a foundation for effective execution of sales policy and sales programme. A sales organisation must be planned in detail and all activities should be well co-ordinated and integrated to secure united efforts and maximum efficiency. A sales organisation is the medium to execute a sales plan.

Sales organisation is the counterpart of the factory. Just as the factory produces goods on a mass scale, in the same manner, the sales department, with the help of salesmanship, advertising and sales promotion, produces mass markets and brings about mass distribution through multiple channels of distribution. In a good sales organisation, all departments are carefully planned. There is adequate co-ordination among all the departments. Each department or section should be self-contained and there should not be overlapping of functions. Division of labour and proper delegation of authority create a sound sales organisation. At the top, we have a general Sales Manager, the Chief Executive of the sales organisation in charge of planning, organising, directing and controlling all the activities relating to the seling function. He may have an Assistant Sales Manager to relieve him of some of his responsibilities, which can be delegated to his deputy.

The Sales Manager is responsible for co-ordinating and controlling all the activities of the department with the help of competent executives.

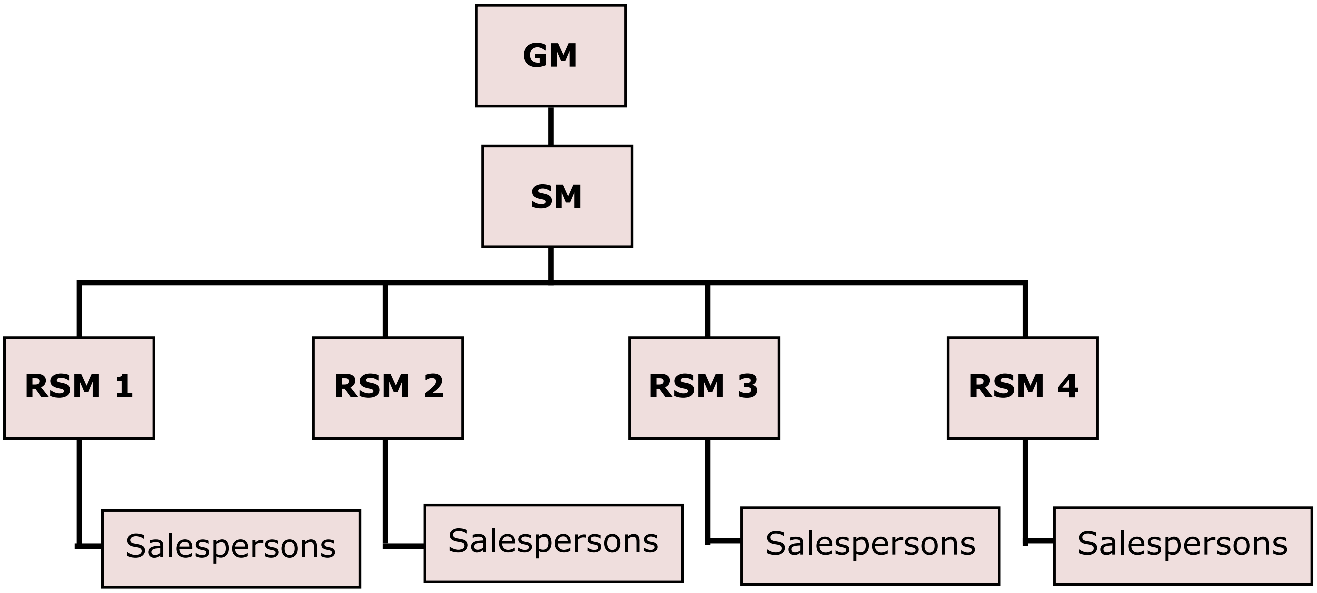
A sales organisation is like a power station sending out energy, which is devoted to the advertising and selling of particular lines and there is tremendous loss of energy between the power station and points where it reaches the consumers. Therefore, there arises the great necessity of planning, organising, and controlling all sales efforts through a sound sales organisation — to prevent wastage in distribution.

Sales manager must be skilled in planning, organisating, co- ordinating and controlling all sales operations and must assure the optimum contribution of personal selling efforts to the overall marketing objectives of the company.

- **Types of Sales Organisation**

Nature, scale and size of the business are the factors which determine the forms of the organisation. Common types of sales organisations are Line or Scalar, Line and Staff, Functional, Geographic Groups, Productive Group and Customers Type.

1. Line Type of Sales Organisation



Features

- Chain of command runs from top to bottom vertically.
- Responsibilities are fixed for all levels.
- Every salesperson reports to only one person at a higher level.
- Managers enjoy considerable freedom of action.
- Parity between responsibility and authority exists.

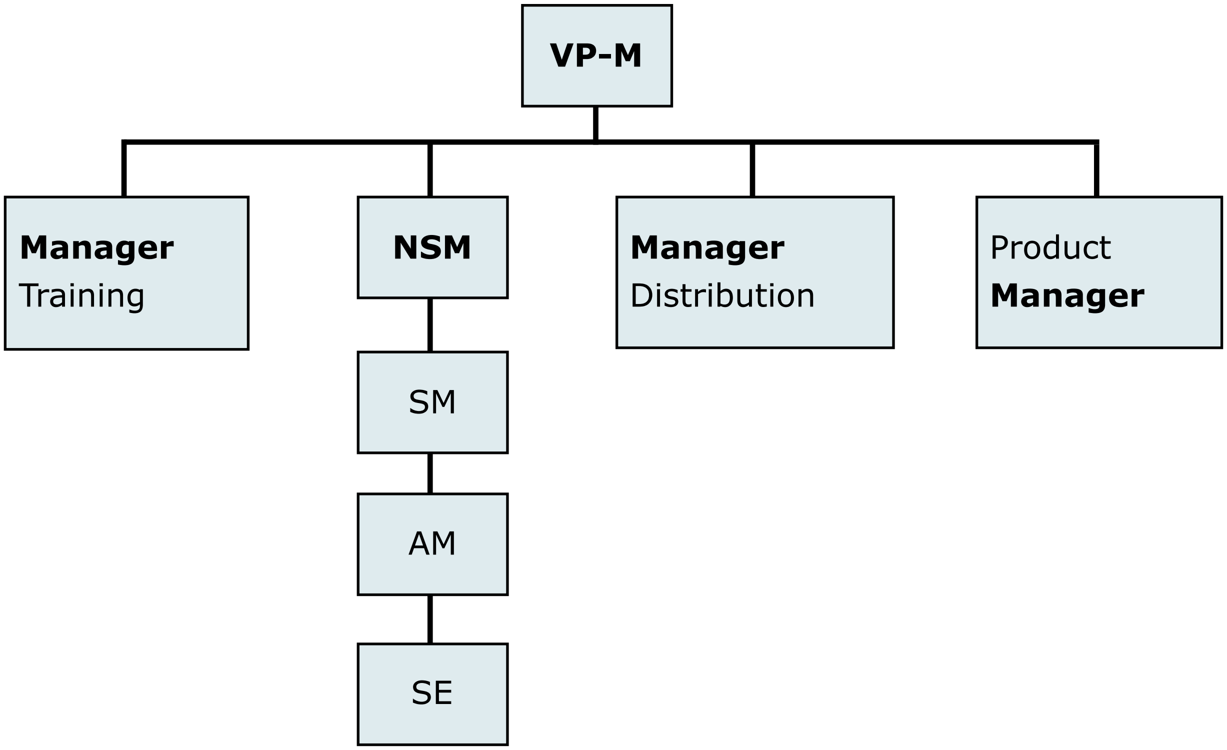
Constraints

- Here, the head (GM) should have specialised knowledge in sales and other related functions such as Marketing, SCM, HR.

- Focus on line operations and less time for long-term plan.

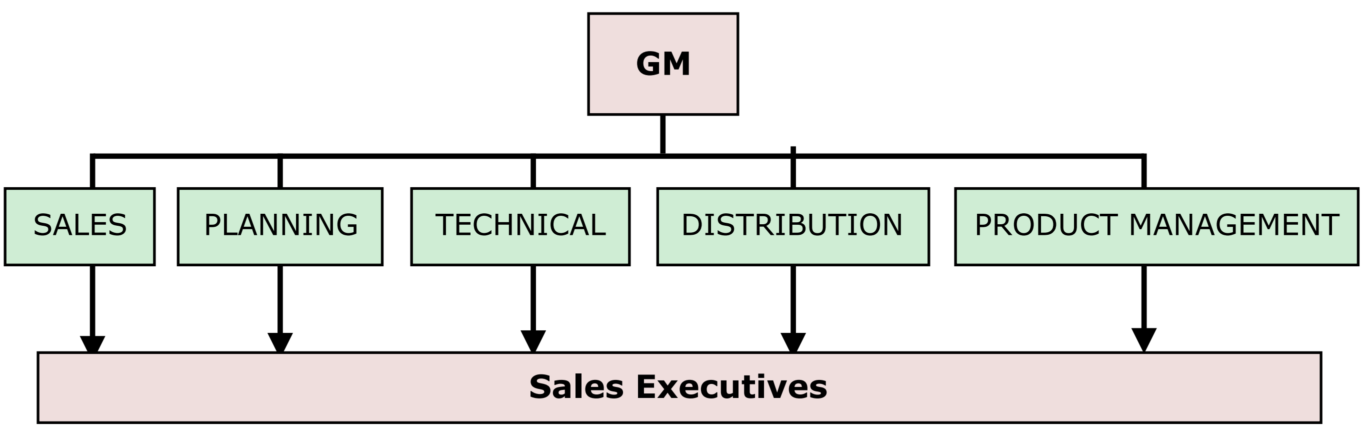
- As the department grows more layers are added and decision- making may become slow.

2. Line and Staff Organisation



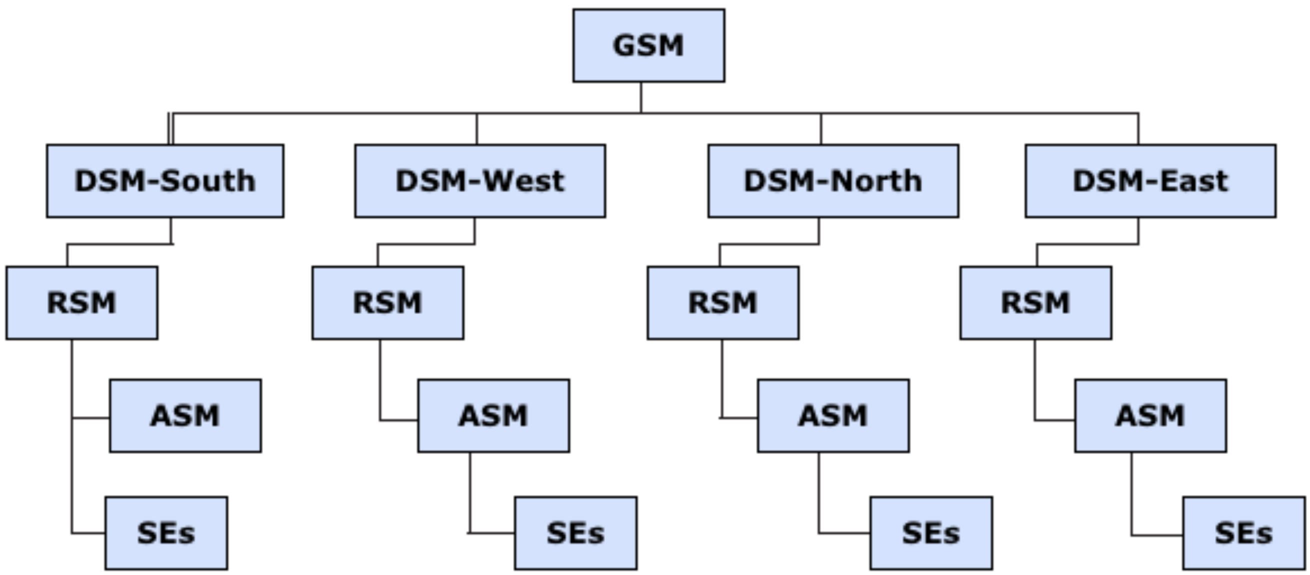
- Provides experts in different functional areas
- Head of the department has time to focus on long-term plans
- Experts play advisory role while dealing with salespersons
- They do not have authority to issue orders to salespersons
- Popular in professionally run organisations.

3. Functional Organisation



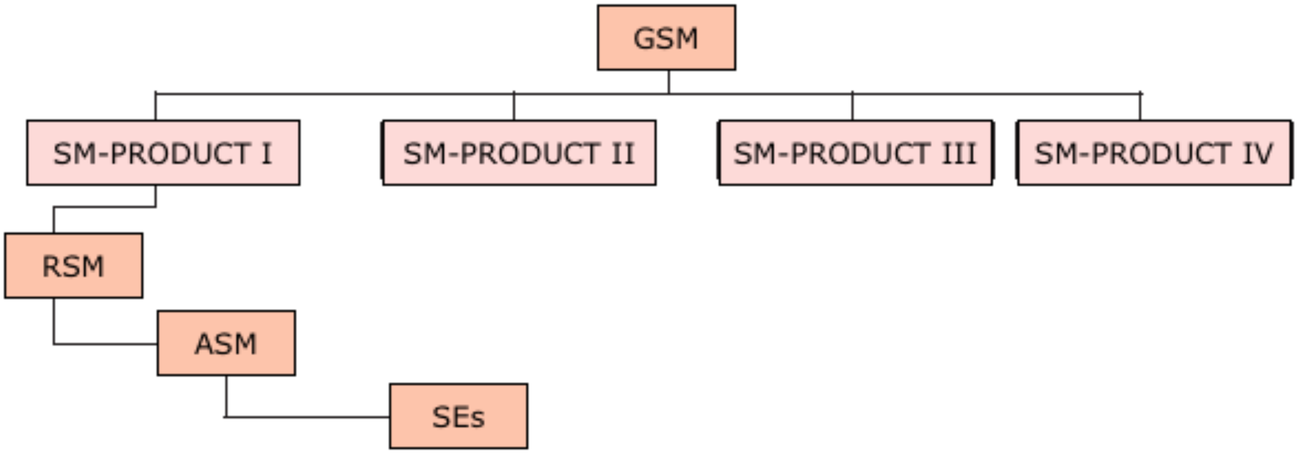
- Specialised activities are given to specialists.
- Functional managers(specialists) have line authority
- Can give instructions to sales executives
- **Example:** Marketing high value industrial machinery
- Impractical set up if no of sales persons are high
- Difficult for the sales executive to be responsible for all the specialists. This leads to conflict between sales executive and the specialist.

4. Geographic grouping of Field Force

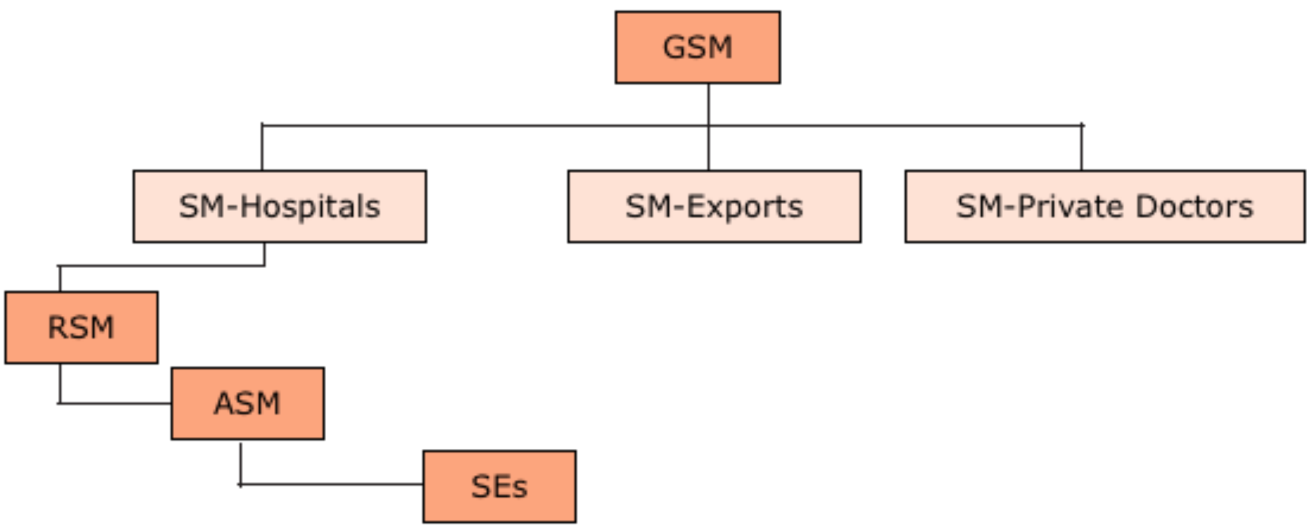


- Local problems are handled speedily
- Timely decisions
- More layers — more expenses
- Top managers should have sufficient knowledge and skills in HR/Basic finance/Distribution.

5. Product-wise Grouping of Sales force



6. Grouping of Field Force — Customer Type



(GM: General Manager, SM: Sales Manager, RSM: Regional Sales Manager, ASM: Area Sales Manager, SE: Sales Executive, GSM: General Sales Manager, VP:M: Vice-President Marketing, NSM: National sales Manager)

Centralisation vs. Decentralisation in Salesforce Management

Centralised Organisation

- All activities like recruitment, selection, training, compensation, motivation, controlling and evaluation are administered from a central headquarters.

- **Examples:** Industrial goods manufacturers operating through special agents require less number of salesforce and regional firms with less number of salesforce.

Decentralised Organisation

- Decentralisation of various selling tasks and personnel management functions.

- **Example:** In large organisations, Branch offices do recruitment, selection, motivation, job related training, supervision and central office looks after management development, compensation and career development

Combination of Centralized and Decentralized Set up

- Branch office and Central office may share responsibility based on market situation and management philosophy.

- In practice, salesforce management is neither 100 per cent centralised nor 100 per cent decentralised.

12.2 BASIC FUNCTIONS OF SALES ORGANISATION

Table 12.1

BASIC FUNCTIONS OF SALES ORGANISATION

Administrative Functions	Operating Functions	Staff Functions Specialists Acting as Guides and Advisers
1. Sales Policies	1. Recruitment	1. Marketing Research
2. Sales Planning	2. Selection	2. Advertising
3. Sales Programme	3. Training	3. Sales Promotion
4. Evaluation of Performance	4. Routing	4. Merchandising and Product Development
5. Controlling Cost	5. Controlling	5. Sales Analysis
6. Direction and Motivation	6. Equipping and Leading	6. Dealer Relations
7. Dealer Relations	7. Supervising	7. Sales Personnel
8. Co-ordination and Communication	8. Evaluating Sale Quotas	8. Transportation and Warehousing Problems
	9. Sales Territories	9. Sales Planning Programming
	10. Physical Distribution Problems	10. Counselling to Sales People
	11. Co-ordinating Sales and Advertising	

- **Comments**

1. Administrative work is top management responsibilities of planning, organising, co-ordinating and controlling.

2. Operating work is the work involved in operating and executing plans and programmes.

3. Staff work requires "idea" men in charge of thinking, research, planning and formulating sales strategies and programmes and creating Sound Sales Organisation.

4. The part played by a modern sales manager is similar to that of a marketing manager. The basic functions of sales organisation also indicate the part played by a sales manager in a modern sales organisation.

- **Nature of Work of Sales Manager**

1. **The Administrative Sales Manager:** In a larger company, a sales organisation usually has an administrative Sales Manager. He has to develop the structure of the sales organisation, lay down procedures and policies, direct the staff, hold sales meetings, co- ordinate marketing with other company activities. He is also responsible for planning and control of all marketing activities.

2. **The Operating of Field Sales Manager:** He is line manager reporting directly to Marketing Manager or Administrative Sales Manager. He is responsible for management and development of sales personnel. He has to execute the sales plan. A successful salesman usually becomes a field sales manager. He looks after recruitment, selection, training, supervision, evaluation, and control of salesforce. In a small firm, we have a Sales Manager who looks after both administrative (planning) as well as operating (doing) duties and responsibilities.

3. **Staff Functions (Thinkers):** Providing advice and service to executives and help them to achieve sales objectives.

- **Duties and Responsibilities of Sales Manager**

The following are the most important duties and responsibilities of a sales manager:

1. **Sales Planning:** He has to formulate sales plans, sales policies and sales programmes including the sales budget every year.

2. **Ensuring Growth and Managing Change:** The sales manager is also called upon to create and maintain growth and to help the enterprise in the management of change in a dynamic and competitive market.

3. **Execution of Plans and Programmes:** He is in charge of organising resources necessary to carry out the sales plans and programmes and execute these plans and programmes.

4. **Control:** He is in charge of controlling selling operations and activities, evaluating the performance of sales force and ensure the achievement of sales targets or goals, particularly the profit objective of course, without sacrificing customer service and satisfaction.

5. **Marketing Research:** He has to co-ordinate marketing research projects. Marketing research provides sound solutions to all marketing problems. Sales manager can take sound decisions on the basis of uptodate and reliable information provided by marketing research department.

6. **Sales Budget:** He must have sales budget for the entire sales organisation. Sales cost analysis can help him to control selling costs and expenses. Without sales budget and sales cost analysis he cannot have profit planning.

7. **Distribution Channels:** He has to select proper channels of distribution and maintain good relations with distributors and dealers.

8. **Sales Promotion and Advertising:** With the help of advertising and sales promotion staff, he must look after sales promotion and advertising campaigns so that consumer demand can be created and activities of personal selling can be facilitated for securing customer orders.

9. **Management of Sales force:** A sales manager is the manager and leader of the sales force. Hence, he is primarily responsible for recruitment, selection, training, promotion, remuneration, supervision, motivation and control of salesman. He has to manage all problems relating to allocation of sales territories and determination of sales quotas. He has to fix sales performance goals for each salesman.

10. **Building the Sales Organisation:** The administration of the sales department is the primary responsibility of the sales manager. He has to develop the structure of the sales organisation, establish authority responsibility relationships of all members of the organisation, determine procedures, hold sales meetings, co-ordinate the work of members of the departments, keep sales records and ensure efficiency of office work and routine.

11. **Financing Sales:** The sales manager is responsible for providing and managing funds for marketing. Funds are needed to finance advertising and sales promotion, accounts receivables and to offer financial help to channel members. Inventories must be financed in anticipation of seasonal demand. Cash and credit are essential in selling and distribution of goods.

12. To supplement advertising and sales promotion efforts.

12.3 MANAGEMENT OF SALES FORCE

Sales force management is defined as "the planning, direction and control of the personal selling activities of a business unit, including recruiting, selecting, training, equipping, assigning, routing, supervising, paying, and motivating as these tasks apply to the personal sales force." Sales management has dual responsibilities: (1) Generating sales volume, and (2) Developing sales manpower.

Long-term success of the firm in generating sales volume hinges upon the development of sales manpower. Salespeople are an invaluable human resource of the firm. They have practically unlimited potential for growth and development. The effective management of salespeople is a major task of sales management. In its essentials, sales management is just personnel management applied to the sales department.

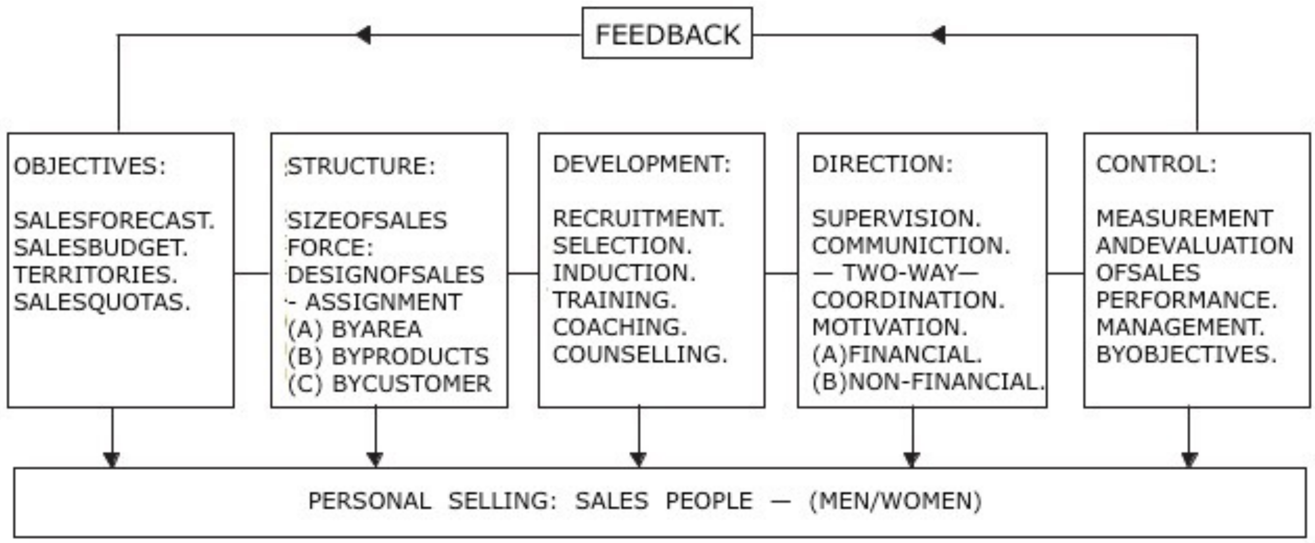


Fig. 12.2 The Process of Management of Salespeople

Effective management of salesforce requires leadership plus administrative skills in planning, organising, directing, motivating and controlling the personnel selling portion of the promotion-mix. Sales Managers must determine the number and types of salespeople required to implement the sales plans and programmes at a given time. Then salespeople must be secured and their activities are planned, organised, and directed in order to achieve the set sales objectives.

There are six areas for managerial decisions regarding the sales force: (1) Recruitment and selection, (2) Training, (3) Remuneration and expenses, (4) Supervision and direction, (5) Motivation, (6) Control and evaluation or assessment of sales performance. Let us review, in brief, important activities of sales management.

12.2 RECRUITMENT AND SELECTION OF SALESFORCE

Recruitment involves searching for prospective candidates and encouraging them to apply for the job. Vacancies are finalised, advertised and applications are collected from interested candidates. Selection is concerned with choosing most suitable candidates out of many available or interested. Available candidates are scrutinised, tests and interviews are conducted to find out most suitable candidates. Salesman is the important corner-stone upon which sales organisation is built. Success or failure of the firm depends upon the type of salesman selected. Therefore, selection must be made carefully. It is the duty of the Sales Manager to select salesmen. But, selecting a proper salesman is a major challenge due to a number of reasons:

a. Selling jobs becoming more difficult to perform because of the greater complexity of the products and services, the multiplicity of channels of distribution, etc.

b. Markets today are highly competitive.

c. Selling as a career or profession has not been fully accepted and hence, there is only limited number of salesmen who would qualify.

d. There is a noted absence of institutions where salesmanship is taught.

Recruitment of salesmen involves the following processes:

1. Deciding the quantity of salesforce.

2. Determination of the characteristics and qualities to be possessed by the salesman.

3. Tapping the various sources of recruitment.

4. Careful selection of the candidates and finalising the employment.

1. Deciding the Quantity of Salesforce

Before the selection is undertaken, the Sales Manager should assess the need for salesforce in quantitative terms, e.g., how many sales men are required, based on expansion of business and attrition due to retirement and resignation.

2. Determination of characteristics and qualities to be possessed by the salesforce

- **Job Description/Analysis**

It is concerned with the determination of nature of duties and responsibilities involved in performing effectively a particular job. Job description is concerned with a job and not the individuals. It gives details of the job to be performed and the qualities and qualifications required.

The man specification indicates the exact requirements needed for a particular job. On the basis of nature of duties, the requirements also may change. While planning man specification, emphasis should be given to the basic considerations:

i. Can he do the job?
ii. Will he do the job?

Generally speaking, the following qualities are required of a salesman:

1. **General Qualities:** Good personality, sound health, intelligence, honesty and integrity of character, sociability, consistency, and power of observation.

2. **Particular Qualities:** Educational qualifications, past experience, knowledge of the product, customers and market, languages known.

3. **Technical Knowledge:** Knowledge about the chemical or mechanical aspects of the product to be sold, knowledge of legal implications involved in the sales activities, etc.

3. Source of Recruitment of Salesforce

After job analysis and man-specification, every possible source should be tapped to select the most efficient salesman. The various sources are as follows:

a. Company’s own staff (promotion)
b. Competing firms (not ethical — higher salary)
c. Employment exchanges
d. Educational institutions
e. Situation Wanted’ columns of newspapers
f. ‘Situation Vacant’ advertisements
g. Casual applicants
h. Recommended candidates.
i. Placement agencies.

4. Selection of Salesforce

From these sources, applications are received and screening of the applications is made. Applications which satisfy the job descriptions and man-specifications are only considered for selection. The selected applicants are called for psychological test. If they fare well in the above two they will be referred from the referees mentioned by the applicants. If a good report is give by the references, the candidates will be called from medical examination. If the candidates are physically fit, they will be called for final interview and appointment order is issued. The appointment order should be clear, at least in the following aspects: designation, salary and allowances and mode of appointment, i.e., temporary or permanent.

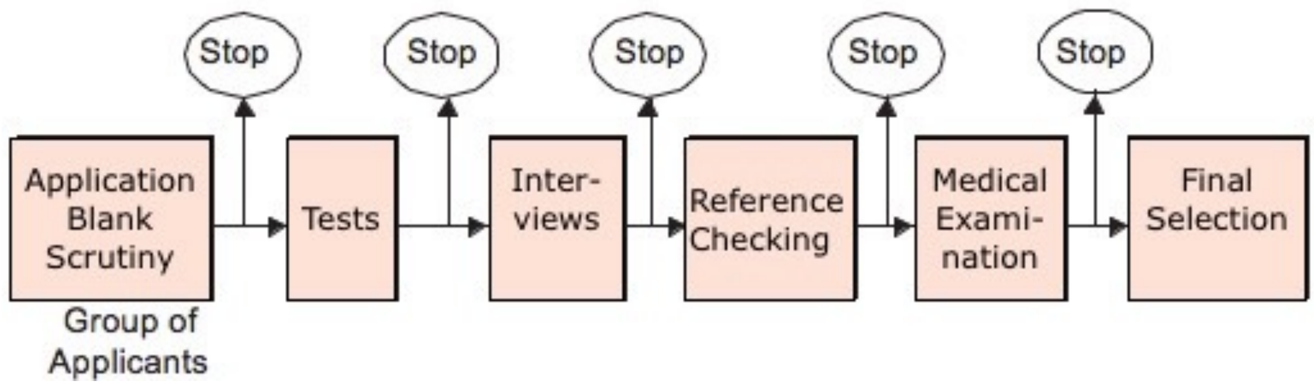


Fig. 12.3 Employment Decision Process

12.5 TRAINING OF SALESFORCE

There is an old belief that "Salesmen are born and not made." Once in a while, we may come across a salesman who is capable of selling a refrigerator to an Eskimo, but this is rare. The salesman has to educate the customers about products, sell the same with benefit to the customer and profit for the company. Therefore, he should have excellent knowledge about products, competition, market dynamics, buying motives, and selling skills.

- **The Need for Training of Salesforce**

The need of training salesman arises from the fact that a newly appointed salesman does not have the knowledge about the product he has to sell. He may not have knowledge about customers and buying motives. He may not know how to sell the product or how to present them to the prospective buyers. Even old salesman need training to acquaint them with the new products of the firm or those of the competitors, to explain to them the improved sales technique or simply as a refresher course.

The extent of training will depend upon following:

1. How difficult and complicated is the selling job concern?
2. The level of education and previous training the salesman possesses.
3. Previous selling experience of the salesmen.
4. The type of buyer to be approached. In case of an expert buyer, more knowledge of the product to be sold is the absolute necessity.

In general, a good training scheme would include the following:

I. **Basic principle of salesmanship:** Salesmen, to be effective in their sales efforts, should know fully the buying motives of customers and the selling points of the products. They should be well-versed with the methods of approaching the customers. They should know the effective way of arousing the interest in the product and the art of creating desire for it. They should be able to meet the objections raised by the customers. The training programme should stress on the AIDA formula to explain and build the sales presentation.

A	-	Attention	-	How to get it?
I	-	Interest	-	How to arouse it?
D	-	Desire	-	How to develop it?
A	-	Action	-	How to bring about decision to buy?

II. **Knowledge of the firm:** The salesman should be well informed about the company i.e., history of the company, its organisational set up, the name it has earned, achievement records, sales policies, distribution policies, customer's service provided by the company, selling outlets, (channels) and so on. Knowledge about the firm's goodwill and its selling policies goes a long way to inject a sense of pride in the salesmen and enable them to do their job as per the firm's policy.

III. **Knowledge of the product:** To be successful in increasing the sales volume of a product, salesmen should possess the requisite knowledge of the product. Good physical appearance alone will not help him to sell the product. Therefore, a salesman must have a detailed knowledge regarding: nature of the product, methods of production, materials used, method of packing, uses of the product, etc. This knowledge could be gained only out of properly organised training by the company.

IV. **Knowledge about the customers:** A salesman must have a perfect knowledge of customers to whom the products are to be sold. Furthermore, consumers are human beings and their behaviour would be different from one another. Their buying motives would be different from one another. Each customer would be different as to the nature and type. Their modes may change and often their temperaments too. Some of the types of customers are: silent and talkative customers, and ill-mannered, suspicious, nervous, hesitant, argumentative and ill-tempered customers.

Buying motives include considerations of health, comfort, convenience, such as sense of fear, fashion, recreation, affection, hobbies,and habits.

All these necessitate the salesman to acquire the knowledge of 'customer psychology.' The training is required to study at least three factors: What motivates the buyer to buy? What is the nature and requirement of the customer? How to deal with different types of customers?

V. **Knowledge of competitors:** Apart from the knowledge regarding the firm represented by the salesman and its products, they must possess the knowledge relating to their products and policies of the competing firm.

VI. **Matters pertaining to the day to day work:** Salesman should also be given training to know the following:

a. to draft periodical reports to the firm
b. receipt of and replying letters
c. preparation of orders and bills
d. maintenance of accounts
e. arrangements of display and demonstration of products.

VII. **Knowledge of self:** This is partly a personal quality and partly to be developed by constant self-training. Every individual has certain strengths, weaknesses, and limitations. In order to become an effective salesperson, one should seek knowledge in all relevant subjects and apply the same in day-to-day work. This can be achieved by developing regular reading habits, upgrade technical knowledge, managerial and selling skills. He has to improve skills in communication, public-speaking and presentations.

It is, therefore, apt to say that "salesmen are not born, nor made, but they are born and made." There must be definitely certain in-born qualities and these qualities should be strengthened with proper amount of training. Salesmanship is not a matter of personality alone, but a systematic utilisation of one's personality. It is realised that no product could be sold unless 'the presentation' is made in an efficient and convincing manner.

- Advantages of Training the Salesforce

A firm having well-designed training schemes gains the following advantages:

1) **Greater sales volume:** A scientifically designed training programme helps to increase the sales volume.

2) **Reduces cost of production:** Increased selling helps to reduce cost of production.

3) **Early selling maturity:** Training reduces the time to be spent by the salesman with each customer in convincing him about the product.

4) **Lowers supervision cost:** In the case of untrained salesmen, sales manager and the other supervisory staff have to pay more visits than those needed in the case of trained salesmen to keep a check on their work.

5) **Lowers turnover of salesforce:** Proper training makes the salesman well-prepared for the field work. This results in reduced number of salesmen leaving their job. This lower rate of turnover gives the

advantage of reduced costs of recruitment, selection and training of salesmen.

6) **Better customer relations:** A scientifically trained salesman knows how to deal with a particular sales situation. He does not oversell, e.g., he does not sell the wrong quality or type of goods. The salesman advises the customers in business also. Therefore, a cordial pleasant personal relationship with the customer is established. This makes frequent visits to book repeat orders possible.

- **Other advantages**

a. Items leaving higher margin of profit can be more easily sold.
b. Reduced losses due to bad debts.
c. Reduces selling cost.
d. Greater sales volume per call of the salesman.
e. Reduced number of complaints from customers.
f. Reduced number of calls per order.
g. Better demonstration and sales presentation.
h. Sale of complete line of products is possible.
i. The number of salesforce could be kept at the minimum.
j. Buyer's demand for a better knowledge of the product could be satisfied only by a trained salesman.

- **Methods of Training**

A. Individual Methods

1. **Initial or Break-in Training:** The trainee is asked to work in different departments and study for himself. He may be guided but often left free. After a specific period, he would be asked to work in his field.

2. **Special Assignments:** Slightly easier assignments are given and his capacity in handling problems is watched. Shortcomings, if any, are brought to his notice for future guidance e.g., senior and junior lawyers.

3. **Field Coaching:** The newly recruited salesman is asked to work along with an experienced salesman in the field. This method creates self-confidence, enthusiasm in the newly recruited salesman.

4. **Sales Manuals:** These are tailored books where a number of problems are stated together with suggested answers. This is prepared out of company's past experience and might contain valuable information. These are given to salesman for self-study.

B. Group Methods

1. **Lecture Method:** This is the easiest and quickest method of imparting information to the trainees. Most of the training methods are based on this principle, simply because of its assured success. It is theoretically-oriented and the practical aspects are ignored. In spite of these defects, lecture method forms the cornerstone of various training methods.

2. **Audio-visual Methods:** It is a 'telling and showing' method. This method is often used as a supplementary to the lecture method. The visual aids such as filmstrips, slides, charts, posters, etc., are capable of providing more exposition to the lectures and making it more interesting. Demonstration is possible under this method.

3. **Conference Method:** Sales conference and seminars are usual nowadays with most organisations. Such methods are useful in sharing the experiences of the experienced people. However, it is not a good method of training for the newly recruited salesmen.

4. **Discussion and Case Method:** For those who have basic knowledge on the subject this method is quite good. A particular problem is given to various groups and each group is asked to discuss it and put forward its suggestions. Later on, all these suggestions are analysed by all the groups together. This enables to have a correct idea of the problem, and a better solution.

5. **Role-Playing:** Under this method, each participant is asked to play a role. A situation is suggested and each one will have to act just like what he is expected to do in real-life situation. This method is a lively one and uses confidence in taking independent decisions. Later

on the role played by the participants is analysed and the shortcomings are pointed out.

C. On-the-Job Methods

This method stresses practice-oriented training.

1. **Field Training:** The new representative works in the field meeting various categories of customers.

2. **Job Rotation:** The salesman is trained in all departments and he would be asked to work in all sections of each department. This would give him a clear idea of inter-departmental relationship, which would give him an idea about the company. Further, he may also be asked to work in the factory to know how products are processed. All these would give him enough tools to overcome the resistance of the customers in the sales field.

D. Off-the-Job Method

Many associations generally issue journals, bulletins and other publications to enable their members to perform their duties more promptly and efficiently. The salesperson can become a member of such associations to upgrade his knowledge and skills.

E. Follow-Up Training

Training is not temporary but should be continuous. Even the trained salesmen require periodic training termed as 'refresher training' or 'follow-up training.' Periodic training is essential as frequent changes are always encountered in the marketing scene. Change in consumer preferences, changes in Government policy, change in product, etc. In order to make the salesman abreast of all these developments, constant training is essential.

12.6 REMUNERATION OF SALESFORCE

Man is a wanting animal. An employee is never contended with what is given to him. He always wants more remuneration. Therefore, remuneration is an evergreen challenge to any business or service. It is more so to a sales organisation. Success of a firm using salesmen to increase sales volume at minimum selling cost depends upon a contended, efficient and loyal salesforce and are closely related to the method by which sales efforts of the salesmen are compensated for.

Why pay well? The importance of paying well cannot be over- estimated. There are certain basic reasons as to why the salesforce is to be paid well.

1. **To attract best salesmen:** Gifted and talented salesmen can be attracted only when a firm is prepared to reward amply the services rendered. There is no harm in paying a little more than others, as it pays in terms of improved level of performance.

2. **To keep salesforce contended:** There is a direct link between payment made to them and the satisfaction. Man performs his duties, looks after well and then he is happy and contended or satisfied. A satisfied employee puts heart and soul together to maximise the work performance.

3. **To build up loyalty:** The aim of sound sales organisation is to build not only competent salesforce but to have people who are prepared to serve for a long time. Loyal staff makes the organisation rich. Good pay-masters have this advantage "pay well and keep the employee" is the watch-word. A loyal staff avoids problems of recruitment, selection, and training and, therefore, the dilemmas of labour turnover.

4. **To guarantee sound employer-employee relation:** Misunderstandings normally arise due to many matters and disparity in treatment. Salesforce of one selling house compares the pay with that of others in the sales line. If there is disparity, the morale of salesmen is affected. Handsomely paid, well-treated salesmen have no scope for grudges or grumbling and as such relations would be sound, with the utmost harmonised effort.

- **Elements of a Good Remuneration Plan**

A good remuneration plan should fulfil the following requirements. Fulfilment of these requirements will make it a sound plan, which will help in developing a loyal salesforce. Loyalty will ensure long service with the firm. Thus, salesmen turnover will be reduced.

1. **Should provide adequate income** to maintain a decent standard of living compared to that enjoyed by others in the same line.

2. **Simplicity:** It should be easily understood by salesmen of average intelligence without any training in accountancy or statistics. Salesmen are suspicious of any plan that they do not understand completely and, as such, it weakens the confidence and lowers the morale.

3. **Flexibility:** The plan so designed must be capable of being adapted to various selling conditions. For instance, the firm introducing a new product, commission schemes will work out more profitable. On the contrary, in the case of a regular product, salary system can be relied upon. Thus, the variable makes it flexible to ensure satisfactory results.

4. **Incentive oriented:** Monetary reward for extra effort is really a nice and wise stimulus to many of the salesmen who exceed the normal performance level. Such additional amount results in increased volume of sales. It may be in the form of bonus or commission. It is to give an impression that the salesmen are compensated for extra ordinary performance.

5. **Low administration cost:** The cost of administration of the plan, i.e., the need of help from accountants and clerks, etc. for computing salesmen's earnings should be as low as possible.

6. **Fairness:** It must be fair to both the firm and salesmen. Also, there should not be any room for discrimination against or favour for any individual salesman.

7. **It is prompt in payment:** It is already said that the remuneration should be incentive-oriented. The incentives that are added must be

given to the workers earlier, to have deep-rooted effects upon the minds of the workers. Many times, bonus earnings are declared but are held up to a quarter, semi-annual and year end. This delay in paying weakens the desire on the part of employees. By the time he receives the payment, he might have lost his interest and enthusiasm. At times, delayed payments of such incentives will induce labour turnover. Therefore, as soon as entitled and earned, they must be paid.

8. **Promotion:** Provisions should be made for increase in salary when a person promotes and also reward employees for a long service.

- **Remuneration Plan**

Basically, the remuneration that is given to salesmen is justified on two factors, viz., (1) The amount of sales made and (2) the amount of time spent on this job of selling. Based on these two factors, different plans are designed. There are three fundamental methods of compensating the salesforce, viz., (1) Straight-salary method,N (2) Straight-commission method, (3) Mixed method. Apart from the above three, we have two more incentive plans, viz., (1) Bonus and (2) Profit-sharing.

I. Straight Salary Method

This method is based on the time spent on the job. Under this method, salesman is paid a predetermined amount by way of his salary at the close of every month. Salary paid to him is irrespective of sales performance during the month. Increments are given in the salary-scale he is appointed, in and, after experience and required length of service, is promoted to the higher salaries of scale. The salary package consist of basic salary that goes on increasing with annual increment, wherein D.A. is added that represents the payment made as per cost-of-living index. It also has other allowances to be added; they are HRA, CCA. In the case of travelling salesmen, T.A. is given.

- **Merits**

1. **It is very simple:** Salary schemes are very easy to calculate and simple to understand. The selling house is having definite idea as to how much each salesman is to be paid. Proper and precise estimate

of the salary can be calculated. Even the salesmen are having exact idea as to how much they earn at a given moment of time.

2. **No temptation of overdoing:** In case compensation is hinged on the performance, salesman is tempted to multiply his earnings. To multiply the sales, credit-selling has got to be accepted in this world of keen competition. There is no fun in increasing the bad debt.

3. **It affords better control:** The sales manager can exercise better control under this type of payment. If the performance is not good, there is a danger that the increments can be cut, transfer to unwanted places, threat of dismissal, etc. A little undoing, cheating, negligence, fraudulent acts, absence on the part of salesmen will lead to the disciplinary action. Thus, the Sales Manager finds it relatively easier to control the army of salesmen.

4. **It keeps the salesman contended:** The salesman is assured of minimum earnings irrespective of the sales turned or not. This salary scheme is of special importance, in the case of novices who begin their career as salesmen where there is no experience.

- **Demerits**

There is no direct incentive for hard work. Salesmen with longer service are paid for more per rupee of sales than those with shorter service. Some salesmen are paid too much and others not enough. This may kill initiative to increase sales. As such, the experienced and talented salesman may not stay longer in such firms.

- **Suitability of the Straight-salary Method**

Straight-salary scheme as method of remuneration is advisable under following circumstances, in view of the above merits and demerits:

i. Where the individual contributions cannot be measured.
ii. When the market for products is seasonal.
iii. When the salesman sells the commodities to different classes of customers at varying time intervals.

II.Straight-commission Method

The salesman is paid on the basis of performance of a job. Productivity is given top priority than the time consumed. Commission is the remuneration worked out as a percentage of sales volume. The percentage of commission varies from concern to concern, and case to case. It may be differential rate, i.e., a lower percentage up to the standard work and higher percentage over and above the standard performance in terms of value or volume as accepted.

- **Merits**

1. There is direct relation between the direct selling costs and sales made. Therefore, it is very important for new firms, which cannot take risks of salary method.

2. Cost of sales can be budgeted in advance.

3. It provides incentive for both hard work and skilful selling.

4. It is suitable for a firm using salesmen selling a manufacturer's agent selling goods of many manufacturing firms.

5. It helps in securing the services of such salesmen who cannot be had as permanent staff of the firm.

6. Cost of administration is low.

7. No problems of personnel management.

- **Demerits**

1. **No security ensured to salesmen:** This system works on commission and no sales means no commission. This factor makes the employees uncertain about their earnings. There are cases where a salesman may fall ill, might go on leave to meet personal tasks, or even the selling house might be closed due to certain factors, beyond the control of employers. In such cases, his earnings receive a severe set-back. Regular earnings of income is a great

psychological factor that has deep impact on the efficiency of a salesman.

2. **Danger of bad debts:** In order to earn more amount as commission the salesmen try to increase the credit sales. Credit sales are the source of bad debts.

3. **It poses the problem of control:** The supervision is not a problem, as there is spontaneous urge to do well. However, controlling the activities is the problem. Salary system affords the maximum scope for having effective control over the sales force, by means of transfers, threat of dismissal, withholding the increments, etc. In the case of commission scheme, the relation between the salesman and superiors or even the employees becomes just nominal. To control such persons no threat can be given; if done, the salesman moves away the next day, as he believes in and depends on his ability.

4. **Financial ups and downs:** The financial position of a salesmen is closely linked with the operations of business. They usually live up to their incomes. Maintain a high standard of living in good time and in the period of depression they become discontended and try to seek new connections.

Therefore, commission scale is advisable where,

i. the salesman is settled in his line,
ii. the selling house is small, so that it is not possible to pay salaries regularly, and
iii. if the product does not justify a full-time salesman.

III. Mixed Method (Combination of Salary and Commission Methods)

The fundamental objective of the use of combination of salary and commission scheme is to do away with limitations of both straight- salary and straight-commission methods, while retaining the chief advantages of each of the two methods. Under this method, each salesman is guaranteed a minimum salary at the end of each month. Over and above the guaranteed amount, he receives certain commission on his sales. Thus, a salesman has the security of income to the extent of the guaranteed amount of monthly payment.

The combination of salary and commission may take any of the following forms:

A. **Salary plus commission on all sales:** This is most widely used method. Under this method, a salesman is paid certain predetermined amount as salary. In addition to this amount of salary, he is paid commission on all the sales made by him.

B. **Salary Plus Commission over Quota:** Under this, a predetermined fixed amount is paid every month, as under the first method. Over and above this amount, salesmen receive commission on sales made. But the commission becomes payable only after the quota of sales fixed for each salesman is reached.

IV.Profit-sharing

Some firms disperse a portion of the divisible profits among the salesmen. Profit-sharing as a basic plan of remunerating salesmen cannot be recommended because profit or loss depends upon the firms' policies. As salesmen have no voice in determining these policies, their basic earnings should not be tied with the existence of profit or loss.

12.6 SUPERVISION

Supervision means overseeing employees at work. Overseeing of performance is done at all levels of management. High degree of overseeing is required in the case of salesforce who are constantly on the move. Supervision involves both the direction (or motivation) and control of salesmen and the continuous development of their abilities. Sales Manager as a supervisor and leader must know his men, their needs, attitudes, aspirations, and perceptions. Supervision must be tailored to the needs of the individual salesman. Thus, supervision consists of the following:

a. Observing, monitoring and reporting the performance of the salesforce,

b. Counselling and coaching salespeople to remove the defects and weaknesses in their performances.

c. Giving them adequate information regarding company plans and policies and changes in those policies.

d. Receiving feedback and solving their business and personal problems.

e. Motivating the salespeople through appropriate non-financial incentives in order to satisfy egoistic demands of salespeople.

Sales supervision is directly concerned with the basic need of motivating salesmen by satisfying their needs for security, opportunity, self-expression, respect and good conditions of work. In addition, it involves training and re-training, evaluation of performance, providing two-way flow of communication for best understanding, and improving the personal effectiveness of salesmen.

12.7 MOTIVATION OF SALESMEN

Ability or capacity to work is different from the will to work. You can buy a man's time; his physical presence at a given place; his muscular motions per hour or day. But you cannot buy his willingness to work, his enthusiasm or his loyalty. Motivation is the act of stimulating someone or oneself to get a desired course of action, to push the right button to get a desired action, a compliment, a pay-rise, a smile, a promise of promotion, praise, public recognition of merits and so on. Motivation ignites the will to work. It moves people to take a desired action. Motivation can be either financial or non-financial. Sales contests, conventions and conferences are examples of motivating salesforce.

12.8 CONTROL OF SALESFORCE

Control is the act of checking or verifying whether everything occurs in conformity with one charted in the plans. Supervision and control of salesmen is essential for a sales organisation to achieve maximum success. However scientific the selection and training of salesmen may be, it is the duty of the Sales Manager to evolve effective and purposive method of supervising, directing and controlling the activities of the salesmen, so as to secure the most effective and economical performance from them. Apart from the fact that salesmen are after all human beings, the need of supervision and control arises basically out of the following factors:

I. To enhance the efficiency of salesforce: The actual sales effected at each branch of each territory are brought to the notice of sales executives from time to time. This actually can be compared to the targets and deviation or discrepancies can be curbed by taking corrective actions. By means of constant supervision and control the salesmen are indirectly forced to be active, not to lag behind.

II. To ensure co-ordination in the efforts: Salesman works independently, often at a long distance from the Sales Manager. Therefore, co-ordination and co-regulation of salesman's efforts become necessary.

III. Nature of salesforce demands controlling: Salesmen are unique in the sales organisation. There are some people who die for the organisation and as devoted people they require no supervision or control. There are people who make the unit die in the absence of strict control and supervision. To make all people to move to the charted course, control of salesmen is a must. Thus, the nature of salesmen demands control.

IV. To have sound public relations: The aim of controlling is not only to secure raise in the profitability but to lay down solid foundations of sales by carving good public relations, i.e., control envisages the guidance and direction of the personnel, to establish good relations with the public and maintain goodwill in the market. Kotler says, "of all the assets, customers are the most valuable one." If a firm fails in the eyes of general public, it dies its unwanted premature death.

- **How Control is Exercised?**

The ways of controlling are: reports and records, fixing sales territory and quotas, deciding of authority, and field supervision and remuneration plans.

1. Reports and Records

Salesmen are asked to send reports periodically. These reports may be daily, weekly or monthly. These reports portray valuable information relating to: number of calls made by him; total value and volume of sales transacted, number of new customers contacted and amount of sales turned out; number of old customers lost and the reasons for item-wise expenses; facts regarding credit-standing of customers; selection made; bad debts arising out, impact of publicity and sales-promotion activities; extent and nature of competition; compliance and adjustments from customers.

On the other hand, record is the summary prepared from the report based on the actual performance on the part of every salesman. Reports are useful in two ways: Firstly, necessary action for increasing sales can be taken by the firm on the basis of careful study of the salesmen report. Secondly, writing fairly detailed report of sales encourages salesman to develop the useful habit of self-analysis.

2. Fixing Sales Territories and Sales Quotas

a. **Sales quota:** Quota is the amount of business the Sales Manager fixes for every salesman. It is the target that a salesman is to attain. First the Sales Manager plans the amount of business achieved. Then he allocates quota for each territory. The quota may be fixed for a year or a month or a quarter or for six months.

   The objective of sales quota are: (i) To provide a basis for remuneration for sales force. (ii) The sales quota is the most feasible way of measuring the effectiveness of individual salesmen. (iii) Quota system stimulates selling effort of salesmen because no salesman would like his sales falling below the quota. (iv) To plan and control the selling activities and to infuse the spirit of competition amongst the salesmen.

b. **Sales territories:** Sales territory implies a geographical area assigned to a salesman for the purpose of marketing the products of the company. Most firms divide the markets into specific geographical area or zones. Each salesman is assigned a particular zone in which he is to carry out his selling activities. The geographical area of the zone allotted to a salesman is in his sales territory. Usually sales territories are determined on the basis of demand for the products, the extent of competition, available means of transportation, types of customers and the capacity of salesman.

- **Objectives of Establishing Sales Territories**

a. **To perform contractual functions:** Sales territories are established to attain a thorough coverage of potential market for product. The objective of contacting prospects and old customers can hardly be achieved, unless such a sales territory is assigned to a salesman. Personnel solicitation is facilitated.

b. **To compare the individual performance:** Allocation of sales territory provides an excellent opportunity to compare the performance of salesman, such a study of particular territory reveals the potentiality of the market; and the actual sales volume secured by an individual salesman is compared with his potentialities.

c. **To fix the responsibility:** The responsibilities of Sales Managers and their talks are clearly defined through territorial assignments. This has an effect of developing a sense of responsibility towards his job. He tries to fulfil his commitments. That is, the activities of each sales manager can be evaluated and controlled.

d. **To minimise sales expenses:** Such territorial assignments are made in order to minimise the sales expenses and maximise the sales efforts. It is so because wastage of time and energy is avoided by defining the sales tasks.

e. **To motivate salesmen:** Fixing a sales territory allows full freedom to the Sales Manager to use his ability and skills to maximise sales turnover as there is little interference.

Benefits of sales territory: (a) Activities of each sales manager can be more effectively controlled and evaluated. (b) Market potentialities of each territory can be more fully tapped. (c) Sales efforts can be more easily planned and duplication and overlapping of efforts of sales managers are avoided. (d) It provides incentive to sales manager to increase more sales in his territory.

3. Deciding the Authority of Sales Manager

Often sales managers are the only persons who have contact with customers and sales-persons in whose contact customers of the firm come. For customers they are the firm. Therefore, sales managers and their authority must be well defined and clearly stated. Usually, catalogues and price lists put limit on the authority of Sales Manager. But, company may allow certain measure of authority to sales managers on matters such as granting of credit to customers, discount rates, special concessions, pre-sale and after-sale services, settlements of clients, etc. However, sales manager has to see that the salesman acts according to instructions. If a salesman goes out of limits he can be taken to task and explanations can be called for.

4. Field Supervision

Control does not pose any problem so long as business is smaller and is confined to a limited area of operation, where salesmen are working under the very nose of the sales manager. In case of business houses with widespread business over a vast area, supervision is a must. Example: In large Pharma companies, thousands of medical representatives are employed.

Supervision, direction and control involve: (a) Observing, monitoring and reporting the performance of the salesforce, (b) Counselling and coaching salespeople to remove the defects and weaknesses in their performance, (c) Giving them adequate information regarding company plans and policies and change in those policies, (d) Receiving feedback and solving their business and personal problems, (e) Motivating the salespeople through appropriate non- financial incentives in order to satisfy egoistic demands of salespeople.

Sales supervision is directly concerned with the basic need of motivating salesmen by satisfying their needs for security, opportunity, self-expression, respect and good conditions of work. In addition, it involves training and re-training, evaluation of performance, providing two-way flow of communication for best understanding, and improving the personal effectiveness of salesmen. Human relations are of first importance in the sales department.

Under democratic managerial style, we have consultative direction involving continuous communication and co-operation between the sales manager and his salesmen. Personal communication is most effective. Communication by means of correspondence should be supplementary. The sales manager is responsible to develop and maintain the morale of the salesforce. Morale is the mental readiness of the salesforce to co-operate with the management in the accomplishment of objectives. If morale is high, output is also high.

12.9 EVALUATION OF SALES PERFORMANCE

Human beings do have unlimited potential for growth and development, provided there is right work-environment and the right direction, guidance and help is given by management. The performance appraisal or evaluation is based on this firm belief in human resource development. Sound evaluation assures superior performance. There are three reasons to evaluate or appraise the performance of salespeople: (i) To measure performance against planned sales and marketing objectives, (ii) To distribute rewards for performance, and (iii) To guide the development of sales force.

Targets for sales performance are set and they act as criteria for comparison with actual accomplishment. Sales quotas, expense control, personal development objectives are the usual targets for the purpose of evaluation. It is essential that all evaluation should be forward-looking and aim at future and improved performance. Sales manager should not give emphasis on finding faults and placing blames on salespeople for past performance. The salespeople should be given thorough understanding of the reasons for their poor performance as revealed by evaluation. Humanistic touch is necessary at every stage in supervision, evaluation and control. Then only management of salespeople will give rich dividends. Performance evaluation should be done periodically and promotion, pay rise, rewards should be offered to the deserving salespeople. Forward-looking and positive evaluation and control enable salesmen to secure self-advancement or development. Management by Objectives (MBO) can be used in the management of salespeople as far as possible.

Effective Sales Performance Measures: Salesman's performance can be measured by a number of factors, such as ability to sell a satisfactory volume, ability to sell at a profit, ability to sell at a low cost, ability to plan and organise his time and efforts, knowledge of products, policies, customers and competition, ability to attract and hold customers, etc. The salesmen's reports and records are used in evaluating performance. Sales quotas also enable in evaluating performance.

Chart 12.1

PERFORMANCE EVALUATION

Quantitative Bases

Qualitative Bases

1. Salesman's knowledge of the product, the firm and competition.
2. Relation with customers, dealers and public.
3. Personality and attitudes, e.g., co- operativeness, resourcefulness, etc.
4. Personal appearance and health.

Output Factors:

1. Sales Quotas.
2. Orders.
3. Accounts.

Input Factors:

1. Calls per day.
2. Direct selling expenses as a percentage of sales volume.
3. Non-selling activities:

   a. Display.
   b. Meeting with dealers and/or distributors.

12.10 SUMMARY

- Sales Management is the backbone of marketing as it generates revenue for the organisation. Sales Management deals with management of salesforce and organising the sales effort. It coordinates with other departments like HR, distribution, finance within the organisation as well as external customers like direct users, dealers and distributors for planning, implementation and evaluation of sales plans. The sales manager looks after administrative, operative and advisory functions in the organisation. He is responsible for generating sales volume and recruitment, selection, training, development, motivation and evaluation of sales force. A group of well-trained, committed and high-performing sales executives is a valuable asset to the sales department and the organisation.

12.11 SELF ASSESSMENT QUESTIONS

1. What is Sales Management? What are its functions?

2. Explain the duties and responsibilities of Sales Manager.

3. Explain with examples different type of sales organisations.

4. Discuss briefly the methods of compensating salesforce.

5. Define salesforce management and what are the managerial-decision areas in salesforce management.

6. Discuss the salesforce recruitment process.

7. What are the methods of training of salesforce.

8. Write short notes on:

    a. Salesforce appraisal
    b. Motivation of salesmen
    c. Control of salesmen
    d. AIDAS Formula.

CASE STUDY

Sales Incentive Programme

Bell Electronics manufactured power generating equipment and sold directly to customers as well as through a distribution network. The company itself was only five years old and its salesforce was recently expanded to cover several regions, national and international.

The marketing manager felt an urgent need to institute a sales incentive programme to motivate sales managers and, in turn, increase corporate revenues. His objective was to increase revenues at least 30 per cent over the previous year. He devised a simple system that would reward sales manager if he exceeded his goal, which would be set by mutual agreement between marketing manager and sales managers.

The power generating equipment business was extremely competitive. Although, Bell had an approved price list, sales managers would frequently come to their supervisors to allow lower pricing than approved price list. The marketing manager spent considerable amount of time reviewing pricing exceptions. He thought that, in the long run, this had to stop.

The only way to discourage sales personnel from seeking exceptions was to give them price flexibility, a range of price over which they could quote their clients a price that would win business. But then he had to devise a disincentive to sales personnel from arbitrarily dropping prices to generate larger revenues and obtain incentive bonus. The larger revenues at lower prices would have negative impact on the corporate bottom line.

After many discussions with management, the marketing manager instituted the incentive programme as follows:

1. Sales personnel began accruing incentives once they reach 80 per cent of their goals.

2. Sales personnel had price flexibility and could quote lower prices if, in their judgement, it was the only way to win the business.

3. At the lowest end of the discretionary price authority the incentive would be very minimal. The incentive would increase as the quoted

price increased above the minimum price level. The incentive increased exponentially which meant much larger incentives at higher price levels.

The marketing manager presented this incentive programme to the salesforce expecting an enthusiastic support. However, there was virtually no reaction from the salesforce.

QUESTIONS

1. Do you feel this incentive programme will achieve the results desired by the marketing manager?

2. Can you suggest alternative sales incentive programme to motivate the salesforce?

3. Why was there no reaction from sales personnel for the programme?

- **Comments**

Sales incentive programme must offer a good combination of monetary and non-monetary incentives. In the sale of costly and sophisticated products, we need knowledge salesmanship. It demands a lot of initiative, self-control, self-planning and self-management. Job enrichment is necessary. A salesman should be regarded as sales manager for his product. He must have voice in the determination of sales quota, sales territory, and management regarding routing and scheduling of sales contacts. If he has meaningful and interesting job and if he can reap sense of achievement in meeting the challenging sales, these intrinsic rewards are much more powerful than mere financial incentives. Enlightened sales management knows the master key of motivation of salesforce.

CASE STUDY

Pillai Products Pvt. Ltd.

Sanjay Bahel, director finance of Pillai Products Pvt. Ltd rang up Arun Kumar, the newly appointed director marketing about the problem of cash-flow in the company. Bahel said that during the last eight months, the cash- flow had deteriorated significantly.

The company had not only obtained loans at a substantially higher rate of interest, but it was also facing difficulties in meeting the day-to-day expenses. An activity, which had started suffering considerably was the payment of travelling expenses/advances to the marketing staff. These developments had taken place in spite of the financial position of the company being intrinsically sound. The root-cause of the trouble was that payments from the customers had not been forthcoming in time. Bahel continued that Rs. 43 lakh, Rs. 65 lakh and Rs. 34 lakh were overdue for more than 6 months, between 3 months and 6 months and less than 3 months, respectively:

Arun Kumar stopped Bahel from stating that the company was loosing due to interest on these receivable bills and requested division-wise and age-wise details of all the outstanding bills receivable. Bahel promised to have a few weeks old status report delivered to Arun Kumar before the end of the day and generate an up-to-date status report in a few days.

This was the first negative point noticed by Arun Kumar about his department, which had otherwise been performing very well. The sales had grown during his five months with the company and the Chairman-cum-Managing Director, (CMD), Mr. G.K. Pillai had been unreservedly praising the work of the marketing team. The marketing department had following four divisions:

1. Components Trading Division
2. Systems Trading Division
3. In-house Manufactured Systems Division
4. Project Sales Division.

Arun Kumar also controlled the all-India sales and service network, which consisted of 15 branches distributed all over the country. Every branch had a salesman representing each of the four divisions. These salesmen reported to the branch manager and took guidance from the divisional manager concerned at the corporate office. Arun Kumar had found that the components trading division, headed by Ms. Sadhana Tagore was doing the best. Sadhana was a firebrand professional and had developed good relations with the customers and suppliers. She was constantly pushing the salesmen and was very severe with them if they lost an order. She was personally involved in the business and the CMD was very fond of her. Arun Kumar had, at times, resented the fact that CMD by-passed him and directly gave an assignment to Sadhana.

Mr. D.V Rao was in charge of the Systems Trading Division. He was a retired engineer from the army and took his job seriously. He was a gentleman and was well liked by his 'boys', as he would call his salesmen. The division achieved its targets and seemed to have little urge to do any more. The In- house Manufactured Systems Division, normally called IMS, was the most troublesome division. Ms. Geeta Nain, the head, was a very competent and qualified manager, but was usually let down by the factory, both in terms of quality and delivery schedules. Geeta had a cheerful and happy-go-lucky outlook. Nobody blamed her, even though sales in her division were well below the target.

Mr. Deodhar, who headed the Project Sales Division was totally unfit for the job. He should have been in the R&D department. He had only a short time to go before he retired and Arun Kumar was grooming Dr. Parthasarathy to take over. This had been a wise decision resulting in an exponential increase in the performance of the division.

The list of division-wise and age-wise receivables was delivered as Arun Kumar was leaving for his home. He decided to carry it home and work on it because he had a gut feeling that this problem would create serious trouble. He was horrified to notice that the Components Trading Division was responsible for almost 70 per cent of the outstandings in all three age groups, i.e., more than six months, between three months and six months and less than three months. This was followed by Deodhar's project Sales Division, which accounted for 19 and 16 per cent, respectively in the first two age groups. Parthasarathy's intervention had brought down the percentage to seven per cent in the third group. The Systems Trading and IMS divisions had five per cent, seven per cent, 10 per cent; six per cent, seven per cent, 13 per cent, respectively. Arun Kumar concluded that:

1. The performance of the Systems Trading and IMS divisions was reasonable. It would be adequate to advice these divisions to pay extra attention to liquidating the outstanding bills.

2. The Project Sales division had improved with Parthasarathy virtually taking over from useless Deodhar. However, Parthasarthy must be instructed to liquidate the earlier dues, too.

3. Sadhana would have to launch a special drive and save the good name of the marketing team.

Arun Kumar decided to deal with each manager individually. The meetings with Rao, Parthasarathy and Geeta went off as planned. All the managers promised to liquidate the outstandings in six weeks' time. However, the meeting with Sadhana proved to be stormy. She was not available almost for the whole day because she was reported to be on a liaison assignment given by Mr Pillai. She was violently angry when the meeting did take place. Gist of points from the discussion were:

1. The list was incorrect and old. She tick-marked many bills which, she knew, had been cleared.

2. Sadhana alleged that this was a trick played by Sanjay Bahel, the finance director, to discredit her and the Marketing Department since the sales had been increasing beyond expectations.

3. The Finance Department should follow-up the bill payments with the finance departments of the customers, since the payments were usually held up there.

4. Sadhana had been booking 60 per cent of the company's sales. She was also called upon by the CMD to handle many difficult tasks. All this was very taxing. She could either get business and execute important tasks given by the CMD or follow bill payments with the finance departments of the customers.

Arun Kumar argued that normally receivables bill should be the responsibility of the sales team and the transaction can be treated complete only when the payments have been fully received. Sadhana suggested that Mr Pillai should be approached for a ruling rather than making bookish statements.

Develop a solution to the problem. Give complete reasons for your solution.

CASE STUDY

Salesmen Costs

On the basis of the data given in the following two tables, make whatever recommendations to management you think might be appropriate:

Sales Area	Total Calls	Total Orders	Sales/ Call Ratio	Sales (in `)	Average Sales per Order	Total Customers
A	1,900	1,140	60	4,56,000	400	195
B	1,500	1,000	66.7	3,60,000	360	160
C	1,400	700	50	2,80,000	400	140
D	1,030	279	27.1	66,000	239	60
E	820	165	20.1	31,000	187	50
Total	6,650	3,284	49.4	11,93,000	363	605

Sales Area	Annual Compensation (in `)	Expense Payments (in `)	Total Salesmen Cost (in `)	Sales Produced (in `)	Cost/ Sales Ratio	Sales Area
A	11,400	5,700	17,000	4,56,000	3.7	11,400
B	10,800	7,200	18,000	3,60,000	5.0	10,800
C	10,200	5,800	16,000	2,80,000	5.7	10,200
D	9,600	12,400	22,000	66,000	33.3	9,600
E	10,000	16,000	26,000	31,000	83.8	10,000
Total	52,000	47,100	99,000	11,93,000	8.3	52,000

Source: Faculty of Management Studies, Delhi University, April, 1998, examination paper.

1. Assumptions

i. All territories, A, B, C, D and E, are similar and there are no differences between the territories like hilly terrain, backward area, bulk buyers of the products, etc. In all the regions, customers are of the same type.

ii. There are no restrictions for retaining a particular salesman (men) in a particular territory and all the salesmen are similar/inter-changeable. No salesman has a special training or connection to the customers in a particular region, etc.

iii. The management has culled this data with a view to optimise the sales to salesmen costs.

iv. The data is completely correct, dependable and not an isolated case.

2. Possible Solutions

Solution (i): Due to the number of customers being different in the five regions, the salesmen in smaller territories have been making much larger number of calls on the customers. The salary bill of each territory is almost he same. It is thus suggested that some salesmen from territories C, D and E be withdrawn and moved to A and B regions

Solution (ii): Suggest to the management, the maximum and minimum number of calls that should be made on a customer and the maximum expenses that my be allowed for making a call. Standards could be laid down, say 10- 12 calls per customer and total expenses for making a call should be less than 11.

Solution (iii): All the territories are not of the same size and load. The number of customers vary between 50-195. The calls per customer and average expenses per call vary substantially. The annual compensation varies in relatively narrow margins. It is, therefore, necessary to redistribute the size of the territories. Each territory should have between 175-200 customers. Each customer should be visited 10-12 times and the cost-to-sales ratio should not exceed 6 per cent.

3. Selected Solution

Selected solution will be solution number 3 in combination with some conditions suggested in solution number 2. The whole area can be redistributed into 3-4 territories each having an equal number of customers, i.e., 175-200 customers. Ten to twelve calls could be made on every customer and the sales to cost ratio and the expenses per call could be pegged at six per cent and 11 per cent, respectively.

REFERENCE MATERIAL

Click on the links below to view additional reference material for this chapter

Summary

PPT

MCQ

Video Lecture - Part 1

Video Lecture - Part 2

CHAPTER 13

MARKET SEGMENTATION,TARGETING AND POSITIONING

Objectives

After studying this Chapter, you should be able to:

- Understand the meaning, features and benefits of market segmentation
- Study the approaches/bases and the for market segmentation
- Understand the meaning of product positioning and its elements
- Know the factors to be considered to segment industrial market

Structure:

13.1 CUSTOMER DEMAND

The concept of a market as a medium for exchange covers all buyers and sellers. As a concrete entity market is considered as a physical location where buyers and sellers gather together to buy and sell and where property and possession transfer from sellers to buyers on sale of goods. In abstract terms the market is simply an area of influence governed by the forces of demand and supply.

Let us consider the market from the viewpoint of a company acting as supplier of goods. It views the market as a medium to secure a certain volume of sales. It is mainly interested in the demand side of the market. To a business enterprise a market is equal to a group of people with unsatisfied needs/wants plus money to spend plus willingness to spent it. In short, a market represents effective demand for the products. A business enterprise, therefore, is interested in three factors constituting the market: (1) people with unsatisfied needs and wants, (2) their purchasing power, and (3) their buying behaviour.

Market consists of individuals and groups of people/institutions and corporate bodies — their needs, their resources, their buying habits, and their preferences. A business enterprise tries to make a market offering to these buyers and secure repeat orders from them.

A want is a perceived need. When a want is supported by purchasing power it is called demand. A market is then composed of people with money wanting goods and services. People with unmet wants create marketing opportunities. People with wants and purchasing power make these markets effective. Customer demand is a very important element in the marketing system. In a sense, marketing management is virtually demand management. The marketing executive is responsible to regulate the level, timing and character of demand for various products offered by the enterprise to the market particularly under keen competition. Demand analysis and competition are the twin dimensions of sound marketing management. Both are inter-related. Higher market demand attracts greater competition and keen competition demands intensive marketing efforts to capture and maintain the market. Sizing up market potential, i.e., effective demand and the potential demand can provide the foundation for our marketing plans and strategies.

13.2 THREE VARIABLE FACTORS OF MARKET DEMAND

The marketing success depends on the ability to forecast the strength and character of demand as it is the basis for allocation of resources in business. There are three variable factors of market demand:

1. Demographic variable (population pattern) to ascertain size of demand.

2. Effective demand (purchasing power) to ascertain potential demand.

3. Life-style patterns reflecting purchasing propensity and indicating customer behaviour (how and why buyers behave as they do).

These variables are inter-related. Each factor will change the pattern of demand. Marketing management is management of demand.

1. **Population Variables (Size of Demand):** Demography is the study of population structure and processes. Demographic variables (age, gender, residence, occupation, education, birth rate, mortality, migration) are most widely employed in market segmentation. The food industry relies heavily on demographic variables. The number and geographic distribution of a population is an important demographic variable considered by marketers in their marketing strategies. People constitute our market and determine the demand for any given product or service. Actual size of the population is the main variable determining the size of demand. For instance, the demand for baby food and baby clothes is dependent upon the statistics of marriage, birth and death rates. When the birth rate declines, the market for baby products also declines. In many Western countries, since 1965, due to declining birth rate, Johnson and Johnson promoted the use of their Baby Powder into the Adult market and appreciable percentage of women are using Baby Powder and Lotion in many countries.

   There are four key factors under demographic variables:

   (1) size, (2) age and gender distribution, (3) family size, and (4) physical distribution of population. Let us consider these variables. Growing population in a country indicates growing markets for consumer goods. With a population of over 100 crores, India is potentially one of the largest markets in the world. Ever-increasing

population indicates unlimited market potential in India. However, effective demand is bound to be limited as long as about 30 per cent of Indian population is below poverty line and per capita income is low. Marketer is also interested in the regional distribution of population as well as urban, suburban and rural population.

Absolute numbers are only one aspect of population. There are three other important aspects of population: (1) age and gender distribution, (2) family size, and (3) geographical distribution of population. Family life-cycle concept is useful device to distinguish the effect of age on consumption patterns. We have seven stages of the family life-cycle: (1) Young, single people, (2) Young newly married couple, with no children, (3) Young married couples with the youngest child under six, (4) Young married couples, with youngest child over six, (5) Older married couples with dependent children, (6) Older married couples with no children living with them, and (7)Older single people. A person below forty-five is considered as young. Family life-cycle is very popular among marketers at present. Family size also influences demand for housing, clothing, food, and many comfort goods. Family size and income will indicate household purchasing patterns. Large families spend more on necessaries than small families. The present trend is towards small family. Small families can maintain higher living standards as they have more discretionary purchasing power which can be spent on comforts or luxuries. The physical distribution of population indicates potential markets regionally. Urban and suburban population is ever-increasing, while rural population will be reducing with the growth of industrialisation. At present we have about 70 per cent rural population and rural markets offer tremendous opportunities to Indian marketers.

2. **Income (Money to Spend or Purchasing Power):** Demand backed by purchasing power or economic factor, i.e., income is a major determining factor and is usually used as a measure of potential demand. Income levels are analysed on the basis of two income concepts, disposable income and discretionary purchasing power. Disposable income is take-home pay (income, less taxes). It is available for personal consumption expenditures and it represents the net current purchasing power. Discretionary income is the income left after paying taxes and after spending on food, clothing, shelter, transportation, and other necessary items. The ability and willingness to spend discretionary

income really supports the tremendous marketing opportunity. In India hardly 35 per cent of our families have sufficient discretionary income. It is the surplus income which may be saved or spent at your will. According to Engel's law as real income increases, the proportion spent on food tends to decline, expenditure on rent, heating, etc. remains constant, while proportion spent on clothing, education, recreation, travel, etc., tends to increase. Effective demand implies that consumption is a function of available income. Income, credit, and assets are objective elements of our purchasing power. However, economic ability to buy must be combined with willingness to buy. Consumer confidence is the key to the level of consumer spending. If people believe that unemployment due to recession may become severe in the near future, they may reduce their spending and concentrate on saving for the rainy days. Unless the will to buy is ignited by motivation, the demand becomes ineffective.

3. **Buyer Behaviour (Purchasing Propensity or Social/ Psychological Factors):** Life-style factors inform us as to how a person spends his time and money in day-to-day activities. Changes in our life-styles are mainly shaped by economic factors. As our social and economic patterns change, marketer has to find out corresponding changes in our life-style factors. These include: family life-cycle, increasing women employees, changes in educational and occupational patterns. Life-style pattern involves preferences to purchase in a certain way. It includes taste and attitudes, psychological and sociological factors.

   Demand (customer needs and desires), buyer behaviour, product differentiation and market segmentation are the building blocks of any marketing programme.

13.3 MARKET SEGMENTATION

A business enterprise can adopt two types of strategies to explore the market:

1. **Product Differentiation:** Product differentiation (through branding) enables the manufacturer to exercise control over demand, prices, and distribution. By differentiating a product from its rivals, the brand owner is able to establish his own price which cannot be compared easily with prices of competing goods. Branded products can be easily

recognised by the customer in the retail shop. It offers protection to the customer as it identifies the firms behind the product.

2. **Market Segmentation:** Segmentation or subdivision of the market is based upon the modern marketing concept i.e., market- oriented strategy and philosophy. Segmentation gives special emphasis on the demand side of the market. Segmentation implies bending of supply to the will of demand as far as feasible and desirable.

   a. According to William J. Stanton "Market segmentation is the process of dividing the total heterogeneous market for a goods or service into several segments, each of which tends to be homogeneous in all significant aspects."

   b. According to Philip Kotler, Market segmentation means "the act of dividing a market into distinct groups of buyers who might require separate products and/or marketing mixes.

Market: People or organisations with needs or wants and the ability and willingness to pay.

Market segment: A group of people or organisations sharing one or more characteristics that leads them to have similar product needs.

Market segmentation: The process of dividing a market into meaningful, relatively similar, identifiable segments or groups.

Fig. 13.1 Market Segmentation

- **Features of Market Segmentation**

1. Market consists of individuals and groups of people/institutions and corporate bodies — their needs, their resources, their buying habits, and their preferences differ.

   Marketers recognise the importance of heterogeneous demand. Hence, they are keenly interested in sub-dividing or segmenting the market, i.e., each segment can be a group of people with similar or homogeneous demand and the enterprise can offer tailor-made marketing mix for each market segment or subdivision. Market segmentation gives formal recognition to the fact that wants and desires of consumers are diverse and we can formulate a specific market offering to specific category or segment of the market so that supply will have best correlation with demand. Varied and complex buyer behaviour is the root cause of market segmentation.

2. Market segmentation is a method for achieving maximum market response from limited marketing resources by recognising differences in the response characteristics of various parts of the market. In a sense, market segmentation is the strategy of 'divide and conquer', i.e., dividing markets in order to conquer them. Marketing strategy is adjusted to inherent differences in buyer behaviour. For different groups of customers i.e., market segments, we have different sets of marketing strategies. Segmentation strategy is an answer to the question, "To whom should we sell our products, and what should we sell them?" It is a strategic choice concerned with "doing the right things" as opposed to tactical choice, "doing things right".

3. Market segmentation enables the marketers to give better attention to the selection of customers and offer an appropriate marketing-mix for each chosen segment, or a group of buyers having homogeneous demand. Each sub-division or segment can be selected as a market target to be reached with a distinct marketing-mix.

4. The identification of customer demand is the main premise of market segmentation. Through market segmentation sellers try to identify those who are most likely to buy their goods and services. This customer-orientation makes marketing segmentation an important pillar of the marketing concept and the modern marketing process. With the rising cost of production, distribution and promotion, precise market segmentation has assumed considerable importance in marketing management.

- **Applying Market Segmentation**

A marketer has to combine his knowledge of segmentation with positioning and marketing strategy concepts. The marketer has further to determine which subsets contain prospects and which of these are the most attractive to target. Once marketers have identified the best segments, they have a variety of ways to apply to market segmentation. Companies can choose to market to all of the target segments, to some of the target segments, or to just one. No matter which market segmentation strategy they use, marketers follow up by selecting a unique position in every market segment they select.

A market segment consists of a large identifiable group within a market. A firm recognises that buyers differ in their wants, purchasing habits, buying attitudes, etc. For example, an Instant Shelter Company may identify six broad segments: Hotels, Open air restaurants, Clubs, Resorts, Temporary markets and Government agencies. The consumers of a particular segment are assumed to be quite similar in their wants and needs. In the above example, some segments want big-sized instant shelters and others small-sized shelters. The firm can create high/low quality products and services as per the requirement of the various segments. Segmenting helps in designing the marketing- mix as per the requirements of customers. Segmentation brings benefits not only to the firm but also to the customers. A manufacturer of DVD players wishes to identify his target market segments. Suppose he has distribution and after-sales service facilities only in the eastern part of the country. Further, he thinks that families in the high income group are most likely to be his customers. This situation can be explained with following diagram:

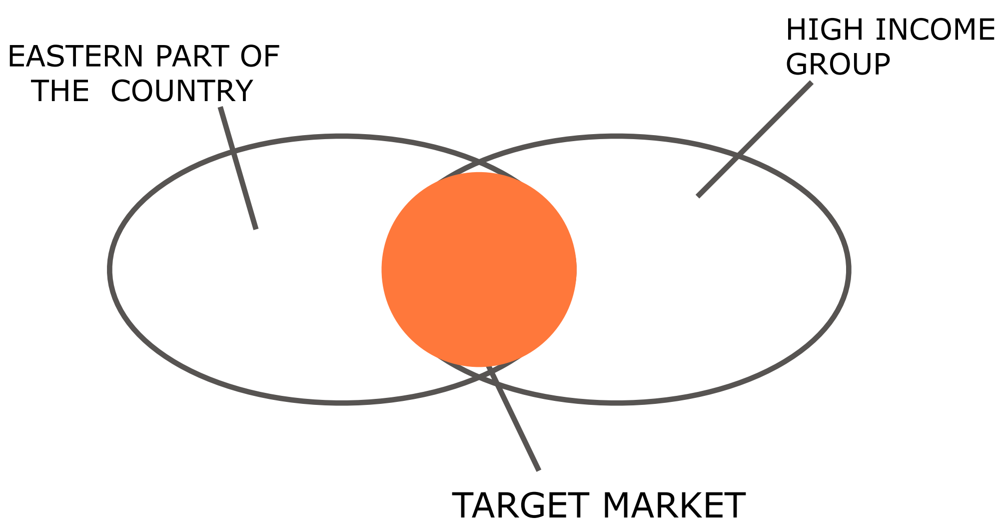
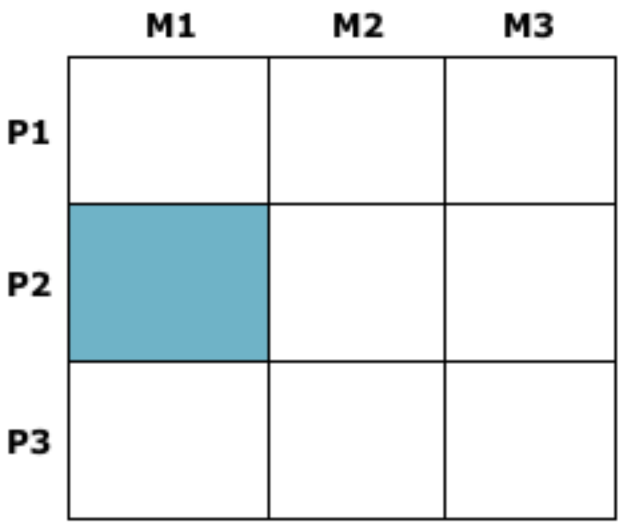


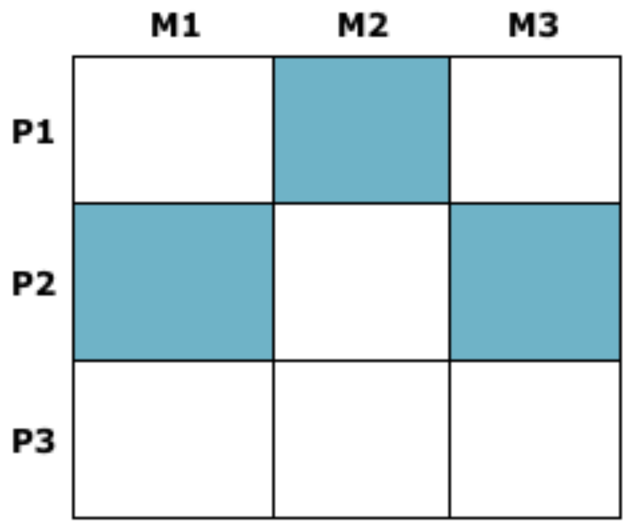
Fig. 13.2 Identification of Target Market Segment

- **Selecting the Market Segment**

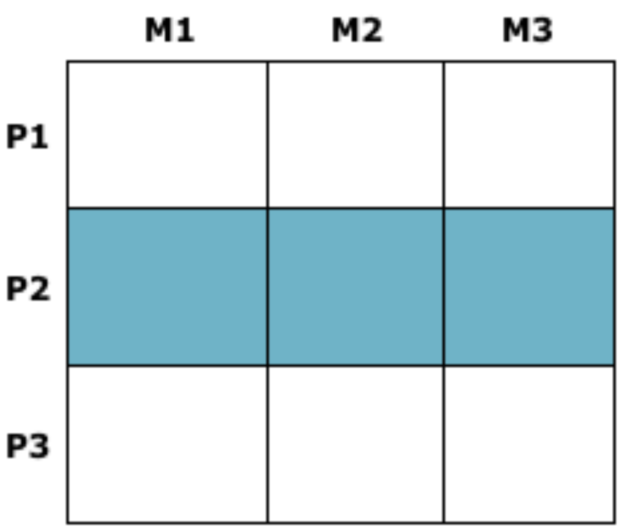
After analysing different segments, the firm must select one or many segments to serve. The firm can select one or more patterns from the following:



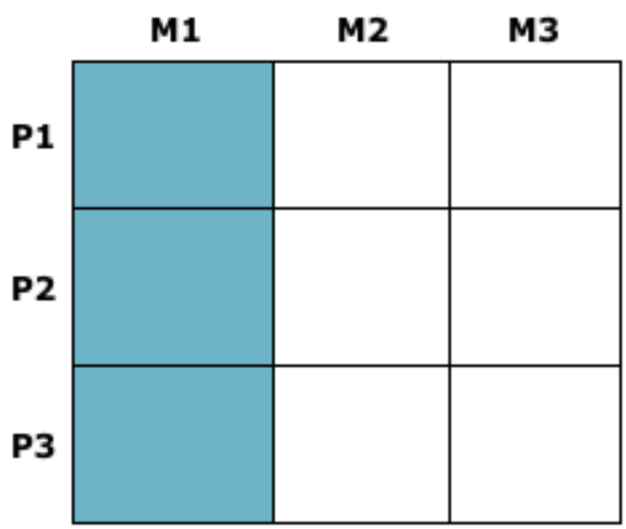
Single- segment Concentration



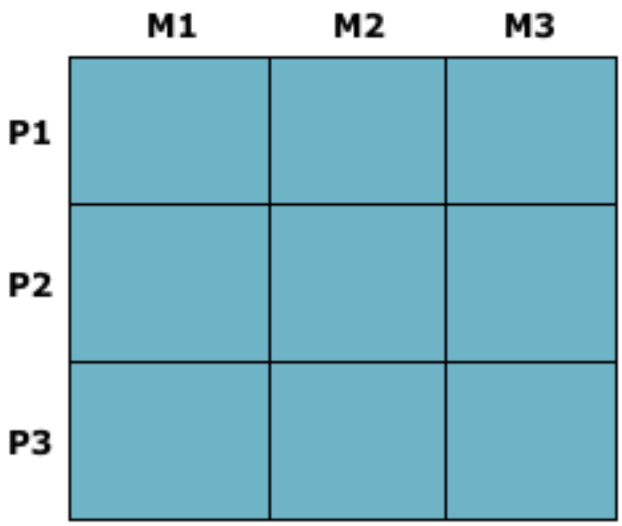
Selective Specialisation



Product Specialisation



Market Specialisation



Full Market Coverage

Source: Adapted from Derek F. Abell

"Defining the Business: The Strategic point of Strategic Planning" (Englewood Cliffs, N.J. Prentice Hall, 1980), Chapter 8, pp. 192-96.

Fig. 13.3 Selecting the Market Segment

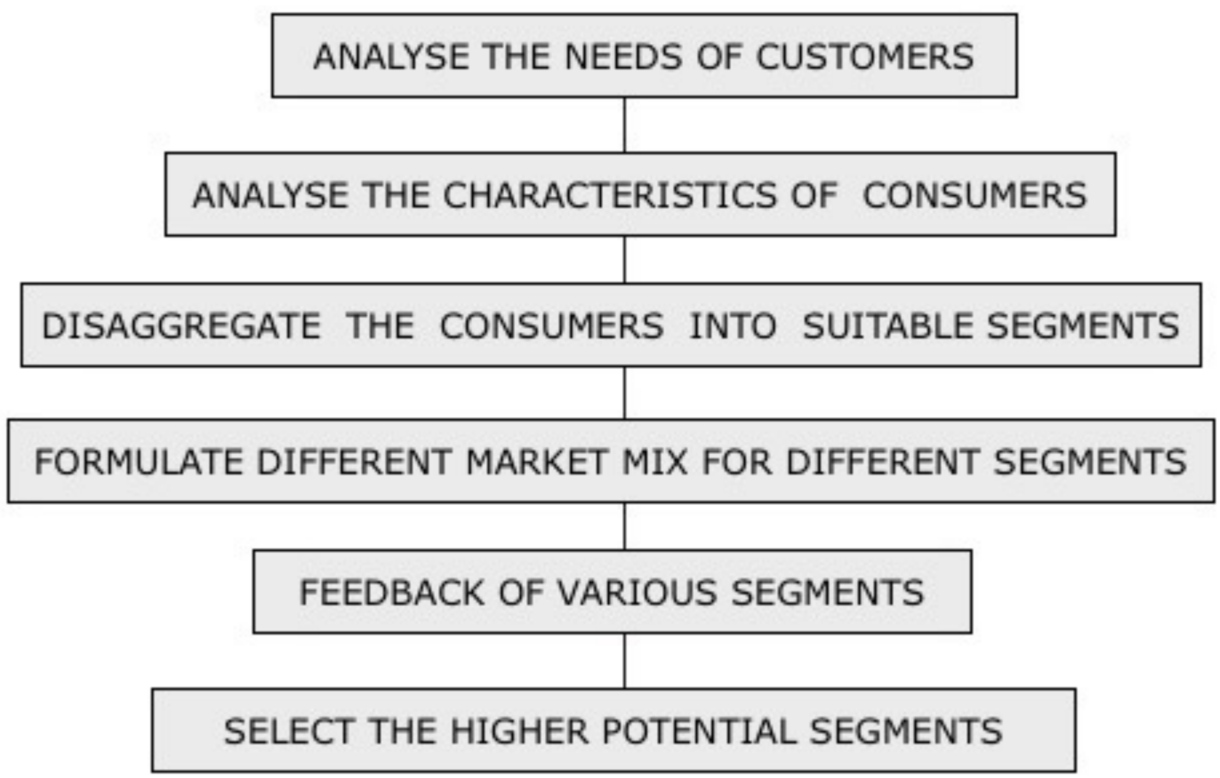


Fig. 13.4 Flow Chart of Segmentation Process

Indian Examples of Various Market Segments

1. Single Segment Concentration: Woodlands shoes, Cellular phones
2. Selective Specialisation: Denta Cream Toothpowder (Dabur)
3. Market Specialisation: Sultan Chand & Sons (Books covering all types of student needs, schools, colleges & institutes)
4. Product Specialisation: Mahindra & Mahindra Jeeps, Bajaj Auto
5. Full Coverage: Pepsi, Titan, Bata.

- **Benefits of Segmentation**

The main advantage of market segmentation lies in a better understanding of the consumer needs and behaviour so that a marketer can plan accordingly. Market segmentation reflects reality in marketing situation. Consumers have different needs and preferences. Hence, in reality, market demand is heterogeneous and not homogeneous. When differences in customer needs are analysed, the analysis may reveal that certain customer needs are not being met and the marketer can exploit such a marketing opportunity and fill these needs. This can yield profits and prospects for growth. Segmentation ensures higher customer satisfaction and improves effectiveness of the marketing programme. Segmentation strategy is a customer-oriented philosophy. It offers the following specific benefits:

1. When customer needs are fully understood, marketers can effectively formulate and implement marketing programmes, which will be in tune with the demands of the market.
2. Marketers are in a better position to locate and compare marketing opportunities. Market can be defined more precisely in terms of customer needs.
3. Marketers can make finer adjustments in their products and marketing communications. They can use rifle approach instead of shotgun approach.

4. Competitive strengths and weaknesses can be assessed effectively and marketers can avoid fierce competition and use resources more profitably by catering to customer demand which is not being met by rivals.

5. Potential customers differ in size, rate of usage, needs and wants, ability to pay, willingness to pay, willingness to innovate and many other characteristics. They have different values and attitudes. They have varied preferences. Each heterogeneous market can be divided or partitioned into a set of smaller, more homogeneous segments or groups of customers to arrive at an appropriate marketing-mix.

6. Segmentation leads to a more effective utilisation of marketing resources because customer is the focus of marketing effort and only target markets are served. We can have precise marketing objectives. Marketing programme is tailored exactly in accordance with the needs of specific market segment, and product, price and promotion can have best coordination.

7. Market segmentation helps matching of market opportunities to corporate resources and enables the enterprise to give successful competition in the market. Products are tailored to the precise known needs of a segment.

8. Market segmentation enhances marketing efficiency by offering specific pricing, promotion and distribution as per differing response features of each segment. Thus, we have tailored marketing strategies (product, pricing, promotion, and distribution) to the unique needs of all segments. The segmentation enables the enterprise to follow differentiated marketing.

- **Segmentation Success Criteria**

Multiple segmentation strategies i.e., targeting of two or more market segments, using a different marketing mix for each segment, can be used if there are measurable customer differences in preferences, the segments have accessibility and enough potential demand. Since a company can rarely cover an entire market, it aims at selecting a few market segments most suited for its products. The conditions essential for successful market segmentation are:

a. The segment or sub-division must be based on market characteristics which are measurable.

b. The segment, which is identified, must be accessible, i.e., it should be within our reach through means of communication and distribution.

c. The segment, which is already identified and which can be communicated, should respond to the marketing effort.

d. The segment, after fulfilling the first three criteria, must be worthwhile while cultivating and exploiting it. Unless the size of the segment is large enough, the marketing effort cannot yield rich dividends.

   a. **Measurability:** Demographic and socio-economic characteristics are objective and measurable but personality, life- styles and psychological factors governing buyer behaviour such as motivation, perception, attitude are subjective and non-measurable attributes. Many subjective variables can only be inferred. But in reality, these non-measurable factors alone can answer the question: Why buyers buy? To that extent we cannot precisely measure the size of our market segment. We can approximately identify members of the segment on the basis of some common characteristics or behaviour pattern. Obtaining data is not easy when the segment is defined in terms of benefit or behavioural characteristics.

   b. **Accessibility:** Even if the segment is identified, it should be within our reach through suitable means of communication and distribution. In other words, organisation must be able to focus its marketing efforts on the chosen segment. Segments must be accessible in two senses. First, firms must be able to make them aware of products or services. Second, they must get these products to them through the distribution system at a reasonable cost.

   c. **Market Responsiveness:** The identified segment must respond favourably to our marketing efforts. For example, a segment is determined on the basis of normal reaction of members to price change, i.e., rise in the price will reduce demand and vice versa.

Accordingly our marketing-mix offers a lower price. But the members of the segment are not interested in price. They are interested in quality and service and they are ready to pay higher price, if they can get better quality and service. Under such circumstances, they will not respond to our marketing effort. The relevant question is: What are the real buying motives and buying habits in the segment under analysis?

d. **Effective Demand:** The segment may respond favourably. But it must have sufficient buying power (willingness plus ability to pay). The marketing effort must be worthwhile. Hence, it must have sufficient demand prospects and it must be profitable enough. Number of buyers may be small but their buying power must be adequate. Needs plus purchasing power create effective demand. A segment must possess effective demand. Marketers should develop segmentation strategies only for substantial segments. Ability to measure the intensity of need and the strength of purchasing power supporting the need can indicate potential of a segment.

13.4 APPROACHES TO MARKET SEGMENTATION

There are many ways to group customers in segmenting the market. Broadly speaking, we have two main approaches to identify market segments: (1) People-oriented market segmentation, and (2) Product-oriented market segmentation.

1. **People-Oriented Approach:** It is also called 'customer personal characteristic approach'. We can classify the customers by many customer dimensions such as geographic location, demography, socio-economic characteristics, and psychographic characteristics. These are variables and they are independent of any product or service and the particular situation encountered by the buyer in making buying decisions. We try to find out the type of customer Who will buy our products. Example: The group consisting of landlords, rich farmers, owners of rice/dhal/groundnut mills, agricultural traders, merchants and educated rural youth are the target customers for two wheelers and entry level/mid-segment cars in rural market.

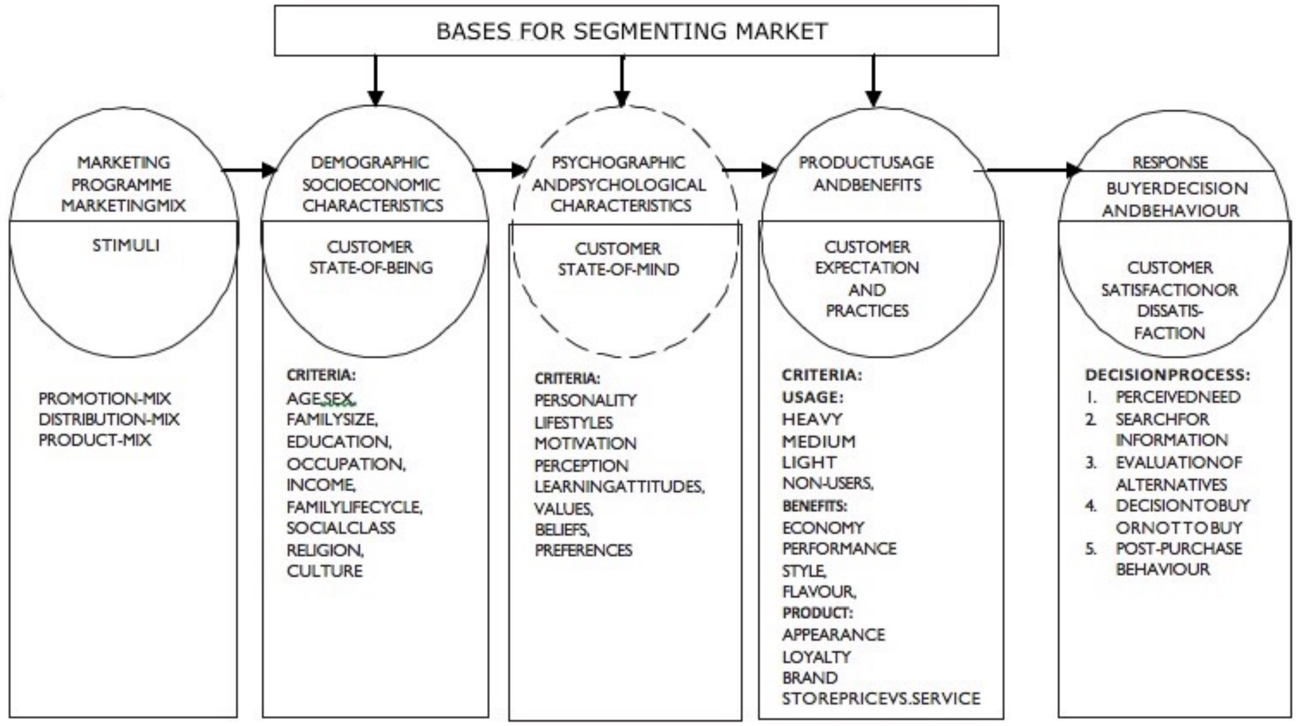
2. **Product-Oriented Approach:** It is also called 'customer response approach'. The customer response or buyer behaviour may be considered in relation to product benefits, product usage, store patronage, and brand loyalty. We are interested in the differences of buyer behaviour and we want to know why consumers buy a certain product. Buyer behaviour involves psychological factors such as buying motives, attitudes, perceptions and preferences. **Example:** Bullet motor cycle is considered as sturdy vehicle (product benefits) and creates a 'Macho Image.'

- **Comments on Market Segmentation Model** (On the Fig. 13.5)

1. Accepted criteria for market segmentation are:

   a. Geographical factors, e.g., urban, rural, differences in population concentration.

   b. Socio-economic factors, e.g., age, sex, size of family, income, occupation, social class.



Notes:

1. Geographic, demographic and socio-economic characteristics are easy to apply but cannot offer real reasons of buyer behaviour.

2. Psychological characteristics, product usage and benefits provide better understanding of buyer behaviour but they are refined, complicated and offer non-measurable basis.

3. We may have geographic segmentation also based on region, urban and rural features or density of population. e.g., metropolis markets in big cities over 10 lacs.

4. The segment choice is governed by a few criteria:

   a. It must be relevant to marketing needs of the enterprise.
   b. It must be available.
   c. It must have reasonable size.
   d. It must be measurable, and
   e. It must be profitable.

Fig. 13.5 Market Segmentation Model

Data on (a) and (b) are generally available in all countries.

2. Factors rooted in Buyer Behaviour are as:

   a. Differences in consumer types: dominating, aggressive, submissive, adventurous, etc.

   b. Difference in buying motives, attitudes, perceptions and preferences.

   c. Differences in brand/store loyalty.

   d. Differences in usage or consumption in expected benefits.

There is a gap in precise marketing knowledge resulting from buyer behaviour as behavioural differences are frequently of a qualitative nature and non-measurable statistically. Geographic and socio-economic factors are objective and tend to be quantitative measurable factors. But behavioural differences account for the causes of buying and any firm with information on buyer behavioural differences has an immediate differential advantage. However, behavioural differences are non-measurable attributes.

3. Very often several of these characteristics are used for segmenting a market. For example, market is divided into two partitions — rural and urban. Next segmentation is on the basis of sex; next on the basis of age and then, on the basis of income. Finally, further segmentation may be on the basis of life-style.

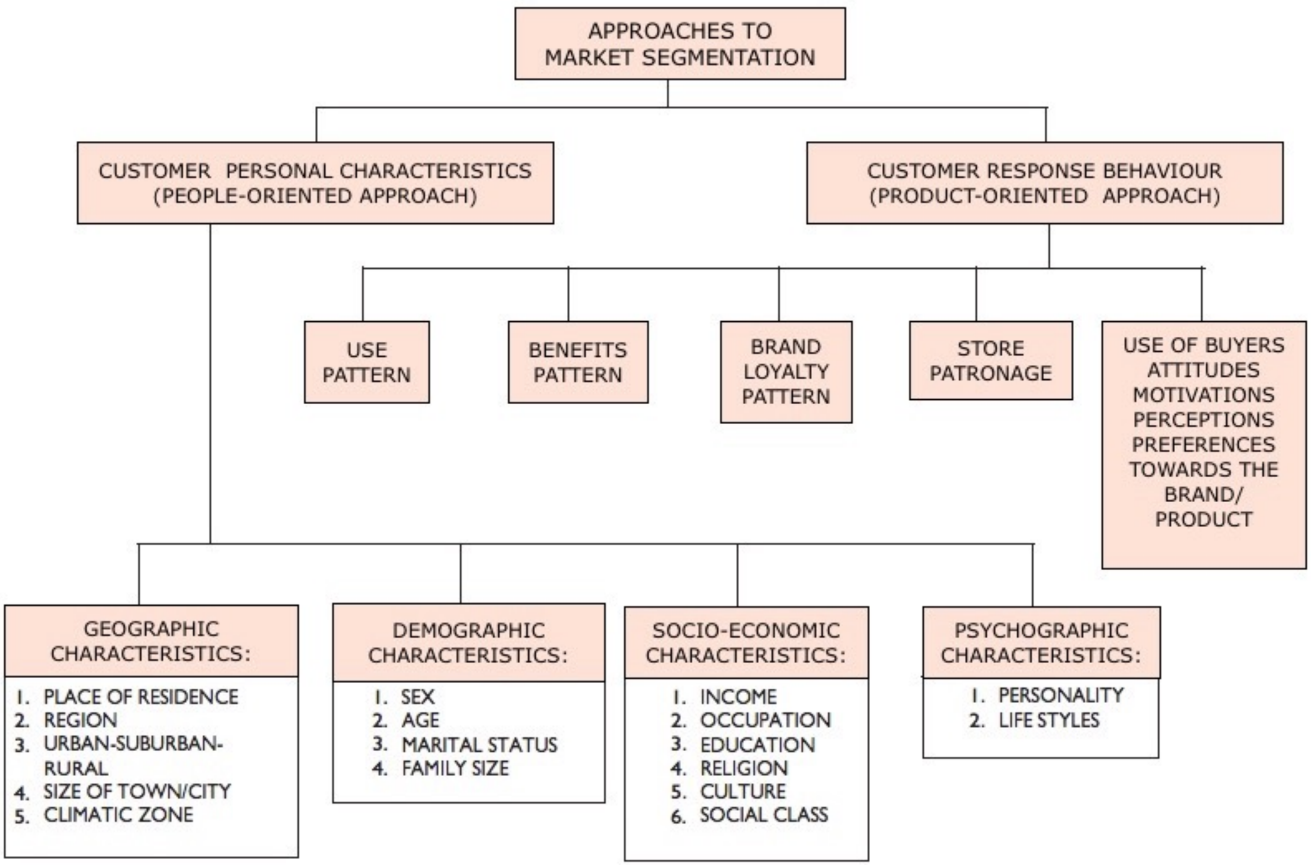
4. Demographic and socio-economic factors are used very widely for market segmentation. They are very convenient, easy to measure and data is more easily available. But they have been found to be relatively weak for effective differentiation of demand. They are useful in accounting large differences like those between buyers buying low-priced brands and those buying high-priced brands. Demographics describe who the buyers are, and where they are found.

5. Segmentation based on behavioural differences is difficult to practise. Information regarding the buying motives, preferences, personality and life-style characteristics is difficult to collect and project to general population. Personality factors are not very useful. Psychographics and

psychology provide causal understanding of why a consumer is a buyer.

6. Benefit segmentation, i.e., segmenting on the basis of benefits expected, also has the same problem-difficult information collection. Then again people's behaviour may differ from

Fig. 13.6



what they say. In mature and competitive markets, benefit segmentation may be desirable.

7. Marketers are expected to adopt multivariable models for segmentation and relevant psychographic/psychological characteristics should be incorporated in the model along with the usual demographic and socio-economic variables.

13.5 PEOPLE-ORIENTED APPROACH

(Customer's Personal Characteristics)

1. **Geographic Location and Mobility:** Geographic location is the usual and popular basis for market segmentation. Distinction between urban and rural markets is still of great importance in India. Now, we have further distinction between the behaviour of city families and that of suburban families. We know that urban population is better educated, with higher incomes and shows greater mobility. Rural population has less education, lower income and it is not so mobile. Urban people are willing to buy new and novel things. Rural people are not innovators to that extent. Marketers are interested more in city and suburban population as we have highly concentrated population in metropolitan areas. The consumer needs and responses vary geographically and the market could be divided into entities such as State, District, Taluka, and Village.

2. **Demographic and Socio-economic Characteristics:** Demography is the study of population. Demographical characteristics are sex, age, marital status, number and age of children, place of residence and mobility of a household. Socio-economic characteristics are income, education, occupation, family life-cycle, social class, religion and culture. In the case of frequently bought consumer goods, e.g., tea, coffee, toothpaste, soap, detergents, etc., we use these demographic and socio-economic variables in segmenting the markets.

   a. **Gender and Age:** Male-female buying behaviour shows remarkable differences. Roles of men and women are also considered while segmenting the markets. The recent interest with children, the teenage and youth market clearly demonstrates the importance of age as the variable characteristic in market segmentation. Pattern of expenditure also shows differences in different age groups. **Examples:** (a) Toys and chocolates are aimed at children and (b) Pepsi (soft drink) is targeting younger generation.

   b. **Family Life-Cycle:** Family life-cycle is a complex variable and is defined in terms of age, marital status, age of housewife and present age of children. Buying behaviour changes with the stage of the family life-cycle. Investigations have proved that the family life-cycle exercises definite influence on consumer behaviour with reference to purchase of durable as well as non-durable goods. Market for your products might be limited to one or a few of the various family life- cycles. **Example:** Dual income family would prefer labour-saving devices like washing machines, rice cookers, grinders and mixers, etc. They may also pamper children with costly garments, games, etc.

c. **Social Class:** Consumers may differ from one another, with regard to possession of scarce and valued things such as money, knowledge, or skills. The concept of social class is used to describe these differences. Social class is also a complex variable. It is based on income, occupation, education, and place of residence. Social classes are relatively permanent homogeneous divisions in our society and each social class indicates similar life styles, values, interests and behaviours. Broadly speaking, we have at least three social classes — upper class, middle class, and lower class in every society

NCAER has come up with a classification of social class based on income of the household as shown in Table 13.1.

Table 13.1

Number of households in India based on income

Income Groups (Rs. lakhs p.a. at 2001-02 prices)	Households (lakhs)		
	Urban	Rural	Total
Upto 0.9	246.3	1,107.5	1353.8
	(18.2)	**(81.8)**	**(100.0)**
0.90 - 2.0	212.7	200.0	412.7
	(51.5)	**(48.5)**	**(100.0)**
2.0 - 5.0	57.6	32.7	90.3
	(63.8)	**(36.2)**	**(100.0)**
5.0 - 10.0	12.0	5.1	17.1
	(70.2)	**(29.8)**	**(100.0)**
10.0 and above	6.2	1.8	8.0
	(82.33)	**(17.67)**	**(100.0)**
Total	534.8	1,347.1	1,881.9
	(28.4)	**(71.6)**	**(100.0)**

Note: Figures in brackets indicate percentage share of total households.

At present, the middle class consists of about 50 million consumers (108 lakhs households) having annual income between Rs. 2 - Rs. 10 lakhs and is small as a percentage of the total population. But it is the fastest growing segment among the social class.

d. **Religion, Race and Culture:** Religion, race and culture are also used as bases for segmentation. They can explain regularities and diversities in human behaviour. For example, there is a large population of vegetarians in our country and anchor has come out with vegetarian toothpaste for this segment of the population.

Food habits, religious practices, how we spend our money in day to day activities are influenced by caste and culture.

Demographic and socio-economic characteristics are important variables in segmentation. They are widely used to give a broad picture of market segmentation. They influence buyer behaviour indirectly. They have an impact on buyer behaviour and buyer decision only through psychological factors such as motives, attitudes, perceptions, preferences, etc. Hence, they are relatively weak predictors of buyer behaviour particularly in the highly complicated and sophisticated markets in developed countries since 1970. The behavioural sciences can throw additional insight on the causes of buyer behaviour and at present psychological variables are considered as important determinants of buyer behaviour along with demographic and socio-economic characteristics.

3. Psychographic Characteristics:

a. **Personality:** Personality is the individual's consistent responses to his environment. Personality tests attempt to measure such characteristics as dominance, aggressiveness, objectivity, achievement, motivation, etc., which may influence buyer behaviour. Personality variables are closer to explain the reasons why people buy than demographic and socio-economic variables. However, the predictive power of personality variables regarding buyer behaviour can be increased by considering them with life-style variables. Example: Lipstick users are young out-going beauty-conscious women.

b. **Life Styles:** Life-style concept is also considered as another important variable determining buyer behaviour. Life style reflects the overall manner in which persons live and spend time and money. It is behavioural concept enabling us to grasp and predict buyer behaviour. Life-style concept has interdisciplinary approach as it involves sociology, culture, psychology and demography. Life-style concept as a basis for segmentation is quite reasonable and desirable. Life-style can be measured by the products the person consumes and by the person's activities, interests, opinions, and values (AIOs). Despite the progress made in personality-based segmentation, life- style factors (AIO) are more important to marketers to know consumer state-of-mind to piece together the total market puzzle. Life-style factors include fun and enjoyment, security, accomplishment, self- respect, etc. Life-style segmentation is used for selling cars, cosmetics, expensive watches, furniture etc. **Examples:** Reid and Taylor suiting for the elite class, Jewellery watches for status and snob value.

Psychographic research is now being used more frequently in market segmentation studies for four reasons: (1) To find and explain markets and for target market identification, (2) To understand consumer behaviour as markets are people, e.g., brand choice, company loyalty, (3) To formulate marketing strategies for the firm, e.g., positioning new product, improving services, promotional strategies, new distribution methods, and (4) To minimise risk of product failure by incorporating psychographics into your product testing and R & D programme.

There are two shortcomings the marketer must be aware of while using psychographics. (1) Data collection and analysis can be problematic because survey instrument may have many questions, and (2) Psychographic segmentation studies are very costly, demanding even Rs. 20 to 30 lakhs for a complete research package.

13.6 PRODUCT-ORIENTED APPROACH

(Customer Response)

Under the people-oriented approach, we are interested in finding out the probable type of the customer who will buy our products. The knowledge of personal characteristics of consumers points out who are our buyers, where do they live and how they think. However, we want to know also why consumers buy a product and their response or behaviour towards a product or a store selling the products or brands. Hence, we must find out the bases of segmentation reflecting buyer behaviour. These may be: benefits expected, usage response, loyalty response — brand loyalty and store patronage. Let us describe these bases briefly.

a. **Use Pattern:** The use of the total consumption of a family unit for a given product may act as a basis of segmentation. A buyer may be classified as heavy, medium, light user or non-user. Marketer is usually interested in heavy users. If heavy users can be identified, the marketing effort can be concentrated on this segment of the market. Usage information can be combined with other characteristics of heavy users such as age, income level, family life-cycle stage and education level in order to secure relationship between heavy users and promotional devices like media preferences. Example: Air Deccan came out with a very low air fare to attract non fliers like rail passengers.

b. **Benefits Pattern:** Benefits segmentation lays emphasis on wants and desires of consumers. Benefits sought by consumers are the basic reason for the very existence of the market segment. It is obvious that people buy a product primarily to secure expected benefits. Customer satisfaction directly depends upon product benefits, e.g., economy, performance, style, durability, status, product appearance, taste, flavour, etc. First, consumers are grouped on the basis of benefits they expect and then, each segment may be analysed on the basis of demographic, socio-economic characteristics to secure better understanding of each segment and then only we can have appropriate marketing-mix for each segment. Example: Babool toothpaste is for price-conscious consumers.

c. **Brand/Store Loyalty:** Brand loyalty means that a satisfied customer continues to use a brand even when competing products unavailable. In the case of store loyalty, the consumers buy from the same shop. The reasons may be courteous service, credit facilities, home-delivery against telephonic orders and availability of a variety of products in the shop. Customer loyalty may be used as a basis for market segmentation. Loyalty segmentation enables marketer to tailor the promotional content and product appeal to retain the loyal customers, to attract new customers from rival brands or to convert non-loyal into loyal buyers. Example: In rural areas, shop loyalty is high since shop keeper extends credit to his customers.

- **Predispositions towards Products and Brands**

The attitudes, perceptions, values, beliefs, intentions, and preferences are the constituents of predisposition, indicating the customer's state of mind, predisposing the customer to behave in a particular way towards a product, brand, dealer, advertising media, and the company. Segmentation studies based on buying motives, attitudes, perceptions, and preferences give much better results regarding buyer behaviour than those obtained from demographic, socio-economic variables or determinants. However, the use of these psychological variables in market segmentation is not quite simple and straight-forward. Psychological factors are not measurable attributes. Age, sex, usage, income can be measured objectively, but personality traits, life-styles, motives, attitudes, values, and beliefs have to be inferred as they are subjective phenomena and cannot be objectively measured. Customers' perception of various products and their preferences for various brands within a product line can offer reliable basis for market segmentation, but they are complex and multidimensional and require IT support. In a computerised economy, multi-dimensional approach to complex and dynamic buyer behaviour may have immense practical utility.

13.7 MARKET SEGMENTATION STRATEGIES

(Market Targeting Strategies)

A firm should identify the most potential and convenient segment of the total market and make effective use of the marketing-mix to achieve the marketing objectives.

Marketer has three strategic options: (1) Undifferentiated marketing (Mass market strategy), (2) Differentiated marketing, (Market segmentation strategy), and (3) Concentrated marketing (Target Marketing).

1. **Undifferentiated Marketing:** Marketer may not prefer the idea of market segmentation and differentiated marketing. In that case, we will have one marketing-mix for several market segments. The advantage is that there is potential savings on production and marketing costs. As the company would face more specialised competition in each segment, it would have a relatively weak position in all segments. For many years Coca Cola company followed such a strategy — one brand, one product, one bottle, for one big market. But due to competition from rivals, who adopted differential marketing, even this big giant today has a broad line of products, multisized bottles and now follows differentiated marketing. It has, thus, found new selling appeals. Examples: Undifferentiated, mass marketing of namkeens, biscuits and local soft drinks.

2. **Differentiated Marketing:** An organisation, under differentiated marketing strategy, enters many marketing segments but has a unique marketing-mix appropriate for each segment. It wants to do business successfully in several segments. Example: Hindustan Lever has one brand of bath soap for each market segment. An automobile company, e.g., General Motors, offers a car for every 'purpose, purse and personality'. Indian Railways offer second class, first class and AC class accommodation. Each of these classes is targeted at specific segment of the travellers. Such a marketing strategy offers higher sales, and higher customer satisfaction. The firm can develop brand preference and repeat sales. However, differentiated marketing has one disadvantage viz., higher production and higher marketing costs. Hence, increasing market segmentation for the buyer's favour can reach a point of diminishing returns, i.e., additional sales increase may be lower than additional cost increase.

3. **Concentrated Marketing:** A firm may decide to concentrate all available resources on one chosen segment within the total market. It selects a market area where there is no strong competition and it can do best in that area. If it succeeds in matching its resources

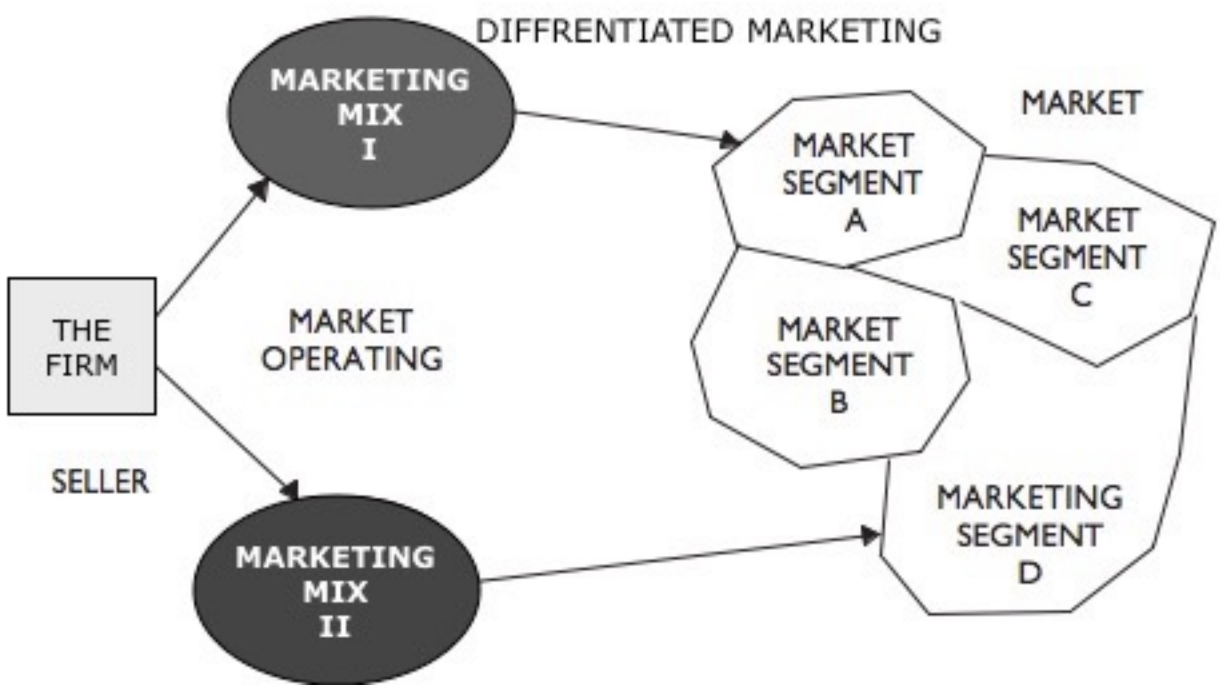


Fig. 13.7 Two Marketing Mixes for Two Marketing Segments — 'A' and 'D'

Note: Market segmentation enables the firm to select one or a few segments which act as target markets which are now offered tailor-made marketing mix.

with customer demand, it may enjoy an element of monopoly in that area. The market niche is free from competition. Strong loyalties are developed as customers are highly pleased with its products. Industrialists, rich businessmen, high profile corporate managers are target customers for expensive cars like BMW, Mercedes and Audi. A publishing house may concentrate only on textbooks, say, on business and economics. Rolex watch company concentrated only on quality and high-priced watches. In concentrated markets we have only one marketing mix. The product line is limited. The firm has some unique competitive advantage. However, it is an 'all-the-eggs- in-one-basket' strategy. It demands innovation in order to ensure customer patronage continuously. Smaller firms can compete successfully against much bigger firms by entering the niche ignored by the bigger rivals. This is also known as "Niche Marketing."

13.8 PRODUCT POSITIONING

In simple words, "product positioning" refers to the position or image which a product enjoys in the minds of the present and potential customer. According to Philip Kotler "positioning is the act of designing, the companys offer so that it occupies a distinct and valued place in the target customers minds."

The core thought behind positioning is the idea that your brand/ product must occupy a particular space continuously in the consumers mind. It is called renting mind space. i.e., find a suitable space in the mind and sit on it, do not let someone else (rival) to dislodge you.

Positioning is based on some unique selling proposition (USP). It is normally based on some unique feature of the product, brand, some unique feature of the market or some feature of the competition which becomes the core idea and around that feature, the product is placed in the market.

- **Elements of Positioning**

There are four variables that affect the positioning of a product in the market.

a. **Product:** The marketer has to differentiate the product from that of competition to create a lasting impression in the mind of the customer. The product can be differentiated based on features, performance, durability, reliability, repairability, style, and design. **Examples:** Car buyers pay a premium for the look of the car. Housewives like to have kitchen appliances that are long-lasting.

   Brand parity: When consumer believe that most brands offer the same set of features, the result is called Brand parity. The consumers will purchase from a group of accepted brands rather than one specific brand. When brand parity is present, quality is not a major issue since consumers believe that very minor differences exist. Therefore, they make purchases based on other criteria like price, availability of brand and promotional offer and brand loyalty suffers. In such cases, the marketer should create messages informing how the product is distinct and different from competition.

b. **Company:** A strong company profile increases the image of he product. **Examples:** Tata salt, Amul butter, Nestle coffee.

c. **Competition:** Product positioning is carried out in relation to competitive products. Generally, consumers judge a product in comparison to dominant brand. **Examples:** Toothpaste with Colgate, photocopier with Xerox.

d. **Consumers:** Positioning is based on the perception of the consumer rather than factual evaluation of the product. Therefore, the marketer has to understand the profile of the target consumer for effective positioning of the product. **Example:** Lux soap: “Beauty soap of film stars”.

- **Important steps in product positioning are given below:**

1. Find out competitive differences.

   (a) Product differences, (b) Service differences, (c) Differences such as image of the producer and Brand equity.

2. Select major differences.

   (a) Product benefits, (b) Warranty, (c) Prices, (d) Packings.

3. Develop positioning strategy.

   Positioning by price, benefits, competition, etc.

4. Communicate the product positioning through appropriate media and methods.

   Example: Pepsi sponsoring cricket matches.

5. Follow up.

   Assess the impact of the positioning through brand awareness, sales, etc.

Examples of positioning strategies are given below:

a. **Product features:** (a) Fuel efficiency feature of Hero Honda bikes, (b) Complan is positioned as health builder.

b. **Price and Quality:** (a) High power Surf, Washes whitest, (b) Good jeans for less — New Port Jeans.

c. **Use of Celebrities:** TVS Victor motor cycle endorsed by Sachin Tendulkar.

d. **Products benefits:** Two-minute positioning of Maggie Noodles.

e. **User Category:** Famous models are used to influence the people. Lux soap campaign based on "Beauty soap of film stars."

f. **Cultural Symbols:** American Cowboy and Marlboro Cigarettes.

g. **Status Symbol:** Rolls Royces (luxury cars)

Positioning is a policy document and is sacrosant and should not be tampered with. All promises should be guaranteed by the marketer to ensure renting mind space.

13.9 SEGMENTATION OF INDUSTRIAL MARKET

Industrial market can be segmented using many of the variables employed in consumer market segmentation. Demographic variables are the most important basis for market segmentation. They are followed by operating variables and personal characteristics. The following factors should be borne in mind to segment industrial market.

1. **Demographic factors** to be considered are:

    a. The type of industries to which goods are to be sold.
    b. The geographical location, area to be covered.
    c. Size of the Company — large, medium and small, based on sales volumes, market share, etc.

A tyre manufacturing company has broadly four categories of industrial buyers i.e., Car/Aircraft/Heavy vehicle/Tractor manufacturers and the manufacturing plants may be located in different states.

2. **Operating factors** would include the following:

    a. User or non-user status i.e., Heavy users, medium and light users and non-users.

    b. Customers requirements: Whether to focus on customers who require a package of services or only a few services.

3. **Purchase policies** do play an important role in segmenting business markets. Examples: A company may follow highly centralised or decentralised purchase decisions. Under decentralised setup, each branch office, manufacturing plant would directly place orders and may even settle the bills. The marketer has to communicate with each

office/manufacturing unit.

Some buyers are highly quality-conscious and will not compromise on quality. The marketer has to develop superior quality products to serve such customers. A marketer may have developed strong relationship with key executives in the purchase department and he may like to deal with such friendly buyers/companies.

4. **Situational factors:** The marketer has to consider the following:

   a. Whether to focus on large or small orders.

   b. To serve buyers who give advance orders or buyers who need quick supplies at short notice or both.

5. **Personal factors** to be considered are:

   a. Buyers who are risk-taking or risk avoiding.

   b. Buyers whose ethical values matches with that of the marketer or buyers who show loyalty towards suppliers based on past performance.

It is evident from the above discussions that industrial buyers do not focus on one variable but follow multi-attribute segmentation.

13.10 SUMMARY

- Marketeering Segmentation allows a marketer to take a heterogeneous market consisting of consumers with diverse characteristics, needs, wants, and behaviour and carve out one or more homogeneous markets, which are made of individuals, groups, or organisations with similar needs, wants, and behaviour tendencies. This process helps matching of market opportunities to corporate resources. Once the marketer has identified the most potential and convenient segment of the total market, he can make effective use of marketing-mix to achieve the marketing objectives.

13.11 SELF ASSESSMENT QUESTIONS

1. What is market segmentation? What are its benefits?

2. What are the three strategic options in the management of demand?

3. Describe the conditions essential for successful market segmentation.

4. What are the bases for market segmentation? Discuss people- oriented approach in segmentation.

5. Explain product positioning with examples.

6. Discuss the 'Segmentation of Industrial Market.'

7. A firm can adopt two types of strategies i.e., Product differentiation and Market segmentation to explore the market. Discuss.

8. Write short notes on the following:

    a. Concentrated marketing
    b. Store loyalty
    c. Life-style and segmentation
    d. Accessibility of market segment.

CASE STUDY

Segmentation in Retail Trade

- **Company**

Morgan Department Store had been in business for 64 years in a small town in West Virginia. The department store sold all items such as shoes, gifts, small appliances, and apparel from children to adults. The store was hit by recession and was out of touch with its customers. It faced plunging sales and soaring debt. About 60 per cent of its sales were on credit-charge accounts and as the recession deepened, customers fell way behind on payments causing a cash squeeze for the store. To pay its bills, the store borrowed money at 21 per cent interest, while it could collect only 18 per cent interest on credit card balances due to State laws. Morgans debts climbed and losses increased.

- **Survival Strategy**

The banks shut off credit and manufactures stopped shipping unless they were paid on delivery. Owners of Morgan decided to liquidate the business and called in Mr. Buxabaum.

Mr. Buxbaum, upon his arrival, found that the overall unemployment was much below national average and even lower among the store's middle income customers. For two days he surveyed the town's traffic pattern, competitors' merchandise and shopping habits at a new mall 50 km away. He talked with local media about store's advertising strengths and weaknesses.

He recommended that the business could be salvaged if the store owners took certain actions. He said the store was trying to be everything to everybody. So he recommended that Morgan eliminate least profitable lines: shoes, gifts, small appliances and the children's department. Morgan reduced major appliance display area to make room for expanded ladies' and men's apparel. The ladies' and men's garments had high volume and higher profit margins. Mr. Buxhaum found people driving out of the town to buy sheets and towels at a distant store. Morgan, therefore, added a linen department.

To get shoppers, the store announced a three-month “fight for Survival” sale offering discounts of as much as 50 per cent. Previously, Morgan had discounted only 20 per cent or less. Mr. Baxmaum said that at least 40 per cent of the merchandise must be sold off-price or you won’t bring in customers.

Morgan also revamped its merchandise buying. With Mr. Buxbaum’s help, they found suppliers who could offer better prices on furniture and apparel. Instead of buying from travelling salesmen, Morgan’s buyers went to manufacturers’ showrooms. These efforts provided 10 to 30 per cent savings on most apparel and also allowed store to update its fashions more frequently.

These changes finally paid off. The store’s sales went up for two months in a row. Profits were slim but at least the cash started coming in. Morgan feels that its fight for survival is far from over. It needs more planning, more market research, and rapid changes to meet the customer demands. It must offer appropriate marketing mix for each typical market segment. It must have enlightened promotional devices. It must have clear and precise marketing strategies.

QUESTIONS

1. Why was Morgan Store about to fall?

2. The reason retailer fails is because he doesn’t make changes. He doesn’t ask himself basic questions: Who are we trying to reach? What are our strengths? Comment.

3. What other actions should Morgan take to continue on the road to profitability?

- **Comments**

Marketer must define mission or central purpose of firm’s existence, basic objectives and goals. Then he should locate marketing opportunities as well as risks, evolve a happy balance between product offering and customer demand, and resort to market segmentation. For each segment most desirable marketing-mix or offering must be made. This requires marketing planning and programming.

REFERENCE MATERIAL

Click on the links below to view additional reference material for this chapter

Summary

PPT

MCQ

Video Lecture - Part 1

Video Lecture - Part 2

Chapter 14

MARKETING PLANNING/STRATEGY

Objectives

After studying this Chapter, you should be able to:

- Understand the meaning and importance of planning
- Understand the meaning, importance and steps in the process of Marketing Planning
- Study the competitive marketing strategies and what are its principles
- Know the meaning of strategy and understand the role and importance of marketing strategies.

Structure:

14.1 PLANNING

Planning is the first management function to be performed in the process of management. It governs survival, growth and prosperity of any enterprise in a competitive and ever-changing environment. Planning is an analytical thought process which covers: (1) analysis of the situation or environment, (2) assessment of the future opportunities and threats, (3) determination of objectives and goals in the light of the future environmental forces, and (4) selection of the best strategy or the course of action from among the alternative strategies to achieve the objectives.

A business enterprise is an open, adaptive and socio-economic system living in a dynamic environment. Situation analysis reveals the non-controllable and changing factors, e.g., customer needs and wants, customer behaviour, competition, political, economic, social, and legal climate (plus internal company bottlenecks). Business environment conditions can point out probable marketing opportunities as well as marketing problems, e.g., competition, changing buyer behaviour and life-styles. A wise manager looks within, around, and ahead before he decides to take action or leap in the competitive and dynamic market.

Assessment of the future reveals opportunities available to as well as probable threats or risks to be surmounted. On the basis of adequate knowledge of our strengths and weaknesses as well as the limiting factors particularly with reference to our material and human resources, we can select the best strategy or course of action to capitalise market opportunities, to meet and overcome risks and uncertainties and to achieve our predetermined objectives and goals.

According to Koontz and O'Donnel "Planning is deciding in advance what to do, how to do it, when to do it and who is to do it. Planning is simply a rational approach to accomplish an objective. It bridges the gap from where we are to where we want to go." Planning is deciding in advance what is to be done.

- **Importance of Planning**

The importance of planning can best be understood with reference to the oft-quoted poem:

For want of a nail, the shoe was lost,
For want of a shoe, the horse was lost,
For want of a horse, the rider was lost,
For want of a rider, the battle was lost,
For want of a battle, the kingdom was lost,
And all for want of a horse-shoe nail.

The importance of planning lies in the fact that it is like a navigator operating under varied business circumstances. A marketer has to work in an environment which is uncertain and ever-changing.

It is proper planning that enables a manager to carve out the future course of action. Peter Drucker has rightly defined business planning as "a continuous process of making present entrepreneurial decisions systematically and with best possible knowledge of their futurity, organising systematically the effort needed to carry out these decisions against expectations through organised feedback."

- **Planning and Control**

Planning and control are the twin management functions acting as the two sides of the same coin. Generally speaking, planning is deciding in advance, what is to be done, that is, a plan is a projected course of action. Control involves checking current performance against pre-determined standards contained in the plans. Planning is a condition precedent for effective controlling. Without planning, controlling cannot be accomplished. When we do not know desired performance (set by planning) how can we control the actual performance? Controlling is meaningful only after planning and when the plan is being implemented. In the absence of objectives, actual performance or results cannot be evaluated and controlled. In practice, planning-action-control is a continuing cycle and these functions are difficult to separate.

- **Business Planning**

Presence of buyers' market, emergence of global market, fierce competition, increasing technical complexity, growth and diversification of business, computerisation and automation, and greater emphasis on ecology and human resources are the significant reasons accounting for the growing importance and popularity of business planning — company-wide strategic planning, strategic business unit planning and functional annual marketing planning as well as planning at other functional areas.

Business planning enables management to establish most favourable relations between the organisation, and its complex as well as dynamic environment. The systems approach views a business enterprise as a total integrated system of business operating in a dynamic environment. The major task of managerial leadership is that of integrating all elements of the business and all elements of marketing-mix into an effective system that will accomplish marketing objectives and the corporate mission to the mutual benefit of the firm and the society.

Under the marketing concept, i.e., consumer-citizen-oriented marketing approach, business planning centres round marketing planning and marketing strategies. The entire marketing system is designed to serve customer-citizen needs and desires by the companies operating under the marketing concept. The success of any business will be determined by the evolution and maintenance of the profitable growth balance between the resources deployed in the business (inputs) and the customer-citizen needs-satisfaction (output).

Every business, in order to survive and grow, must serve some of these needs of consumers and citizens. Particular capacities of the enterprise will determine which needs can be served profitably. These capabilities depend upon the resources available with the enterprise — human and material resources. The success and satisfaction can be enjoyed by management, employees and owners of a business enterprise only when marketing executives achieve a profitable growth balance between customer needs and corporate resources as shown in Fig. 14.1.

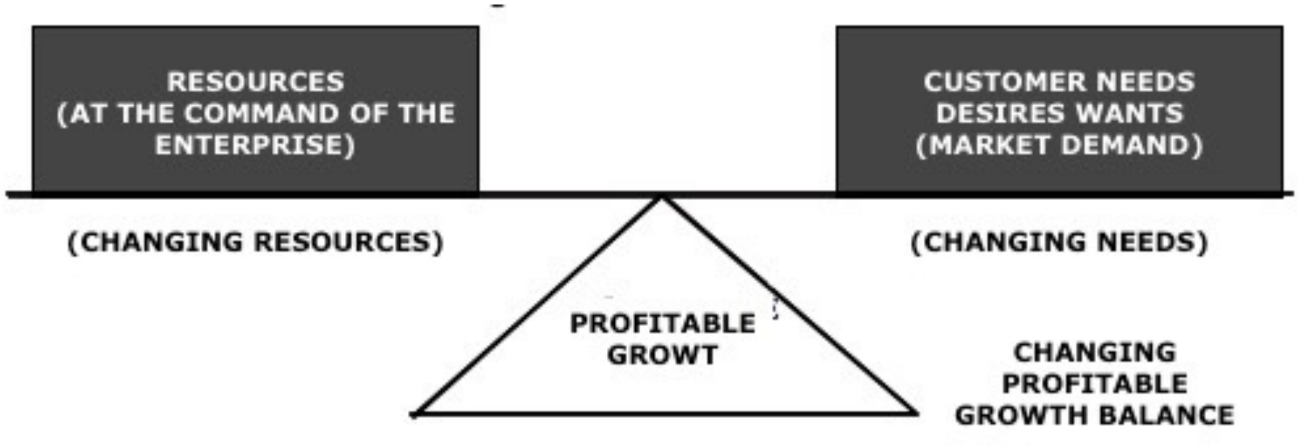


Fig. 14.1 Concept of Profitable Growth Balance

Searching, seeking and meeting customer needs alone can ensure profitable growth of any business. Customer needs are the probable market opportunities. These market opportunities can be capitalised with profit when the enterprise can deploy its resources to serve the market demand.

Customer needs are always subject to the direct attack by competitors who desire to serve those same needs in the market. Hence, marketing executives have to evolve marketing strategies to overcome competition in the market. Competition is a key element in a company's marketing opportunity. Strategic planning always is based on the assessment of competition. Customer needs are also influenced by economic, social, cultural, and political environment. Hence, marketing executives must have adequate information regarding these changing environmental factors influencing customer needs and behaviour.

Resources at the disposal of the enterprise are also having dynamic character. Resources are subject to deterioration. New resources are generated continuously. Availability of resources clearly limits the range of planning and control. Deployment of resources assumes considerable importance in a dynamic environment. Management wants the optimum use of available resources.

Thus, under ever-changing environment and keen competition, the success of a business concern is measured by extent to which the corporate resources are kept in profitable growth balance with the customer needs and desires served by those corporate scarce resources — human, financial and material resources.

Integrated business planning alone can enable the enterprise to achieve the profitable growth balance between resources and marketing opportunities reflected by customer needs. Please note that marketing opportunities are seen in terms of unsatisfied customer needs and the enterprise pursues those marketing opportunities to the satisfaction of the customer with the help of planning-action- control-replanning cycle. In essence, planning involves matching of means (resources) and ends (productivity and customer satisfaction).

- **Corporate Planning**

There are five major steps in corporate planning:

1. Environmental Scanning

a. **External Environment:** Business environment is scanned to secure up-to-date information on opportunities and threats revealed by the changing environmental forces, such as customers, customer needs, competition, economic, social and political climate, ecology, and technology. The situation analysis indicates where we are, how we got here and where we are now going.

b. **Internal Environment:** Marketers must also have adequate knowledge of internal situation through self-analysis, i.e., on corporate strength and weakness. The corporate resources are the limitations on exploitation of marketing opportunities knocking at our door. The environmental opportunities may not become specific corporate opportunities. Company opportunities constitute a set of marketing undertakings in which a particular company has competence and capability to enjoy the competitive benefit because of its particular and unique market approach. There should be a happy marriage between the company resources and company opportunities so that the marketer can accomplish the set corporate goals.

The internal and external environmental scanning offer us SWOT, i.e., Strengths and Weaknesses as well as Opportunities and Threats.

Threats are considered as challenges to be met or overcome by strategic planning. Marketing information and research enables us to scan external environment. Sales audit and cost analysis enable us to study internal environment.

2. Defining Corporate Mission

The statement of basic purpose or mission offers customer- oriented answers to a few questions, e.g., What is our business? Who is our customer? What is our goal? The mission focuses the attention on the fundamental customer needs.

Examples of Mission: What is our business?

i. Communication Co. We offer varied forms of reliable, efficient, cost-effective services in telecommunications.

ii. Xerox: We automate offices.

iii. Levi Strauss: In wearing garments we offer fashion, comfort and durability.

iv. Cosmetic Co. In the shops we sell hope.

3. Setting Objectives

The mission answers the question, "What is our business?" The objectives answer the question, "What do we want to achieve?" Objectives must be clear, ambitious but realistic, measurable and time-bound. The mission points out the needs to be served. The objectives indicate performance standards, e.g., market share, profit, services, customer satisfaction, etc. Please note that objectives or goals are the desired or planned outcome.

4. Identifying Strategic Business Unit (SBU)

Within a multi-product or multi-business corporation, we may have one or more business areas or SBU. In the corporation there may be more than six divisions but in reality we may have only three distinct businesses. Hence, for strategic planning, all divisions will be grouped into only three strategic business units. The concept of SBU has unique importance in corporate strategic planning. The products that form a planning unit (SBU) should have, in common, major strategic features such as target markets, distribution channels, advertising, and sales force strategies. Thus, SBU is a separate division for a major product or a product line or a market in a multi- product or a multi-business organisation. It is in charge of conducting situation analysis, determining marketing objectives, selecting target market, measuring the market and designing a strategic marketing-mix.

In order to identify SBU, a business is defined on the basis of consumer-orientation (not product-orientation) in terms of three dimensions: (1) Customer needs to be met, (2) Group of customers to be served, and (3) Product or service to fulfil those needs. The SBU has three features: (1) It is a collection of related products meeting similar needs, (2) The unit has its own rivals and it wants to surpass them through best marketing strategies, (3) The manager of SBU organisation is directly responsible for strategic marketing planning, control and profits.

Each SBU manager is given a set of strategic planning goals and the requisite finance. The manager will present SBU marketing strategic plan to the corporation which will give its sanction with a few modifications, if essential. The manager of SBU will formulate a distinctive plan of marketing objectives and strategies, distinctive marketing-mix for the target market, i.e., chosen market segment. Each SBU will have its own distinct mission, competition and strategy.

The concept of SBU provides precise and practical direction to the process of corporate strategic planning. In India, SBU concept is adopted by big businesses in corporate strategic planning.

Note: SBU is a unit in charge of strategic marketing planning in a big corporation.

5. Selecting Appropriate Strategies

Once the corporation has planned where it wants to go, the next step is to answer the question “How are we going to get there”? Corporate strategies supply the best answer to this vital question, viz., the best means to achieve the desirable goals and fulfill the mission.

There are four alternative strategies before the corporation or an SBU:

i. **Invest Strategy:** Marketing efforts are intensified further to strengthen the SBU or the enterprise.

ii. **Protect Strategy:** The SBU will be given help to maintain its present position in the market.

iii. **Harvest Strategy:** The SBU is used as a cash-flow source to help other SBUs to grow or maintain the position.

iv. **Divest Strategy:** The sick or unwanted SBU may be just sold out and the corporation gets rid of that SBU.

BOX 14.1

THE ANSOFF MODEL OF GROWTH OPPORTUNITIES (2×2 MATRIX)

Four distinct strategies for achieving growth through intensification route : Market penetration strategy. Market development strategy. Pr oduct development strategy and Diversification. In terms of products and markets, the strategies correspond respectively to: Growth through existing products in existing markets. Growth through existing products in new markets. Growth through new products in existing markets. The fourth strategy is of tapping new markets with new products. This means diversification.The growth opportunities are also possible through integration route. This analytical model helps the planner and the strategist to evaluate strengths/weaknesses vis-a-vis marketing opportunities in the environment.

Note: Please refer Ch. No. 11 on Product Plan.

Please note that the strategic company planning is done by the top management for the whole enterprise. Strategic marketing planning is done at the strategic business unit level. The annual marketing planning is done for each product line, major product or market.

- **The Management Process**

In a customer-centred enterprise, marketing management is called upon to assess marketing opportunity, formulate plans and strategies, develop functional plans, implement marketing programme and control all marketing activities. The leadership has to motivate the personnel, evaluate and adjust marketing effort to achieve the set goals. Planning-execution-control is an ongoing process. Planning provides the basis for integrated marketing strategy. Creative and timely adaptation to change in the environment is the major challenge

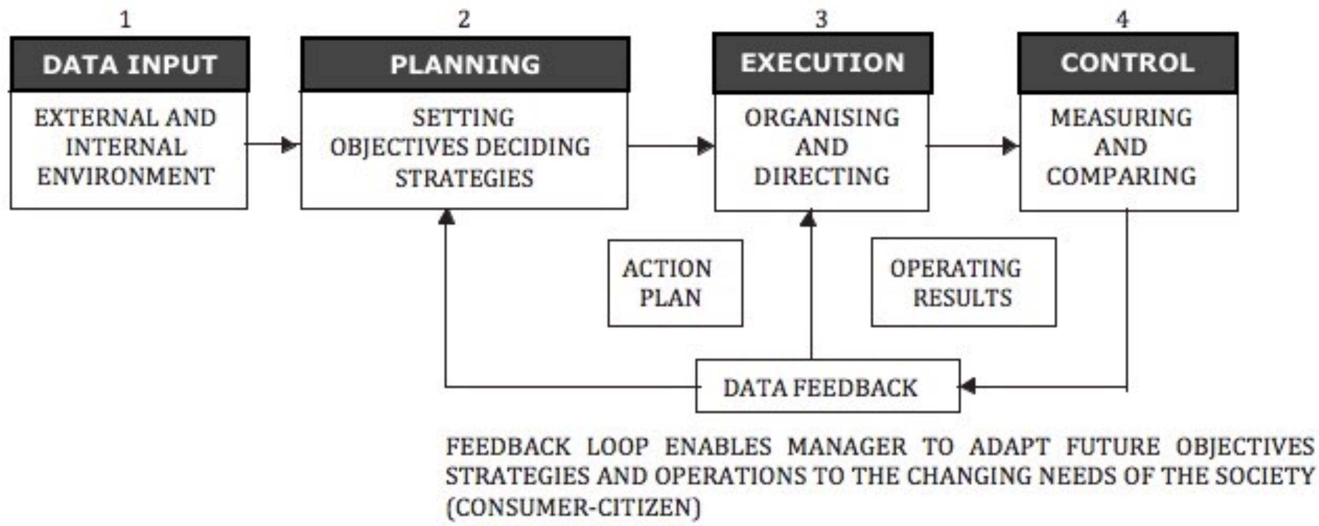


Fig. 14.2 The Management Process, in Marketing

confronting innovative management — at the corporate level, at the Strategic Business Unit (SBU) level and at the functional level.

- **Comments**

1. Data input provides situation analysis which answers the questions: Where are we and how did we get there? Where are we headed?

2. Setting mission and objectives is the first step in planning. Management decides the ends or destination: What is our business? Who are our buyers? Where do we want to go? Formulation of strategy provides preferred means to achieve desired results or objectives or ends. Strategy indicates the best way to reach the goal — means to achieve ends.

3. Action plan or programme is a tactical plan indicating, Who should do what? When? How? To what extent did we achieve our planned objectives?

4. Evaluation answers the questions: How are we doing? To what extent did we achieve our planned objectives?

5. Feedback loop enables manager to modify objectives, strategies, tactics, and action plan on the basis of actual result or performance.

14.2 MARKETING PLANNING

Marketing planning is the process of anticipating future events and developing strategies to achieve organisational objectives. It involves designing activities relating to marketing objectives. Marketing planning of an organisation is planning for that organisation's revenue- generating activities. It must begin with setting down the corporate plans and should be followed through with plans for each separate function.

1. The first step in marketing planning process is setting down marketing objectives and policies.

2. The second step is designing the marketing system. In the marketing system, a company has to design/define each function with its contribution.

3. The third step is to develop separate objectives, programmes, and strategies of each function, so that they can be assessed for the target purpose and the broad objectives. If any function cannot meet its objectives, have to be modified for that functional area.

4. The fourth step is drawing of detailed plans for each function for a shorter period, i.e., a quarter, half a year or a year. It will be helpful in defining responsibilities, timing and costs needed to achieve the short-term objectives.

5. The fifth step is merging the marketing plans into organisational plans.

Importance of Marketing Planning; Marketing planning is indispensable in the field of marketing. A carefully planned marketing plan contains major assumptions and facts put together in the best possible combination to achieve the marketing objectives.

The importance of marketing planning:

1. It helps in avoiding future uncertainties.
2. It helps in management by objectives.
3. It helps in achieving objectives.
4. It helps in coordination and communication among the various departments.
5. It helps in control.
6. It helps the customers in getting complete satisfaction.

- **Strategic Marketing Planning**

Strategic marketing planning involves the following broad areas:

1. Situation Analysis

Situation analysis is the starting point in all planning activities, i.e., where are we now? It analyses existing marketing programme and where the programme should go in the future. It gives information on market demand, market environment and performance. It enlightens us on our capabilities and limitations. It also reviews the existing marketing-mix thoroughly.

2. Marketing Objectives and Strategies

These at the marketing level are closely allied with corporate objectives and strategies. The marketing objectives translate corporate strategy. For example, corporate objective is 25 per cent return on investment and corporate strategy is 20 per cent cost reduction in order to enhance profitability. This company strategy will now be the marketing objective and the marketing strategy may be payment of sales remuneration in the form of commission instead of salary.

3. Segmentation and Target Market

In a new company, segmentation enables the company to identify potential target markets. In a running concern, management reassesses the choice of target markets and modifies them, if necessary. The firm may also reconsider segmentation strategy. It has to ascertain sales forecast in its target markets.

4. Marketing-mix

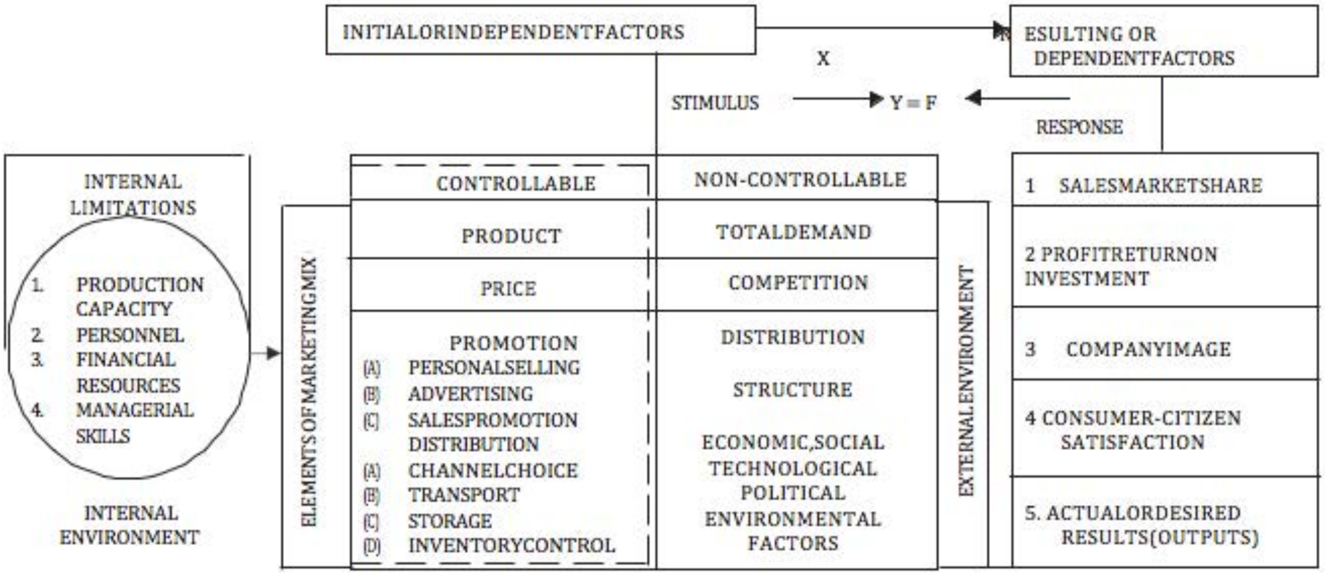
A distinctive marketing-mix is now prepared to satisfy target market demand and attain marketing objective for each target market.

Marketing-mix and its implementation constitute the bulk of company's marketing efforts. We have the best integration of product, price, promotion and distribution strategies.

- Interaction between Marketing Mix and Marketing Environment

While formulating marketing plan, the marketing manager has to consider internal resource i.e., human and material resources and non-controllable external environmental factors such as political, economic circumstances, socio-cultural factors, technological, ecological, and legal factors and he has to adjust and adapt marketing mix with the requirements of the environment.

1. Marketing-mix represents controllable factors that represent the Marketing-Mix: (a) Product, (b) Price, (c) Promotion, and (d) Distribution (Place). Promotion covers personal selling, advertising, sales promotion, and publicity (tools of marketing communications). Distribution includes channels, transport, warehousing, and inventory control. These controllable factors are the marketing instruments or variables. Taken together they give us marketing programme or marketing mix. The firm has a choice of alternatives regarding these marketing instruments, and their permutations and combinations. A company can achieve its marketing objectives by selecting and balancing the marketing-mix programme in such a way that it fits the requirements of the market environmental forces, i.e., the non-controllable factors. Marketing management must establish a happy and enduring marriage or union between non-controllable factors and marketing programme in the form of tailor-made marketing-mix for each market segment — the target market.



14.3 Inter-relations between Marketing-Mix and Marketing Environment

2. Internal limitations indicate the firm's capacity or resource position. Resources of the company are the means (inputs) and company objectives are the ends (outputs). Production capacity, research and development, financial and personnel resources, level of production cost, etc., are the internal resource limitations. We have to match these means to our ends. Hence, marketing objectives are determined on the basis of self-analysis of our strengths and weaknesses — internal constraints. In essence, planning involves a matching of means and ends, or inputs and outputs.

3. External environmental factors are uncontrollable by individual firms, and marketing management is called upon to adjust and adapt with the requirements of the environment. We have changing customers, changing customer needs, changing competition, changing distribution structure and changing economic, social, technological, legal and political climate. We have to establish proper balance between our Resources and our Marketing Environment. The environmental factors reveal marketing opportunities and threats. On the basis of available resources, we have to select the best marketing opportunities and find out appropriate marketing-mix to capitalise the chosen marketing opportunities. By anticipating threats, management should be prepared to meet their challenge in time. Threats and uncertainties can be converted into opportunities through intelligent planning.

- **Major Steps in Marketing Planning**

(1) Study of external environment through marketing information and research facilities, (2) Study of internal environment through sales audit and cost analysis, (3) Determination of overall mission and goals, (4) Assessing marketing opportunities, (5) Determination of company objectives, (6) Laying down company strategies, (7) Fixing specific marketing objectives, (8) Developing marketing strategies in each area of marketing-mix, (9) Integrating marketing- mix and providing time-bound marketing programme,and (10)Implementing marketing plans and marketing controls.

- **Annual Marketing Plan**

Strategic marketing planning leads to the development and carrying out of an annual marketing plan. The marketing plan is a written document that acts as a guidebook for the Marketing Manager. The marketing plan will have the following major items:

1. Annual marketing plan is a short-term marketing plan, covering one year. A separate annual plan is prepared for each product line, major product, brand, or market.

2. Each marketing plan incorporates strategies and tactics relating to the marketing-mix for a particular target market. Annual marketing plan deals with tactical details, which are ignored in strategic marketing plan. It gives complete guidance to all marketing executives in each step of marketing operations.

Note: Only in large multi-business and multi-product company we have a number of strategic business units.

3. The marketing plan is built around the four elements of the marketing mix. It is a unique combination of the firm's products, pricing, promotional efforts, and channel decisions. It is designed to enable the firm to penetrate markets, gain desired market share and achieve strong positioning in the market (strong image for the company and its products).

4. Overall corporate mission, corporate objectives and corporate strategies are determined by the top corporate management, under

comprehensive business planning. Each strategic business unit management will be responsible for determining the unit objectives, strategies tuned with the corporate mission and strategies. Under each SBU we will have functional plans for each functional area. Marketing department will have its own marketing objectives, strategies and marketing programmes, of course, tuned with general and SBU objectives and strategies.

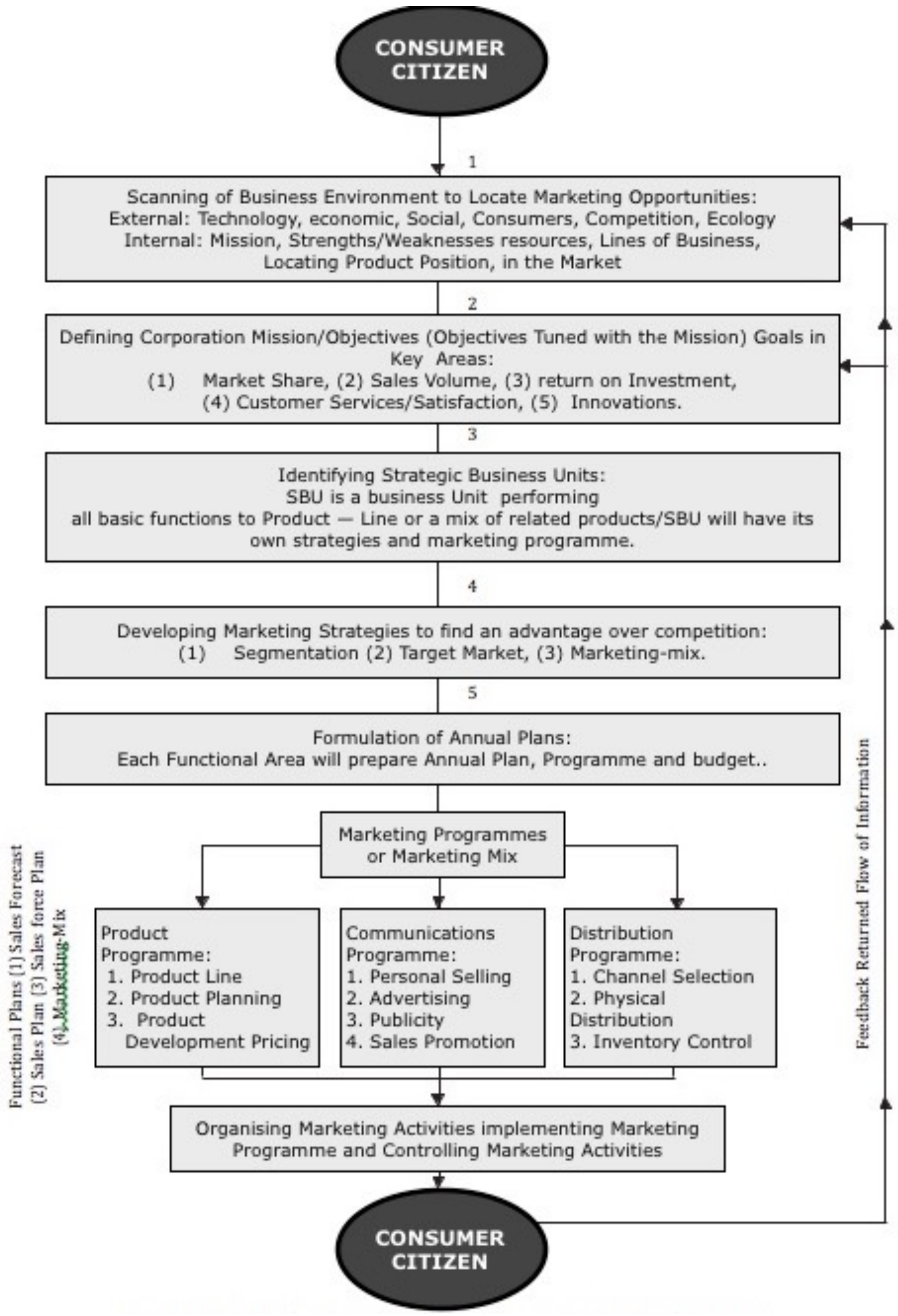


Fig. 14.4 Major Steps in Marketing Planning and Strategy

BOX 14.2

Checklist of Annual Marketing Plan

1. Situation Analysis on market demand, market environment and market performance, sales forecast.

2. Determination of marketing goals on assessment of marketing opportunities.

3. Review of market segment and target market.

4. Developing integrated marketing-mix for each market segment.

5. Plans of action with schedules, assignment of responsibility, and grant of authority. Thus, marketing strategy is implemented effectively.

6. Marketing Tactics, e.g., discounts allowances, prizes, gifts, and any other support during the year to manoeuvre the market.

7. Continuous Monitoring of performance, comparison of actual results with the set standards, and removal of deficiencies. The marketing objectives are the standards for comparison. Aggressive marketing leadership plus effective marketing control assure marketing success even against intense competition.

14.3 STRATEGY

In corporate planning, strategy is the grand design or a dynamic action-oriented formal general plan to accomplish company mission, basic objectives as well as functional objectives. It involves the choice of a general type of plan. Objectives emphasise the state of being there while strategy emphasises the process of getting there. Objectives prescribe ends. Strategies provide preferred means to accomplish the desired ends. Strategy points out the chosen best way in which objective can be achieved in the best manner possible even in the face of anticipated competition, or against unfavourable environment.

Strategic management is defined as a set of decisions and actions in formulation and implementation of strategies designed

to achieve the objectives of an organisation. Strategic management in most organisations operates at three levels i.e., (1) Corporate/ Company Strategy, (2) Business/competitive Strategy, and (3) Functional Strategy.

Corporate strategy is the top management plan to direct and run the organisation and it is a long-term plan applicable for the entire organisation. Business strategy deals with plans to succeed in chosen business. It occurs at business unit or product level. It emphasises improvement of competitive portion of the company. Functional strategy is formulated for functional areas like HR, Finance, Marketing, etc.

- **Strategy include the following**

1. Awareness of missions, goals/objectives. This provides the central concept of planning i.e., what is our business, who are our customers, what goods and services shall we supply and so on.

2. Analysis of organisation's external competitive environment to identify opportunities and threats.

3. Analysis of organisation's internal operating environment to identify organisation's strengths and weaknesses.

4. Selection of strategies based on organisation's strengths.

5. Strategy implementation.

6. Evaluation of strategies.

An enterprise must have at least two major broad objectives:

(1) to do the right things, and (2) to do things right. Strategic planning reflects the first objective, i.e., to do the right thing. Tactical planning underscores the second objective, i.e., to do things right.

A strategy of a company is designed in such a way that it matches or fits with: (1) future environmental marketing opportunities, (2) capabilities of company's human and material resources, (3) top management values and beliefs, and (4) desired socio-economic objectives. The future market opportunities point to what a company might do. The distinctive corporate competence and resources will point out what a company can do. Personal values and aspirations will indicate what a company wants to do. Social responsibility, under societal marketing concept, will reflect what a company should do to fulfil social obligations.

A strategy has three elements: (1) mission and basic objectives or goals set by top management, (2) courses or pattern of actions to follow, and (3) deployment or allocation of human and material resources to execute the plan and to accomplish the set objectives. It gives the precise statements: (1) Where the firm wants to go, and (2)how should it try to get there. While arriving at a decision regarding ends (where to go), a firm has to solve three problems: (1) Choice of right objective in the light of: (a) market opportunities, (b) corporate competence and resources which can be allocated; limitations on resources will decide scale of effort and feasibility of marketing opportunities, (2) There are multiple objectives, many a time conflicting, and their conflict must be resolved, and (3) We have to set the objectives which must be challenging but feasible, motivating and acceptable to the executives and their subordinates.

In arriving at the second decision regarding preferred means to achieve desirable ends — how should we try to get there, we have several alternative courses of action and the choice of the best means is, many a time, quite hard. We have various company alternatives in technology, organisational set-up, market options, distribution options, promotion options, product choices, and so on. Hence, we prepare complete alternative plans.

Like a magnifying glass, strategy puts into the limelight critical activities requiring prior concentration and special efforts. Strategy acts as a bridge between our objectives and our action plans or programmes. Usually, we use two or three strategies simultaneously. A company may choose first to concentrate on, for example, share in the market, or product quality, or price, or after-sale-service, or sales promotion or advertising and so on. The critical factor assuring success will be given top priority. It is called unique selling point (USP.) It is responsible for positioning of your brand in the market. If your company is merely a market follower, the customers in reality will force your company to adopt a certain strategy. But if you aim at capturing the leadership in the market share, price, quality, service, etc., you must have your own strategy.

- **Corporate Strategy Formulation/Implementation**

Corporate strategy is simply a chosen way in which a company is going to achieve the corporate mission and goals set for itself by all its executives. The total or overall corporate strategy must be based on a searching look within (self-analysis), a broad look around (analysis of current environment in the market relating to customers, competitors, employees, community etc.) and a long look ahead (forecasts of future environmental conditions).

There are four basic steps in the formulation of corporate strategy: (1) Determination of corporate objectives, viz., mission and corporate goals or objectives describing the central purpose of business, (2) Generation of alternative business opportunities and options at our disposal, (3) Selection of the best business opportunity or option, and (4) Implementation of the chosen line of action to capitalise the selected business opportunity.

Strategy specifies selection and ranking of business opportunities and points out the preferred means of achieving the desired objectives. It also includes allocation of resources to exploit the well-chosen opportunities. Once the nature and magnitude of each business opportunity are precisely known, selection and ranking or grading of opportunity will deserve special attention. The more important opportunity is given higher preference in our scale of preferences. This is called corporate or business strategy. Evaluation of opportunities under customer-oriented business planning will be made first by marketing management. The evaluation will be primarily based upon customer needs, customers, and competition. Resource availability will also be considered to determine its feasibility. The opportunity approved by the marketer will be screened by other areas of business such as research and development, engineering, production planning and finance departments. The top management can put the final stamp of its decision when the functional specialists have screened and approved the exploitation of business opportunity. Now we will have final business strategic plan ready for implementation to convert the chosen opportunity into a reality.

- **Marketing Mix and Marketing Strategy**

Marketing straegy is an action plan for facing market competition or for exploiting marketing opportunities. The basic objective of marketing strategy is to achieve marketing objectives.

Marketing Strategy basically involves effective use of marketing- mix to explore the markets. Marketing-mix indicates appropriate combination of four Ps for achieving marketing objectives. The components are also known as marketing-mix variables or controllable variables as they can be used as per business requirements.

Under customer-oriented marketing plans and strategies, main marketing objectives are naturally consumer-citizen satisfaction and profitability through serving the demand, viz., customers and customer needs. Company image will be bright if marketers adopt and practise sincerely the socially responsible marketing policies. When a firm succeeds in establishing profitable relationship with changing marketing environment, it is assured of not only survival but also growth and prosperity.

- **Strategic Insight**

Product differentiation, USP concepts, emphasis on business environment are the usual approaches in marketing strategy formulations. Such approaches assume that both the consumer and competition have to be kept foremost in mind, lest we ignore them and get lost in the myriad of own assumptions about our products and markets.

marketing-mix and marketing strategy

1	2	3	4
PRODUCT	PRICE	PROMOTION	DISTRIBUTION
IT IS DESIGNED TO MATCH CUSTOMERNEED.PRODUCT INCLUDESPRODUCTSIZE, QUALITYBRANDINGAND PACKAGING	PRICEISFIXEDINTERMSOF CUSTOMERSEGMENTSAIMED AT	ADEQUATEADVERTISING, PERSONALSELLING, SALESPROMOTION,PUBLIC RELATIONS (FOREFFETIVE COMMUNICATIONS)	ADEQUATECHANNELS OFDISTRIBUTION, TRANSPORT,WAREHOUSING, INVENTORIES
PRODUCT OBJECTIVE	PRICE OBJECTIVE	PROMOTION OBJECTIVE	DISTRIBUTION OBJECTIVE
1. TYPEOFCUSTOMERTOBE| SATISFIED 2. PRODUCTANDPRODUCT LINESTOBEOFFERED 3. NATUREOF DIVERSIFICATION, PRODUCT,DIMENSIONS, SIZES,WEIGHT,QUALITY, SHAPE 4. PRODUCTTUNES WITH CUSTOMEREXPECTATIONS	1. TARGETRETURNON INVESTMENT(R.O.I.) 2. MARKETSHARE 3. MEETINGPRICE COMPETITION 4. PRICELEADERSHIP 5. FAIRANDREASONABLE PRICE	1. CONSUMERAND PATRONAGE 2. DEALERINTERESTAND SUPPORT 3. BRIGHTCOMPANYIMAGE 4. STIMULATINGSALESFORCE 5. INDUCINGQUICKSALES 6. MEETINGNON-PRICE COMPETITION	1. INTENSIVE,SELECTIVE, EXCLUSIVE DISTRIBUTION 2. CHANNELMANAGEMENT 3. EFFICIENT AND EFFECTIVE PHYSICAL DISTRIBUTION PACKAGES TRANSPORT WAREHOUSING INVENTORY AND ORDER PROCESSING 4. DESIRABLELEVELOF CUSTOMERSERVICE

Fig. 14.5

Notes:

1. Product strategy is a company's plan for marketing its products. It starts with product objectives. Product strategy must be fitted into overall marketing plan and integrated with other elements of marketing-mix.

2. Channel decisions and physical distribution plan are the components of distribution strategy. These decisions should be evaluated against the Rest of the Marketing-Mix and fitted into overall marketing plan.

3. Promotion strategy aims at communicating, convincing and competing against rivals. It must fit into the overall plan. Promotion strategy is evaluated against company objectives, promotion objectives and the Rest of the Marketing-Mix.
4. Pricing strategy involves hardest decisions. Pricing plan must fit into the overall plan and integrated with the rest of the Marketing-Mix.

- **Role of Strategic Insight**

Instead of merely looking at competition for a frame of reference, to guide all marketing efforts, strategic insight or an alternate thought process is necessary to make the customer forget about the competition. In this manner a company's brand will stand alone and be the undisputed leader in the market.

1. A case in point is Titan watches, wherein a potential customer probably does not even consider purchasing the other brands available in the market at a lesser price. It is this rare status that a brand should enjoy. However, having got there maintaining and enhancing the brand's equity is even more important. Titan saw the whole market for watches differently and acted on this changed perception in its methods of advertising and retailing. Today, Titan is reaping the benefit because it was bold enough to act on this changed perception of the market and the marketplace.

2. Another one is Surf which revolutionised the market with the concept of a 'bucket wash.' It was Surf which made the market segment for washing soaps grow. The concept of a bucket- wash was the strategic insight needed to achieve this. Today Surf has become the benchmark in this category 'micro- system' or otherwise.

3. Nirma again challenged the rule that a detergent had to be blue and that there should be some design sophistication in the packaging. Even their distribution was unorthodox. The no-frills, bare-essentials approach of Nirma and a product which was priced at about 35 per cent of Surf was the secret of success for Nirma. Here again, Karsanbhai Patel was able to do this because he had no pretensions about the market like most MNCs do.

- **Strategy of Target Market Selection**

Example: Vimal Fabrics

a. Vimal fabrics are classic, high quality, premium-priced. Hence, upper level income groups, fashion and quality-conscious urbanites are selected as the target market.

b. Sizable enough segment for Vimal fabrics available in our cities and towns.

c. Strategy relied on 'aggression', dynamic and aggressive promotion specially through T.V. and Press to supersede all rivals.

d. Creation of products to match perfectly (using new technology and new raw material), the fashion-conscious richer segment: "Only Vimal" concept succeeded.

e. Best blending of marketing-mix elements and effective implementation of marketing strategies to stay ahead of competitors.

Porter's Five-Forces Model

Identifying major competitors and assessing their strengths, weaknesses, capabilities, objectives and strategies are important aspects of strategic management. The nature of competition in an industry consists of five forces as given in Fig. 14.6.

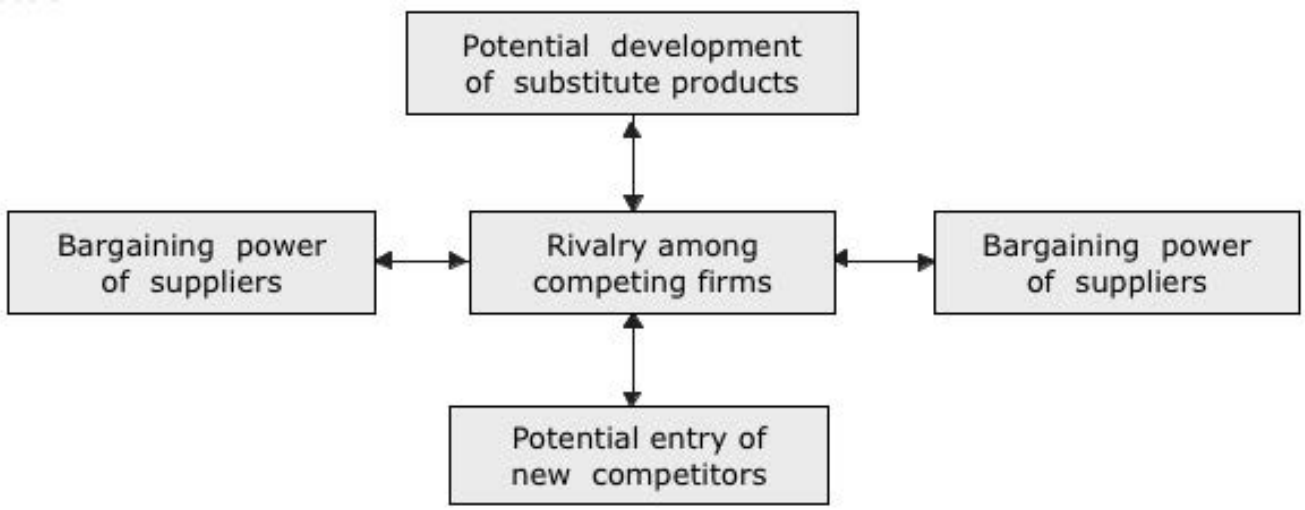


Fig. 14.6 Rivalry among competing firms

1. Rivalry among competing firms.
2. Potential entry of new competitors
3. Potential development of substitute products
4. Bargaining power of suppliers
5. Bargaining power of consumers.

1. **Rivalry among competing firms (Competition within industry):** Rivalry among competing firms is usually the most powerful of the five competitive forces. The strategies pursued by any one firm can be successful only to the extent that they provide competitive advantage over the strategies pursued by rival firms. Changes in strategy by one firm may be met with retaliatory countermoves, such as lowering prices, enhancing quality, adding features, providing services,extending warranties and increasing advertising.

   The intensity of rivalry among competing firms tends to increase as the number of competitors increases, as competitors become more equal in size and capability, as demand for the industry's products declines, and as price-cutting becomes common. Rivalry also increases when consumers can switch brands easily; when barriers to leaving the market are high; when fixed costs are high; when the product is perishable; when consumer demand is growing slowly or declines such that rivals have excess capacity and/or inventory; when the products being sold are commodities; when rival firms are diverse in strategies, origins, and culture; and when mergers and acquisitions are common in the industry. As rivalry among competing firms intensifies, industry profits decline, in some cases to the point where an industry becomes inherently unattractive.

2. **Potential entry of new competitors:** Whenever new firms can easily enter a particular industry, the intensity of competitiveness among firms increases. Barriers to entry, however, can include the need to gain economies of scale quickly, the need to gain technology and specialised know-how, the lack of experience, strong customer loyalty, strong brand references, large capital requirements, lack of adequate distribution channels, Government regulatory policies, tariffs, lack of access to raw material, possession of patents, undesirable locations, counter-attack by entrenched firms, and potential saturation of the market. Despite numerous barriers to entry, new firms sometimes enter industries with higher quality products, lower prices and substantial marketing resources. The strategist's job, therefore, is to identify potential new firms entering the market, to monitor the new rival firms' strategies, to counter-attack as needed, and to capitalise on existing strengths and opportunities. When the threat of new firms entering the market is strong, incumbent firms generally fortify their position and take actions

to deter new entrants, such as lowering prices, extending warranties, adding features, or offering financial services.

3. **Potential development of substitute products:** In many industries, firms are in close competition with producers of substitute products in other industries. Examples are plastic container producers competing with glass, paper-board, and aluminum can products, and acetaminophen manufacturers competing with other manufacturers of pain and headache remedies. The presence of substitute products puts a ceiling on the price that can be charged before consumers will switch to the substitute product. Price ceilings equate to profit ceilings and more intense competition among rivals. Competitive pressures arising from substitute products increase as the relative price of substitute products declines and as consumers switch cost decreases. The competitive strength of substitute products is best measured by the inroads into the market share those products obtain, as well as those firms' plans for increased capacity and market penetration. Example: When 'Nano Car' was introduced, prices of competing car models were reduced to face competition.

4. **Bargaining power of suppliers:** The bargaining power of suppliers affects the intensity of competition in an industry, especially when there is a large number of suppliers, when there are only a few good substitute raw materials, or when the cost of switching raw materials is especially costly. It is often in the best interest of both suppliers and producers to assist each other with reasonable prices, improved quality, development of new services, just-in-time deliveries, and reduced inventory costs, thus enhancing long-term profitability for all concerned. Example: If the supply of car/truck is less than demand, the suppliers will ask for higher prices.

   Firms may pursue a backward integration strategy to gain control on ownership of suppliers. This strategy is specially effective when suppliers are unreliable, too costly, or not capable of meeting a firm's needs on a consistent basis. Firms can generally negotiate more favorable terms with suppliers when backward integration is a commonly used strategy among rival firms in an industry.

5. **Bargaining power of consumers:** When customers are concentrated or large or buy in volume, their bargaining power represents a major

force affecting the intensity of competition in an industry. Rival firms may offer extended warranties or special services or gain consumer loyalty whenever the bargaining power of consumers is substantial. Bargaining power of consumers is also higher when the products being purchased are standard or undifferentiated. When this is the case, consumers often can negotiate selling price, warranty coverage, and accessory packages to a greater extent.

- **SWOT Analysis**

The acronym SWOT stands for strengths, weaknesses, opportunities and threats. A SWOT analysis consists of evaluating company's internal strengths and weaknesses and its external opportunities and threats. SWOT analysis underscores the basic point that strategy must produce a good fit between firm's integral capabilities (its strengths and weaknesses) and its external situation (its opportunities and threats).

Strengths are internal competencies of a firm, particularly in comparison with that of its competitors. Strengths may encompass the company image, brand image, business synergies, and functional areas such as marketing, finance, personnel, production and R&D.

Weaknesses are those factors which tend to decrease the competencies of the firm, particularly in comparison with its competitors. Such weaknesses may include poor product quality, obsolete technology, high production costs, lack of R&D back up, poor distribution infrastructure, poor financial position, weak management, etc.

Environment threat: An environmental threat is a challenge posed by an unfavourable trend or development in the environment that would lead, in the absence of purposeful action, to the erosion of the company's position.

Environmental opportunity: A company's environmental opportunity is an attractive arena for company's action in which the particular company would enjoy a competitive advantage. A message which emerges from these definitions is that the threats and the opportunities are, to a large extent, functions of managerial viewpoint and action.

14.4 COMPETITIVE MARKETING STRATEGIES

Thanks to the liberalisation policies, India is now passing through a turbulent phase. With the entry of multinational companies, it is only natural that Indian industrialists are concerned about the future. A time has, therefore, come to take a look at what competitive marketing strategies are needed to counter the likely competition from multinationals. Under the marketing concept, companies gain competitive advantage by satisfying target consumer needs better than competitors do. Thus, marketing strategies must consider not only the need of target consumers, but also the strategies of competitors. The first step is Competitor Analysis, the process of identifying, assessing and selecting key competitors. The second step is developing competitive marketing strategies that strongly position the company against competitors and gives it the greatest possible competitive advantage.

Competitor Analysis: To plan effective competitive marketing strategies, the company needs to find out all it can about its competitors. It must constantly compare its procedure, prices, channels and promotion with those of dose competitors. In this way, the company can find areas of potential competitive advantage and disadvantage. Competitor analysis involves first identifying and assessing competitors and then selecting which competitors to attack or avoid.

Identifying competitors: A company can define its competitors as other companies offering similar products and services to the same customers at similar prices. Thus, Coca-Cola might view Pepsi as a major competitor.

The company might define competitors as all firms making the same product or class or products. Thus, Maruti Suzuki would see itself as competing against all other automobile makers.

Companies must avoid ‘Competitor Myopia’. For examples, in its detergent business, Unilever was worried most about growing competition from P&G and other detergent manufactures. But Unilever may face a much greater threat from research being done on an ultrasonic washing machine. If perfected, this machine would wash clothes in water with little or no detergent. What greater threat is there to the detergent business than detergentless washing?

Assessing Competitors: Each competitor has a mix of objectives. The company wants to know the relative importance that a competitor places on current profitability, market share growth, cash-flow, technological leadership, service leadership and other goals. Knowing a competitor's mix of objectives reveals whether the competitor is satisfied with its current situation and how it might react to different competitive actions. A Company also must monitor its competitor's objectives for various segments. If the company finds that a competitor has discovered a new segment, this might be an opportunity. If it finds that competitor's plan new moves into segments now served by the company, it will be forewarned and hopefully forearmed.

Marketers need to assess carefully each competitor's strengths and weaknesses in order to answer the critical question: What can our competitors do? Companies normally learn about their competitor's strengths and weaknesses through secondary data, personal experience and hearsay. They also can conduct primary marketing research with customers, suppliers and dealers. Recently, a growing number of companies have turned to benchmarking, comparing the company's products and processes to those of competitors or leading firms in other industries to find ways to improve quality and performance. Benchmarking has become a powerful tool for increasing a company's competitiveness.

Finally, the company wants to know: What will our competitors do? A competitor's objectives, strategies, and strengths and weaknesses go a long way towards explaining its likely actions, as well as its likely reactions to company moves such as price cuts, promotion increases, or new product introductions. In addition, each competitor has a certain philosophy of doing business, a certain internal culture and guiding beliefs. Marketing managers need a deep understanding of a given competitors mentality if they want to anticipate how the competitor will act or react.

Each competitor reacts differently. Some do not react quickly or strongly to a competitor's move. They may feel their customers are loyal; they may be slow in noticing the move; they may lack the funds to react. Some competitors react only to certain types of moves and not to others. Other competitors react swiftly and strongly to any action. Thus, HUL does not let a new detergent come easily into the market and many firms avoid direct competition with HUL and look for easier prey.

In some industries, competitors live in relative harmony; in others, they fight constantly. Knowing major competitors' reaction gives the company clues on how best to attack competitors or how best to defend the company's current positions.

Selecting Competitors to Attack and Avoid: A Company has already largely selected its major competitors through prior decisions on customer targets, distribution channels, and marketing-mix strategy. These decisions define the strategic group to which the company belongs. Management now must decide which competitors to compete against most vigorously.

The company can focus on one of several classes of competitors. Most companies prefer to aim their shots at their weak competitors. This requires fewer resources and less time. But in the process, the firm may gain little. The argument could be made that the firm also should compete with strong competitors in order to sharpen its abilities. Furthermore, even strong competitors have some weaknesses, and succeeding against them often provides greater returns.

Most companies will compete with close competitors — those that resemble them most — rather than distant competitors. Thus, Chevrolet competes more against Ford than against Lexus. At the same time, the company may want to avoid trying to destroy a close competitor. For example, in the late 1970's, Bausch & Lomb moved aggressively against other soft lens manufacturers with great success. However, this forced weak competitors to sell out to larger firms such as Revlon, Scherang-Plough and Johnson & Johnson. As a result, Bausch & Lomb now faced much larger competitors and it suffered the consequences.

A company really needs and benefits .from competitor. The existence of competitors results in several strategic benefits. Competitors may help increase total demand. They may share the costs of market and product development and help to legitimise new technologies. They may serve less-attractive segments or lead to more product differentiation. Finally, they lower the anti-trust risk and improve bargaining power versus labour or regulators.

However, a company may not view all of its competitors as beneficial. An industry often contains well-behaved competitors and disruptive competitors. Well-behaved competitors play by the rules of the industry.

Disruptive competitors, in contrast, break the rules. They try to buy share rather than earn it, take large risks, and in general shake up the industry. The implication is that well-behaved companies would like to shape an industry that consists of only well- behaved competitors. A Company might be smart to support well-behaved competitors, aiming its attacks at disruptive competitors.

- **Competitive Strategies**

Having identified and evaluated its major competitors, the company must now design broad competitive marketing strategies by which it can gain competitive advantage by offering superior customer value. But what broad marketing strategies might the company use? Which ones are best for a particular company, or for the company's different divisions and products?

No one strategy is best for all companies. Each company must determine what makes the most sense given its position in the industry and its objectives, opportunities, and resources. Even within a company, different strategies may be required for different businesses or products. Johnson & Johnson uses one marketing strategy for its leading brands in stable consumer markets, and a different marketing strategy for its new high-tech health care businesses and products. We now look at broad competitive marketing strategies companies can use.

- **Competitive Advantage**

Competitive advantage consists of unique features of a company and its products/services that are perceived by the customers as significant and superior to the competitor. The company should have in-depth knowledge of the customer needs/wants so that the company's products/services could satisfy those needs more completely than the competitors products/ services. Three important types of competitive advantages are:

1. **Cost advantage:** Low-cost competitor in the market while providing satisfaction to customers and maintain profits.

2. **Product/Service differentiation** includes unique benefits, after-sales-service etc.

3. **Niche advantage.** A firm may concentrate on one chosen segment within the total market. It selects a market segment where there is no strong competition and it can do best in that are. The niche market is free of competition/less completion and strong loyalties are developed as customers are pleased with the products/services. **Example:** Rolex Watch Company concentrates on costly, high-quality and high-priced watches.

- **Competitive Positions**

We now examine competitive strategies based on the roles firms play in the target market — that of leading, challenging, following, or niching. Every industry contains a market leader, the firm with the largest market share. Most also contain one or more market challengers, runner-up firms that are fighting hard to increase their market share. Market followers are runner-up firms that want to hold their share without rocking the boat. Finally, market nichers serves small segments not being pursued by other firms. Remember, however, that these classifications often do not apply to a whole company, but only to its position in a specific industry. Large and diversified companies such as Godrej, Dabur, HUL, P&G might be leaders in some markets and nichers in others.

- **Market Leader Strategies**

Most industries contain an acknowledged market leader. The leader has the largest market share and usually leads the other firms in price changes, new product introductions, distribution coverage, and promotional spending. Some of the best known market leaders are Maruti Suzuki (autos), Kodak (photography), Coca-Cola (soft drinks), McDonalds's (fast food), Gillette (razors and blades), and HUL (soaps)

To remain number one, leading firms can take any of the three actions given below:

1. **Expanding the total market:** Leading firm normally gains the most when the total market expands. Market leaders can expand the market by developing new users, new uses, and more usage of its products. For example, Revlon might find new perfume user in its current markets by convincing women who do not use perfume to try it. It might find users in new demographic segments such as by producing cologne for men.

Marketers can expand markets by discovering and promoting new uses for the product. INTEL invests heavily to develop new PC applications, which in turn, increases the demand for microprocessors. Finally, market leaders can encourage more usage by convincing people to use the product more often or to use more per occasion. Campbell urges to people to eat soup more often by running ads containing new recipes.

2. **Protecting Market Share:** While trying to expand total market size, the leading firm must also constantly protect its current business against competitors' attacks. Coca-Cola must constantly guard against Pepsi-Cola; Kodak against Fuji; McDonalds against Wendy's; Maruti motors against Hyundai. For protecting market share any company must prevent or fix weakness that provide opportunities for competitors, the leader should plug holes so that competitors do not jump in. The best defence is a good offence and the best response is continuous innovation. It keeps increasing its competitive effectiveness and value to customers. It takes the offensive, sets the pace, and exploits competitor weaknesses.

3. **Expanding Market Share:** Market leaders can also grow by increasing their market share further. In many markets, small increase in market share mean very large increase on sales. However, this may not be true in all conditions; it is highly depends on the strategy of the company. There are many high-share companies with low profitability and many low share companies with high profitability. This is mainly due to the condition where the cost of buying higher market share may exceed the returns.

- **Market Challenger Strategies**

Firms that are second, third or lower in an industry are some times quite large such as Colgate, Maruti, HUL, and Pepsi company. They can challenge the leader and other competitors in an aggressive bid for more market share (market challengers) or they can play along with competitors and not rock the boat (market followers). A market challenger must first define which competitors to challenge and its strategic objective. The challenger can attack the market leader, a high risk but potentially high gain strategy that makes good sense if the leader is not serving the market well. To succeed with such an attack, a company must have sustainable competitive advantage over the leader such as a cost advantage leading to lower prices or the ability to provide better value at a premium price. If the company goes after the market leader, its objective may be to wrest a certain market share. Topaz knows that it can't topple Gillette in the razor market — it simply wants a large share. Or the challenger's goal might be to take over market leadership.

- **Market Follower Strategies**

Not all runner-up companies want to challenge the market leader. Many of them, after knowing the strength of the leader, want to be a follower. A follower can gain many advantages by simply learning things from the leader and copy or improve on the leader's products and programs, usually with much less investment. Although the follower will probably not overtake the leader, it often can be as profitable.

14.5 PRINCIPLES OF COMPETITIVE MARKETING STRATEGIES

1. Scoring over competition is the essence of marketing strategy.

2. For each component of marketing-mix, we have a distinctive strategy, e.g., price strategy, promotion strategy, distribution strategy, and so on.

3. Marketing strategy may lay special emphasis on a few elements of marketing-mix. Certain key elements having superior selling edge will have special emphasis, e.g., personalised selling and serving, fine product quality, best value for money, economy, lowest price, wide distribution network, etc.

4. Marketers who successfully define their markets and sub- markets or segments in terms of product functions and product benefits — What the customer expects from the product — have definitely taken an important step forward in marketing strategy/planning.

5. Marketers may have: (a) Market leader strategies, (b) Market challenger strategies, and (c) Market-nicher strategies. Marketer may also decide to remain as a market follower only and ensure stable growth.

6. Marketing Strategy is the fundamental means planned for achieving the company's objectives by developing competitive advantage through the markets entered and the marketing programmes used to serve them. Tactics are the means employed to carry out strategies.

- **Dealing with Competition**

1. Reducing competition through the acquisition of smaller or weaker units that pose a threat to the company. Tomco's acquisition by Hindustan Lever and earlier, Brooke Bond India Limited acquiring Kissan are examples. Such takeovers can also result in the acquisition of ready distribution networks as was the case when HUL bought over the Dollops ice- cream business from Cadbury's.

2. Joining competition as in the case of the joint venture between P & G and Godrej Soaps.

3. Pre-empting competition by creating entry barriers by raising spending levels in marketing, thus preventing smaller entrants from coming in.

4. Pricing products ridiculously low to thwart the entry of new players. The low retail price until recently for Colgate toothbrush is an instance.

5. Differentiating one's own brand to provide better value for money, either through exclusive products or superior quality.

6. Maintaining a high speed of response which can provide a competitive edge. Technology has to be updated often and fast if one has to deliver the kind of quality products that the market demands.

7. Improving efficiency through activity-based costing, elimination of non-value added activities, paying attention to details and bench-marking against the best.

8. Disinvesting in out-of-focus activities, making available more resources for the important business.

To sum up, the long-term perspective is essential for a strategy to sustain over a period of time. It needs to keep in mind competition's strategies, market knowledge and existing policies, effective pricing, product differentiation and business focus. A company should be willing to invest in and venture out on a strategy only if it can sustain and follow up its efforts.

14.6 MARKETING MANAGEMENT IN ACTION

Marketing Management process involves planning, implementation and control of marketing activities. The Marketing Manager has to prepare marketing plan, implement the plans, assess and evaluate the performance agreed marketing plans.

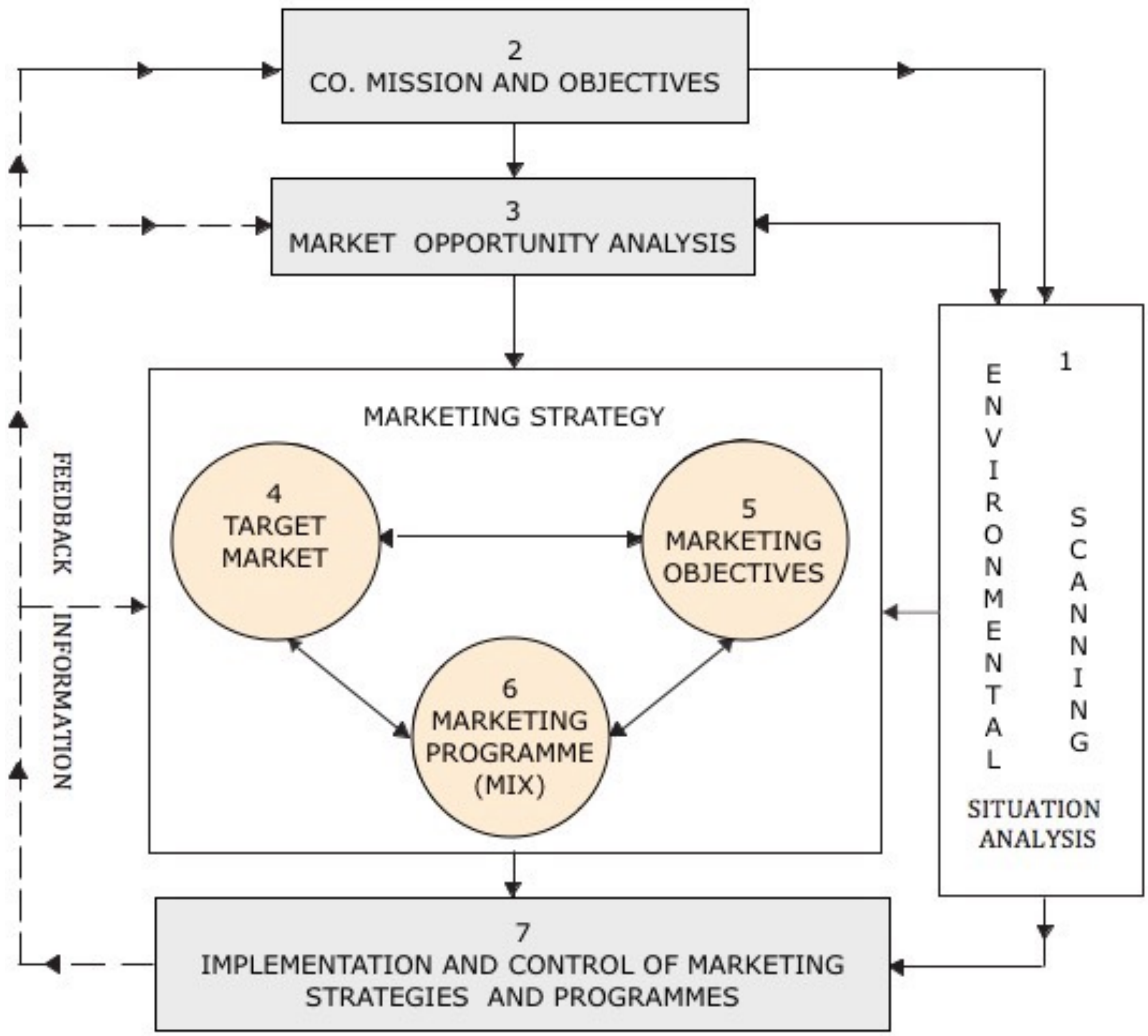


Fig 14.7 Marketing planning, implementation and control

Fig 14.7 highlights the following points regarding planning, implementation and control of marketing activities.

1. Marketing Management is the process of scanning the environment, analysing marketing opportunities, developing marketing strategies, implementing and controlling marketing practices.

2. Environment process changes with the potential impacting marketing opportunities and strategies. Hence, we need scanning of environment.

3. Marketing opportunities analysis is used to determine a potential market opportunity or to better understand a market already served.

4. Markering strategy is the set of policies and guidelines to match marketing-mix with target market opportunities in order to accomplish objectives. Marketing strategy consists of two main steps: (1) selecting the target market, and (2) assembling of marketing-mix.

5. Marketing implementation is the execution of marketing practices as per marketing strategies and programmes.

6. Marketing control is the setting of standards and the monitoring of marketing programme in line with objectives.

7. Target market or selected segment is a group of present or potential customers within a particular product market towards which marketing efforts are directed.

14.7 SUMMARY

- A Customer-centred organisation, has to scan the marketing environment continuously, identify market opportunities and design marketing plans to explore the market for product and services. The company has to understand the strategies followed by competitors and adapt the marketing-mix with the requirements of the environment. The marketing strategy consists of selecting the marketing segment and making effective use of marketing mix. Successful implementation of marketing plans will enable the organisation to achieve stated objectives in terms of growth in sales, profits, and market share.

14.8 SELF ASSESSMENT QUESTIONS

1. Discuss the importance of strategic planning and control in modern business.

2. Define strategy. Indicate the role and importance of marketing strategies.

3. What steps are involved in strategic corporate planning? Comment on market opportunity analysis.

4. Write notes on: (1) Corporate objective. (2) Corporate strategies. (2) Marketing objectives. (4) Marketing strategies. How are these formed?

5. How are annual marketing plans formulated? Give the checklist of an annual marketing plan.

6. What are the benefits of integrated and co-ordinated strategic marketing plans?

7. Comment on the competitive marketing strategies to counter the competition from multinationals in India.

8. Write short notes on the following:

   a. Corporate strategies/objectives.
   b. Marketing strategies/objectives
   c. Environmental scanning
   d. Management process.

CASE STUDY

Long-Range Planning for Sun Oil Company

- **Sun Oil Company**

Sun Oil Company, during 1970's, was mostly a refiner and marketer of petroleum products. It was content with buying oil domestically and from Iran and Venezuela and distributing the products through its own network of retailers. Its own exploration and production of oil amounted to less than one third of the refining capacity. Like other oil giants it went on a diversification fling (rush) into other businesses outside oil. Real estate, industrial distribution, trucking interests were acquired. It had an oil-services subsidiary, Sperry- Sun. It had a 66-year old Sun Ship Company and in 1978, it acquired a 34 per cent stake for $293 million in Becton, Dickinson & Co., a medical supplies concern. Investment analysts charged that Sun Oil lacked continuity in strategic planning.

- **Long-Range Strategy**

Several external events prodded (aroused) Sun's management into taking a hard look at the far-flung corporate interests. In 1979, oil prices rocked again while Sun's U.S. production of oil declined at an alarming rate. The overall drop-off exceeded the industry average. The same year, Sun lost its Iranian supply due to the U.S. Hostage crisis. Its Venezuelan supply had been lost due to nationalisation four years ago.

Furthermore, the company went too far a field into businesses from health care field to acquaculture. Becton Dickinson acquisition created some violation of security laws in addition to being an unrelated field. Its brief venture into aquaculture, breeding shrimp-like prawns native to Malaysia, demonstrated obstacles to company's diversification strategy; finding businesses large enough to amount of something for an integrated oil company.

The lesson learned was there is no better business to be in than oil and no other large enough to put the cash flow to generate sound future growth. Sun Oil Company began to put strategic planning at work. It divested Becton, Dickinson & Co. shares through an issue of exchangeable debentures. It sold Sperry-sun Inc. oil services subsidiary, and the Sun

Ship company. It also reduced its holdings in a Canadian Oil Company, Suncor, from 75 per cent to less than 50 per cent to take advantage of the tax incentives available to Canadian-controlled oil companies.

Sun Oil Company needed oil reserves to increase its exploration and production capabilities. In 1980, it acquired Texas Pacific Company from Seagram Company. This acquisition gave Sun Oil four million acres of potential oil producing properties. To concentrate more on exploration it sold off two of its refineries. The sale of refineries and divestiture of other unrelated ventures generated cash to offset partially the acquisition of Texas Pacific. The strategy was to become a top energy producer with all the inherent risks in development and exploration of oil wells.

QUESTIONS

1. Do you agree with Sun Oil Company's strategy of capturing energy reserves rather than other diversified corporate acquisitions?

2. The risks in oil exploration are high. It requires enormous outlays for exploration and production. Are the risks worth in the current corporate strategy?

3. With a worldwide demand for energy, what opportunities do you see for integrated energy companies?

- **Comments**

Scanning the company's environment provides knowledge of dynamic uncontrollable environmental forces (economic, political, technological, and social variables). The situation analysis reveals and identifies marketing opportunities in the form of unmet customer needs (present/potential). It also exposes risks, uncertainties, and threats to be met in the near future. Marketing Management has also to undertake self-analysis, i.e., study of internal environment. The self-analysis offers precise knowledge of strengths, capabilities as well as weaknesses in the organisation or resource allocation.

Marketing opportunities (customer needs) are matched with corporate resources and capabilities. This process of matching an acceptable level of risk offers strategic alternatives in the form of economic/marketing strategies.

Strategy formulation is an intellectual or conceptual process:

1. Company ascertains what it might do in terms of environmental opportunity.

2. It decides what it can do in terms of ability and power to exploit an opportunity and meet the challenge of risk.

3. Top management in the light of personal values, aspirations and ideals can decide what it wants to do and then prefer the best strategy.

4. Strategic choice also involves an ethical aspect. What a company should do depends upon the recognition of social responsibility — consumer-cum-citizen welfare and satisfaction.

REFERENCE MATERIAL

Click on the links below to view additional reference material for this chapter

Summary

PPT

MCQ

Video Lecture - Part 1

Video Lecture - Part 2

Chapter 15

ETHICS IN MARKETING

Objectives

After studying this Chapter, you should be able to:

- Understand the meaning and importance of marketing ethics
- Study the unfair marketing and advertising practices
- Study the role of Advertising Standard Council of India
- Study the objectives and powers of Council for Fair Business Practices

Structure:

15.1 ETHICS

Ethics in Latin language is called Ethicus and in Greek it is called Ethicos. The word has originated from the Greek Ethos meaning character or manners. Another term that is considered a synonym of ethics is 'morality'. However, they are different. The word morality means behaviour and therefore Ethico-moral actions pertains to actions initiated by the character and expressed through behaviours. Ethics focuses on Standards, rules and codes of conduct that govern the behaviour of individuals or groups. It is the science of morals, which is concerned with human character and conduct. It also refers to the code of conduct that guides an individual while dealing with a situation.

- **Meaning of Marketing Ethics**

Marketing ethics are moral principles that define right or wrong behaviour in the world of marketing. What is right or wrong behaviour is determined by public interest groups, business organisations and individual's personal values and morals. The coverage of marketing ethics is wider, as it deals with norms in relation to customers, shareholders, employees, dealers, Government and competition. Dealings with all the above groups should be honest and fair. Every professional activity has rules of conduct and professionals like lawyers, doctors, accountants are expected to follow ethical standards.

Marketing ethics deals with moral standards and extend beyond legal limit. The statement "if it is legal, it is ethical too" is inadequate. Example: Giving inadequate information in an advertisement may be legally permitted, but is unethical. The popular statement "if it is business, then it cannot be ethical and if it is ethical, it does not represent business at all", amounts to saying that business can make profits only by being unethical. There are many ethical companies who have discharged their social responsibilities and made profits too. Examples: Tata group, Wipro, Infosys. Marketing is subjective and it is a relative concept. Example: An advertisement for a slimming centre may highlight the benefits of joining the centre, but may be silent on the side effects of the treatment. The advertiser may feel that this is ethical, but the consumer, the Government and the Advertising Standard Council of India may not feel so. The concept of ethics is universally applicable and all organisations are expected to follow ethical marketing practices.

- **Importance of Marketing Ethics**

1. When a company charges fair prices, offer, quality products, provides after sales service and pay regular taxes to Government, it creates good image in the mind of people.

2. It helps the company to increase sales.

3. The morale of the employee is high as the company enjoys a good reputation in the market.

4. Business ethics is required to check malpractices and offer protection to consumers.

5. To develop the confidence of consumers regarding price, weight, quality.

6. To protect the interests of all the stakeholders i.e. employees, dealers, suppliers and shareholders.

15.2 UNFAIR MARKETING PRACTICES

Marketing is recognised as one of the important functions of the business enterprise. Marketing alone generates revenue for the company. In these days of intense competition, the emphasis is on increasing sales volume, market share and profit, even at the cost of consumer-satisfaction and service. Marketers adopt an aggressive sales approach in selling unsought or unwanted goods. **Examples:** Sale of insurance policies, toys, cosmetics, credit cards, chocolates etc. Many types of criticism have been levelled against marketing and, in general, they are related to unfair marketing practices.

1. Product

a. **Product safety:** Consumers buy products believing that they would not harm or injure them. Consumers lack technical knowledge to judge many of the sophisticated products and it becomes the responsibility of the marketer to ensure consumer safety. **Example:** Safety of toys, medicines, pesticides, etc. to man and environment. Business should give safety the priority warranted by the product.

They should abandon the misconception that accidents occur due to product misuse and it is absolved of responsibility.

b. **Product quality:** The manufacturer and marketer should take responsibility to ensure that the quality of the product measures upto the claim made about it and meets reasonable consumer expectations. **Example:** Many people believe that bottled water is purer and safer than tap water. When the seller claims that the saree is shrink-proof/fast colours, the moral concern is whether the product lives upto its claims.

c. **Spurious products:** Several spurious drugs meant for cold, cough, bodyache, fever are available in the market. The main ingredients of such products are sugar, wheat and chalkpowder which do not have any negative effects on human beings. Illegal traders sell such products as they get attractive discounts. **Example:** Cunterfeit suitings are available in major wholesale markets in India. While original manufacturers build Brands, through heavy advertising and sales promotion, counterfeit fabrics are offered at a low price to such wholesalers.

2. Pricing

a. Many consumers feel that higher prices mean better products and manufacturers increase the price of the product to show it as a superior product. The price may be higher compared to products extra quality.

b. Price-fixing is another unethical marketing practice followed by some companies. It is an agreement between two or more firms on the price they will charge for a product or service or bidding the lowest price on a contract.

c. Predatory pricing covers the practice of selling at a very low price or below the cost of production so as to eliminate competition.

3. Packaging and Labelling

The marketer has the responsibility to provide accurate and adequate information through packaging and labelling. **Example:** Many companies come out with catchy words such as 'organic', 'bio- degradale', 'recyclable', 'environmentally safe', 'ayurvedic' etc. without providing scientific evidence to back them up. Tall and narrow cereal boxes look larger in the shelves. Terms such as 'large', 'extra large' and 'economy size' are misleading and consumers would require a pocket calculator to calculate the relative prices of such packs.

4. Distribution Channel

a. Exclusive dealing refers to manufacturers insisting on its distributors to sell only its products and not to deal in competitors products.

b. Tying contracts require distributor/dealers to purchase unwanted/ slow-moving products as a condition for obtaining fast-moving brands.

c. **Full line forcing:** Here, the buyer is forced to purchase all the products when only part of the line is required by the buyer

15.3 UNFAIR ADVERTISING PRACTICES

Advertising has become an integral part not only of our marketing process but also of our entire economic and social life. It is a double- edged instrument or tool in the marketing-mix. If it is properly used it can be a boon or a blessing in distribution. But if it is abused or misused, it can also act as a curse in distribution. By itself it is no doubt a very fine device of demand-creation and demand-stimulation, and can contribute a lot to investment, economic growth, rising income, rising standards of living and economic prosperity in any country. Most impartial studies of the economic value of advertising point out, beyond any shadow of doubt, that favourable economic effects do counterbalance the unfavourable effects, which are primarily due to unsocial and unethical advertisers. Fortunately, such unscrupulous advertisers are in a very small minority.

1. **Deceptive advertising:** Advertising should win the confidence of consumer to achieve its objectives. Many feel that advertising is deceptive and claims made in the advertisement are exaggerated and untrue. Misrepresentations, ambiguous statements and misleading interpretations are considered as deception.

Deception will not work in the long term as consumers can verify the claims from their own experience. They will discard the product despite the great claims made for the product ion advertisements. Example: Deceptive advertisements for curing baldness, weight reduction and fair skin. The advertisement on fairness cream — is this not an exploitation of the weakness Indians have for fair skin? Is this advertisement ethical?

2. **Harmful effects:** The appeal to sex, nudity, violence, fear, adventure, has become the most adverse aspect of advertising. Some advertisements have created emotional disturbances and long- run anxiety conditions among younger generation. Advertising repeats several messages and becomes uninteresting and boring. It exposes several messages which are undesirable. The growing desire to possess the products advertised becomes a source of conflict in the family. Example: Fairness creams, soft drinks, fast foods, namkeens, durables like refrigerators, air conditioners, two wheelers, etc.

3. **Confuses people:** Advertising creates confusion in the mind of people. Consumers do not take rational decisions. They are biased by unethical and emotional advertising.

   a. Power of advertising is so high that it has the potential to manipulate consumers. Consumer welfare and interest may not be given much importance. It is used to exploit the emotions and sentiments of people.

   b. Due to proliferation of brands, companies are forced to advertise to show the superiority of the products. This has encouraged unnecessary differences in the brands of products and consumers are confused by such advertisements.

   c. Uniformity and conformity refer to people's desire to buy products similar to the one purchased by relatives, neighbours and friends. It exploits the sentiment of status-symbols and advertising creates unnecessary desire for satisfaction of status-ego. It creates demand for luxuries.

d. **Degrading of women:** Women are irritated when they are shown as sex symbols, servants or housewives in advertisements. Women's organisations have objected to such advertisements.

e. Advertisements creates unnecessary comparison between two products. Such advertisements conveniently hide the weaknesses and highlight only favourable attributes of the products.

4. Forceful selling

a. Emotional appeals are used to induce prospective buyers to buy their products. Producers are interested in the sale of their products without caring for the impact of emotional advertisements on ethics and moral value of consumers. The consumers live in an imaginary and exciting atmosphere generated by these advertisements.

b. Manufacturers use persuasive advertising to influence people. Real and factual information is often concealed from the people.

c. Advertisers try to sell those products which are not required by consumers. The advertisers create wants not really felt by consumers. **Example:** A middle class man is lured into purchasing a car, though he is unable to maintain it.

d. Many worthless products/insignificant products have been sold under heavy advertising.

5. **Media misuses:** Newspapers, magazines, television etc. are crowded with advertisements.

a. Many advertisers buy advertising time or space to present their messages. They try to sell stores favouring the products and small newspaper accept such advertisements to improve their financial position.

b. Many magazines contain advertisements offering cure for cancer and baldness! In the case of TV serials, the advertisements continue sometime for half of the time of the serial.

c. In a democratic country, the press is given full autonomy and is used for the welfare of the people. Advertisers purchase the freedom for money. Many irrelevant advertisements are released in press ignoring the interest of people.

6. **Message problems:** The messages are often emotional and sexy. If people start liking such advertisements there would be violence and immoral activities in the society. Advertisements should carry acceptable messages.

7. **Moral influence:** Advertising motivates people in such a way that people have come to believe that success is evaluated primarily based on material possessions. Spiritual, mental and intellectual satisfaction also determine the level of success. Advertisements drives people to a fairy land. The consumers try to realise their dreams. If they cannot achieve their dreams and objectives, it leads to dissatisfaction and frustration.

8. **Advertising impact on children:** Advertising has adverse impact on children as given below:

   a. Children are more susceptible to deception because they lack the conceptual defence of adults.

   b. They are unable to assess the advantages and disadvantages of advertising and many advertisers have used this innocence of children to create a particular impression about a product. Example: Chocolates, fruit juice. Children put pressure on parents to purchase advertised products.

   c. Children enjoy seeing commercial advertisements. They are easily attracted towards using food products which are playfully advertised. Children and teenagers are vulnerable to this kind of advertising.

   d. Children recall the commercial messages and slogans and ask for the products when they go for shopping with parents.

   e. Advertisements showing violence, anxiety, sex, fever, etc. creates emotional disturbances in children. They are a few cases where children have been seriously injured trying to repeat 'a scene' they have seen in TV programme. After seeing advertisement for toys, many children start fighting with toy guns. Advertisements on feminine/family planing products may arouse the curiosity of children.

- **Guidelines for Advertising to Children**

1. Young children have limited ability for evaluating the merits of the advertisements. Therefore, advertisers should protect children rom adverse messages.

2. The advertiser should not exploit the curiosity and imaginative quality of children. They should not make tall claims that may lead to unreasonable expectations of product performance.

3. Information should be communicated in a truthful and accurate manner for the benefit of the children.

4. The advertisement message could focus on friendship, kindness, honesty and respect for elders to influence social behaviour of children. Advertisement could communicate positive relationship between children and parents.

15.4 ADVERTISING STANDARDS COUNCIL OF INDIA (ASCI)

Registered in Oct. 1985, u/s 25, as a Not-For-Profit Co., under the Companies Act 1956

- **Main Objectives**

The main objects to be pursued by the Company on its incorporation are:

1. To monitor, administer and promote standards of advertising practices in India with a view to:

   - ensuring the truthfulness and honesty of representations and claims made through advertising and safeguarding against misleading advertising;

- ensuring that advertising is not offensive to generally accepted norms and standards of public decency;

- safeguarding against the indiscriminate use of advertising for the promotion of products or services which are generally regarded as hazardous to society or to individuals or which are unacceptable to society as a whole;

- ensuring that advertisements observe fairness in competition and the canons of generally accepted competitive behaviour.

2. To codify, adopt and from time to time modify the code of advertising practices in India and implement, administer and promote and publicise such a code;

3. To provide facilities and machinery in the form of one or more Consumer Complaints Councils having such composition and with such powers as may be prescribed from time to time to examine complaints against advertisements in terms of the Code of Advertising practices and report thereon;

4. To give wide publicity to the Code and seek adherence to it of as many as possible of those engaged in advertising;

5. To print and publish pamphlets, leaflets, circulars or other literature or material, that may be considered desirable for the promotion of or carrying out of the objects of the Company and disseminate it through any medium of communication.

- **Consumer Complaints Council**

The Board of Governors shall appoint Consumer Complaints Council (CCC), the number of members of which shall not be more than twenty-one. The CCC shall examine and investigate the complaints received from the consumers and the general public, including the members of the Company, regarding any breach of the Code of Conduct and/or advertising ethics and recommend the action to be taken in that regards. Such complaints may include false, misleading, indecent, illegal, unsafe practices, or Unfair to competition.

- **Power of the Consumer Complaints Council**

1. Each Council shall be entitled to receive complaints from the Board of Governors, the Consumers, the general public and members of the Company….

2. Each Council shall enquire, investigate and decide upon the complaints received by it within the frame work of the Code of Conduct adopted by the Company….

3. All the decisions of each Council shall be by simple majority, in writing and may specify the action to be taken in respect of the offending advertisement.

4. The role and functioning of the ASCI & its Consumer Complaints Council (CCC) in dealing with complaints received from consumers and industry, against Ads, which are considered as false, misleading, indecent, illegal, leading to unsafe practices, or unfair to competition, and consequently in contravention of the ASCI code for self-regulation in advertising.

5. ASCI is a voluntary self-regulatory council, registered as a not-for-profit Company under section 25 of the Indian Cos. Act. The sponsors of the ASCI, who are its principal members, are firms of considerable repute within Industry in India, and comprise Advertisers, Media, Ad. Agencies and other professional /ancillary services connected with advertising practice.

6. The ASCI is not a Government body, nor does it formulate rules for the public or for the relevant industries. The purpose and the mission of the ASCI is spelt out clearly in the literature provided.

7. If an advertisement is to be reviewed for its likely impact on the sensibilities of individual viewers of TV or readers of press publications, they require to convey to the Advertiser concerned, the substantial issues raised in the complaint, in the exact context of the specific advertisement as conveyed by the perception of the complainant, and to elicit the appropriate response by way of comments from the Advertiser.

   Only then, will the CCC, of the ASCI, be in a position to deliberate meaningfully on the issues involved, and to arrive at a fair and objective conclusion, which would stand the scrutiny of all concerned with the right to freedom of expression, and the freedom of consumers to choose the products / services made available to them in the market-place.

For this they require, in each case, a clearly readable copy or clipping of the advertisement under complaint, with full particulars of name and date of publication, or a printout of an asvertisement or promotion on a Website or, in case of a

T.V. Commercial, the channel, date and time or programme of airing, and a description of the contents of the TVC, along with a hard copy of the complete complaint preferably signed by the complainant.

8. As a matter of policy they do not disclose the identity of the complainant to the advertiser.

9. The ASCI receives and processes complaints against advertisements, from a cross section of consumers, the general public and Industry, in the interests of all those who rely on advertising as a commercial communication, and this covers individuals, practitioners in advertising, advertiser firms, media, advertising agencies, and ancillary services connected with advertising.

10. In the case of complaints which were upheld by the CCC, during the past year, it may be of interest to know that over 80 per cent of such advertisements have been withdrawn or modified appropriately by the Advertisers/Agencies involved, and the concerned media have also confirmed that they would not carry such offending advertisement/TV channels.

- **Corporate Codes**

Companies have to operate within the ethics and moral principles of the society to which they belongs. There are three types of code of ethics i.e.,

a. code of ethics are statements of the value and principles that define the purpose of the organisation.

b. code of practices are those which guide decision-making, and

c. code of conduct states how one must behave.

15.5 COUNCIL FOR FAIR BUSINESS PRACTICES (FBP)

The Council for Fair Business Practices is an association of businessmen, which is playing an important role in making businessmen conscious of business ethics. It is a voluntary non-profit and non- political association promoted by enlightened businessmen. One of the objectives of CFBP is to create awareness among trade, business and industry as to their social obligations and duties towards the consumers. One important feature of CFBP is Code of Fair Business Practices. The following fundamental obligations are included in this code:

1. To charge only fair and reasonable prices and take every possible step to ensure that the prices to be charged to the consumer are brought to his notice.

2. To take every possible step to ensure that the agents or dealers appointed by him do not charge prices higher than fixed.

3. In times of scarcity, not to withhold or suppress stocks of goods with a view to hoarding and/or profiteering.

4. Not to produce or trade in spurious goods or goods of standards lower than specified.

5. Not to adulterate goods supplied.

6. Not to publish misleading advertisements.

7. To invoice goods exported or imported at their correct prices.

8. To maintain accuracy in weights and measures of goods offered for sale.

9. Not to deal knowingly in smuggled goods.

10. Not bribing public servants and corrupting the democratic structure of the country.

Member of the CFBP are expected to adhere to the Code of Ethics with discipline and dedication in the interest of consumers' welfare. This code of ethics of the CFBP is now recognised nationally as well as by the International Chamber of Commerce as a basis for winning confidence of consumers. Following the example of the CFBP, many trade associations and their apex bodies like FICCI, ASSOCHAM, IMC, AIMO and ASCI have decided to adopt code of ethics for their members.

15.6 SUMMARY

- Ethics are moral principles that define right or wrong behaviour in the world of business. In these days of intense completion, many companies focus too much on increasing sales volume, market share and profit, even at the cost of consumer- satisfaction. Marketers adopt an aggressive sales approach in selling unsought or unwanted goods. Further, tall and exaggerated claims are made about products and services. Such deception will not work in the long-term as consumers can verify the claims from their own experience. When a company markets good quality products at fair prices, provides after-sales service and pays taxes to Government, it creates a good image in the mind of people. There are many ethical companies who have discharged their responsibilities and made profit, too.

15.7 SELF ASSESSMENT QUESTIONS

1. Explain marketing ethics and its importance.

2. Explain how marketing ethics will be useful to consumers.

3. An organisation can follow ethical practices and still earn profit. Discuss.

4. Discuss fair business practices. Do you think it is being practiced by business enterprise.

5. Discuss unfair marketing practices with examples.

6. Write short notes on the following:

   a. Advertising and its impact on children.
   b. Role of Advertising Standard Council of India.
   c. Deceptive Advertising
   d. Council for Fair Business Practices.

REFERENCE MATERIAL

Click on the links below to view additional reference material for this chapter

Summary

PPT

MCQ

Video Lecture