UNIVERSITY GRANTS COMMISSION

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Unit-VI

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Module-1: Strategic Management – Concept, Process, Decision & Types

1. Concept and Definition of Strategic Management

Strategic Management is a stream of decisions and actions which lead to the development of an effective strategy or strategies to help achieve corporate objectives.

The Strategic Management process is the way in which strategists determine objectives and make strategic decisions. Strategic Management can be found in various types of organizations, business, service, cooperative, government, and the like.

Strategic management is an on-going process that evaluates and controls the business and the industries in which the company is involved; assesses its competitors and sets goals and strategies to meet all existing and potential competitors; and then reassesses each strategy to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy to meet changed circumstances, new technology, new competitors, a new economic environment, or a new social, financial, or political environment.

Strategic management involves systematic analysis of the internal and external environments, to evaluate a company's current policies, strategy and goals to build new strategic moves and plans.

Thus, strategic management is the process of planning, directing, organising, and controlling a company's strategy-related decisions and actions to achieve competitive advantage and the long-run performance goals of a company.

Strategic management has been defined by various thinkers, philosophers and practitioners. Strategic management can be defined as the formal process for defining company vision & mission, assess internal & external environment, formulate strategies under resource constraints, implement strategies, and evaluate the strategies.

Schendel and Hofer (1979) – *Strategic management is a process that deals with the entrepreneurial work of the organisation, with organisational renewal and growth, and, more particularly, with developing and utilizing the strategy which is to guide the organisation's operations.*

Fredrickson (1990) – *Strategic management is concerned with those issues faced by managers who run entire organisations, or their multifunctional units.*

Bowman, Singh, and Thomas (2002) – *The strategic management field can be conceptualized as one centred on problems relating to the creation and sustainability of competitive advantage, or the pursuit of rents.*

2. Stages in Strategic Management

Stages in Strategic Management	
Stage One – Planning and Analysis or Environmental Scanning	This is the starting point of strategic planning. It consists of doing a situational analysis of the firm in the environmental context. At this stage, the firm finds out its relative market position, corporate image, its strength and weakness and also environmental threats and opportunities.
Stage Two –Strategy Formulation	Strategy formulation refers to the process of choosing the most appropriate course of action for the realization of organizational goals and objectives and thereby achieving the organizational mission.
Stage Three – Alternative Selection	Here the organization deals with the various strategic alternatives it has and choose the optimum strategy based on a number of external as well as internal factors
Stage Four – Implementation and Control	This is an implementation and control stage of a suitable strategy. Here again the organization continuously does situational analysis and repeats the stages as required.
Stage Five – Evaluation	\The organization evaluates the long term and short term impact of the strategies implemented in the business.

3. Concept of Strategy

The term strategy has been borrowed from military. Today the competition, a business faces, is similar to a war and every business wants to be one step up over its nearest rivals.

Strategy is a common theme of strategic decisions through which an organisation tries to relate itself with the environment which involves major resources commitment to develop certain advantages which help in achieving its vision and mission.

Characteristics of Strategy	
1. Strategy is a systematic phenomenon:	Strategy involves a series of action plans, no way contradictory to each other because a common theme runs across them. It is not merely a good idea; it is making that idea happen too. Strategy is a unified, comprehensive and integrated plan of action.
2.It is multidisciplinary:	Strategy involves marketing, finance, human resource and operations to formulate and implement strategy. Strategy takes a holistic view. It is multidisciplinary as a new strategy influences all the functional areas, i.e., marketing, financial, human resource, and operations.
3.It is multidimensional:	Strategy not only tells about vision and objectives, but also the way to achieve them. So, it implies that the organisation should possess the resources and competencies appropriate for implementation of strategy as well as strong performance culture, with clear accountability and incentives linked to performance.
4. It is hierarchical:	On the top come corporate strategies, then come business unit strategies, and finally functional strategies. Corporate strategies are decided by the top management, Business Unit level strategies by the top people of individual strategic business units, and the functional strategies are decided by the functional heads.
5. It is dynamic:	Strategy is to create a fit between the environment and the organisation's actions. As environment itself is subject to fast change, the strategy too has to be dynamic to move in accordance to the environment.
6. Strategy Creates Values	The purpose of strategy is to create competence (things firm does better than competitors), synergy (between different parts of the organisation and their activities) and value creation so as to attain vision and mission.

7. In is a collective decision making Process	The vision, mission, objectives, and corporate strategies are determined by top management. Business Unit strategies are decided by heads of business units and functional plans by functional heads. But the top management consent is a must.

Distinction between Strategy and Tactics:

Basis	Strategy	Tactics
Origin of Formulation	A prerogative of top management	Lower level management
Scope	Deals with many things	Narrow focus
Time horizon	Longer period	Shorter period
Timing of action	Prelude to action	During the action
Type of guidance	General guidance to whole organisation	Specific and situational guidance to specific section of organisation

Types of Strategies in Organizations

Types of Strategies:		
1. Corporate Strategies or Grand Strategies:	Growth	**a) Concentration:** It means bringing in resources into one or more of a firm's business keeping customer needs, customer functions, alternative technologies, singly or jointly so as to expand. **b) Integration:** Integration means joining activities related to the present activities of a firm. Integration not only widens the scope of business but also a subset of diversification strategies. Integration can be of following types:

i) Horizontal Integration:

It means when a firm takes over the other firm operating at the same level of production or marketing.

ii) Vertical Integration:

When a firm acquires control over another firm operating into the same value chain. It can be of two types, viz., Backward Integration – acquiring a firm engaged in raw materials (Tata steel buying a coal mine company in Indonesia); and Forward Integration — acquiring control over a firm/activity taking it nearer to the ultimate consumer (Reliance Industries, a petro refining company, also starting petrol pumps).

c) Diversification:

Adding a new customer function(s), customer group(s), or alternative technologies to an existing business is known as diversification. Diversification strategies can be of following types:

i) Concentric diversification:

Adding new, but related products or services is known as concentric diversification. It can be market-related concentric diversification (using common channels); Technology-related (a bank also selling mutual fund policies-similar procedure); and Marketing and technology related concentric diversification (Amul, selling butter, curd, Shrikhand, and buttermilk along with milk). A retailer selling kids wear also starts selling lady wears is a case of related concentric diversification.

ii) Conglomerate or unrelated diversification:

If a firm takes up business not related to the existing one neither in terms of customer groups, customer functions, nor alternative technologies, it is known as conglomerate diversification – Tata

	Sons is a conglomerate, as it is unrelated businesses, steel, power, chemicals, hospitality, education, publishing, beverages, etc. ***iii) Horizontal Diversification:*** It means adding new products or services for present customers. Escort Fortis Hospital may offer bank, bookstore, coffee shop, restaurant, drug store in their compound for the visitors to the hospital. **d) Internationalization:** It means marketing product/service beyond national market. **e) Cooperation:** It means cooperation among competitors. It may take the form of Mergers and Acquisitions (like Tata Motors acquired Jaguar Land Rover facilities of UK); Joint Ventures (like Indian Oil company floated an oil marketing company in Sri Lanka in collaboration with a local company), and Strategic Alliances (the two cooperating firms remain independent but cooperate for synergy). **f) Digitalization:** It includes computerization, electronisation, and digitalization (conversion of analogue electrical signals into digital signals).
Stability	When the firm wants to go for incremental improvement of its performance, it is known as stability strategy. Basic approach in the stability strategy is 'maintain present course: steady as it goes.' It can be No-change strategy (taking no decision is a decision too); Profit strategy (lying low and managing profit through cost cutting, price rise, etc. In times of crisis and recession- as the JK Papers did during recent recession); Pause or proceed-with-caution strategy (when getting into non-core business, like Hindustan Unilever selling shoes).

	Retrenchment	It means substantially reducing the scope of business activities. It includes turnaround strategy (to bring back to health through internal and external restructuring); Divestment strategy (Sell-off or hive-off – to sell off a non-core business divisions; Spin-off - demerging the business activities; and Split-off – division of business into two separate ownership; Disinvestment – dilution of control through sale of equity -very recently Government of India has sold stake through FPO in Power Finance Corporation); and Liquidation Strategy (the last resort in retrenchment, Lehman Brothers of USA was finally liquidated).
	Combination	All the strategies discussed above can be applied simultaneously, sequentially, or in a combination.
2. Business Level (SBU Level) Strategies:		SBU-level strategy, sometimes called Business Strategy or Competitive Strategy, is concerned with decisions pertaining to the product mix, market segments and manoeuvring competitive advantages for the SBU. While corporate strategy decides the business portfolio (i.e., the types of business), the competitive strategy decides the strategy/strategies to succeed in the chosen business/businesses. SBU strategy has to conform, obviously, to the corporate philosophy and strategy. In short, "the SBU-level strategic management is the management of an SBU's effort to compete effectively in a particular line of business and to contribute to overall organisational purposes." The responsibility for SBU strategy is with the top executives of the SBU who are normally second-tier executives in the corporate hierarchy. In single-SBU organisations, senior executives have both corporate and SBU-level responsibilities.

	Business-level strategies are fundamentally concerned with the competition. In this regard Michael Porter has given three generic strategies, which can be converted into four. To compete successfully the first generic strategy is Cost-leadership (Microsoft produces software for PCs at such a cost that no hardware manufacturer ever thinks of producing himself); second is Differentiation (Dell computers are sold online, whereas all other manufacturers use physical distribution); and finally it is Focus. Focus may rely on either cost leadership or differentiation, but its market size is very small, where large competitors do ignore them.
3. Functional Strategies:	These strategies may be Operations Strategy, Marketing Strategy, Finance Strategy, and Human Resource Strategy.

4. Strategy Decisions

Strategic decisions are the decisions that are concerned with whole environment in which the firm operates the entire resources and the people who form the company and the interface between the two.

Strategic decision making, or strategic planning, describes the process of creating a company's mission and objectives and choosing the course of action a company should pursue to achieve those goals. Strategic decisions are different in nature from all other decisions which are taken at various levels of the organization during their day-to-day working. The major dimensions of strategic decisions are given below:

i. Strategic issues require top-management decisions.

ii. Strategic issues involve the allocation of large amounts of company resources.

iii. Strategic issues are likely to have a significant impact on the long term prosperity of the firm.

iv. Strategic issues are future-oriented.

v. Strategic issues usually have major multi-functional or multi-business consequences.

vi. Strategic issues necessitate consideration of factors in the firm's external environment.

Characteristics/Features of Strategic Decisions

a. Strategic decisions have major resource propositions for an organization. These decisions may be concerned with possessing new resources, organizing others or reallocating others.

b. Strategic decisions deal with harmonizing organizational resource capabilities with the threats and opportunities.

c. Strategic decisions deal with the range of organizational activities. It is all about what they want the organization to be like and to be about.

d. Strategic decisions involve a change of major kind since an organization operates in ever-changing environment.

e. Strategic decisions are complex in nature.

f. Strategic decisions are at the top most level, are uncertain as they deal with the future, and involve a lot of risk.

g. Strategic decisions are different from administrative and operational decisions. Administrative decisions are routine decisions which help or rather facilitate strategic decisions or operational decisions. Operational decisions are technical decisions which help execution of strategic decisions. To reduce cost is a strategic decision which is achieved through operational decision of reducing the number of employees and how we carry out these reductions will be administrative decision.

Techniques of Strategic Forecasting

Operationally speaking techniques of forecasting which have been found useful may be considered in terms of:

1. Economic forecasts;
2. Social forecasts
3. Political forecasts, and
4. Technological forecasts.

Let us examine the implications of some of the technique and their suitability.

1. Economic Forecast:

The availability of computer software's, and sophisticate of computers have made econometric models easy to apply in economic forecasting, particularly where large changes were, anticipated and information was available on casual relationships. One inherent limitation of these models has been their dependence on the judgment of model builders.

Further, sometimes the dependability of judgments has also been found questionable. Two other approaches which are fairly widely used are; Time series models' and 'judgmental models'. The Former have been found useful for identifying patterns of historical, cyclical and seasonal trends, on the assumption that the past in a reliable indicator of the future.

Exponential smoothing and linear projection are relatively simple and in expensive time series techniques. Trade analysis is a frequently used time series model. However, its limitation is the assumption that the relevant condition will remain more or less constant. Its use also depends upon the availability of reliable historical data.

If data are not available or cannot be used due to volatility of conditions, judgmental models or qualitative forecasting prove to be useful. Typically, judgmental model may be used for estimating sales based on the opinion of sales force or customer surveys or by arranging estimates made be executives from different functional areas.

2. Social Forecast:

It must be recognized that by nature social forecasting is a very complex task. Besides time series analysis and judgmental, scenario development is one of the most popular techniques of social forecasting in such areas as demographic trends, housing health and nutrition, household income and expenditure patterns, government policy on social issues etc. use of scenario's is explained hereafter along with its implications.

3. Political Forecast:

Domestic political conditions and political developments across the borders including foreign international relations constitute important aspects of political forecasting of all approaches that of Arthur D. Little (ADL) is considered to be most ambitious and sophisticated.

It takes into account such criteria as social development, technological advancement, natural resource endowment, level of domestic tranquility and type of political system, in forecasting political conditions. The technique is based on the hypothesis that if development in respect of any of the criteria moves faster than in other criteria, there is tension and violence.

4. Technological Forecast:

Excepting economic models, techniques of technological forecasting which have been found useful are judgmental models scenario development, brain storming and Delphi method. Those of scenario are explained hereafter. Brainstorming involves generation of new ideas and forecasts by a select group.

Creative thinking is encouraged in the process as analysis and criticism of contribution of participants are not immediately focused but the idea found more promising are evaluated later. In the Delphi technique, a systematic procedure is followed to derive the common elements from the opinion of a group of experts.

Components of a Strategy Statement

The strategy statement of a firm sets the firm's long-term strategic direction and broad policy directions. It gives the firm a clear sense of direction and a blueprint for the firm's activities for the upcoming years. The main constituents of a strategic statement are as follows:

1. Strategic Intent

An organization's strategic intent is the purpose that it exists and why it will continue to exist, providing it maintains a competitive advantage. Strategic intent gives a picture about what an organization must get into immediately in order to achieve the company's vision. It motivates the people. It clarifies the vision of the vision of the company.

Strategic intent helps management to emphasize and concentrate on the priorities. Strategic intent is, nothing but, the influencing of an organization's resource potential and core competencies to achieve what at first may seem to be unachievable goals in the competitive environment. A well-expressed strategic intent should guide/steer the development of strategic intent or the setting of goals and objectives that require that all of organization's competencies be controlled to maximum value.

Strategic intent includes directing organization's attention on the need of winning; inspiring people by telling them that the targets are valuable; encouraging individual and team participation as well as contribution; and utilizing intent to direct allocation of resources.

Strategic intent differs from strategic fit in a way that while strategic fit deals with harmonizing available resources and potentials to the external environment, strategic intent emphasizes on building new resources and potentials so as to create and exploit future opportunities.

2. Mission Statement

Mission statement is the statement of the role by which an organization intends to serve it's stakeholders. It describes why an organization is operating and thus provides a framework within which strategies are formulated. It describes what the organization does (i.e., present capabilities), who all it serves (i.e., stakeholders) and what makes an organization unique (i.e., reason for existence).

A mission statement differentiates an organization from others by explaining its broad scope of activities, its products, and technologies it uses to achieve its goals and objectives. It talks about an organization's present (i.e., "about where we are"). For instance, Microsoft's mission is to help people and businesses throughout the world to realize their full potential. Wal-Mart's mission is "To give ordinary folk the chance to buy the same thing as rich people." Mission statements always exist at top level of an organization, but may also be made for various organizational levels. Chief executive plays a significant role in formulation of mission statement. Once the mission statement is formulated, it serves the organization in long run, but it may become ambiguous with organizational growth and innovations.

In today's dynamic and competitive environment, mission may need to be redefined. However, care must be taken that the redefined mission statement should have original fundamentals/components. Mission statement has three main components-a statement of mission or vision of the company, a statement of the core values that shape the acts and behaviour of the employees, and a statement of the goals and objectives.

Features of a Mission

a) Mission must be feasible and attainable. It should be possible to achieve it.
b) Mission should be clear enough so that any action can be taken.
c) It should be inspiring for the management, staff and society at large.
d) It should be precise enough, i.e., it should be neither too broad nor too narrow.
e) It should be unique and distinctive to leave an impact in everyone's mind.

f) It should be analytical, i.e., it should analyze the key components of the strategy.
g) It should be credible, i.e., all stakeholders should be able to believe it.

3. Vision

A vision statement identifies where the organization wants or intends to be in future or where it should be to best meet the needs of the stakeholders. It describes dreams and aspirations for future. For instance, Microsoft's vision is "to empower people through great software, any time, any place, or any device." Wal-Mart's vision is to become worldwide leader in retailing. A vision is the potential to view things ahead of themselves. It answers the question "where we want to be". It gives us a reminder about what we attempt to develop. A vision statement is for the organization and its members, unlike the mission statement which is for the customers/clients. It contributes in effective decision making as well as effective business planning. It incorporates a shared understanding about the nature and aim of the organization and utilizes this understanding to direct and guide the organization towards a better purpose. It describes that on achieving the mission, how the organizational future would appear to be. An effective vision statement must have following features-

a) It must be unambiguous.
b) It must be clear.
c) It must harmonize with organization's culture and values.
d) The dreams and aspirations must be rational/realistic.
e) Vision statements should be shorter so that they are easier to memorize.

In order to realize the vision, it must be deeply instilled in the organization, being owned and shared by everyone involved in the organization.

4. Goals and Objectives

A goal is a desired future state or objective that an organization tries to achieve. Goals specify in particular what must be done if an organization is to attain mission or vision. Goals make mission more prominent and concrete. They co-ordinate and integrate various functional and departmental areas in an organization. Well made goals have following features-

a) These are precise and measurable.
b) These look after critical and significant issues.
c) These are realistic and challenging.
d) These must be achieved within a specific time frame.
e) These include both financial as well as non-financial components.

Objectives are defined as goals that organization wants to achieve over a period of time. These are the foundation of planning. Policies are developed in an organization so as to achieve these objectives. Formulation of objectives is the task of top level management. Effective objectives have following features-

i) These are not single for an organization, but multiple.
ii) Objectives should be both short-term as well as long-term.
iii) Objectives must respond and react to changes in environment, i.e., they must be flexible.
iv) These must be feasible, realistic and operational.

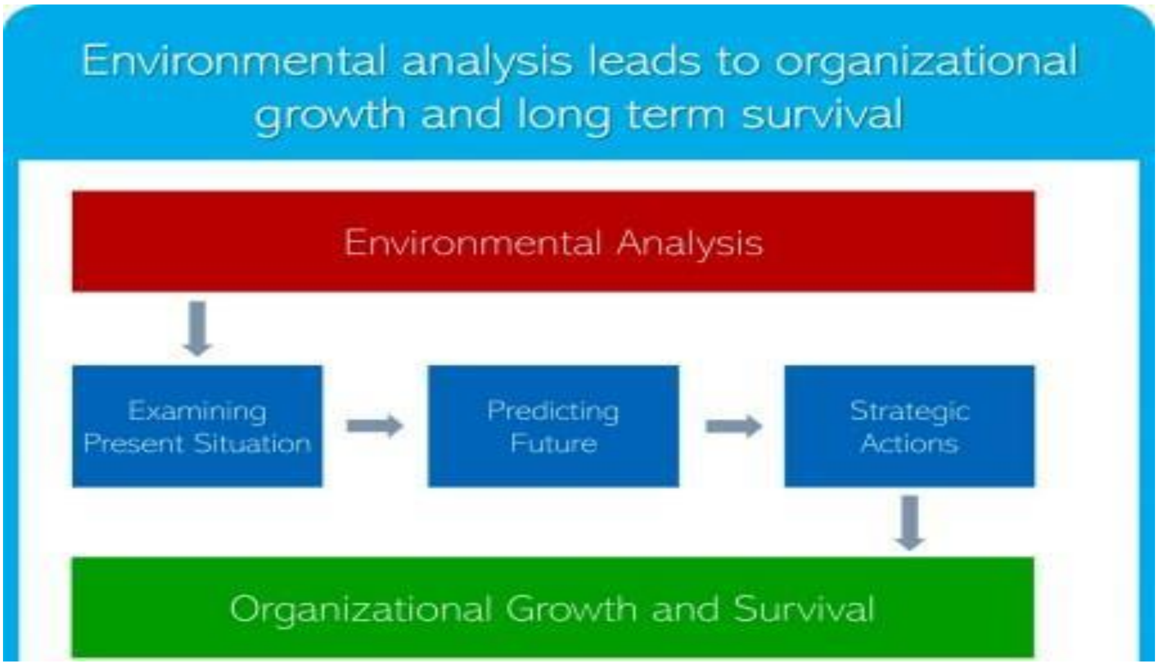
Module-2 Strategic Analysis – External Analysis, PEST, Porter's Approach to industry analysis, Internal Analysis – Resource Based Approach, Value Chain Analysis

1. Examining Environment for Business

Environmental analysis facilitates gauging the present situation of the organization and helps in predicting the future. Since environmental analysis uncovers relevant information with a future orientation, it enables the organizational leaders to undertake appropriate strategic action programs for ensuring the growth, profitability, and survival of the organization.

For gaining advantage from the environmental analysis, it is necessary to translate the information into a usable form to establish objectives and then to formulate a strategy for achieving the objectives. To analyze the environment, the first thing to do is to define and determine the environmental forces that are relevant to the organization and the concerned industry as well as to the geographical area served by the organization. For example, if a company serves only London, its geographical area would be only London city. However, if its area of operations covers the whole of Europe, the geographical area to be brought into the purview of analysis would be the whole country.

Again, all external factors or all internal factors may not be necessarily related to the targeted analysis. In that case, relevant factors forces need to be determined first so that wastages do not occur due to the collection of unnecessary information.



While examining the environment we may analyse two types of environments, i) external environment and ii) internal environment. Examination of external environment may be accomplished with two methods a) PESTLE analysis and b) Porters Industry analysis.

Environment Analysis			
i) External Analysis		ii) Internal Analysis	
a) PESTLE Analysis	b) Porter's Industry Analysis	a) Resource based approach	b) value Chain Analysis

2. Analysis of External Environment

The business environment usually offers immense opportunities for exploiting potential market and also poses threats to the firm itself. On this aspect, William F. Glueck and Lawrence R. Jauch observed, *"The environment includes factors outside the firm which can lead to opportunities for or threats to the firm. Although there are many factors, the most important of the sectors are socioeconomic, technological, supplier, competitors and government."*

This definition shows that environment includes different factors like socio-economic, technological, supplier, competitor and the government. Besides, there are two other factors, viz., physical or natural environment and global environment. While analyzing this external environment two methods are generally used

a) PESTLE Analysis

Environmental analysis is a strategic tool. It is a process to identify all the external and internal elements, which can affect the organization's performance. The analysis entails assessing the level of threat or opportunity the factors might present. These evaluations are later translated into the decision-making process. The analysis helps align strategies with the firm's environment.

Our market is facing changes every day. Many new things develop over time and the whole scenario can alter in only a few seconds. There are some factors that are beyond your control. But, you can control a lot of these things.

Businesses are greatly influenced by their environment. All the situational factors which determine day to day circumstances impact firms. So, businesses must constantly analyze the trade environment and the market.

There are many strategic analysis tools that a firm can use, but some are more common. The most used detailed analysis of the environment is the PESTLE analysis. This is a bird's eye view of the business conduct. Managers and strategy builders use this analysis to find where their market currently. It also helps foresee where the organization will be in the future.

PESTLE analysis consists of various factors that affect the business environment. Each letter in the acronym signifies a set of factors. These factors can affect every industry directly or indirectly.

The letters in PESTLE, also called PESTEL, denote the following things:

Political factors	Technological factors
Economic factors	Legal factors
Social factors	Environmental factor

Often, managers choose to learn about political, economic, social and technological factors only. In that case, they conduct the PEST analysis. PEST is also an environmental analysis. It is a shorter version of PESTLE analysis. STEP, STEEP, STEEPLE, STEEPLED, STEPJE and LEPEST: All of these are acronyms for the same set of factors. Some of them gauge additional factors like ethical and demographical factors. We may discuss the 6 most commonly assessed factors in environmental analysis.

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P for Political factors

The political factors take the country's current political situation. It also reads the global political condition's effect on the country and business. Some political factors that you can study are:

- Government policies
- Taxes laws and tariff
- Stability of government
- Entry mode regulations

E for Economic factors

Economic factors involve all the determinants of the economy and its state. These are factors that can conclude the direction in which the economy might move. So, businesses analyze this factor based on the environment. It helps to set up strategies in line with changes. Such economic factors include:

- The inflation rate
- The interest rate
- Disposable income of buyers
- Credit accessibility
- Unemployment rates
- The monetary or fiscal policies
- The foreign exchange rate

S for Social factors

Countries vary from each other. Every country has a distinctive mindset. These attitudes have an impact on the businesses. The social factors might ultimately affect the sales of products and services. Some of the social factors you should study are:

- The cultural implications
- The gender and connected demographics
- The social lifestyles

- The domestic structures
- Educational levels
- Distribution of Wealth

T for Technological factors

Technology is advancing continuously. The advancement is greatly influencing businesses. Performing environmental analysis on these factors will help you stay up to date with the changes. Technology alters every minute. This is why companies must stay connected all the time. Firms should integrate when needed. Technological factors will help you know how the consumers react to various trends. Firms can use these factors for their benefit:

- New discoveries
- Rate of technological obsolescence
- Rate of technological advances
- Innovative technological platforms

L for Legal factors

Legislative changes take place from time to time. Many of these changes affect the business environment. If a regulatory body sets up a regulation for industries, for example, that law would impact industries and business in that economy. So, businesses should also analyze the legal developments in respective environments. Some of the legal factors are:

- Product regulations
- Employment regulations
- Competitive regulations
- Patent infringements
- Health and safety regulations

E for Environmental factors

The location influences business trades. Changes in climatic changes can affect the trade. The consumer reactions to particular offering can also be an issue. This most often affects agri-businesses. Some environmental factors you can study are:

- Geographical location
- The climate and weather
- Waste disposal laws

- Energy consumption regulation
- People’s attitude towards the environment

There are many external factors other than the ones mentioned above.

It is true that industry factors have an impact on the company performance. Environmental analysis is essential to determine what role certain factors play in your business. PEST or PESTLE analysis allows businesses to take a look at the external factors. Many organizations use these tools to project the growth of their company effectively.

The analyses provide a good look at factors like revenue, profitability, and corporate success. If you want to take the right decisions for your firm, employ environmental analysis. The analysis you should conduct depends on the nature of your company.

b) Porter’s Industry Analysis

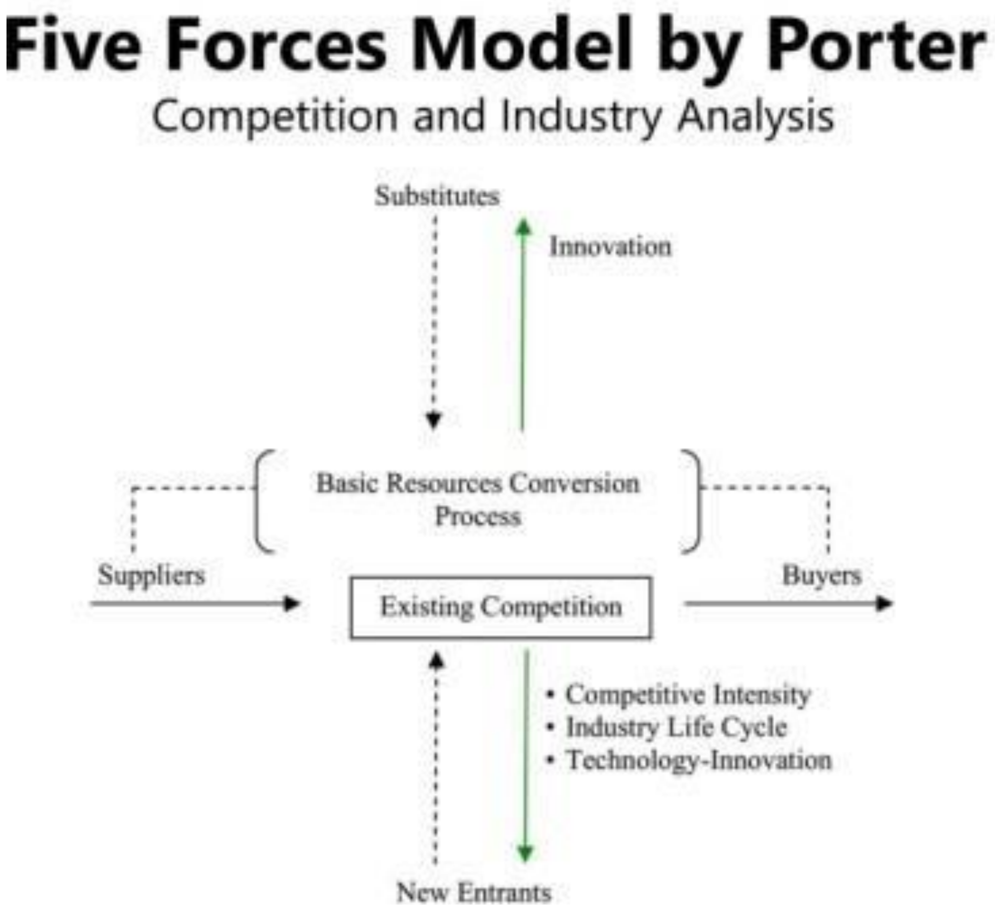
The most widely used model for an industry’s competition analysis is Michael Porter’s Five Forces Model Managers can use this model to analyze the competitive environment in the industry in which their company is operating its business. The Five Forces Model provides a framework to identify industry-related opportunities and threats.

Managers use Porter’s Five Forces Model to analyze competitive forces in the industry’s environment and identify the industry-related opportunities and threats confronting their company. According to Porter the five forces explain the structural determinants of the industry and help to explain the profitability of the industry in conjunction with immediate competitor behavior. These are;

1) the threat of new entrants;
2) bargaining power of suppliers;
3) bargaining power of buyers;
4) threat of substitute products; and
5) rivalry among existing firms.

The five forces model was developed by Professor Michael Porter of the Harvard Business School in his book The Competitive Strategy Techniques for Analysing Industries and Competitors (1980).

Since then it has been extensively quoted across the academic world as a tool for analyzing the structure of industries. Five of the constituents of the industry mentioned above are from Porter's list of industry's structural forces. The five forces determine industry profitability because they influence the prices, costs and required investment in the industry.



i. Threat of New Entrants

The threat of new entrants refers to the risk of new entry by potential competitors. A potential entrant is one who eyes the given industry anticipating higher returns. The entrant may bring new technology or other resources to the industry. In the marketplace, some competitors are already operating their businesses. They are called existing competitors.

Some other upcoming competitors are not now operating a business in the industry but they can enter into the industry if they have the capability and desire to enter. They are potential competitors.

The success or failure of the entrants would depend upon the reaction of the other players in the industry and the entry barriers in the industry. The existing players in the field would not like a new entrant as the new entrant can erode the profitability of the existing players.

Potential competitors create threats to existing companies (incumbent companies) because if they enter-they can make the competition tougher through taking away market share from the existing companies.

ii. Bargaining Power of Suppliers

Suppliers play an important role in determining industry profitability. The suppliers have the capacity to control the cost/quality of the inputs. Labour is also an input and the supply or short supply of highly skilled labor has the power to bargain, affecting the profitability. The more dependent an organization is on its suppliers the greater is the difficulty it faces in shifting/ switching to another supplier. High switching costs may compel an organization to stick with a supplier to whom better alternatives may be available. A company has to procure various types of 'supplies' from the suppliers such as raw materials, components, parts and other materials necessary for producing a product.

When the dependency of the customers (buyer-firms) is high, the bargaining power of suppliers is enhanced. Powerful suppliers can raise the prices of materials. As a result, powerful suppliers are a threat to the companies that have to buy at that price. If suppliers are weak, the company may be in an advantageous position and can demand high quality at a lower price from the suppliers.

iii. Bargaining Power of Buyers

The buyers either enforce a better price or better quality depending on their competitive position. Buyers of products may be ultimate consumers or even the intermediaries such as dealers, wholesalers, and retailers. The buyer's bargaining power becomes high when suppliers have to depend on them for some reason. On the other hand, their bargaining power is weak when suppliers/sellers are capable to raise prices. Whether; buyer-seller relationships represent a weak or strong competitive force depends on whether buyers have sufficient bargaining power to influence the terms and conditions of sale in their favor, and the extent of seller-buyer strategic partnerships in the industry.

iv. The Threat of Substitute Products

Substitute products can play spoilsport for industry profitability. If the substitute product offers a substantive price or performance advantage the organization has to decide whether to take up the substitute at one go or gradually. A company needs to consider the competitive pressures from substitute products. The substitute products may come from either the same industry or from other industries.

v. Rivalry among the Existing Firms

In a given industry competitors try to out-manoeuvre each other and gain a higher market share. A higher market share is presumed to lead to higher profitability

A very important force in Porter's Model is the extent of rivalry among the established firms in the industry. In an environment of weak rivalry (competition), a firm can raise prices and make higher profits.

When competition is strong/the industry may face severe price-war in which firms compete against each other on the basis of price cuts.

If there is severe competition among the firms in the industry, profitability decreases substantially. Thompson and Stricklan regard this force of rivalry as the 'strongest of the five forces.' Inter-company rivalry or competition stems from several factors, as identified by Porter in his famous book Competitive Strategy.

Implication

Managers can use this model to systematically diagnose the principal competitive pressures in a market. With this model, they can assess the strength of each of the competitive forces. They can further understand how important each of these forces is.

The major reason behind the wide use of this technique is that it is easy to understand and apply in practice when managers analyze the competition.

Mangers find it comfortable to analyze the competitive pressures associated with each force in the model. They can clearly determine whether the pressures of the five competitive forces exert any strong or weak influence in the market place.

3. Analysis of Internal Environment

Analysis of the internal environment of an organization is an essential part of situation analysis. The situation of an organization whether business or any other type of organization is expressed in terms of its internal and external environmental factors. When an analysis is made of both the types of the internal and external environment, managers can have a clear idea of the overall situation of the organization.

External environmental factors reside outside of the organization and, therefore, depict the external situation. The internal environmental factors reside inside the organization and, therefore, portray the internal situation.

Internal environmental analysis (some prefer to call it simply ‘internal analyses) helps managers identify the internal strengths and weaknesses in respect of various internal environmental factors. An analysis is made of each factor in different areas of the organization. The two most popular models are a) resource based approach and b) value chain analysis

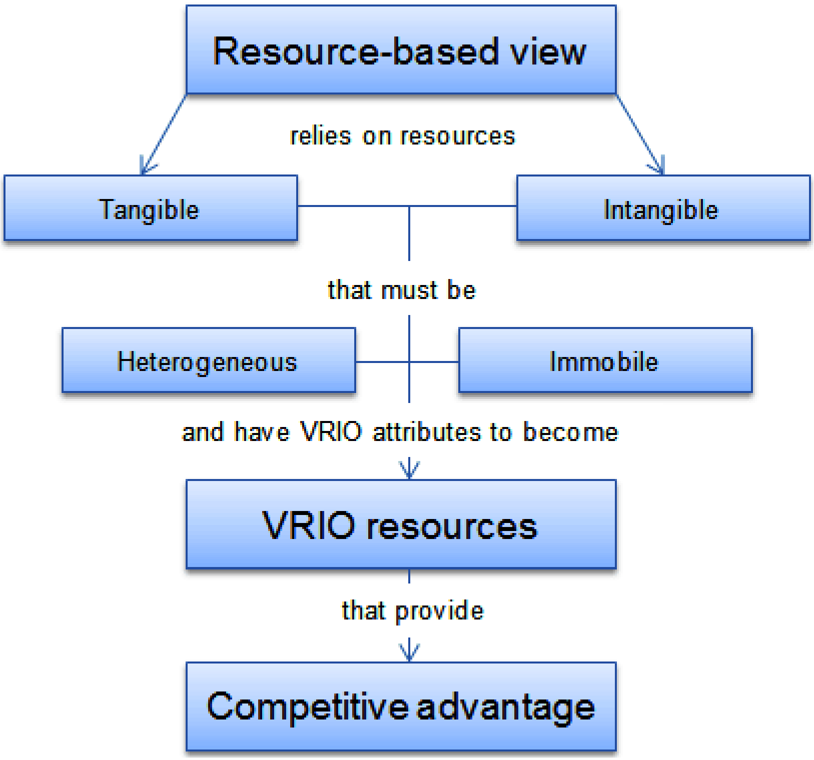
a) Resource Based Approach

The resource-based view (RBV) is a way of viewing the firm and in turn of approaching strategy. Fundamentally, this theory formulates the firm to be a bundle of resources. It is these resources and the way that they are combined, which make firms different from one another. It is considered as taking an inside-out approach while analysing the firm. This means that the starting point of the analysis is the internal environment of the organization.

Resources

Resources of the firm can include all assets, capabilities, organizational processes, firm attributes, information and knowledge. In short resources can be considered as inputs that facilitate the organization to perform its activities.

All resources that an organization has may not have strategic relevance. Only certain resources are capable of being an input to a value creating strategy which put the organization in a position of competitive advantage. An organization's resource should have four attributes to provide the potential for competitive advantage. These form the VRIN characteristics.



The VRIN characteristics

The important features for a resource to be strategically important are as below

- Valuable - When resources are able to bring value to the firm they can be a source of competitive advantage.
- Rare - Resources have to deliver a unique strategy to provide a competitive advantage to the firm as compared to the competing firms. Consider the case where a resource is valuable but it exists in the competitor firms as well. Such a resource is not rare to provide competitive advantage
- Inimitable - Resources can be sources of sustained competitive advantage if competing firms cannot obtain them. Consider the case where a resource is valuable and rare but the competing organizations can copy them easily. Such resources also cannot be sources of competitive advantage

- Non-substitutable - Resources should not be able to be replaced by any other strategically equivalent valuable resources. If two resources can be utilized separately to implement the same strategy then they are strategically equivalent. Such resources are substitutable and so are not sources of sustained competitive advantage.

The VRIN characteristics mentioned above are individually necessary for the resources to be valuable.

VRIO Framework

VRIO framework is the tool used to analyze firm's internal resources and capabilities to find out if they can be a source of sustained competitive advantage.

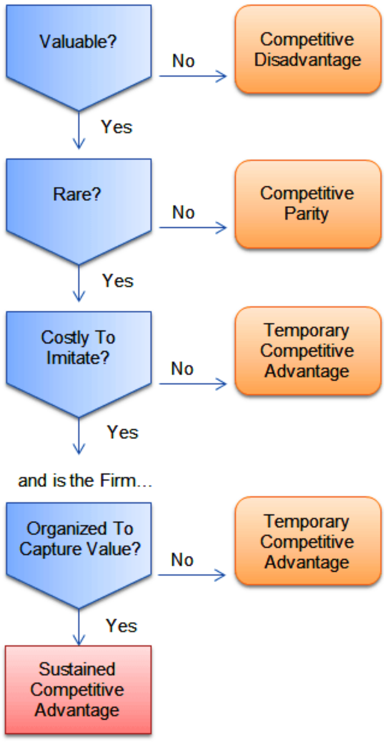
In order to understand the sources of competitive advantage firms are using many tools to analyze their external (Porter's 5 Forces, PEST analysis) and internal (Value Chain analysis, BCG Matrix) environments.

One of such tools that analyze firm's internal resources is VRIO analysis. The tool was originally developed by Barney, J. B. (1991) in his work 'Firm Resources and Sustained Competitive Advantage', where the author identified four attributes that firm's resources must possess in order to become a source of sustained competitive advantage. According to him, the resources must be valuable, rare, imperfectly imitable and non-substitutable. His original framework was called VRIN which has been discussed above.

In 1995, in his later work 'Looking Inside for Competitive Advantage' Barney has introduced VRIO framework, which was the improvement of VRIN model. VRIO analysis stands for four questions that ask if a resource is: valuable? rare? costly to imitate? And is a firm organized to capture the value of the resources? A resource or capability that meets all four requirements can bring sustained competitive advantage for the company.

Valuable

The first question of the framework asks if a resource adds value by enabling a firm to exploit opportunities or defend against threats. If the answer is yes, then a resource is considered valuable. Resources are also valuable if they help organizations to increase the perceived customer value. This is done by increasing differentiation or/and decreasing the price of the product. The resources that cannot meet this condition, lead to competitive disadvantage. It is important to continually review the value of the resources because constantly changing internal or external conditions can make them less valuable or useless at all.



Rare

Resources that can only be acquired by one or very few companies are considered rare. Rare and valuable resources grant temporary competitive advantage. On the other hand, the situation when more than few companies have the same resource or uses the capability in the similar way, leads to competitive parity. This is because firms can use identical resources to implement the same strategies and no organization can achieve superior performance.

Even though competitive parity is not the desired position, a firm should not neglect the resources that are valuable but common. Losing valuable resources and capabilities would hurt an organization because they are essential for staying in the market.

Costly to Imitate

A resource is costly to imitate if other organizations that doesn't have it can't imitate, buy or substitute it at a reasonable price. Imitation can occur in two ways: by directly imitating (duplicating) the resource or providing the comparable product/service (substituting).

A firm that has valuable, rare and costly to imitate resources can (but not necessarily will) achieve sustained competitive advantage. Barney has identified three reasons why resources can be hard to imitate:

- Historical conditions. Resources that were developed due to historical events or over a long period usually are costly to imitate.
- Causal ambiguity. Companies can't identify the particular resources that are the cause of competitive advantage.
- Social Complexity. The resources and capabilities that are based on company's culture or interpersonal relationships.

Organized to Capture Value

The resources itself do not confer any advantage for a company if it's not organized to capture the value from them. A firm must organize its management systems, processes, policies, organizational structure and culture to be able to fully realize the potential of its valuable, rare and costly to imitate resources and capabilities. Only then the companies can achieve sustained competitive advantage.

Steps in Using VIRO tool
Step 1. Identify valuable, rare and costly to imitate resources
Step 2. Find out if your company is organized to exploit these resources
Step 3. Protect the resources
Step 4. Constantly review VRIO resources and capabilities

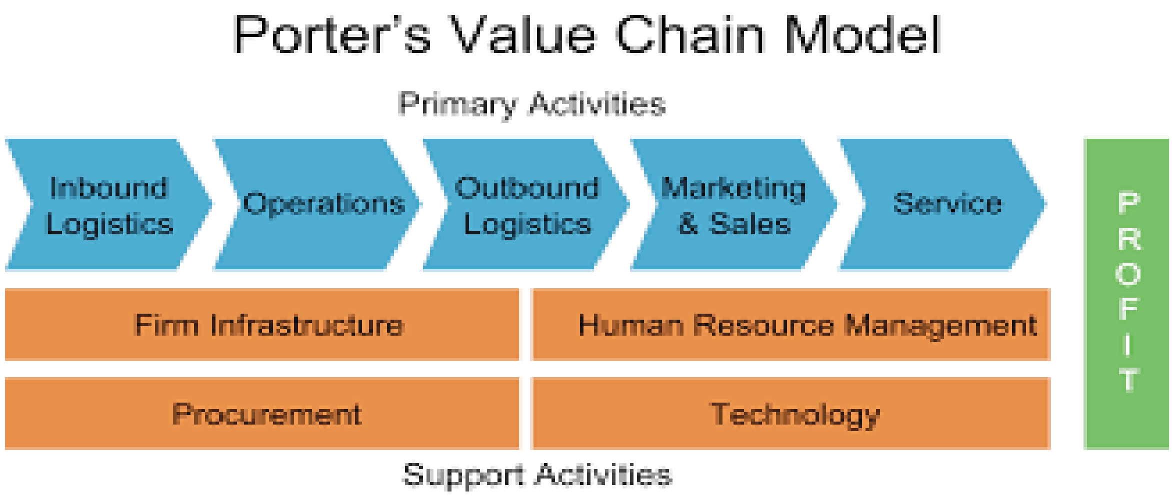
b) Value Chain Analysis

Value chain analysis (VCA) is a process where a firm identifies its primary and support activities that add value to its final product and then analyze these activities to reduce costs or increase differentiation. Value chain represents the internal activities a firm engages in when transforming inputs into outputs.

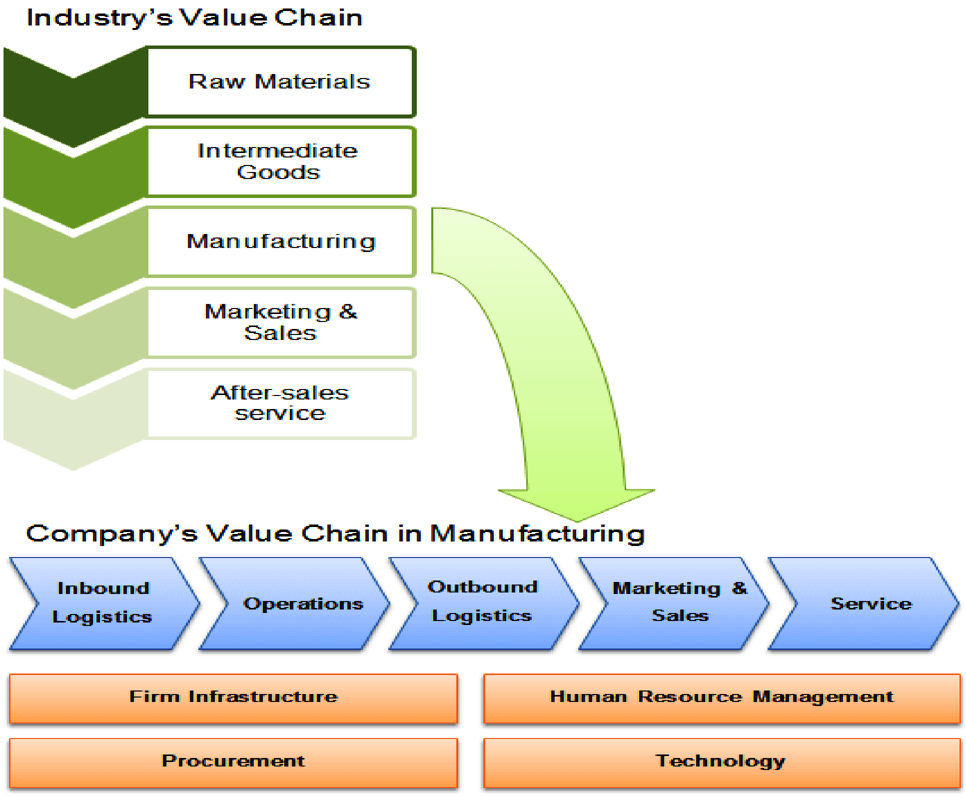
The Method

Value chain analysis is a strategy tool used to analyze internal firm activities. Its goal is to recognize, which activities are the most valuable (i.e. are the source of cost or differentiation advantage) to the firm and which ones could be improved to provide competitive advantage. In other words, by looking into internal activities, the analysis reveals where a firm's competitive advantages or disadvantages are. The firm that competes through differentiation advantage will try to perform its activities better than competitors would do. If it competes through cost advantage, it will try to perform internal activities at lower costs than competitors would do. When a company is capable of producing goods at lower costs than the market price or to provide superior products, it earns profits.

M. Porter introduced the generic value chain model in 1985. Value chain represents all the internal activities a firm engages in to produce goods and services. VC is formed of primary activities that add value to the final product directly and support activities that add value indirectly.



Although, primary activities add value directly to the production process, they are not necessarily more important than support activities. Nowadays, competitive advantage mainly derives from technological improvements or innovations in business models or processes. Therefore, such support activities as 'information systems', 'R&D' or 'general management' are usually the most important source of differentiation advantage. On the other hand, primary activities are usually the source of cost advantage, where costs can be easily identified for each activity and properly managed.



There are two different approaches on how to perform the analysis, which depend on what type of competitive advantage a company wants to create (cost or differentiation advantage). The table below lists all the steps needed to achieve cost or differentiation advantage using VCA.

Competitive advantage types	
Cost advantage	Differentiation advantage
This approach is used when organizations try to compete on costs and want to understand the sources of their cost advantage or disadvantage and what factors drive those costs.(good examples: Amazon.com, Wal-Mart, McDonald's, Ford, Toyota)	The firms that strive to create superior products or services use differentiation advantage approach. (good examples: Apple, Google, Samsung Electronics, Starbucks)
Step 1. Identify the firm's primary and support activities. Step 2. Establish the relative importance of each activity in the total cost of the product. Step 3. Identify cost drivers for each activity. Step 4. Identify links between activities. Step 5. Identify opportunities for reducing costs.	Step 1. Identify the customers' value-creating activities. Step 2. Evaluate the differentiation strategies for improving customer value. Step 3. Identify the best sustainable differentiation.

Module-3 Strategy Formulation – SWOT Analysis, Corporate Strategy – Growth, Stability, Retrenchment, Integration and Diversification, Business Portfolio Analysis - BCG, GE Business Model, Ansoff's Product Market Growth Matrix

1. Strategy Formulation

Strategy formulation is the process of offering proper direction to a firm. It seeks to set the long-term goals that help a firm exploit its strengths fully and exploit the opportunities that are present in the environment. There is a conscious and deliberate attempt to focus attention on what the firm can do better than its rivals. To achieve this, a firm seeks to find out what it can do best. Once the strengths are known, opportunities to be exploited are identified; a long-term plan is chalked out for concentrating resources and effort.

Since strategies consume time, energy and resources, they must be formulated carefully. Strategies, once formulated, must ensure a best fit between goals, resources and effort put in by people. The ultimate goal of every strategy that is being formulated should be to deliver outstanding value to customers at all times.

Henry Mintzberg, found that strategy formulation is typically not a regular, continuous process. *"It is small often an irregular, discontinuous process, proceeding in fits and starts. There are periods of stability in strategy development, but also there are periods of flux, of grouping of piecemeal changes and of global change."*

Mintzberg has pointed out that a corporation's objectives and strategies are strongly affected by top management's view of the world. This view determines the mode to be used in strategy formulation. These modes include:

1. Entrepreneurial Mode:

Strategy is formulated by one powerful individual. The focus is on opportunities rather than on problems. Strategy is guided by the founder's own visions of direction.

2. Adaptive Mode:

This strategy formulation mode is characterised by reactive solutions to existing problems rather than a proactive search for new opportunities.

3. Planning Mode:

Analysts assume main responsibility for strategy formulation. Strategic planning includes both the proactive search for new opportunities and the reactive solution of existing problems.

Strategic planning is a systemic and disciplined exercise to formulate strategies. It relates to the enterprise as a whole or to particular business units (identified as strategic business units – SBUs) of a defictionalized organisation. It consists of making risk- taking decisions - entrepreneurial decisions – for the future with the best possible knowledge of their probable outcome and effects.

2. Strategy Formulation Tools

A number of methods and tolls have been developed to formulate strategies in organization. We may identify certain important tools for the discussion:

Swot analysis
Corporate Strategy – Growth, Stability, Retrenchment, Integration and Diversification
Business Portfolio Analysis - BCG, GE Business Model, Ansoff's Product Market Growth Matrix

3. SWOT Analysis

Swot analysis involves the collection and portrayal of information about internal and external factors which have, or may have, an impact on business. SWOT is a framework that allows managers to synthesize insights obtained from an internal analysis of the company's strengths and weaknesses with those from an analysis of external opportunities and threats.

SWOT Analysis is a tool used for situation (business or personal) analysis! SWOT is an acronym which stands for:

Strengths: Factors that give an edge for the company over its competitors.

Weaknesses: Factors that can be harmful if used against the firm by its competitors.

Opportunities: Favourable situations which can bring a competitive advantage.

Threats: Unfavourable situations which can negatively affect the business.

Strengths and weaknesses are internal to the company and can be directly managed by it, while the opportunities and threats are external and the company can only anticipate and react to them. Often, SWOT is presented in a form of a matrix as in the illustration below:

Internal	Strengths	Weakness
External	Opportunities	Threats

SWOT is widely accepted tool due to its simplicity and value of focusing on the key issues which affect the firm. The aim of SWOT is to identify the strengths and weaknesses that is relevant in meeting opportunities and threats in particular situation.

Performing the Analysis

Step 1: Listing the firm's key strengths and weaknesses

Step 2: Identifying opportunities and threats

Strengths and Weaknesses

Strengths and weaknesses are the factors of the firm's internal environment. Some strengths or weaknesses can be recognized instantly without deeper studying of the organization. But usually the process is harder and managers have to look into the firm's:

- Resources: land, equipment, knowledge, brand equity, intellectual property, etc.
- Core competencies
- Capabilities
- Functional areas: management, operations, marketing, finances, human resources and R&D
- Organizational culture
- Value chain activities

Often, company's internal factors are seen as both, strengths and weaknesses, at the same time. It is also hard to tell if a characteristic is strength (weakness) or not. For example, firm's organizational structure can be strength, or a weakness or neither. In such cases, we may explore

Clear definition: Very often factors which are described too broadly may fit both strengths and weaknesses. For example, "brand image" might be a weakness if the company has poor brand image. However, it can also be a strength if the company has the most valuable brand in the market, valued at $100 billion. Therefore, it is easier to identify if a factor is a strength or a weakness when it's defined precisely.

Benchmarking: The key emphasizes in doing SWOT is to identify the factors that are the strengths or weaknesses in comparison to the competitors.

VRIO framework: A resource can be seen as a strength if it exhibits VRIO (valuable, rare and cannot be imitated) framework characteristics. Otherwise, it doesn't provide any strategic advantage for the company.

Opportunities and threats:

Opportunities and threats are the external uncontrollable factors that usually appear or arise due to the changes in the macro environment, industry or competitors' actions. Opportunities represent the external situations that bring a competitive advantage if seized upon. Threats may damage your company so you would better avoid or defend against them.

PESTEL: PEST or PESTEL analysis represents all the major external forces (political, economic, social, technological, environmental and legal) affecting the company so it's the best place to look for the existing or new opportunities and threats.

Competition: Competitor's react to your moves and external changes. They also change their existing strategies or introduce new ones. Therefore, the company must always follow the actions of its competitors as new opportunities and threats may open at any time.

Market changes: The most visible opportunities and threats appear during the market changes. Markets converge, starting to satisfy other market segment needs with the same product. New geographical markets open up allowing the firm to increase its export volumes or start operations in a new country. Often niche markets become profitable due to technological changes. As a result, changes in the market create new opportunities and threats that must be seized upon or dealt with if the company wants to gain and sustain competitive advantage.

Opportunity or threat

Most external changes can represent both opportunities and threats. For example, exchange rates may increase or reduce the profits gained from exports. This depends on the exchange rate, which may raise (opportunity) or fall (threat) against the home country currency. The organization can only guess the outcome of the change and count on analysts' forecasts. In such cases, when organization cannot identify if the external factor will affect it positively or negatively, it should gather unbiased and reliable information from the external sources and make the best possible judgement.

Benefits

Swot tool has 5 key benefits:

1. Simple to do and practical to use;
2. Clear to understand;
3. Focuses on the key internal and external factors affecting the company;
4. Helps to identify future goals;
5. Initiates further analysis.

Limitations

Although there are clear benefits of doing the analysis, many managers and academics heavily criticize or don't even recognize it as a serious tool.[2] According to many, it is a 'low-grade' analysis. Here are the main flaws identified by a research:[2][5]

1. Excessive lists of strengths, weaknesses, opportunities and threats;
2. No prioritization of factors;
3. Factors are described too broadly;
4. Factors are often opinions not facts;
5. No recognized method to distinguish between strengths and weaknesses, opportunities and threats.

4. Corporate Strategy

Corporate strategy is about strategic decisions about determining overall scope and direction of a corporation and the way in which its various business units work together to attain particular goals.

Corporate-level strategy is an action taken to gain a competitive advantage through the selection and management of combination of businesses competing in several industries or product markets.

Corporate strategies are normally expected to help the firm earn above- average profits and create value for the shareholders. Corporate strategy addresses the issues of a multi-business firm as a whole.

The corporate level generic strategies pertain to identify the businesses the company shall be engaged in. They determine the direction that firm takes in order to achieve its objectives. There could be a small single business firm or a large, complex and diversified firm with several different businesses.

In both the cases the corporate strategy concerns the basic direction of the firm as a whole. For a small firm it could identify the courses of action yielding better profit to the firm. In the case of the large firm the corporate strategy means managing the various businesses to maximize their contribution to the achievement of overall corporate objectives.

Abell has defined a business along the three dimensions of customer group, customer functions and alternative technologies. Strategic alternatives revolve around the question of whether to continue or change the business the enterprise is currently in or improve the efficiency and effectiveness with which the firm achieves its corporate objectives in its chosen business sector.

Five types of corporate strategy may be identified. These are, a) Growth, b) Stability, c) Retrenchment, d) Integration and e) Diversification

a) Growth Strategy

Growth is one of the most discussed and lauded strategic options. It is equated with managerial success and achievement. An organization may grow by expansion (when it concentrates within a broad allied product market scope). Technology plays an important underlying role in growth in today’s context.

It enables companies to design, develop and manufacture better products. Communication technology also enables the organization to meet un-served needs in unreached markets. Alternatively, an organization may grow beyond its product market scope. The organization can move into new markets, offer products that are totally different from its present ones, based on new technology and manufacturing (the organization explores a totally new line of business).

It can even tap overseas markets for the same new or differentiated products (diversification). A company may adopt a growth strategy when it wants to expand its market and thereby improve profitability. Usually, this strategy is undertaken when a company has enough resources to expand the business and is capable to manage the new risks involved with expansion.

Growth or expansion may happen by concentrating resources on few things that the organisa-tion can do better than rivals. Expansion through concentration can be undertaken through three strategies, namely i) market penetration, ii) market development and iii) product development.

i) Market Penetration:

It is the strategy of a firm that directs its resources to the profitable growth of a single product, in a single market with a single dominant technology. The firm tries to thoroughly exploit its expertise in a delimited competitive arena and increase the sale of its existing products in the existing markets by:

i. Increasing sales to current customers (buy toothpaste and take tooth-brush free offers).

ii. Separating customers from competitors' products.

iii. Convert non-users into users.

ii) Market Development:

It consists of marketing existing products in new markets. The firm tries to achieve growth by finding new uses for the existing products and tap new customers on that basis (within the country or outside the country). The firm can add new channels of distribution to expand the customer reach of the product.

It can also enter new market segments by com-ing out with slightly different products for each price segment, undertaking cosmetic changes in colour, taste, packaging etc. (Hindustan lever's offerings in toilet soap, detergent powder segments). Changes in media selection, pro-motional appeals, and distribution could also serve the same purpose.

iii) Product Development:

This strategy tries to achieve growth through new products in existing markets. The new products in this case are not essentially new products, but improved versions of an existing product or substitutes serving the same need catering to the same market as at present.

b) Stability Strategy

A stability strategy involves maintaining the status quo or growing in a methodi-cal, but slow, manner. The firm follows a safety-oriented, status-quo-type strategy without effecting any major changes in its present operations.

The resources are put on existing operations to achieve moderate, incremental growth. As such, the primary focus is on current products, markets and functions, maintaining the same level of effort as at present. Organisations might follow a stability strategy for a variety of reasons.

Under the Stability strategy, a company where stops the expenditure on expansion, do not introduce new products or venture into new markets rather decides to focus of the current portfolio and market share.

It chooses not to be aggressive in its search and movement towards new markets or the development of new products. There is an incremental improvement in functional performance. While pursuing stability, organizations need to draw up a plan to get moving either by investments in research and development or by divesting non-performing areas to free capital for new promising areas. Stability seems “a not-much-action-going-on” phase but the organization in its functional areas is trying furtively to do something new. The general situations where stability strategy may be formulated are as follows:

i. Post-merger

Post-merger; when an organization has to settle the congruity issues between the different entities coming together. The organization devotes more time to ensure a smooth transition to the new entity before making substantive changes in the business.

ii. Prolonged duration of rapid growth

After a prolonged duration of rapid growth, consolidate the results and resources and take time to initiate any strategic shift. Firms expecting major environmental changes prefer to wait and consciously postpone any strategic move until a clear picture emerges.

iii. In family-dominated organizations

In family-dominated organizations under predictable market conditions, stability strategy is followed for fear of loss of financial control if external funds had to be sought for further growth and expansion of the business.

iv. Organizations serving niche markets

When organizations service niche markets (for example, patisseries or cafes in metro stations) once they attain a level of business, they maintain that level either because there is no further growth or because the owner doesn’t have the will or resources to expand.

v. Recession conditions

Investments may not get the due returns so the organization strengthens its key areas in this forced slow down.

In general companies may choose three types of stability strategies:

a. Do Nothing Strategy

This is a stage when the organization finds itself in placid waters. There is no appreciable change in its industry environment and there is no area in which the organization would venture of its own so it does what it has been doing without any significant change. The organization is reactive and this strategy serves a niche small business.

b. Profit Strategy

Organizations facing threats and reducing margins opt for this strategy by curtailing discretionary expenditure and investment. This is a short-term strategy as in the long-term curtailing investments also erodes the organization's competitiveness. It is a strategy to be followed only to give management a breather, not as a smokescreen to hide passivity or wrong decisions.

c. Pause Strategy

Organizations that grow rapidly in fast -growing markets need to assess their operations, pause and invest in developing resources commensurate with growth to grow further.

c) Retrenchment Strategy

Retrenchment strategy is a corporate level, defensive strategy followed by a firm when its performance is disappointing or when its survival is at stake for a variety of reasons. Economic recessions, production inefficiencies, and innovative break-throughs by competitors are only three causes.

Managers choose retrenchment when they think that the firm is neither competitive enough to succeed through a counter attack (on market forces affecting its sales negatively) nor nimble enough (effecting fast changes) to be a fast follower. There may be three types of retrenchment strategies:

i. Divestment Strategy (Also Called Divestiture or Spin-Off):

It involves the sale of those units or parts of a business that no longer contribute to or fit the firm's distinctive competence. The firm simply gets out of certain businesses and sells off units or divisions for various reasons. Divestment may take one of three forms:

(a) Outright sale to another company,

(b) Leveraged Buy-Out (LBO), and

(c) Spin-off. A leveraged buyout occurs when a company's share-holders are bought out (hence buy-out) by the company's management and other private investors using borrowed funds (hence leveraged). In the last case, the parent company creates a new company, and then distributes its shares to shareholders of the parent.

ii. Turnaround Strategy:

A turnaround is designed to reverse a negative trend and bring the organisation back to normal health and profitability. The basic purpose of a turnaround is to transform the corporation into a leaner and more efficient firm.

It usually involves getting rid of unprofitable products, trimming the workforce, pruning distribution outlets, and finding other useful ways of making the organisation more efficient.

If the turnaround is successful, the organisation may then focus on growth strategy. Firms often lose their grip over markets due to various internal and external factors. If they have to survive and flourish in a competitive environment, they have to identify the danger signals quite early and undertake rectification steps immediately. Such negative trends are not difficult to trace.

iii. Liquidation Strategy:

This is a strategy to be followed as 'last resort'. When neither a turnaround nor a divestment seems feasible, liquidation is used. Liquidation involves selling or disposing of all or part of an organisation's assets, Liquidation is generally followed when-

(i) The future of a unit looks bleak in terms of sales, profitability etc.

(ii) The unit has unmanageable ac-cumulated losses;

(iii) Some other firm is willing to buy the unit, to avail tax benefits;

(iv) It is not possible to revive the unit with the existing resources.

d) Integration Strategy

Integration refers to combining activities related to the present activities of a firm, on the basis of the value chain. Recall that a value chain is a set of interrelated activities an organization performs right from the procurement of basic raw materials to the marketing of finished products to the ultimate consumers. Integration as a strategy results in a widening of the scope of the business definition of a firm.

Integration for a business organisation may happen in two ways:

i. Vertical Integration

Vertical integration allows the firm to enlarge its scope of operations within the same overall industry. It takes place when one firm acquires another that is involved either in an earlier stage of the production process (backward or upstream) or a later stage of the production process (forward or downstream). It gives a firm control over successive stages of the product's processing, marketing and retailing. It strengthens a firm's market position and internal capabilities, thereby helping it show superior performance. There are two types of vertical integration:

a. Backward vertical integration occurs when the companies acquired supply the firm with products, components or raw materials. The main reason for backward integration is to gain a firm grip over supply and quality of raw materials.

b. Forward integration, on the other hand, helps a firm gain control over sales and prices of its existing products. However, increased risks are inherently present in both types of integration. It is not easy to share the additional burden and diverse responsibilities thrust upon man-agers in the changed scenario.

ii. Horizontal Integration

It refers to a situation where a firm merge or acquires another firm serving same customers, with the same or similar products and adopting the same marketing process. Horizontal integration is generally pur-sued to increase revenues and gain market share quickly in the same industry segment-for example a shoe manufacturer buying another shoe company with a view to gain market dominance and thereby reduce the level of competition. Horizontal integration takes place generally in all such instances where the product is a commodity and pricing power is very important for competitive success.

e) Diversification Strategy

Generally, diversification means expansion of business either through operating in multiple industries simultaneously (product diversification) or entering into multiple geographic markets (geographic market diversification) or starting a new business in the same industry.

At the business-unit level, diversification occurs when a business unit expands into a new segment of the present industry in which the company is -already doing business.

At the corporate-level, diversification occurs when the diversified company enters into business outside the scope of the existing business units. Diversification is sought to increase profitability through greater sales volume.

i. Levels of Diversification

Some management experts have tried to show that diversified firms vary according to their levels of diversification. According to them, three levels of diversification exist:

- Low Levels of Diversification.
- Moderate to High Levels of Diversification.
- Moderate to High Levels of Diversification.

Low Levels of Diversification

This level of diversification is seen in a company that operates its activities mainly on a single or dominant business. The company is in a single business if its revenue is greater than 95 percent of the total sales. However, the firms that generate their income from single products cannot be called diversified firms in the true sense of the term.

Moderate to High Levels of Diversification

In this level, two types of diversification are evident – 'related constrained' and 'related linked', in the case of related constrained diversification, less than 70 percent of revenue comes from the dominant business and ail SBUs/divisions share product, technology, and distribution channels.

If the firm has related linked diversification, less than 70 percent of revenues come from the dominant business but there are only limited links between and among the SBUs. Procter and Gamble is an example of a related constrained firm, while Johnson and Johnson is an example of a related linked firm.

Very High Level of Diversification

This level applies to companies that have unrelated diversification. It earns less than 70 percent of its revenues from the dominant business but there are no common links between the SBUs.

ii. Diversification pathways

Diversification is an investment-intensive option and an organization can diversify through different pathways. The different pathways have different levels of risk and resource requirements. The organization has to decide which pathway to take and whether to go it alone or seek some kind of partnership options (licensing, joint ventures, and strategic alliances).

Table below explains; higher the relatedness in domain of products, customer segments, technology, transference of management skills in diversification, lower is the risk from diversification, (this does not preclude the risk of the wrong strategic choice) and lower the relatedness, the higher is the risk from diversification (this does not take in to account the depth of the managerial skills that can steer diversification.). There are four broad routes to diversification concentric, horizontal, vertical and conglomerate. The salient features of each of these are discussed below:

Features	Examples
Horizontal diversification The organization takes over those organizations which manufacture the same/ similar product or marketing functions. Increase in size expected to infuse economies of scale and scope. An expected increase in market share.	Entertainment industry. Film production houses also distribute movies through DTH networks. Walt Disney (movies and distribution)
Vertical Diversification The organization takes overproduction of raw material, (backward) intermediary or key process (forward) to realize cost advantage. Lower costs lead to lower prices which leads to higher market share.	Cement, steel and textile companies are vertically diversified. In India, cement manufacturers have captive power generation plants. Excess power is sold to either state-run utilities or other industries.

Reduces flexibility. Extensive barriers that may limit to one industry are created.	Soap/detergent manufacturer setting up linear alkylbenzene (LAB a key ingredient for soaps) plant for supply-side advantage.
Concentric diversification Diversification into broadly related areas (product-market/ technology). The market is regarded as a domain of related but heterogeneous needs that an organization can meet with heterogeneous but allied offerings.	Pharmaceutical companies' product range includes Prescription drugs, nonprescription drugs, drug delivery systems, eye, and skincare products. There is s difference between the products and technology but a broad marketing scope enables to leverage of brand value.
Conglomerate diversification Diversification in totally unrelated areas. New areas may present better growth options, entry barriers may be low as must be the investment required. Resource/ capabilities are spread across. Organizations can diversify globally also.	Rolls Royce (cars, engines), General Electric, Samsung Electronics, Tata.

iii. Tools of Diversification

This is the second option that an organization has to decide on, whether to go it alone and set up a greenfield project or develop a diversified entity through mergers, acquisitions/alliances or joint ventures. Most of these options are similar in the sense they are based on the principle of creating collaboration for the growth of two different entities. The differences among them are more of a degree than direction. The subtle differences between joint venture alliances and between mergers and takeovers are more for conferring the legal status on the entity as well as the transfer of funds and resources.

iv. Diversification Approaches

A company needs to choose a path or approach to diversify its business. It may choose either related diversification approach or unrelated diversification approach or a combination of both, depending on circumstances.

The principal difference between the two is that related diversification emphasizes some commonality in markets, products, and technology, whereas unrelated diversification is based mainly on profit considerations. The strategists must consider the realities of the situations for selecting the right approach for diversification.

Related Diversification Approach

Related diversification involves diversifying into a business activity that is related to the core (original) business of the company. The new business is operated in the same industry. Both the new business and the core business have some commonalities in their value chain activities such as production, marketing, etc. Companies usually implement related diversification strategies to build a competitive advantage and achieve economies of scope.

The Ways for Related Diversification

An analysis of the practices of various diversified companies reveals that they seek related diversification in either of the two ways or a combination of the two.

These ways are (a) related- constrained, and (b) related-linked. When the business-units of a company share the inputs, production technologies, distribution channels, etc. among themselves, the diversification, is known as related-constrained.

Unrelated Diversification Approach

Unrelated diversification is also known as ‘conglomerate diversification’ or ‘lateral diversification.’ An unrelated diversified company is known as a conglomerate. Unrelated diversification involves entering into new businesses that are not related to the core business of the company.

An unrelated diversified company has more than one businesses which are operating their activities in different industries. As Hill and Jones remarked, “Unrelated diversification is diversification into a new business area that has no obvious connection with any of the company’s existing areas.” The value chains of the businesses are dissimilar.

5. Business Portfolio Analysis

The business portfolio is the collection of businesses and products that make up the company. The best business portfolio is one that fits the company’s strengths and helps exploit the most attractive opportunities. The company must:

1. Analyze its current business portfolio and decide which businesses should receive more or less investment, and

2. Develop growth strategies for adding new products and businesses to the portfolio, whilst at the same time deciding when products and businesses should no longer be retained.

There exist a number of methods to formulate strategies for business portfolio of an organization. The most prominent among these are:

a) BCG matrix, b) GE Business Model, c) Ansoff's Product Market Growth Matrix. We may continue to discuss the models.

a) The Boston Consulting Group Box ("BCG Box"):

The BCG matrix is a chart that had been created by Bruce Henderson for Boston Consulting Group in 1970 to help corporations to analyze their business units or product lines. In general, for large companies, there is always a problem of allocating resources amongst its business units in some logical/rational ways. To overcome such problems, Boston Consulting Group (BCG) has developed a model, which has been termed as BCG matrix.

BCG matrix is also called as 'Growth-share matrix', is based on two variables, viz., the rate of growth of the product-market and the market share in that market held by the firm relative to its competitors. This model aims at systematically identifying the main underlying strategic characteristics of specific business segments. This model is developed to analyze the problem of resource deployment among the business units or products of multi-business firms. BCG matrix is based on empirical research, which analyzes products and business by market share and market growth.

The Boston Consulting Group (BCG) has pursued and refined the concept of the experience curve to the point where this essentially production phenomenon has strong implications for marketing strategy. BCG matrix is considered to be an effective tool for strategy formulation. GSM matrix is said to be capable of assigning broad product-market strategies to products on the basis of the market growth rate and its market share relative to competitor's product.

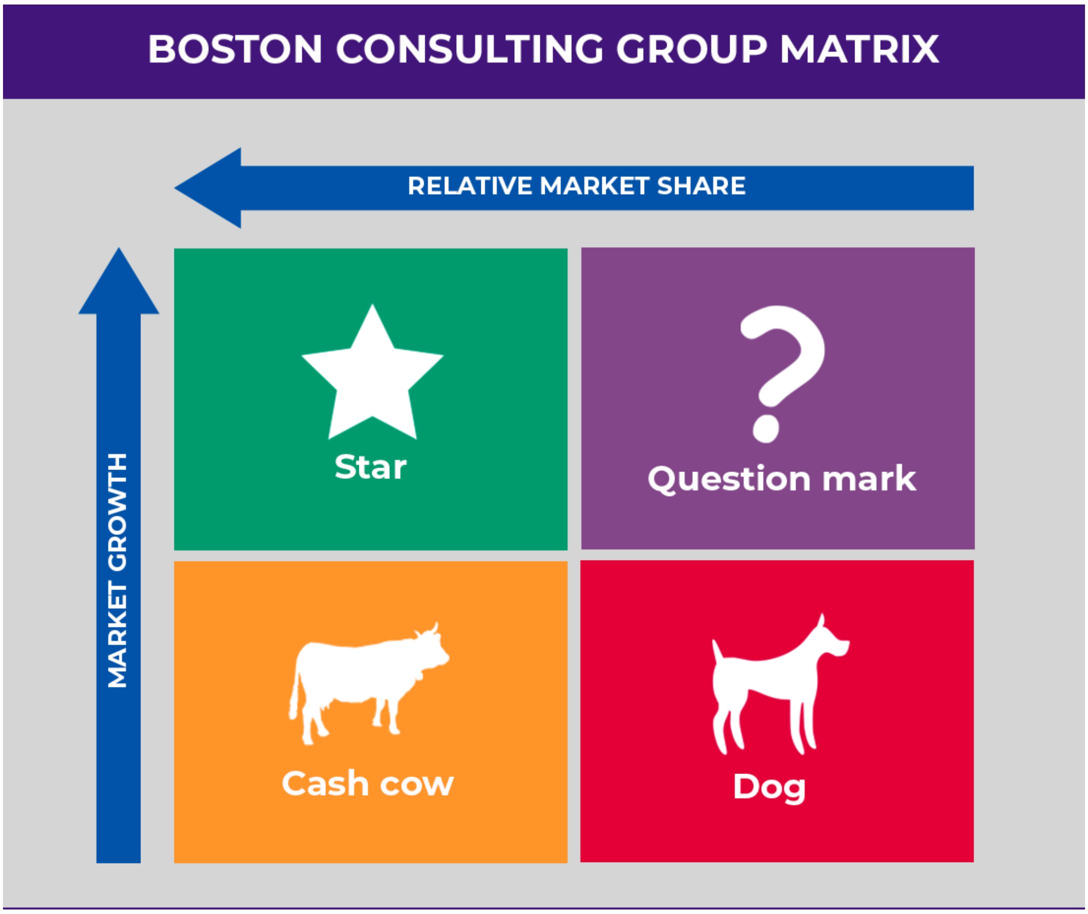
BCG matrix analysis helps the company to allocate resources and is used as an analytical tool in brand marketing, product management, strategic management and portfolio analysis. BCG matrix provides a scheme for classifying a company's business according to their strategic needs specially cash or finance requirements.

By relating cash flow to market share and market growth, it could then determine those products that represent opportunities for investment, those that should generate investment funds, and those that drain funds and which should be liquidated or divested.

The underlying principle of BCG matrix is the net free cash flow of a company must be kept positive for a company's growth to be financed through internal funds and its debt capacity. Company's sustainable growth rate is then determined by the relative cash positions of its portfolio of business. There is a need to strike a balance between cash-generating business and cash-using business if growth is to be funded by the company.

BCG matrix is developed on the basis of two factors: (a) Relative market share, and (b) Business growth rate.

These two factors are used to plot all the business (products) in which the firm is involved. The vertical axis measure the annual growth rate of the market and the horizontal axis shows the relative market share of the firm. Each of these dimensions is divided into two categories of high and low, making up a matrix of four cells; and the products are graphed as Stars, Question Marks, Cash Cows and Dogs in these four cells.



Stars: High Growth-High Market Share

Star represents those products, which have successfully passed the introduction stage and are on the path of growth. They are self-sufficient for cash requirements i.e. cash generated is almost equal to cash used. Stars are the products that are rapidly growing with large market share. They earn high profits but they require substantial investment to maintain their dominant position in a growing market.

Stars are usually profitable and would be the future cash cows. Since the stars are growing rapidly and have the advantage of already having achieved a high share of the market, they provide the firms best profit and growth opportunities. Successful resource deployment beyond cash requirements could lead to a superior market share when industry growth potential falls off.

Resources should be allocated to these units to grow faster than the competition in sales and profits. Stars are leaders in the business and generate large amounts of cash. The stars will entail huge cash outflows to maintain the market share and to ward off competition. The firm will start feeling the experience curve effect.

Cash Cows: Low Growth-High Market Share

A cash cow produces a lot of cash for the company. The company does not have to finance for capacity expansion as the market's growth rate has slowed down. Since, a cash cow is a market leader; it enjoys economies of scale and higher profit margins. When a market's annual growth rate falls, a star becomes a cash cow if it still has the largest relative market share.

The important strategic feature of cash cows is that they are generating high cash returns, which can be used to finance the stars or for use elsewhere in the business. Cash cows have a strong market position in the industry that have matured. In comparison with the position of the star performer, cash cows can expect little serious competition because of their relatively low expected industry growth rate.

Competitors will not expect to launch any offensive competitive strategy program in the absence of significant industry potential. Cash cows are units with high market share in a slow-growing industry. Cash cows are ideal for providing the funds needed to pay dividends and debts, recover overheads and supply of funds for investment in other growth areas. Cash cows are established, successful and need less investment to maintain their market share.

The cash cows are in the declining stage of their life cycle, the surplus cash generated by them will be invested in new question marks. Cash cows are more valuable in a portfolio because they can be 'milked' to provide cash for other riskier and struggling businesses. The strategy employed in respect of cash cows without having long-term prospects is to harvest i.e. to increase short-term cash flow without considering the long-term effects.

Question Marks: High Growth-Low Market Share

The question mark is also called as 'problem child' or 'wildcat'. Question marks are the products/businesses whose relative market share is low but have high growth potential. The area question mark identifies those products which are at introduction stage in the market and the cash generated is less than cash used for these products.

Their competitive position is weak but they work for long-term profit and growth. These products require additional funds to improve their market share so that the question mark becomes a star. This strategy may even necessitate foregoing short-term profits. If the firm is unsuccessful in uplifting a question mark to a position star, divestment strategy can be appropriate.

If no improvement is made in market share, question marks will absorb large amount of cash and later, as the growth stops, turn into dogs. If the question mark business becomes successful, it becomes a star. A question mark denotes a new entrant into the market and growth prospects will be tremendous but will have a very low market share and its success or failure cannot be judged easily.

Share Dogs: Low Growth-Low Market

Dogs describe company business that has weak market shares in low-growth markets. Products with low market share and limited growth potential are referred to as dogs. The prospects for such products are bleak. It is better to faze them out rather than continue with them. Dogs should be allowed to die or should be killed off. Although they will show only a modest net cash outflow or even a modest cash inflow, they are cash traps.

They provide a poor return on investment and not enough to achieve the organization's target rate of return. These units are typically 'break-even, generating barely enough cash to maintain the market share. Though owning a break-even unit provides the social benefit of providing jobs and possible synergies that assist other business units, from financial point of view such a unit is worthless, not generating cash for the company.

They depress the company's overall 'return on assets ratio', used by the investors, financial institutions and banks in judging how well the company is being managed. Since Dogs hold little promise for the future and may not even pay their own way, they are prime candidates for divestiture. The only way for dog is to increase its rate of sales growth by taking sales away from competitors.

Strategic Alternatives in BCG:

For a Strategic Business Unit (SBU), there are four strategic alternatives are suggested:

(a) Build – To increase the SBU's market share, even foregoing short-term earnings to achieve this.

(b) Hold – To preserve the SBU's market share.

(c) Harvest – To increase the SBU's short-term cash flow regardless of the long-term effect.

(d) Divest – To sell or liquidate the business because resources can be better used elsewhere.

The BCG matrix cannot be used in isolation. It is a rough model, and the originators of the matrix modified it over time to include, for example, the concept of a 'cash dog' which has a low share of a low growth market but still earns a nice profit. The BCG matrix is not a tool for increasing profits. It is an analytical model suggesting guidelines for cross subsidization. BCG matrix does not talk about profits at all; it is useful in increasing cash flow situation.

The application BCG matrix to strategic decision making is in the manner of the diagnostic rather than a prescriptive aid. BCG model evaluates a firm's products, business and/or profit centers as separate entities. Decisions are made for each entity pertaining to its market share and existing or potential growth rate of the industry.

Other Classification of SBUs:

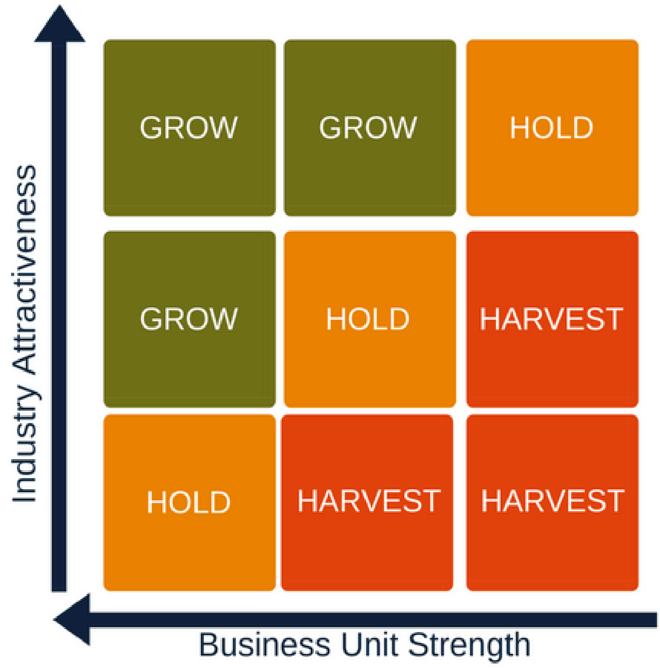
Infants – Products in an early stage of development.

Warhorse – Products that have been cash cows in the past and still making acceptable sales and profits even now.

Dodos – Products with low share, negative growth and negative cash flow.

b) GE Multifactor Portfolio Matrix:

This matrix is also called as 'GEs Stoplight Matrix' or 'GE Nine-cell Matrix' or 'Industry Attractiveness – Business Strength Matrix or-'GE Business Screen Matrix' or 'General Electric-Mckinsey Portfolio Matrix' or 'Business Planning Matrix'. This matrix was developed in 1970s by General Electric Company of US with the assistance of the Mckinsey consulting firm. This matrix helps in guiding resource allocation. This analysis is on the basis of two factors viz., business strength and industry attractiveness. This is developed in 3 x 3 grid.



The vertical axis indicates industry attractiveness and the horizontal axis shown the business strength in the industry. The factors that affect market attractiveness are called 'drivers'.

The factors affecting the industry attractiveness and the business unit strength may be listed as follows:

Industry Attractiveness	Business Unit Strength
i. Size of market ii. Market growth rate iii. Industry profitability iv. Competitive intensity v. Economies of scale vi. Technological requirements vii. Pricing trends viii. Overall risk of returns in the industry ix. Opportunity for differentiation of products and services x. Demand variability xi. Segmentation xii. Distribution structure	i. Market share ii. Market share growth rate iii. Profit margin iv. Distribution efficiency v. Brand image vi. Ability to compete on price and quality vii. Knowledge of customer viii. Customer loyalty ix. Production capacity x. Access to financial resources xi. Technological capability xii. Management caliber

The strategic planning approach in this model is based on analogy of traffic lights at street crossing:

Zone	Strategic Signal
Green	Invest/ Expand
Yellow	Select/ Earn
Red	Harvest/Divest

If the product falls in the Green (Go) section i.e. if the business position is strong and industry is at least medium in attractiveness, the strategic decision should be to expand, to invest and grow.

If the business strength is low but industry attractiveness is high, the product is in the Amber/Yellow zone. It needs caution.

A product is Red (Stop) zone indicates that the business strength is low and so is industry attractiveness.

The appropriate strategy in this case should be retrenchment, divestment or liquidation.

The SBUs in the 'Green' section maybe said to belong to the category of stars' or 'cash cows' in BCG matrix.

Those are in 'Red' zones are like 'dogs' and those in the Yellow or Amber zone are like 'question marks'. Each factor is assigned as a weight which is appropriate to industry or company.

The following steps are taken to plot SBUs on the GE/Mckinsey portfolio matrix:

Step 1 – Specify the typical factors that determine the industry attractiveness. For each product line or SBU, overall industry attractiveness is assessed and rated in a 5-point scale ranging from 5 (very attractive) to 1 (very unattractive).

Step 2 – The typical factors that characterize business strength of each product line or SBU are assessed and measured on a 5-point scale ranging from 1 (very week) to 5 (very strong).

Step 3 – Determine weight of each driver. The company must assign relative importance weights to the drivers.

Step 4 – Multiply the weights with scores of each factor of industry attractiveness and ascertain the overall weighted score of industry attractiveness.

Step 5 – Multiply the weights with scores of each factor of business strength and ascertain the overall weighted score of business strength.

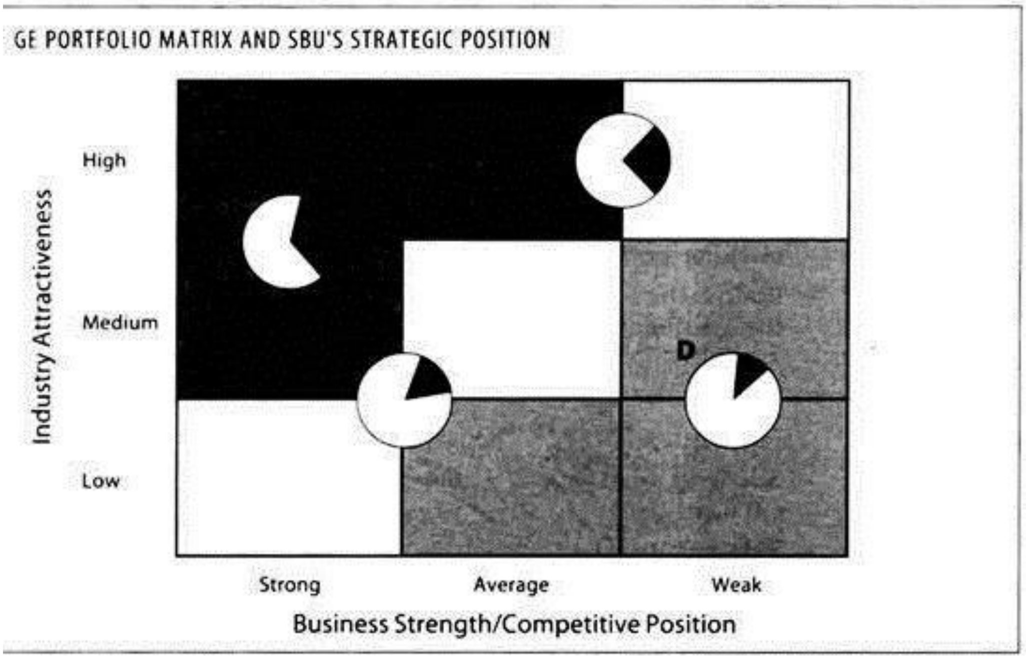
Step 6 – Plot each product line or SBU current position on the matrix.

Step 7 – View resulting graph and interpret it.

Step 8 – Perform a review analysis using adjusted weights and scores (sensitivity analysis).

Industry Attractiveness/Business Strength

= Factor value$_1$ x Factor weighting$_1$ +………….. + Factor value$_n$ x Factor weighting$_n$



Strategic business units are portrayed as a circle plotted in the GE/Mckinsey matrix, whereby:

(a) The size of the circles represents the market size.

(b) The size of the pies represents the market share of the SBUs.

The circles indicate company's SBUs; the areas of the circles are proportional to the relative size of the industries in which these SBUs compete. The pie slices within the circles represent each SBU's market share. Thus, circle A shows a company SBU with a 40% market share in a good sized, highly attractive industry in which the company has strong business strength. Circle B indicates an SBU that has 22% market share but the industry is not very attractive. Circles C that indicates an SBU with high industry attractiveness, but its competitive position is very weak. Circle D that indicates an SBU with low industry attractiveness with weak competitive position. The strategy alternatives suggested for these four SBUs are: build A; hold B; hold/harvest C; and divest D.

SBU A requires to implement growth strategies or Green-light strategy.

SBU B requires to implement stability strategies or Yellow-light strategy.

SBU C requires to implement turnaround strategy or Yellow-light strategy.

SBU D requires to implement divestment strategy or Red-light strategy.

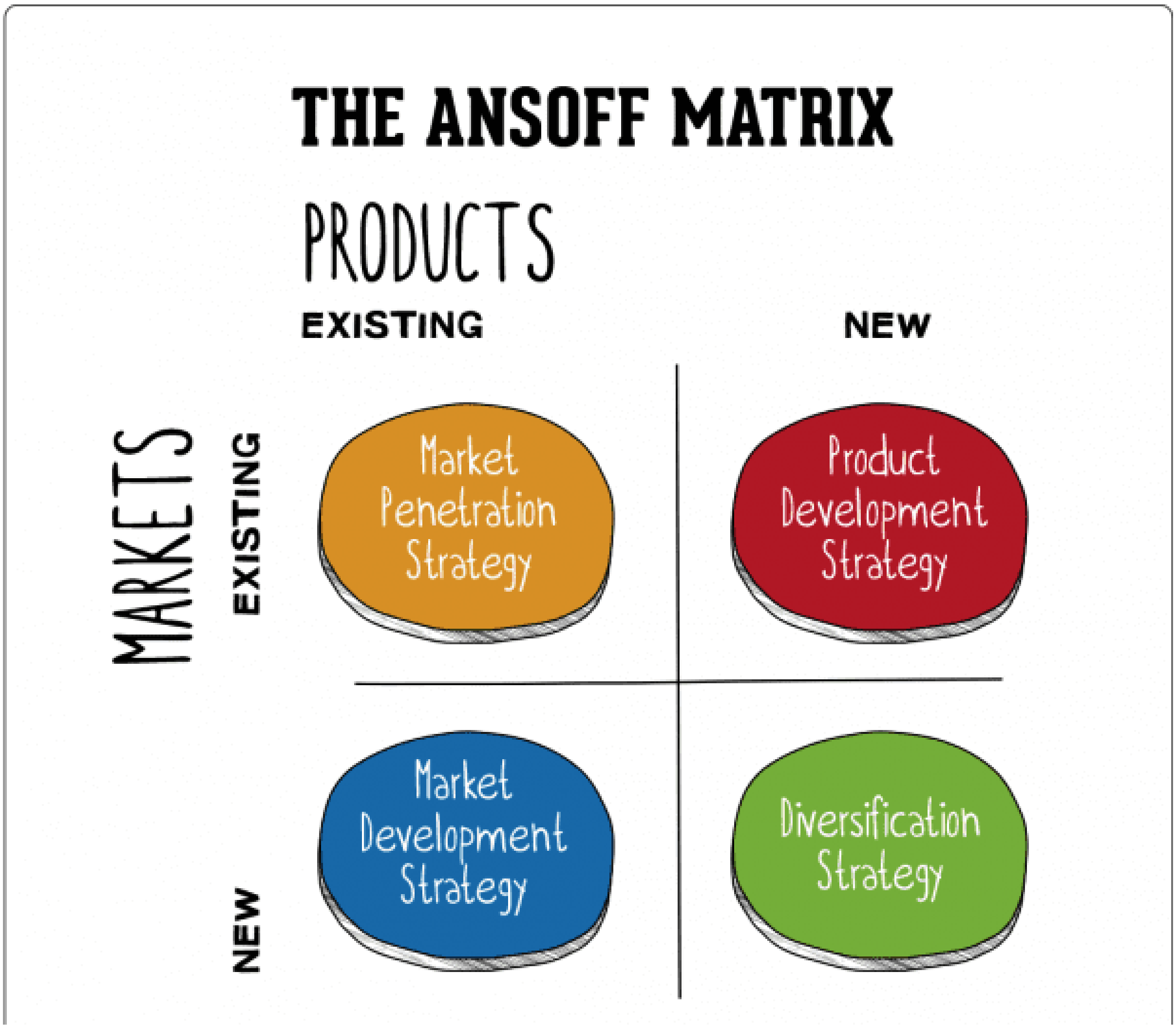
A firm with a number of products can identify each of them in one of the 9 cells based on the particular cell, where a product is located, different strategies can immediately be suggested. The table below suggests some strategies to be adopted as per the GE 9 cell matrix:

Business Strength	Industry Attractiveness		
	High	Medium	Low
High	Premium: - Invest for growth - Provide maximum investment - Diversify	Selective: - Invest for growth - Invest heavily in selected segments - Share ceiling	Protector/Refocus: - Selectively for earnings - Defend strengths
Medium	Challenge: - Invest for growth - Build selectively on strengths only - Avoid vulnerability	Prime: - Selectively invest - Segment market - Make contingency plans	Restructure: - Harvest or divest - Provide essential commitments - Shift to more attractive segment
Low	Opportunistic: - Selectively invest for earnings - Ride market product	Opportunistic: - Preserve for harvest - Boost cash flow out	Harvest or Divest: - Exit from market or prune

This model is an improvement over the BCG Matrix in the sense that while BCG Matrix bases industry attractiveness on a single variable (industry growth rate) in this model industry attractiveness is measured by a number of factors like size of the market growth rate industry profitability, competitive intensity, technological requirements, etc.

C) Ansoff's Product-Market Growth Matrix:

The Ansoff matrix describes the firm's existing and new products to be marketed in existing and new markets. The matrix emphasizes on growth, but firms in declining industries may wish to scale down their operations in existing markets or product areas. Ansoff has identified four main strategies by the name 'product-market components' that are open to a company.These four strategies are:



Strategy – 1: Market Penetration

It involves selling more products to the same market i.e. to sell existing products into existing markets. Market penetration involves trying to milk more from existing products and existing markets. If the market as a whole is growing, this might appear a fairly low risk strategy to adopt. Where the market is stagnant, market penetration might involve market share at the expense of other players in the field.

A firm can maintain or increase its current market share with existing products through:

(a) Advertising

(b) Sales promotion

(c) Competitive pricing

(d) Spending more on distribution etc.

Market penetration can be achieved by:

(a) Increasing market share

(b) Increasing product usage

(c) Increasing the frequency of usage

(d) Increasing the quantity used

(e) Finding new application for current users

A company can attain the following through market penetration:

(a) Secure dominance of growth market

(b) Help restructure a mature market by driving out competitors

(c) Increase usage of existing products by the current customers.

Strategy -2. Market Development:

It involves selling existing products into new markets. It may try to attract new users for existing products, resulting in a market development e.g. exporting, if the firm has previously served only the domestic market. This strategy might be attractive if the unit has to achieve high sales volumes to utilize capacity efficiency. This strategy is achieved through:

(a) New geographical markets

(b) New distribution channels

(c) Different packing sizes

(d) Different quality levels

(e) Different pricing to different customers

(f) Offering to different set of customers

(g) Creating new market segments etc.

The main benefits of this strategy are in increased economics of scale, putting competition off, high sales volume utilizing capacity effectively.

Strategy- 3: Product Development

It involves offering new products to existing markets i.e. new products are launched at existing markets. The company may seek growth by offering modified or new products to current markets. This strategy can be implemented by:

(a) Adding product features, product refinement

(b) Introducing a new generation product

(c) Developing a new product for the same market

Firms with an expensive distribution network may choose this strategy to make most effective use of it by marketing more products through. The main advantages of this strategy are:

(a) Product development forces competitors to innovate

(b) New comers to the market might be discouraged

(c) A firm might lose out if its existing products fall in price.

The major drawbacks of this strategy include the expenses and the risk. Product development is not automatically successful, in spite of the common customer base.

Strategy – 4: Diversification

It involves moving into new market with new products i.e. to sell new products in new markets. This strategy is often riskier since the firm decides to make unfamiliar products for the unfamiliar markets simultaneously. Ansoff suggests that 'diversification' should be a last resort strategy. The firm should have a clear idea about what it expects to gain from diversification.

The benefits of this strategy are:

(a) Offers prospects for growth

(b) Investment of surplus funds, not required for other expansions

(c) Achieving greater profitability

(d) Providing a more comprehensive service to customers.

The diversification involves starting up or acquiring businesses outside the company's current products and markets. Conglomerate diversification can be justified on the existence of synergies.

Ansoff 's matrix is only a framework for identifying product-market opportunities and does not provide any criterion for choice. There is nothing to stop a firm carrying at all four strategies simultaneously provided, it has the resources. A firm can pursue a penetration strategy in its existing markets as well as diversifying into new ones.

The major drawback of the matrix is that new technology, and new manufacturing techniques are ignored, which can alter the dynamics of the market. The matrix does not address the degree of change in each product-market area and it does not identify the role of profit. The matrix does not withdrawal option as a strategy, in case of necessity.

Module-4: Strategy Implementation – Challenges of Change, Developing Programs Mckinsey 7s Framework

Strategy implementation is the translation of chosen strategy into organizational action so as to achieve strategic goals and objectives. Strategy implementation is also defined as the manner in which an organization should develop, utilize, and amalgamate organizational structure, control systems, and culture to follow strategies that lead to competitive advantage and a better performance. Organizational structure allocates special value developing tasks and roles to the employees and states how these tasks and roles can be correlated so as maximize efficiency, quality, and customer satisfaction-the pillars of competitive advantage. But, organizational structure is not sufficient in itself to motivate the employees.

An organizational control system is also required. This control system equips managers with motivational incentives for employees as well as feedback on employees and organizational performance. Organizational culture refers to the specialized collection of values, attitudes, norms and beliefs shared by organizational members and groups. However, the implementation of strategies may face a number of challenges.

1. Challenges in implementation of Strategies

The first challenge is that the business organizations allow their activities to enter into a furrow, performing business functions following a fixed routine in order to fulfill a commitment, rather than as purposeful drivers of strategy. For example, a leading consumer electronics company remained focused on building growth in its traditional segments, without realizing that the industry around it was evolving or that it was threatened by multinational companies. Such routinised activities may become a challenge to the implementation of innovative strategies.

The second challenge to strategic management is the ability to understand and address contemporary issues. The current 'global village' paradigm of business has had a critical impact on the way companies work. For example, leading mobile phone maker Nokia has opened up a large facility near Chennai to serve the growing domestic market.

The third contemporary issue is advancement of web-based technology and e-commerce models. Companies such as Amazon (dot) com, eBay, and a host of others in the services segment have enabled transactions using e-commerce. This has changed the landscape of business, the delivery model, and customer engagement.

The fourth challenge that strategic management faces is the ability to forecast technology development and make it relevant to achieving a competitive edge. In most cases, the first mover would gain a huge advantage from new technology, at the risk of having a big investment failure. Hence companies must learn to balance the risks and rewards of technology through the strategic management process.

The fifth challenge that strategic management must address is the changing purpose of organizations. Earlier, organizations were focused on profit maximization and strategy devising was far simpler. Today, companies are increasingly run by professionals who focus on managerial utility maximization based on their drive, size, and market reach. Companies nowadays are increasingly subject to transparency protocols and public accountability. In addition, competitive moves have become easily imitable due to the easy availability of information and hence, the challenge to strategy makers is greater.

The strategic process must also be engineered in such a way that the company is learning-driven and constantly develops its knowledge base. The need to maintain a shared vision, the right kind of leadership, and the proper implementation of stated strategy are constant challenges to the strategic management process.

Successful Implementation of Strategies:

It is one thing to formulate good strategies but it is another thing to ensure their implementation. Following steps should be kept in mind while implementing strategies:

1. Proper Communication of Strategies:

The first thing in implementing strategies is their proper communication to decision-making managers. Unless otherwise the strategies are communicated and understood in the same way in which planners want, the same will not give desired results. The chief executive officer or top-level planners may be clear about the strategies and the results expected but if the same thing is not communicated properly then the objectives may not be achieved.

2. Developing and Communicating Planning Premises:

Planning premises are the anticipated environmental factors in which plans are expected to operate. Some assumptions have to be made while planning for future. Managers must develop premises critical to plans and decisions and explain them to all those who are in the chain of decision-making. In the absence of such premises, decisions will be based on personal assumptions and predictions and it may lead to uncoordinated plans.

3. Reviewing Strategies Regularly:

The strategies should be reviewed regularly. There may be a change in conditions or assumptions in which these were based. Unless strategies are changed to suit the new conditions, there will be no use of persisting with the old ones. The regular review of strategies will help in their update.

4. Developing Contingency Strategies:

There is always a possibility of change in competitive factors or other elements in the environment may occur, strategies for such contingencies should be formulated. One cannot wait for the certainty of the environment. Even if there is uncertainty and the events may make objectives and programmers absolute, a manager has to proceed on the most credible set of premises possible at that time. The contingency plans, if available, will help in such situations.

5. Organization Structures be Suitable to Planning Needs:

The organization structure should be designed to help managers accomplish goals and make decisions to put plans into effect. If possible, each person should be responsible for the accomplishment of each goal and implement the strategies to achieve this goal. The key areas and end results should be identified and assigned to single position as far down the organization structure as is feasible. This type of organization structure will help in making the strategies more effective and result oriented.

6. Emphasis on Strategy Implementation:

The managers should continuously emphasize the decision-makers to implement planning and strategies. Even though this is a tedious task to say the same thing regularly but it will certainly have desired results. Making a good strategy and then ignoring its implementation will amount to nothing.

2. Developing strategy Implementation Programmes

Even the best strategic plans must be implemented and only well executed strategies create competitive advantage for a company.

At this stage managerial skills are more important than using analysis. Communication in strategy implementation is essential as new strategies must get support all over organization for effective implementation. It consists of the following 6 steps:

- Setting annual objectives;
- Revising policies to meet the objectives;
- Allocating resources to strategically important areas;
- Changing organizational structure to meet new strategy;
- Managing resistance to change;
- Introducing new reward system for performance results if needed.

The first point in strategy implementation is setting annual objectives for the company's functional areas. These smaller objectives are specifically designed to achieve financial, marketing, operations, human resources and other functional goals. To meet these goals managers, revise existing policies and introduce new ones which act as the directions for successful objectives implementation.

The other very important part of strategy implementation is changing an organizational chart. For example, a product diversification strategy may require new SBU to be incorporated into the existing organizational chart. Or market development strategy may require an additional division to be added to the company. Every new strategy changes the organizational structure and requires reallocation of resources. It also redistributes responsibilities and powers between managers. Managers may be moved from one functional area to another or asked to manage a new team. This creates resistance to change, which has to be managed in an appropriate way or it could ruin excellent strategy implementation.

Business organizations may use a number of tools for the effective implementation of strategies. These are:

Tools used: Policies, Motivation, Resistance management, Leadership, Stakeholder Impact Analysis, Changing organizational structure, Performance management

The components of the strategy implementation in organizations are:

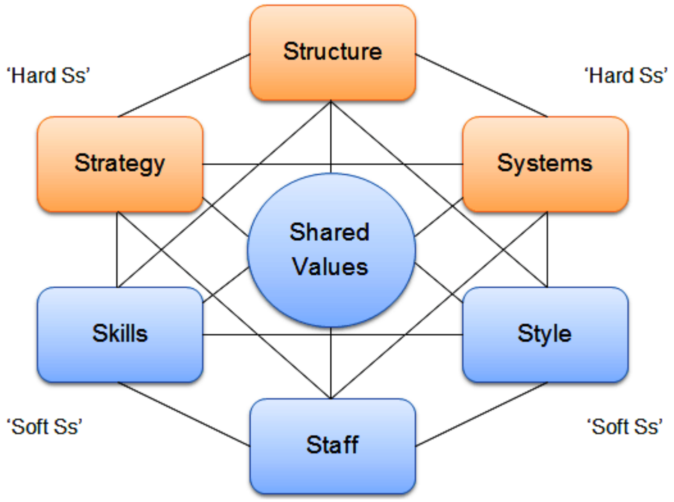
Components: Annual Objectives, Policies, Resource Allocation, Change Management, Organizational chart, Linking Performance and Reward

3. McKinsey 7s Model

McKinsey 7s model is a tool that analyzes firm's organizational design by looking at 7 key internal elements: strategy, structure, systems, shared values, style, staff and skills, in order to identify if they are effectively aligned and allow organization to achieve its objectives.

McKinsey 7s model was developed in 1980s by McKinsey consultants Tom Peters, Robert Waterman and Julien Philips with a help from Richard Pascale and Anthony G. Athos. Since the introduction, the model has been widely used by academics and practitioners and remains one of the most popular strategic planning tools. It sought to present an emphasis on human resources (Soft S), rather than the traditional mass production tangibles of capital, infrastructure and equipment, as a key to higher organizational performance. The goal of the model was to show how 7 elements of the company: Structure, Strategy, Skills, Staff, Style, Systems, and Shared values, can be aligned together to achieve effectiveness in a company. The key point of the model is that all the seven areas are interconnected and a change in one area requires change in the rest of a firm for it to function effectively.

Below you may find the McKinsey model, which represents the connections between seven areas and divides them into 'Soft Ss' and 'Hard Ss'. The shape of the model emphasizes interconnectedness of the elements.



The model can be applied to many situations and is a valuable tool when organizational design is at question. The most common uses of the framework are:

- To facilitate organizational change.
- To help implement new strategy.
- To identify how each area may change in a future.
- To facilitate the merger of organizations.

7s factors

In McKinsey model, the seven areas of organization are divided into the 'soft' and 'hard' areas. Strategy, structure and systems are hard elements that are much easier to identify and manage when compared to soft elements. On the other hand, soft areas, although harder to manage, are the foundation of the organization and are more likely to create the sustained competitive advantage.

7s factors
Hard **S**
Strategy is a plan developed by a firm to achieve sustained competitive advantage and successfully compete in the market. What does a well-aligned strategy mean in 7s McKinsey model? In general, a sound strategy is the one that's clearly articulated, is long-term, helps to achieve competitive advantage and is reinforced by strong vision, mission and values. But it's hard to tell if such strategy is well-aligned with other elements when analyzed alone. So the key in 7s model is not to look at your company to find the great strategy, structure, systems and etc. but to look if its aligned with other elements. For example, short-term strategy is usually a poor choice for a company but if its aligned with other 6 elements, then it may provide strong results.
Structure represents the way business divisions and units are organized and it includes the information of who is accountable to whom. In other words, structure is the organizational chart of the firm. It is also one of the most visible and easy to change elements of the framework.
Systems are the processes and procedures of the company, which reveal business' daily activities and how decisions are made. Systems are the area of the firm that determines how business is done and it should be the main focus for managers during organizational change.
Soft **S**
Skills are the abilities that firm's employees perform very well. They also include capabilities and competences. During organizational change, the question often arises of what skills the company will really need to reinforce its new strategy or new structure.
Staff element is concerned with what type and how many employees an organization will need and how they will be recruited, trained, motivated and rewarded.
Style represents the way the company is managed by top-level managers, how they interact, what actions do they take and their symbolic value. In other words, it is the management style of company's leaders.
Shared Values are at the core of McKinsey 7s model. They are the norms and standards that guide employee behavior and company actions and thus, are the foundation of every organization.

Steps in implementing 7S Framework:

Step 1: Identify the areas that are not effectively aligned

During the first step, the aim is to look at the 7S elements and identify if they are effectively aligned with each other. A manager should be aware of how 7 elements are aligned in your company. Once the outlined questions are answered there one should look for the gaps, inconsistencies and weaknesses between the relationships of the elements. For example, we designed the strategy that relies on quick product introduction but the matrix structure with conflicting relationships hinders that so there's a conflict that requires the change in strategy or structure.

Step 2: Determine the optimal organization design

With the help from top management, the second step is to find out what effective organizational design the manger wants to achieve. By knowing the desired alignment we can set our goals and make the action plans much easier. This step is not as straightforward as identifying how seven areas are currently aligned in the organization for a few reasons. First, we need to find the best optimal alignment, which is not known to you at the moment, so it requires more than answering the questions or collecting data. Second, there are no templates or predetermined organizational designs that we could use and we would have to do a lot of research or benchmarking to find out how other similar organizations coped with organizational change or what organizational designs they are using.

Step 3: Decide where and what changes should be made

This is basically your action plan, which will detail the areas we want to realign and how would we like to do that. If we find that the firm's structure and management style are not aligned with company's values, we should decide how to reorganize the reporting relationships and which top managers should the company let go or how to influence them to change their management style so the company could work more effectively.

Step 4: Make the necessary changes

The implementation is the most important stage in any process, change or analysis and only the well-implemented changes have positive effects. Therefore, we should find the people in our company or hire consultants that are the best suited to implement the changes.

Step 5: Continuously review the 7s

The seven elements: strategy, structure, systems, skills, staff, style and values are dynamic and change constantly. A change in one element always has effects on the other elements and requires implementing new organizational design. Thus, continuous review of each area is very important.

Using the Framework

The most common way to use the McKinsey 7S Framework is to analyze where you are now, and see how that differs from where you want to be. Where you want to be could mean simply executing your current strategy, or it could help you analyze the challenges of a proposed merger. Here is a 5-step process you can use to make use of the McKinsey 7S Framework. Before we jump into the 5 steps beware that:

Using the model is going to take time and effort. You'll need to perform research as well as benchmark your current and future competitors. The model spans the entire organization so you're going to need the top people on board and bought-in to make it happen.

Module-5 Marketing – Concept, Orientation, Trends and Tasks, Customer Value and Satisfaction

1. Concept of Market

A market can be defined as the summation of all the buyers and sellers in an area or region under consideration. The area may be a country, a region, a state, a village or a city. Market is a place where goods, commodities or services provided by the sellers are swapped with the buyers or purchasers for some value combined with need, demand, supply etc. We can say that it is a place, which satisfies the potential needs of the buyers as well as the sellers. The market may have a physical existence or a virtual one. It may be local or global one.

A. Characteristics of a Market

A market has its own characteristic features. It involves only exchange and trade of commodities but that activity also has its own features.Let us take a look at the characteristics of a market.

a) A place for swapping goods and services for some value. The goods can be swapped for money, land or some other commodity.

b) This is a place where you can negotiate commodities

c) Coverage of all customer requirements is possible here

d) This is a place for innovation and creation

e) There is potential or capacity for buying and selling.

f) There is share of consumption as well as total part of demand.

B. Elements of a Market

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

Place − The area where the swapping of goods, commodities or services takes place between the seller and the buyer. The place should be convenient to both the parties.

Demand − Market runs on supply and demand. A seller provides the products or services and a buyer wants to fulfill his/her requirements. A product with high demand is supplied more.

Seller − A seller is the person or the party who offers a variety of or even a single product or service to others in return of some valuable item.

Buyer − A buyer is the person or party who needs a product or service and in return is ready to pay some valuable item as demanded by the seller for the product.

Price − This is the cost or the amount that is to be paid for a product or service. It should be fixed; else, it may lead to conflict as well as an imbalance in the seller-buyer relationship.
Government Regulation − The government makes some regulations that both the buyer and seller have to abide. Everyone is treated equally in front of the law. For example, the buyer is not allowed to sell illegal products while the seller is prohibited from buying them.

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

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

c. Factors Affecting a Market
There are numerous reasons why a market grows or reduces its profitability. There are different factors affect the growth of a market in many ways.Let us understand the importance and effect of each factor given below on a market with the help of relevant examples.

i) Number of Buyers and Sellers
An online commerce site offers a special sale offer, where the candidate needs to register for an item in order to purchase it. In this way, the site gets an idea about the product's demand and thus it tries to maintain the quantity of the item as per the demand. If the number of buyers is more, the product needs to be bought again. However, if the buyers are fewer, then the product needs to be hiked to increase the sale.
ii) Types of Goods
If a person wants to buy a car, following things need to be considered: what type of a car does he /she need, which brand, what are the brands available, what is the budget, etc. Most importantly, with this factor, one gets a variety of choices in a limited budget.
iii) Presence of Competition
A company launches a new product, which gives the customer three-in-one service. It works as a face wash, face scrub as well as face pack. But the question is what the need was? The simple answer is competition; this product is a technique to attract more customers and cope with the growing competition.
iv)Expectation of buyers
We buy a product only if it stands up to our expectations. Yardley claims that it moisturizes and nourishes the skin for six hours, so a person with dry skin will buy it expecting that claim to be true.
v) Cultural Factors
Cultural factors like the culture and tradition we follow also affect the market. For example, an Oriya woman would prefer a Sambalpurisaree for some special event over silk or any other type.

vi) Economic Factors

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

vii) Social Factors

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

viii) Political Factors

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

2. Concept & Definition of Marketing Management

Marketing management is the process of decision making, planning, and controlling the marketing aspects of a company in terms of the marketing concept, somewhere within the marketing system. Before proceeding to examine some of the details of this process, com-ments on two aspects will be helpful background.

The marketing concept is simple in principle but often very diffi-cult, if not impossible, to fully implement. Adam Smith's com-ment cited above is most consistent with it. The concept is that a company can more effectively serve its own objectives if it will integrate the various aspects of its marketing activities explicitly so as to meet the preferences of its customers.
Marketing is the business function that controls the level and composition of demand in the market. It deals with creating and maintaining demand for goods and services of the organization.

Marketing management is "planning, organising, controlling and implementing of marketing programmes, policies, strategies and tactics designed to create and satisfy the demand for the firms' product offerings or services as a means of generating an acceptable profit."

According to Philip Kotler, "*Marketing Management is the art and science of choosing target markets and building profitable relationship with them. Marketing management is a process involving analysis, planning, implementing and control and it covers goods, services, ideas and the goal is to produce satisfaction to the parties involved*".

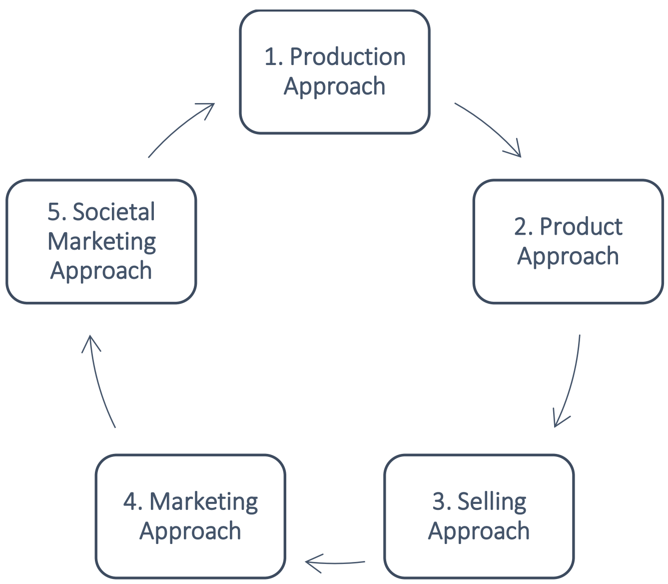
A. Objectives of Marketing Management

Marketing management is the process of planning & implementing the conception, pricing, promotion and distribution of products or services. It is a target-oriented process and an operational area of management.Marketing management is basically an organizational discipline, which focuses on the practical usage of marketing orientation, techniques and methodologies in companies and organizations and on the management of a firm's marketing resources and activities.The following are the main objectives of marketing management −

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

B. Approaches to Marketing Management

There are five approaches to marketing management which may be discussed below:



1. Production Approach The idea of production approach – "Consumers will favor products that are available and highly affordable". This concept is one of the oldest Marketing management orientations that guide sellers. Companies adopting this orientation run a major risk of focusing too narrowly on their operations and losing sight of the real objective.
2. Product Approach The product approach holds that the consumers will favor products that offer the most in quality, performance and innovative features. Here; under this concept, marketing strategies are focused on making continuous product improvements.
3. Selling Approach The selling approach holds the idea- "consumers will not buy enough of the firm's products unless it undertakes a large-scale selling and promotion effort". Here the management focuses on creating sales transactions rather than on building long-term, profitable customer relationships.

4. Marketing Approach
The marketing approach holds- "achieving organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions better than competitors do". Here marketing management takes a "customer first" approach. Under the marketing concept, customer focus and value are the routes to achieve sales and profits.
5.Societal Marketing Approach
Societal marketing approach questions whether the pure marketing concept overlooks possible conflicts between consumer short-run wants and consumer long-run welfare. The societal marketing concept holds "marketing strategy should deliver value to customers in a way that maintains or improves both the consumer's and society's well-being". It calls for sustainable marketing, socially and environmentally responsible marketing that meets the present needs of consumers and businesses while also preserving or enhancing the ability of future generations to meet their needs.

C. Marketing Management - Process

Marketing process includes ways in which value can be created for the customers to satisfy their requirements. It is an endless series of actions and reactions between the customers and the companies making attempt to create value for and satisfy the needs of customers.
In marketing process, the situation is examined to identify opportunities, the strategy is formulated for a value proposition, tactical decisions are taken, plan is executed, and results are monitored.The following four steps are involved in the marketing process −

Situation Analysis
Analysis of the situation in which the company finds itself serves as the basis for identifying chances to satisfy unfulfilled customer needs.Situational and environmental analysis is done to identify the marketing options, to understand the company's own capabilities and to understand the surroundings in which the company is operating.

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

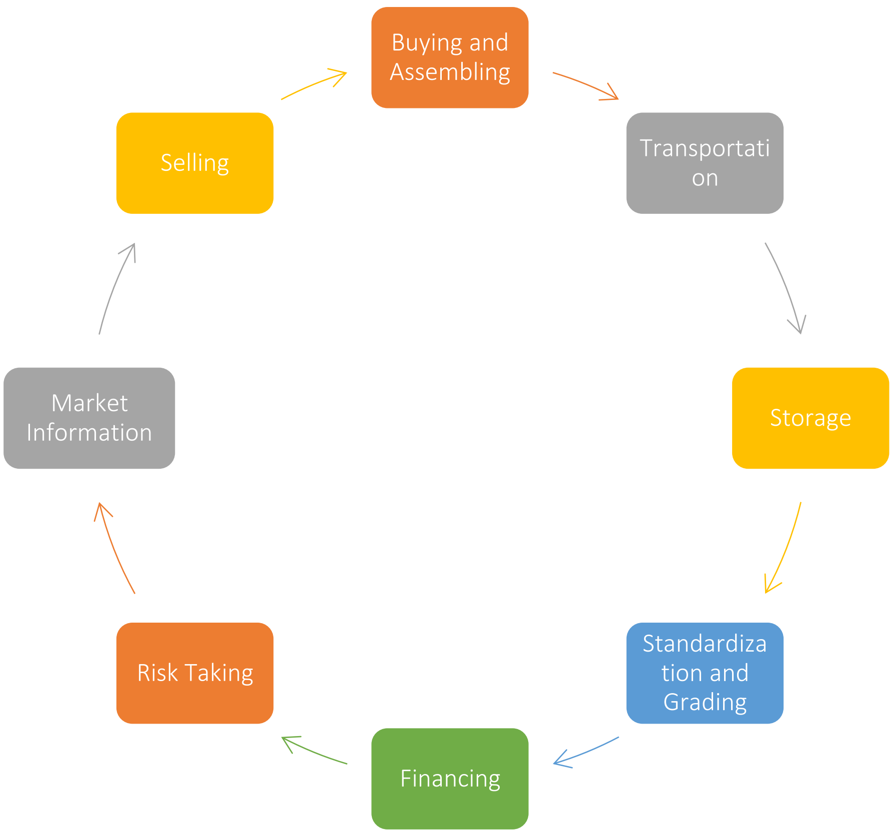
Marketing Mix Decisions
At this step, elaborated tactical decisions are made for the controllable parameters of the marketing mix. It includes decisions related to product development, product pricing, product distribution and product promotion.

Implementation and Control

Finally, the marketing plan is executed and the outputs of marketing efforts are monitored to adjust the marketing mix according to the market changes.This being the final step, it transforms the written or planned strategy into action and the product is presented according to this process.

D. Major Functions of Marketing Management

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



Selling	Selling is the crux of marketing. It involves convincing the prospective buyers to actually complete the purchase of an article. It includes transfer of ownership of products to the buyer.
Buying and Assembling	It deals with what to buy, of what quality, how much from whom, when and at what price. Assembling means buying necessary component parts and to fit them together to make a product. 'Assembly line' marks a production line made up of purely assembly functions.
Transportation	Transportation is the physical means through which products are moved from the places where they are produced to those places where they are needed for consumption. It creates the utility based on location.
Storage	It includes holding of products in proper, i.e., usable or saleable, condition from the time they are produced until they are required by customers in case of finished products or by the production department in case of raw materials and stores.
Standardization and Grading	Standardization means setting up of certain standards or specifications for products based on the intrinsic physical qualities of any item. This may include quantity like weight and size or quality like color, shape, appearance, material, taste, sweetness etc. A standard gives rise to uniformity of products. Grading means classification of standardized items into certain well defined classes or groups. It includes the division of products into classes made of units possessing similar features of size and quality.
Financing	Financing involves the application of the capital to meet the financial requirements of agencies dealing with various activities of marketing. The services to ensure the credit and money needed and the costs of getting merchandise into the hands of the final user are mostly referred to as the finance function in marketing.

Risk Taking	Risk means loss due to some unforeseen situations. Risk bearing in marketing means the financial risk invested in the ownership of goods held for an anticipated demand, including the possible losses because of fall in prices and the losses from spoilage, depreciation, obsolescence, fire and floods or any other loss that may occur with the passage of time.
Market Information	The importance of this facilitating function of marketing has been recently marked. The only sound foundation on which marketing decisions depend is timely and correct market information.

3. Trends and tasks of Marketing

A. Trends of Marketing Management

1. More Emphasis on Quality, Value, and Customer Satisfaction:

Today's customers place a greater weight to direct motivations (convenience, status, style, features, services and qualities) to buy product. Today's marketers give more emphasis on the notion, "offer more for less."

2. More Emphasis on Relationship Building and Customer Retention:

Today's marketers are focusing on lifelong customers. They are shifting from transaction thinking to relationship building. Large companies create, maintain and update large customer database containing demographic, life-style, past experience, buying habits, degree of responsiveness to different stimuli, etc., and design their offerings to create, please, or delight customers who remain loyal to them. Similarly more emphasis is given to retain them throughout life. Marketers strongly believe: "Customer retention is easier than customer creation."

3. More Emphasis on Managing Business Processes and Integrated Business Functions:

Today's companies are shifting their thinking from managing a set of semi independent departments, each with its own logic, to managing a set of fundamental business processes, each of which impact customer service and satisfaction. Companies are assigning cross-disciplinary personnel to manage each process.

4. More Emphasis on Global Thinking and Local Market Planning:

As stated earlier, today's customers are global, or cosmopolitan. They exhibit international characteristics. This is due to information technology, rapid means of transportation, liberalization, and mobility of people across the world. Companies are pursuing markets beyond their borders. They have to drop their traditions, customs, and assumptions regarding customers.

5. More Emphasis on Strategic Alliances and Networks:
A company cannot satisfy customers without help of others. It lacks adequate resources and requirements to succeed. Company needs to involve in partnering with other organisations, local as well as global partners who supply different requirements for success.

6. More Emphasis on Direct and Online Marketing:
Information technology and communication revolution promise to change the nature of buying and selling. Companies follow direct channel in term hiring salesmen, setting own distribution network, designing network marketing, applying online marketing, and contracting with giant shopping/retailing malls.

7. More Emphasis on Services Marketing:
As per general survey, about 70% people are, either directly or indirectly, involved in service marketing. Because services are intangible and perishable, variable and inseparable, they pose additional challenges compared to tangible good marketing. Marketers are increasingly developing strategies for service firms that sell insurance, software, consulting services, banking, insurance, and other services.

8. More Emphasis on High-tech Industries:
Due to rapid economic growth, high-tech firms emerged, which differ from traditional firms. High-tech firms face higher risk, slower product acceptance, shorter product life cycles, and faster technological obsolescence. High-tech firms must master the art of marketing their venture to the financial community and convincing enough customers to adopt their new products.

9. More Emphasis on Ethical Marketing Behaviour:
The market place is highly susceptible to abuse by those who lack scruples and are willing to prosper at the expense of others. Marketers must practice their craft with high standards. Even, governments have imposed a number of restrictions to refrain them from malpractices. Marketers are trying to sell their products by obeying and observing moral standards or business ethics.

10. Other issues:
i. Craze for international standards and emphasis on quality, value and customer satisfaction andapplication of TQM (even, Six Sigma) in every aspect of marketing management.
ii. Changed attitude toward competition. They compete not for maximum gains but for maximum offers to customers.
iii. Relationship marketing at both levels at internal functions of organisation and at outside with service providers, to satisfy customers.
iv. Concept of global and complex customers.
v. Marketing department is placed in the center of management. It enjoys unique and dominant status in organisation.
vi. Use of latest technology for survey and research.
vii. More emphasis on after-sales services.
viii. Entertaining value in advertising, etc.

B. Tasks of marketing Management

1. Assessing the Marketing Opportunities:

It involves the identification of the company goals and the analysis of established and new profit opportunities open to the firm. The significance of this function is that the market opportunities are changing and the marketing management must develop creative strategies to cultivate these opportunities.

2. Planning the Marketing Activities:

Planning is an integral part of marketing management and is the vital element of the system's orientation. This function is based on the marketing opportunity which is key to the successful marketing management and performance.Marketing planning is used to develop and define objectives and then derive strategies and design programmes that enable the firm to achieve these set aims.

3. Providing Effective Marketing Organisation:

The innovative and dynamic nature of marketing activity places heavy demands on the marketing organisation. As marketing is an accepted system, the role of organisation is felt more. The interaction process between the organisation and the environment is a focal concern of developing marketing discipline.

4. Actuating by Leadership:

Diverse changes are influencing the patterns and styles of the leadership required for effective performance of marketing functions. Development of newer patterns of leadership is testing the traditional views of management methods and policies. Balanced against this centralisation tendency is the need for greater participation in management and decision- making by people at subordinate levels.

5. Motivating the Human-side:

Marketing involves the functions that are finally identified with the people. Free flow of goods will be there only when the people involved in the process are motivated. Employee motivation is a must in these days of keen competition.

6. Evaluating and adjusting marketing Efforts:

In order to take advantage of profitable marketing opportunities, the marketing manager must continually evaluate and adjust the market efforts. The firm is to adjust to its ever changing environment.To make an effective judgment, the marketing manager must have the knowledge of the entire marketing system so that the components of the system can be evaluated, controlled and adjusted to bring the system in line with the marketing activities on one hand, and the opportunities on the other.

4. Customer Value and Satisfaction

A. Customer Meaning

A customer is someone who pays for goods or services.. All the persons coming to the store or service point are ‘visitors’. When they buy something and pay for the things they have bought, they become ‘customers’. Now, they may have purchased these things for their own consumption or for someone else.
While on the other hand, the person who actually enjoys/consumes these things is a‘consumer’. In short the person who pay the bill is known as customer and the person who uses that thing is known as ‘consumer’ therefore, in the world of retailing, it has rightly been said ‘customers’ can be ‘consumers’ but all ‘consumers’ necessarily need not ‘customers’.

In order to understand the underlying principle behind this assumption and to face the challenge of building customer faithfulness, customers may be divided into five categories:

i. Loyal Customers:
Loyal customers are those customers who have faith in the store and visit store on regular basis. Normally they are satisfied with the store services. Whether the demand is less or more, they like to buy from the same store and also recommend others to visit.

ii. Discount Customers:
These types of customers visit our stores often, but make their decisions on the basis of discounts, offers rebates offered by the store. Sometimes, in absence of any discount offer, they can postpone their buying decision.

iii. Impulse Customers:
These types of customers come to store without the intention of buying the goods. When they come to store even with no desire to buy a particular good but during their stay, they purchase whatever appeals to them.

iv. Need-Based Customers:
types of customers come to store with intention of buying some particular goods. When they come to the store, instead of wandering here and there they either go to the specific shelf or ask about that product display. These sorts of customers are determined by a specific need.

v. Wandering Customers:
These types of customers come to store without any particular need or desire. They come to store with the intention of time-pass or to know the latest trend.

B. Concept of Customer Value

The phrase "Customer Value" is seen from different angles. The possible angles or perspectives can be "customer" and "marketing firm". From the customer's angle, value is understood as what he or she is willing to pay and, therefore, customer value refers to the perceived value by the customer for an offer.

Put, alternatively, it is the value that customer perceives as being superior and relevant to him or her and, therefore willing to pay for the purchase and consumption of the products or services. From the angle of firm, it is the value of the customer which is nothing but customer life-time value and from marketing strategy point, it signifies the process the firms use to create and deliver the value to the customer.

According to Woodruff (1997, p. 142) - "*Customer value is a customer's perceived preference for and evaluation of those product attributes, attribute performances, and consequences arising from use that facilitate (or block) achieving the customer's goals and purposes in use situations*".

Customer value is the difference between the values the customer gains from owning and using a product and the cost of obtaining the product.

Customer value is the difference between total customer value and total customer cost. Total customer value is the sum of product value, service value, personnel value, and image value. Total customer cost is the sum of monetary cost, time cost, physics cost, and energy cost.

I. Types of Values

a) Functional Value

It is concerned with the extent to which a product is useful, has desired characteristics, and performs a desired function.

- Appropriate features and characteristics - quality, aesthetics, creativity, and customization.
- Appropriate performance - performance quality, reliability, and service-support outcomes.
- Appropriate outcomes - effectiveness, operational benefits, and environmental benefits.

For example - Apple focus mainly on creating appropriate features and attributes. Ford focus on performance, and Pfizer focus on appropriate outcomes and consequences.

b) Experimental Value

It is concerned with the extent to which a product creates appropriate feelings, experiences and emotions for the customer. For example - most restaurants focus on sensory values like aesthetics, aromas, ambiance, feel or tone. Organizations in travel or entertainment focus on creating emotional values like - pleasure, fun, excitement adventure, or humour.

c) Symbolic or Expressive Value

It is concerned with the extent to which customers associate psychological meaning to a product. Some products appeal to customer's self-concept and self-worth. Branded products like BMW, Rolex, etc are purchased because of their status, prestige, and image.

II. Value Analysis
Often, managers conduct a customer-perceived value analysis to reveal the company's strengths and weaknesses relative to those of various competitors. The steps in this analysis are:

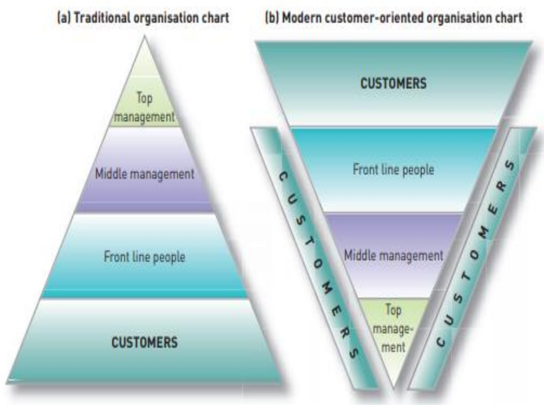
1. Identify the major attributes and benefits that customers value: Customers are asked what attributes, benefits and performance levels they look for in choosing a product and vendors.

2. Assess the quantitative importance of the different attributes and benefits: Customers are asked to rate the importance of the different attributes and benefits. If their ratings diverge too much, the marketer should cluster them into different segments.

3 .Assess the company's and competitors' performances on the different customer values against their rated importance: Customers describe where they see the company's and competitors' performances on each attribute and benefit.

4 .Examine how customers in a specific segment rate the company's performance against a specific major competitor on an individual attribute or benefit basis: If the company's offer exceeds the competitor's offer on all important attributes and benefits, the company can charge a higher price (thereby earning higher profits), or it can charge the same price and gain more market share.

5. Monitor customer values over time: The company must periodically repeat its studies of customer values and competitors' standings as the economy, technology and features change.



C. Concept of Customer satisfaction

In a buyer's market where the customer is the King, business begins and ends with the customer. This Rex decides the business growth, profitability, liquidity and the image of an organisation. It is because of this the marketer has to meet the customer expectation in full and see that he is satiated.

In general, "satisfaction" is a person's feelings of pleasure or displeasure resulting from comparing a product's perceived performance or the outcome in relation to his or her expectation. In case, performance falls short of expectations, the customer is dis-satisfied and if the performance matches the expectations, the customer is satisfied. If the performance exceeds his or her expectations the customer is highly satisfied or delighted.

In other words, customer satisfaction is the customer's perception that a vendor has met his expectations fully, efficiently and promptly. Customer satisfaction is the summary of the opinion of the customer about the vendor.

Right from the pre-marketing to after-sale and service and complaint management, the customer comes in contact with different departments and functions of vendor organisation and the opinion he or she makes about the vendor is the sum total of his experience and perception he, has while coming in contact with different sections of vendor.

I. Measuring Customer Satisfaction

In today's global economy, it is the competition that decides the forces of buyers and sellers. However, the customer-centric companies are measuring the level of customer satisfaction and factors that sharpen it. The marketing satisfaction is known as to what is its image that a customer has.

It is measurement that provides specific information needed by the marketing organisation to steer the company through uncertainties and troubled water.

Measurement of customer satisfaction provides multi-angled information or feedback, which helps the marketing unit to en-cash upon. These are a) business related, b) customer-related, c) supplier- related, d) competitors-related, and e) performance related and the like.

a) The Business Related:

i. Judging effectiveness of its business plan and the extent to which it is customer-centric,

ii. Makes available quantified information on the number of customer lost, the amount of business lost and loss of business volume and profit caused by customer decay.

iii. Satisfied customer is the extended marketing arm of the marketing organisation

iv. The customers hurt or dissatisfied will spread the facts which are having negative impact on company

v. A single unsatisfied customer can turn the table by poisoning the minds of at least five customers

vi. Only a portion of unsatisfied customers complain while the rest simply switch over to other competitors.

vii. Loss of customer is loss of an opportunity and profitability

viii. Customer satisfaction enhances the image of selling house where premium prices can be charged

ix. It channelizes the organizational resources to bridge the yawning gap in customer satisfaction.

b) The Customer Related:

i. The number of customers lost

ii. Which customers are lost

iii. Why and to whom they are lost

iv. The value that customer assigns to the product and service being supplied and rendered

v. Customer’s decision making factors and relative weight-age assigned by a customer

vi. Identifying customer needs and wants-and requirements

vii. It helps the marketing organisation to see through the eyes and minds of customers to become customer centric.

c)The Supplier Related:

i. His strengths and weaknesses and equally of his competitors.

ii. Identification of his core competencies as perceived by the market on which business strategies can be developed by the organisation

iii. Identification of weak areas needing top importance and attention to regain the ground

iv. Image of organisation in different markets

v. Customer's perception about management organisation

vi. Comparative position of marketing organisation as compared to bench-marking

vii. Success rate of vending house in keeping the satisfied customers.

d) The Competitors Related:

i. The business lost to competitors with reasons.

ii. The measurement of strengths and weakness of various competitors and changing the strategy accordingly.

iii. The actual position in ascertaining the relative position of competitors to bench mark and to get ready to kill the competition.

e) The Performance Related:

i. The opportunities for improving the existing programs, products and services.

ii. The actual cost of customer turnover.

iii. The way the company is performing from the angle of customer.

iv. Sharpness of company's competitive edge and the ways to improve it.

II. The Methods to Measure Customer Satisfaction:

Experts have come out with variety of methods to measure customer satisfaction. Which are classed into two groups as “direct” and “indirect”. These have their own merits and demerits

a) THE DIRECT METHODS are:
(1) Customer Feed-back Surveys
(2) Informal Chat/Interview Visits to market consumer sector.

b) THE INDIRECT METHODS are:
(1) Measurement of changes in complaints by using transient changes
(2) Measuring the changes in loyalty by use of transient changes. That is, these relate consumer complaints and consumer loyalty.

Module-6 Market Segmentation

1. Concept and Definition

The term ‘market segmentation’ refers to subdividing a market along some com-monality and similarity. That is, the members of a market segment share something in common.
The purpose of segmentation is the concentration of marketing energy and force on the subdivision (or the market segment) to gain a competitive advantage within the segment. The concentration of marketing energy (or force) is the essence of all the marketing strategies, and market segmentation is the concep-tual tool to help achieve this focus.

In today’s competitive business world, it is not possible to sell everything to everyone. There are different types of customers, each with different needs, wants, tastes, preferences, different purchasing power, and so on. Again, in each category of customers, there can be various subgroups.
The marketing practitioners select the type of customers representing the most desirable market and accordingly make every possible effort to induce and encourage them to buy the goods or services. Thus, market segmentation enables a firm to frame different marketing mixes for different groups of customers.

According to Philip Kotler, ‘*market segmentation is a process of identifying groups of buyers with different desires or requirements’*.

According to Skinner, *‘market segmentation is a process of dividing a total market into groups of consumers who have relatively similar product needs’*.

A market is composed of individuals and they are rarely homogeneous in benefits wanted, purchase rates, price and promotion elasticity. Their response rates of products and services and promotion programmes differ. Since consumers have dissimilar needs and wants in a market, it is called a heterogeneous market and most markets are heterogeneous. Differences in product preferences, size and growth in demand, media habits and competitive structure of the market also affect the differences and response rates.

A market segment is a portion of a larger market in which the individuals, groups or organisations share one or more characteristics that cause them to have relatively similar products needs; whereas market segmentation is the process of dividing the total market into relatively distinct homogeneous sub-groups of consumers with similar needs or characteristics that lead them to respond in similar ways to a particular marketing programme.

Three-decision processes comprising market segmentation, target marketing and positioning are closely related and have strong inter-dependence and essentially need to be examined carefully and implemented to be successful in managing a given product-market relationship.
Market segmentation and the identification of target markets are an important element of each marketing strategy. The importance of market segmentation results from the fact that the buyers

of a product or service are no homogeneous group. Actually, every buyer has individual needs, preferences, resources and behaviours.

2. Segmentation Targeting and Positioning

The processes of segmentation, targeting and positioning of a product or service is the part of a comprehensive marketing plan. The diagram below represents the process of marketing and the roles of segmentation, positioning and targeting.

Market segmentation, positioning and targeting are the part of the overall marketing plan for a particular product or service. It follows the steps as discussed below:

***Stage-I:*Corporate Objectives-**The marketing plat stems from the corporate strategic pbjectives or business objectives of the organization. An organization markets itsproducts or services according its business objectives. For each product or service the company develops unique marketing objectives and subseqquent marketing strategies. The marketing objectives and strategies for each product and service must be aligned to the corporate objectives.

Stage-II: Segmentation -Once the marketing strategy for the product or service is formulated marketers start the process of segmentation of the market. To classify the whole market into several segments the marketers identify certain bases or variables. Such bases may be geographical, cultural, or psychographic in nature.

On the basis of the identified variobales the profiles of each segment of the market is developed. The profies are then validated with the help of the variables already selected.

Stage-III: Targetting – Once the segmentation is complete the company develops tagretinf strategy for the each of the segment of the market. The targeting strategies are then alighend with the respective segment.

Stage-IV: Positioning – In each segment of the targeted market the tastes and preferences of the consumers are identified. Accordingly the product or service is positioned in the market

Stage-V: Market Mix- depending on the positioning of the product the post effective market mix is developed and the product is marketed.

3. Criteria for Market segmentation:

The market segmentation to be worthwhile six criteria, as shown below, must be satisfied:

1. Identity:

The marketing manager must have some means of identifying members of the segment, that is, some basis for classifying an individual as being or not being a member of the segment. There must be clear differences between segments.

2. Accessibility:

It must be possible to reach the different segments in regard to both promotion 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. Secondly, they must get these products to them through the distribution system at a reasonable cost.

3. Responsiveness:

A clearly defined segment must react to changes in any of the elements of the marketing mix. For instance, if a particular segment is defined as being cost-conscious, it should react negatively to price rises. If it does not, this is an indication that the segment needs to be refined.

4. Size:

The segment must be reasonably large enough to be a profitable target. It depends upon the number of people in it and their purchasing power. The idea is that enough potential buyers must exist to cover the costs of production and marketing required in that segment. This is often called as substantiality.

5. Nature of Demand:
It refers to the different quantities demanded by various segments. Segmentation is required only if there are marked differentiation in terms of demand.

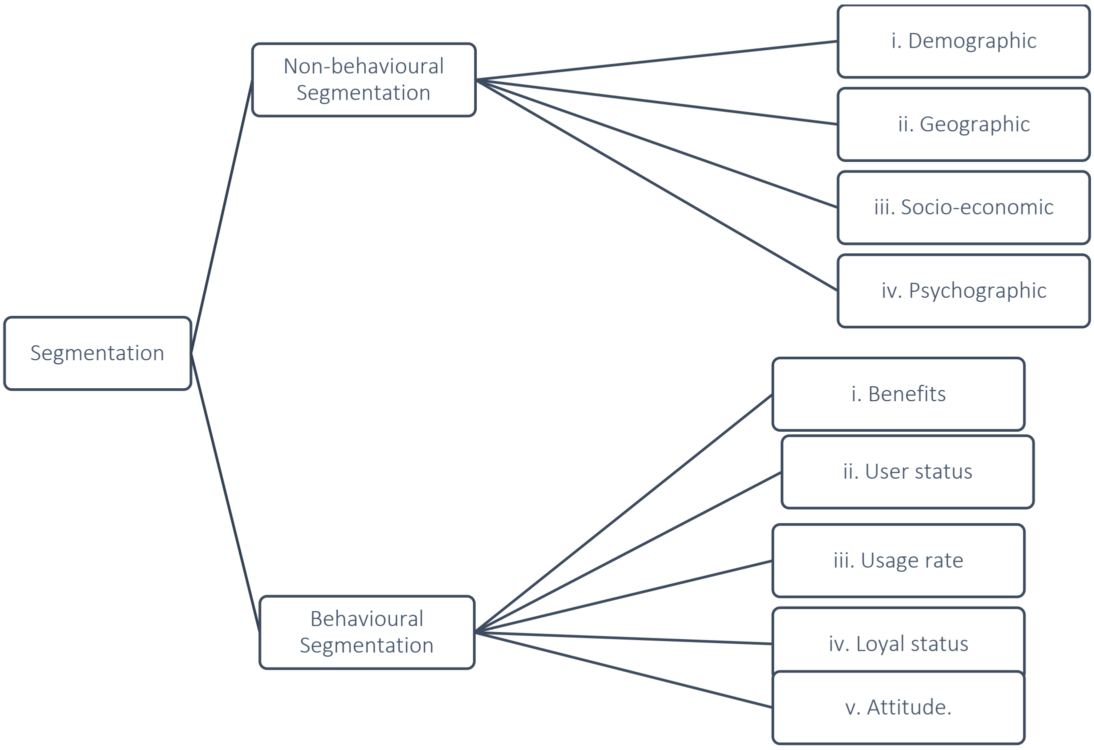
6. Measurability:
The purpose of segmentation is to measure the changing behaviour pattern of consumers. For example, the segments of a market for a car are determined by a number of considerations, such as economy, status, quality, safety, comforts etc.

4. Types of Market Segments

Any market is segmented based on two broad criteria:

a) On the basis of consumer personal characteristics. These are also called non-behavioural characteristics of the consumers. Four essential characteristics may be identified under this criterion. These are:
i. Demographic ii. Geographic iii. Socio-economic and iv. Psychographic

b) On the basis of the customer responses or the behavioural characteristics there may be five classifications:
i. Benefits ii. User status iii. Usage rate iv. Loyal status and v. Attitude.



Non-behavioural Segmentation

i. Demographic Segmentation

Demographic segmentation divides the market into segments based on variables like age, gender and family and offers the product and services that satisfy their mutual needs.

Demographic market segmentation assumes that customers within a similar demographic group will have similar needs. Companies consider this way to be the least costly way to segment their target market.The different demographic segmentation variables may be as follows

a) Age and Life Cycle Segmentation

Age is the most basic demographic segmentation variable. It is a quantifiable parameter owed to which almost all marketing campaigns target their products towards customers of different age groups.

Famous fashion designers such as Chanel, Gucci and Burberry all formulate their fashion collections targeting demographic market based on age, gender and income.

Life Cycle is another parameter of demographic segmentation used by companies to divide potential customers.A simple example is of insurance companies that target young and middle-age individuals for their life insurance policies.

b) Gender Segmentation

Gender segmentation is another common market strategy, where customers are divided into categories of male and female. Every product that contains some kind of differentiation which caters to the different needs of the two genders is divided based on this type of market segmentation.

Examples include Calvin Klein and Christian Dior that offer different perfumes, cologne and other fragrance, watches ranges for men and women.

c) Income Segmentation

When marketers initiate a marketing campaign and devise a market strategy, besides considering other factors of their potential customers, they also segment their customers, based on their income level. Example is the different cars manufactured by an automobile company for different income group.

d)Religion Segmentation

Religion market segmentation is the parameter where the target market is classified based on their mutual religious beliefs and other associated spiritual needs.

For example, any food that contains pork or any of its additives will not be consumed by Muslims and Jews, as it is forbidden in their religion.

e) Marital Status, Occupation, Education

Companies also design their market strategies towards potential customers based on their marital status, education level and other demographic segmentation such as occupation, etc. This is done because their product offers something that satisfies a mutual interest to these segments.

For example, baby products from Mothercare a British retailer for mother and babies, are directed towards married couples who have or expectedly will be having a family and will require purchasing baby products.

ii. Geographic Segmentation

Geographic segmentation is a process of grouping customers based on where they live. Companies segment their target market geographically when needed to focus on a specific area. Geographic market segmentation tends to optimize the marketing strategies of a business by matching products and services to different regions, cities and countries where the customers live.

a) Country Based Segmentation

Some companies offer products that are specifically used in some countries only, such as snow shovels are used in snowy areas only. Such products are marketed using geographic segmentation as it helps marketers to target the specific people living in that area.

For example, Dart and True Temper are companies that market their snow shovels in countries with cold temperatures and where snowfall is a normal occurrence.

b) Population Based Segmentation

Companies also design their marketing campaigns based on geographic segmentation making population its parameter. This can be the density of population or the population of a specific area.

Examples of products or services that use geographic market strategy include local salons that target their services and products towards the population of a specific area e.g. local population living in the vicinity.

c) Climate Based Segmentation

Climate-based segmentation refers to marketing products that adhere to a certain climate of an area. Examples of this kind of geographic market segmentation include swimwear brands that are targeted for hot areas with beaches and similarly, raincoats for areas that experience excessive rainfalls, etc.

d) Urban and Rural Based Segmentation

Products that serve different needs and wants of people living in rural and urban areas adopt rural and urban segmentation to convey their message to potential customers. For example, a detergent company will market its low-cost detergent product in rural areas because the purchasing power is lesser.

Similarly, in urban areas, customers prefer their detergent products to be of high quality, fragrant and have other similar qualities even if they cost a bit higher than their almost equivalent low costing substitutes.

iii. Socio-economic

Although there are some similarities of this class with the demographic segmentation there is some distinct features about it. This kind of segmentation is made on the basis of the social and the economic condition of the consumers. The market is divided combining the factors like employment, education and income of the consumers.

iv. Psychographic

Psychographic segmentation divides potential consumers based on their interests, personalities, lifestyles, activities, and other similar factors. This kind of market segmentation is done to cater to consumers with similar likes and needs and offer them something they value. Using this segmentation, companies target different messages to different customer segments for a single product, highlighting the product’s worth that is mutually beneficial for the consumers belonging to one segment.

Consumers have various different psychographic make up and analyzing these differences and grouping consumers based on their mutually shared characteristics is the beginning of psychographic segmentation.The different variables or factors of this type of market segmentation are divided into several different types. Companies based on their product or service, need and specific marketing campaign decide which factor will benefit them. Some of the commonly used psychographic segmentation variables are

a) Lifestyle Based Segmentation

Lifestyle segmentation is by far the most common and popular type of psychographic market segmentation companies use. This is exceptionally true for retail sectors, clothing for example. Based on personal lifestyle, Another lifestyle aspect that is highly considered is whether the consumer is a rural or urban dweller.

b) Personality Based Segmentation

Personality is a variable of psychographic segmentation that is highly dependent on two other factors, the lifestyle and social class of a consumer. A personality that has a rich taste and preference will definitely have the buying power to maintain an equal lifestyle.

Harley Davidson Bikes, for example, target personalities that are masculine, tall and love to lead a rough lifestyle.

c) Social Class Based Segmentation

Not all consumers in a market fall in the same social class. Social class of a person is determined by his or her buying power, which is further affected by the background of the individual. How much a person earns and what his or her spending habits affect the social class of a person. Any consumer will purchase to maintain the social class he or she belongs to.

d) Attitude Based Segmentation

Another variable of psychographic segmentation or a subset of it is the attitude or value of the consumer. Every individual carries a unique value shaped by our surroundings, culture, upbringing, etc, which further define our attitude towards different things. For example, an individual that belongs to a conservative background will carry certain aspects in their attitudes. That will restrain them from buying any product that challenges those beliefs, irrespective of whatever social class or lifestyle they belong to.

Behavioural Segmentation

Behavioral segmentation refers to the grouping of total consumers in a market into homogeneous groups based on their mutual buying behavior patterns.

There are many factors that affect the consumer behavior while responding to a product and take a decision to buy it. The consumer decision making process is greatly influenced by consumer behavior. This is how behavioral segments are targeted by marketers.

The main point behind behavioral market segmentation is to understand your customer needs and wants based on their buying behavior of product or service. Behavioral segmentation group consumers based on some similarity. This similarity is the mutual behavior of consumers towards a product.

Behavioral segmentation in marketing allows marketers to market product in a specific manner that targets their potential consumers through offering a message that caters some need and want of consumers, stimulating them to purchase the product.

i. Benefit Segmentation:

Buyers can be classified according to the benefits they seek. On a purchase of same product, different customers look for different benefit because of which they buy products from different companies which satisfy their specific needs. Let us take the example of a car. The basic function of a car is transportation.

ii. User Status:

The users of a product or service can be classified as heavy users, medium users and light users- heavy buyers, medium buyers and light buyers. Marketers of soft drinks, hot drinks etc. for example, may segment the market in terms of the above said criteria. A firm, generally, is interested in the heavy buyers or users. Sometimes, a firm may select light users as their target market with the intention of wooing and changing these customers into heavy users.

iii. Usage Rate:

Markets can be segmented into various classes depending on usage rate. Considering the cosmetics usage, the different categories of usage rate are as follows:

(a) Light:

These are the categories of the users who are very infrequent users. In case of cosmetics an average housewife who is not very fashion conscious is a light user of cosmetics.

(b) Medium:

The fashion-conscious teenagers are the medium users of cosmetics, that is, they use it frequently.

(c) Heavy:

There are people for whom the cosmetics are the most important purchase and they are heavy users of it. Celebrities in entertainment world, the models etc. need cosmetics on a regular basis, as it is the most important part of their profession.

iv. Loyal Status:

Consumers have varying degrees of loyalty to specific brands, stores and other entities. Buyers can be divided into four groups according to brand loyalty status.

(a) Hard-core-Loyal:

Consumers who buy one brand all the time. We find people who have been using Colgate for years without caring which other brands are coming in and going out of the market.

(***b) Split or Soft Core Loyal:***

Consumers who are loyal to two or three brands. Pepsodent after its launch found some customers of Colgate switching between the two brands.

(***c) Shifting Loyal:***

Consumers who shift from one brand to another. Customers can be found to keep on switching off from Colgate to close up and then to Pepsodent without any consistency.

(d) Switchers:

Consumers who show no loyalty to any brand. These are the people who will buy any brand that is available in the market.

V. Attitude:

A market may be segmented by classifying people in it according to their enthusiasm for a product. Five attitude groups can be found in a market.

(a) Enthusiastic:

These are people having tendency of impulsive purchase. They may not carry cash all the time but suddenly decide to buy something. They definitely need credit cards.

(b) Positive:

They are serious buy mobile people who need to buy suddenly at any time.

(c) Indifferent:

There are some people who are technology averse with systematic purchasing pattern. They would prefer to purchase with cash after thinking over the need for purchase. They do not prove to be potential users of credit cards.

(d) Negative:

People can be spendthrifts who fear of loosing money or misusing it. They would never go for a credit card.

(e) Hostile:

People at times become very much irritated either by sales-people calling or meeting any time, giving false promise or by the service provided. For example, in case of credit cards, there are some hidden costs which are not clarified by the sales-person during selling.

5. Business Market Segments

Bases for segmenting business markets Business-to-business markets can be segmented with variables that are used in consumer markets, such as geography, benefits sought and usage rate, together with some extra ones. As it is common to find a one-to-one relationship between buyer and seller, segmentations are closely fashioned to the needs of individual organisations. The major segment variables of a business market have been discussed below:

Major segmentation variables for business markets
Demographic 1 Industry: Which industries should the marketer serve 2 Company size: What size of companies should the marketer serve 3 Location: What geographical areas should the marketer serve
Operating variables 1. Technology: What customer technologies should the marketer concentrate 2. User or non-user status: Should the marketer serve heavy users, medium users, light users or non-users

3. Customer capabilities: Should the marketer serve customers needing frequent, moderate or low services
Purchasing approaches 1. Purchasing-function organisation: Should the marketer serve companies with highly centralised or decentralised purchasing organisation 2. Power structure: Should the marketer serve companies that are engineering dominated, financially dominated, and or marketing dominated 3. Nature of existing relationship: Should the marketer serve companies with which it maitains strong relationships or simply go after the most lucrative companies 4. General purchasing policies: Should the marketer serve companies that prefer leasing,Service contract, Systems purchases, or Sealed bidding 5. Purchasing criteria: Should the marketer serve companies that are seeking quality, Service, or Price
Situational factors 1. Urgency: Should the marketer serve companies that need quick and sudden delivery or service 2. Specific application: Should the marketer focus on a certain application of our product rather than all applications 3. Size of order: Should the marketer focus on large or small orders
Personal characteristics 1. Buyer-seller similarity: Should the marketer serve companies whose people and values are similar to them 2. Attitude towards risk: Should the marketer serve risk-taking or risk-avoiding customers 3. Loyalty: Should the marketer serve companies that show high loyalty to their suppliers

6. Different Approaches towards Market Segments

Organizations may take different approaches towards the designated market segments. The most popular approaches are listed as follows:

Mass Marketing:

Before the onset of the marketing age, there was widespread adoption of mass marketing, mass production, distribution and promotion. That is, offering the same product and applying the same marketing-mix to all customers assuming that there is no significant difference among consumers in terms of their needs and wants.

Product Variety Marketing:

Once it is learnt that consumers would not accept standard products, the marketer might try to provide different sizes, colours, shapes, features, qualities etc. to attract them.

Target Marketing:

The modem marketing concept starts with the definition of target markets. The target marketing has its root in the marketing age.

Two alternative approaches can be followed despite the fact that different customers have different needs:

(a) Shotgun Approach and (b) Rifle Approach.

Micro Marketing:
The target marketing is being changed to micro marketing. Micro marketing occur when target market is further bifurcated and the needs of the small customer groups are addressed on a local basis. Thus, even though target customer has been identified in the target-marketing, some specific modem styles of features products are made available at selected places on local basis.It has four levels:

(a) Segment Marketing:
A market segment consists of a large identifiable group within a market with similar wants, purchasing power, geographical location, buying attitudes or buying habits.

(b) Niche Marketing:
A niche is a more narrowly defined group whose needs are not well served.

(c) Local Marketing:
Target is leading to marketing programmes being tailored to the needs and wants of local customers. For example, different editions of newspapers for different areas cover local news are good examples.

(d) Individual Marketing:
The ultimate level of segmentation leads to "one-to-marketing" or "customized marketing". Mass customization is the ability to prepare on a mass basis individually designed products and communications to meet each customer's requirements. The concept of service has broadened to include both breadth of product offerings and the ability to customize to meet specific needs.

Customized Marketing:
The focus of the target marketing is further shifting from local basis to customer basis. With the advancement in manufacturing because of breakthrough in information technology, for instance, use of computer-aided design and computer aided manufacturing: it has now become possible to manufacture a product as per the individual customer needs or of a buying organisation. Tailors and drapers (cloth merchant), boutiques (ladies and children), beauty parlours etc. are customize products.

Personalized Marketing:
Although in case of customized marketing, the requirements for a customer are met by a custom- made product, but still the customer might not be willing to retain his loyalty with the company because of competition. For instance, one gets shirts made from a tailor as per personal fitting. Still, tailors find their customers shifting their loyalty to others.

7. Market Targeting

Targeting is focused on evaluating available segment's attractiveness and select one or more segments to serve. You only want those people who have a need for the products and services you are offering.

Many of your customers belong to multiple target markets at a time, for example, I am a man, a father and a husband. Each category has some products and services that I need to fulfill my wants, needs and responsibilities in each respective position. Here you noticed that everything about me puts me in a target market for some marketers.

A market is segmented using age, gender, income, education, lifecycle, social status, social class and many more. After identifying segmentation few segments are selected to reach target customers. This process of evaluating and selecting market segments is known as market targeting.

Process of Market Targeting

Step1. Evaluation Market Segments

The market targeting process involves assessing those segments marketers already identified in the market segmentation. But when we talk about evaluating market segments, it is based on certain criteria. Business owners and marketers must answer these questions while assessing the market segments.

Step 2. Market Targeting Strategies

In today's' business environment every business needs market targeting strategies. Targeting the right market is very important. Here we will discuss four types of market targeting strategies with examples.

Types of Targeting Strategy

a) Undifferentiated Market Targeting

Undifferentiated market targeting strategy ignores market segmentation and goes after the whole market. This strategy considers buyers as homogeneous group. Undifferentiated marketing is also known as mass marketing. In this strategy, companies do not produce different products for different market segments.

This type of marketing strategy relies on mass distribution and mass advertising. Companies aim to create superior image of the product in the minds of consumers. Company use this strategy to appeal a wider audience based on common customer needs and wants other than differentiated and concentrated strategies.

It has a narrow product line which leads to low advertising cost. Lack of segment marketing reduces the costs of marketing research.

b) Differentiated Market Targeting

In Differentiated market targeting strategy, a company opts to target multiple market segments and design different and effective marketing mix for each market segment. A Differentiated market targeting approach is likely to create more sales than does undifferentiated marketing. But due to distinct marketing mix, the promotion cost also increases. The increasing sales must be weighed with increasing costs.

Number of different companies adopted differentiated marketing strategies. For example, the segmentation of Unilever generates more sales by achieving higher market share through various detergent brands which they could not with just one brand.

c) Concentrated Market Targeting

In concentrated / niche market targeting strategy, resources are focused and target specific market segments. Concentrated marketing strategies are effective for those small companies having limited resources. Due to focused strategy they can perform better compare to large businesses.

Due to better knowledge of specific segment’s needs, company can achieve a higher market position. If company chooses the right segment at the right time, it can achieve lucrative rate of return on investment.

d) Micromarketing Market Targeting

Micromarketing strategy involves developing products, services and marketing programs best match with individuals and locations. Small business owners can use micromarketing strategy to target customers at personal level. Micromarketing includes local marketing and individuals marketing.

Individual marketing examples include hotel industry, clothing, furniture and bicycle industry. This strategy is based on the preferences on individual’s customers.

8. Product Positioning

In most markets, there will be many companies providing the same basic solutions to customer needs. The customer has to select one provider among them. The offering of a company has to be distinct, so that customers are able to make a choice by matching their requirements with the offerings of various providers. Positioning is the process of creating a distinct offer and communicating it to the customer.

Positioning is created by designing a marketing mix which is suitable for the target market but is different from marketing mixes of other providers. The chosen marketing mix has to be then communicated to the customers.

The smaller and more homogeneous the target market is for which a marketing mix is designed, the stronger will be the positioning, i.e., the fit between the marketing mix of the company and requirement of the customers of the target market will be stronger. The process of positioning is continuous in nature and it should always be proactive because new needs and competitors keep cropping up.

A. Definition

Positioning is the act of designing the company's offering and image to occupy a distinctive place in the target market's mind. The end result of positioning is the successful creation of a market- focused value proposition, a cogent reason why the target market should buy the product.

Each company must decide how many differences to promote to its target customer. The position of a product is the sum of those attributes normally ascribed to it by the consumers-its standing, its quality, the type of people who use it, its strengths, its weaknesses, any other unusual or memorable characteristics it may possess, its price and the value it represents.

B. Product Position versus Brand Position

Brand positioning is a major decision in marketing. It is believed to be the source from which all other decisions marketing mix should flow. The entire combination of marketing mix elements attempts to communicate the brand's "position" to consumers.

Product position and brand position are different in scope. According to Smith and Lusch, product position refers to the objective attributes in relation to other products, and brand position refers to subjective attributes in relation to competing brands and this perceived image of the brand does not belong to the product but is the property of consumers' perceptions of a brand. However, the terms "product positioning" and brand positioning usually mean the same thing.

C. Market Positioning Statement Definition

Market positioning statement is a description of the target market and is a situation which determines how the company wants the market to perceive its offerings. Positioning statement is an internal tool for marketers. Every marketing and product related decision needs to be in alignment with the positioning statement. A good positioning statement maintains focus on the brand as well as its value proposition and you can easily work on marketing strategy and tactics.

D. Importance of Positioning Statement in Marketing

Effective market positioning statement imposes a positive impact over the capability of lead generation of a business and is very helpful in determining as to how well a product, brand or service will be perceived by potential customers. It allows an organization to understand the benefits of its offerings to target customers. Additionally, a unique positioning statement states how the offering is different from other competitors in the market.

E. Market Positioning Statement vs Tagline

A positioning statement is the collection of information about the target audience; the product is offering to them, comparing it with competitors and designing a unique selling proposition (USP). On the other side, taglines tend to express the value of a product or service so as to improve the position and appearance of the brand. Taglines tend to portray who the company is and what they have to offer.

F. Positioning Approaches:
There are several approaches to positioning of products and service offerings:

1. Positioning by product attributes or customer benefit:
This approach to positioning is probably the most common and involves setting the brand apart from competitors based on specific brand attributes or the benefits offered. Many products, such as autos, cameras and other durable product brands offer excellent examples. A product that is well made usually offers more than one benefit. In case of toothpaste, brands are positioned on cosmetics, medicinal, taste or economy dimensions. Some brands are using one, two or even three of the above mentioned dimensions to create dual or triple positioning.
Examples: Promise is positioned on gum care.

2. Positioning by price-quality:
This approach justifies various price-quality categories of the products. Manufacturers deliberately attempt to offer more in terms of service, features or performance in case to certain products known as premium products and in return, they charge higher price, to cover higher costs and partly to communicate the fact that they are of higher quality.

3. Positioning by product-user:
This deals with positioning a product keeping in mind a specific user or class of users. For example, cosmetic brands like Lakme position themselves targeting fashion-conscious women.

4. Positioning by use of application:
The idea behind this approach for positioning is to find an occasion or time of use. For instance, Vicks Vaporub is to be used for a child's cold at night. lodex is for sprain and muscle pains, Burnol ointment is for bums and Dettol antiseptic is for nicks and cuts. These brands have used this positioning for decades now without any serious challenge from competitors.

5. Positioning by corporate category:
This positioning is used so that the brand is perceived as belonging to another product category. This is often a strong positioning strategy when the existing product category is crowded. The consumers then perceive the brand in different context. For example, a milk powder, with suitable additions and appropriate packaging, can be positioned as an 'energy drink' for sports people or a health-drink for players or a drink for growing school going children etc.

6. Positioning by corporate identity:
Companies that become tried and trusted household names, use their names to imply the competitive superiority of their new brands such as Tata, Sony etc. Corporate credentials are added as a by-line. This offers a strong positioning and is used in line extensions or brand extensions.

7. Positioning by competitor:

Positioning by competitor may be used because the competitor enjoys a well-established image in the market. The marketer wants the consumers to believe that the brand is superior, or at least as good as the brand offered by the competitor. It is like telling the people that you live next to some famous movie personality in Delhi rather than getting involved in explaining the locality and streets.

G. Positioning Strategy

Market positioning strategy refers to the perception of consumers towards a product or brand in relation with other similar products or brands. It is basically a process of establishing an identity or image of a product or brand so that it is perceived by consumers in a certain way. Market positioning of a brand needs to be maintained over the life of the product. This requires organizations to undertake marketing initiatives that tend to reinforce the target market perception of the brand or product.

Types of Marketing Positioning Strategy

Common types of market positioning are:

Pricing

For customers, pricing is a very important element. Companies that offer products at lowest prices with a reasonable level of quality tend to have an advantage over many product aspects. For example, low-priced alternatives to high-quality products like Gillette have changed the idea of refill blades and razors. It was later on reported that the market share of Gillette was eroding because of the low prices of Dollar Shave Club products.

Quality

Quality is very useful in rebuffing the price wars. There are some markets, like that of luxury cars; the level of quality defines who the competitors are. An example of quality can be the Taco Bell and Chipotle where the latter has gained a good market share by competing over quality rather than price.

Customer service

Customer service aims at creating friendly and helpful interaction. This is very crucial in certain industries like banks and restaurants. For example, the importance of customer service is very high in insurance companies and contacting customers is very important. All state and State Farm use customer service-based messages as their marketing plan to focus on positioning their offering.

Convenience

Convenience helps in making the life of customers easier. From usability to location, convenience involves aspects like free returns or e-commerce. For example, traditional banks are relatively slower in developing mobile apps however online-banks only like Simple tend to appeal internet-savvy customers.

Differentiation

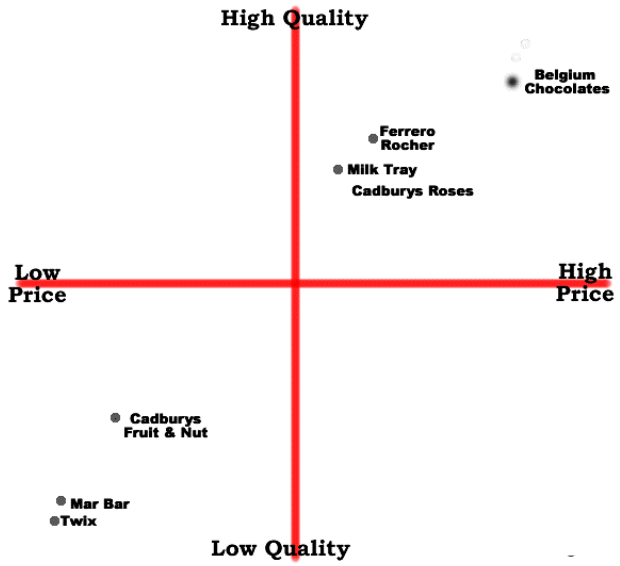
Differentiation tends to set the offering apart from others. If the product is different, competitors may not pose a significant threat to the product. For example, Tesla entered the market of the electric vehicle with the luxury sports model and setting aside economy cars. Tesla targeted higher-end market with Model S.

H. Perceptual or positioning mapping

Perceptual or positioning mapping is a marketing tool that enables marketers to plot the position of their offering (product or service – but in buyers' markets it is best to see these as customer perceived value offers (see Chapter 11)) against those of the competition.

Positioning maps

When a perceptual or positioning map is plotted two dimensions are commonly used. Figure below presents a very basic perceptual map of the UK chocolate block sector market.



H. Notes on
I. Mass Marketing

What is Mass Marketing?

Basically, mass marketing is a strategy which is directed towards attracting a huge portion of the audience. It aims to address the highest number of potential customers while ignoring niche demographic differences. The strategy involved in this type of marketing strategy focuses on a higher volume of sales at lower prices so as to obtain maximum exposure for the product.

Mass marketing is very effective in advertising products that are rendered as necessities and are guaranteed that people will shop for it anyway. Mass marketing products have some common elements which include:

- Product Development: Usually mass marketing is associated with general purpose products that have an appeal to a broad base of customers.
- Designing: Designs in mass marketing strategy intends to be highly accessible.
- Pricing: Pricing element involves affordable options for a very broad customer base.
- Promotion: Broadcasting media is usually associated with mass marketing as it can reach a wider range of audience.

Some core features of mass marketing are:

→ It generally focuses upon a big portion of the audience.
→ The objective includes the scattergun approach. Companies need to hit as many people as possible to get some return.
→ Mass media is used to spread the undifferentiated message of the product.
→ Majority of companies use this strategy to create a brand image and branding recall efforts or to introduce new products in the market.

Definition of Mass Marketing

Mass marketing is an undifferentiated marketing strategy in which the organization decides to ignore niche marketing, market segments and attempts to appeal to the entire market with one strategy or one offer.

Examples of Mass Marketing

Telecom operators make use of mass marketing campaigns because telecommunication services are being used by a huge number of people. Additionally, several FMCG products like soaps and detergents use mass marketing. Body deodorants, as well as many personal hygiene products, use this marketing strategy as they are used by a big market segment.

Coca-Cola is another good example of mass marketing. Its television advertisements can be seen in winter holidays as well which has been designed to appeal simply to everyone. Since Coca Cola is a product which spans various niches in terms of popularity; its mass marketing campaign has proved to be very effective and successful over time.

Marketing products to masses are very common in sectors like consumer durable good, FMCG along with some types of services. However, products that need to cater the demands of customers' need to implement differentiated marketing strategy.

Medium of Mass Marketing

For a successful mass marketing campaign, the advertisement must be focused on "set of product needs that are common to most consumers in a target market." (Bennett &Strydom, 2001). Traditionally it focuses on

- Social Media
- Television / Radio
- Newspapers
- Magazines
- Email Marketing

Advantages and Disadvantages of Mass Marketing

Advantages

A major advantage of advertising and selling to mass market is the scope as well as the cost efficiency of operating on a larger scale. All advertising messages that are spread through mass media such as broadcasting and print media has the potential to reach millions of viewers in a single show. Additionally, gaining the economies of scale can make the mass distribution of products cheaper as compared to serving and delivering products on the basis of the specific target market.

As the message is very definite and the branding effort is much focused, the image of the brand is reinforced in the mind of people. This conjunction of strong brand image and cost leadership has the ability to create a barrier to entry in the market which can discourage both competitors and competition.

Disadvantages

Despite having many advantages to it, mass marketing also holds some weaknesses for businesses. Undifferentiated marketing strategy allows putting all eggs in one basket. This makes them inherently vulnerable to the changes that occur in the marketing environment.

Alongside this customers are unable to develop loyalty to brands that are spread through mass marketing. This leads to margins as the cost needs to be maintained at a lower level so as to prevent customers from switching brands.

Another disadvantage may be that companies that aim at satisfying everyone in the market with a single product can be easily challenged by competitors which have their focus on serving a smaller market segment.

Conclusion

Mass marketing strategy can be very effective for new products or to create a brand image. The demand for the product should be determined so as to get the maximum returns by marketing to the masses. Along with being a cost-effective way to market products, this strategy also holds back some disadvantages which have an impact on the returns.

II. Niche Marketing

Niche marketing can be explained as a marketing tactic which targets a specific and unique market segment. This **type of market** is created after identifying the wants and needs of the customer. An organization determines the loophole and makes efforts to deliver the best solution to the problem which was not previously addressed by any other company.

Niche market does not mean **a small group of people or a small segment of the market**. It includes targeted audience for which companies have specialized offerings. In this way, the company aims to become a market leader within that niche.

What Makes a Niche?

Every market can be subdivided or refined based upon the particular preferences and needs of people within those groups. Some ways to define niche markets are:

- **Demographic** base which includes age, education level, gender and income level.
- Prices can be high, moderate or lower.
- **Geographical niche markets** are based upon the precise location of buyers.
- Level of quality is based upon cheaper, low, moderate, high or premium products.
- **Psychographics niche markets** include interest, values and attitudes of consumers.

Marketing to a particular audience or a niche can be easier than making efforts to appeal to a braider market. Such markets have a lot in common in terms of wants, preferences and needs. Understanding and catering the differing needs of every niche will make it possible for the company to directly come in touch with their **target market**. This has chances to appeal to the attention of buyers and making it clear to them that the offering is specially tailored for meeting their requirements.

Definition of Niche Marketing

Niche marketing in contrast to mass marketing can be defined as channeling marketing efforts and strategies towards a pre-defined market segment of a population. One important aspect that needs to be mentioned here is that niche market does not exist. Rather, it is created through smart marketing techniques after identifying the needs and wants of the customers.

Niche Marketing Examples

Successful niche marketing will help a business expand in many ways. Offering specialized services within a particular product, service or market, companies tend to effectively distinguish their business from that of the competitors. Through using niche marketing strategy, the business can specialize and will be able to attract more profitable customers. Some examples of niche markets include:

Physical Therapist Niches

- Victims of stroke who have lost their motor skills or mobility
- Runners who are improving from panthers fasciitis
- Initial responders of office-related back injuries

Niche of Personal Trainers

- Expecting mothers within a particular suburb
- Police / military programs candidates

Alongside these, there are many other examples of niche marketing and **mass marketing.** Handbags market is a huge market and there are various niches in this market. For example, new moms would want handbags that are both stylish and useful at the same time. There may be college students who want handbags for holding books, women who want bags to hold accessories like keys, credit cards and phones as well as vacationing ladies who are looking for larger beach bags which hold the belongings of the entire family.

Who Uses Niche Marketing?

There are various companies who are using niche marketing strategy in their marketing campaigns. This type of marketing strategy is very useful for small businesses with limited resources. Those products and services that are targeting a specific segment can use niche marketing strategy. Bugatti is using a niche strategy and targets a big fish in a small pot. Bugatti segments its market on the basis of high income and Western countries like Germany, France and London etc.

Other than smaller companies, large companies that are using mass marketing strategy can also opt to niche marketing for few of its products and services. Different automotive company use mass marketing but uses niche strategies for some of it car model i.e. hybrid cars.

Advantages and Disadvantages of Niche Marketing

Advantages

- ***Improved customer relationships:*** Niche marketing tends to target a specific type of customer group. This group can also include fewer people. Understanding what that specific target market wants and serving accordingly, businesses will be able to nurture their relationships with customers. Business can get to know their customers on an individual level which allows serving them better.
- ***Reduced level of competition:*** When businesses offer highly specialized products or services, there will be very few companies who will be offering exactly the same. The more specific a product or service will be the lesser there will be companies to compete with and the harder it will be to replicate those strategies.

Disadvantages

- ***Not suitable for small-scale companies:*** Due to smaller segments, niche marketing approach is considered to be inappropriate for smaller companies and intends to expand in the current market. Smaller markets make it a bit difficult to reap larger profit margins within the market.
- ***Chances of survival may fall:*** Chances of a firm’s survival may decrease if its marketing strategy is solely based upon niche marketing.
- ***May not be suitable for longer-term:*** Niche marketing ideas may not be suitable for long-term marketing strategies. This marketing approach may not deliver adequate business which can result in reduced profit margins.

III. Micro Marketing

What is Micro Marketing?

Micro marketing is that type of marketing strategy which tends to target a specific group of customers within a **niche market**. The approach to micro marketing strategy is somewhat the same that is used in target marketing. This marketing strategy makes the marketer consider specific attributes that will set apart the targeted **market segment**.

This form of marketing calls the marketer to determine the specific needs likes and dislikes. In this way, matching consumers with the **product** being offered becomes a lot easier. This approach is most often very successful as the customers develop a sense of being important to the marketer and directs their efforts towards connected with the product more through a personal level and less from a general level.

Many small businesses and companies that use micro marketing strategy establish and expand their client base within a specified geographical region. Companies can narrowly define its target audience through different characteristics like job title or ZIP code and can tailor their marketing efforts accordingly. This approach to **market** products can be more expensive because of customization and lack of economy of scale.

Definition of Micro Marketing

Micro Marketing can be defined as an activity used to market products or services directly to targeted groups of individuals based on specific information that has been collected about them. The efforts are designed to meet the demands of a small section of people in the market.

Examples of Micro Marketing

A good example of micro marketing can be found in the real estate industry. Any local realtor who develops its reputation in dealing with properties in a specific price range also understands the requirements and demands of those who can afford to buy property within that price range.

From this point, the realtor will consider the specific needs and demands of the clients within a larger **demographic profile** and will invest all efforts to find a property which suits their as many requirements as possible while continuously focusing on the homes that clients can afford.

Examples of some companies that use micromarketing strategies in their business and were successful include Proctor and Gamble and Uber. Proctor and Gamble underwent a marketing campaign in which the target market was African-American women for the launching of Pantene Relaxed & Natural shampoo and conditioner **product line.**

On the other side, through obtaining data from social platforms, Uber managed to understand the specific issues of transportation in the cities it planned to expand. The result of this was an increase in the client’s base of the company through referral benefits and promotions.

Advantages and Disadvantages of Micro Marketing

Advantages

- ***Highly targeted:*** Micromarketing and concentrated marketing allow companies to become granular. All efforts are directed towards the specific market segment and understanding their needs and demands based on their gender, location, interest, ethnicity, etc.
- ***Growth is user-generated:*** Micro marketing strategies tend to sow seeds in niche areas and allows early adopters to handle the market. When people will find something they want, the word will spread out and about automatically.
- ***Cost effective:*** Micro marketing and Niche marketing also comes with micro-budgets. This does not mean that this marketing strategy does not cost money. Comparing marketing efforts invested in a small segment of people to that of a larger audience, the cost associated with micro marketing campaigns are relatively lesser.

Disadvantages

- ***Time consuming:*** This type of marketing strategy take some time to develop and perhaps even more time to spread. Companies should be prepared to invest a good amount of time for developing and maintaining a customer base.
- ***Increased cost per acquisition:*** Though the cost of conducting this marketing effort is relatively lower, the target segment also includes fewer people. This can result in making the average cost increase in case a new customer gets in.
- ***Probability of missing the target:*** Micro marketing campaigns is a targeted campaign and does not focus on a wide range of audience. This can result in limited exposure and there are chances to miss other target segments.

Conclusion

From all marketing approaches, micro marketing strategy is the most personal one. Going beyond the tight focus of the niche marketing, this approach determines the wants of individual customers within a specified group of people. Companies are using this technique to develop stronger connections with their customers and expand their client base.

Module-7 Product & Pricing Decision

1. Concept of the Marketing Mix

Marketing mix is the set of controllable variables that a firm can use to influence the buyer's response within a given marketing environment (consisting of political, social, cultural, economic and marketing institutional influences). The environmental influences are uncontrollable elements, whereas the ingredients of marketing mix are controllable factors or comments.

The blend or combination of these ingredients constitutes the marketing mix and this marketing mix or programme is expected to be in tune with the environmental influences mentioned above. In other words, for each market segment and market environment, we will have specific and appropriate marketing mix.

Please note that a marketing mix is developed to satisfy anticipated and perceived needs of an identified market within a given environment. Variations in external environmental forces will directly influence the components of our marketing mix and we will have to adjust our marketing mix to the changes in the business environment.
he modem market concept emphasizes the importance of the consumer's preference. Manufacturers take various policies to get success in the market and the marketing mix is one of the important policies.

In marketing planning, we make use of marketing information to assess the situations. Therefore, a manufacturer first analyses the nature of the consumer's needs and then plans his product to give satisfaction to the consumers. All the marketing effort focuses attention around the consumer's need.

The management therefore is concerned with the markets and market behaviors to identify the target groups of consumers through market information. Then the management plans to meet the consumer's needs and to face the competitors. All these programmes involve a number of functions, which are to be planned carefully; and planning's need analysis of the market to take a decision-prediction and forecasting, to the future needs of the public.
According to Borden, "*The marketing mix refers to the appointment of efforts, the combination, the designing and the integration of the elements of marketing into a programme or mix which, on the basis of an appraisal of the market forces will best achieve an enterprise at a given time*".

According to Stanton, "*Marketing mix is the term used to describe the combination of the four inputs which constitute the core of a company's marketing system-the product, the price structure, the promotional activities and the distribution system.*"

Thus marketing mix is the combination of the product, the distribution system, the price structure and the promotional activities. The term marketing mix is used to describe a combination of four elements-the product, price, physical distribution and promotion. These are popularly known as “Four Ps.”
Marketing Mix is the set of controllable tactical marketing tools – product, price, place and promotion – that the firm blends to produce the response it wants in the target market. – Philip Kotler and Gray Armstrong

A. Elements of the Marketing Mix

I. Marketing Mix – Product

Product means the goods-services combination the company offers to the target market. Philip Kotler and Gray Armstrong,

A **product i**s anything that is offered to a **market** to stratify the wants and needs of a target group of people. The product may be tangible or intangible, services, organizations and places. You must keep in mind the nature of a product, for example, there are three different types of products – Core product, Actual product and the third one is augmented product.The product you offer must be in accordance with the demand of the market. It will help the markets to analyze the **product development process** of PLC in detail.

The **Product Life Cycles** PLC have certain four phases, for example, introduction phase, growth phase, maturity phase and finally decline phase. You can better compare it with the human life cycle from birth to young to mature and to death. If one product declines the marketers must have other products within different PLC phases to maintain the level of demand for the product.
When marketers develop the right product, they must answer the question, what the customer wants?how and where they will use the product? what product attributes are important? i.e. name, look and product differentiation from competitors etc.

II. Marketing Mix – Price

Price is the amount of money customers have to pay to obtain the product.
Philip and Armstrong
Price is an important component of marketing mix and marketing plan. It directly affects the firm's sustainability and profitability. Product price adjustment greatly influences the overall marketing strategy, sale and demand for the product.
A company just started its operation, it is new in the market and has no reputation associated with its products and services, it will be difficult to charge high prices from the target market.
A company product price and cost are interrelated. The company goal is to reduce product cost by embracing technological advancement in manufacturing. Pricing is a source of creating a perception of products and services in the consumers' minds.
Most of the time, low prices mean inferior goods while high prices mean superior goods in the consumers' minds as compare to competitors pricing. When a marketer sets product prices, he must consider the perceived value of the product. These are the pricing strategy when setting the prices

- Pricing at premium
- Market penetrating pricing
- Market skimming pricing
- Bundle pricing
- Economy and psychological pricing

III. Marketing Mix – Place

Place includes company activities that make the product available to target consumers
Principles of Marketing
Place is an integral part of the marketing mix definition. When marketers position and distribute the product must choose a place that is accessible to target customers.
Placement is also known as intermediary or distribution. Placement is a process through which products and services are moved from manufacturers to consumers.
The more you understand the target market the more you will better place your products and services. Another advantage of understanding your target market is to better select positioning and distribution channel that suits your market. For example if you are dealing in consumer products you will opt wide distribution but if you have premium products to distribute, you will need a selective distribution to find the potential customers.

There are **5 distribution strategies**

- Direction Distribution
- Indirect Distribution
- Insensitive distribution
- Exclusive distribution
- Selective distribution

IV. Marketing Mix – Promotion

Promotion is a very important component of marketing strategy in terms of increasing sales and brand recognition. A promotion mix means allocation of resources within five primary elements

- Advertising
- Public Relation and Publicity
- Sales Promotion
- Direct Marketing
- Personal Selling

Advertising is a paid communication strategy. This mix is used to create awareness and convey your message to the target market. There are different **sources to transmit information** like television, radio, newspaper, magazines and journals, outdoor advertising and online advertisement like website emails etc.

Public relations are mostly not paid communication. PR is marketing planned efforts to establish harmony and understanding between company or public. This strategy includes press releases, social events, conferences etc.

The marketing promotional strategy means making special offers to attract the customer to buy the products and services. Sale promotion consists, contests, prizes, coupons and loyalty programs.Direct marketing doesn't involve any distributors and intermediaries. The company directly communicates with customers.

Personal selling is another effective way where the salesperson acts on behalf of the company. Mostly they are well trained and know all the techniques of personal selling.

B. Service Marketing Mix 7 Ps

The 7 Ps marketing model also service marketing mix is associated with service industry and the extended version of 4 Ps marketing mix Model. Here we will discuss the extended form of 4Ps that is 7Ps of marketing Model. Of 7 Ps four have been discussed in the previous section. Here we may undertake the discussion of additional 3Ps.

V. Marketing Mix – People

People are the important component of marketing mix definition and related to the service and experience. Service is something that is produced and consumed at the same time.

The company employees are also considered important because they are directly involved in delivering services to target customers. A company must hire the right people and trained them to deliver the outclass services to target customers.

Analyze your target market and find out whether there are enough people who are willing to buy different types of products and services. When a company have outclassed people, it is the business competitive advantage over its competitors that can influence the company position in the market

VI. Marketing Mix – Process

Process is one of the important elements of 7 Ps of service marketing mix. According to marketing experts, processes are inputs, throughputs and outcomes where value is added to achieve the targets. The execution of services is greatly influenced by the company systems and processes. The advancement of technology can help companies to in-place processes that minimize the cost of product and service.Companies deliver value through people, processes and physical evidence, take feedback and alter the services mix if needed. Companies retain customers and offer services to them.

VII. Marketing Mix – Physical Evidence

Services in marketing are intangible.“The environment in which the service is delivered and where the firm and customer interact, and any tangible components that facilitate performance or communication of the service may be considered as physical evidence.In the service market, the physical evidence is important to ensure the service is successfully delivered or not.

The ambient conditions consist of atmosphere, music, climate, mood, sound and smell. All these elements help you to consciously and unconsciously experience the service.

Anexample of physical evidence mix is corporate image and branding.

C.4 Cs of Marketing Mix

The 4 Cs of marketing mix is a business tool which was developed by Robert F. Lauterborn in 1990. The 4 Cs model is a consumer-oriented due to its focus on consumers. Following are the components of 4 C’s.

I. Consumer/ Client:

In this marketing approach, the company focus is consumer oriented rather than product oriented. The marketers should focus on consumers’ needs and wants to provide high value.

II. Cost:

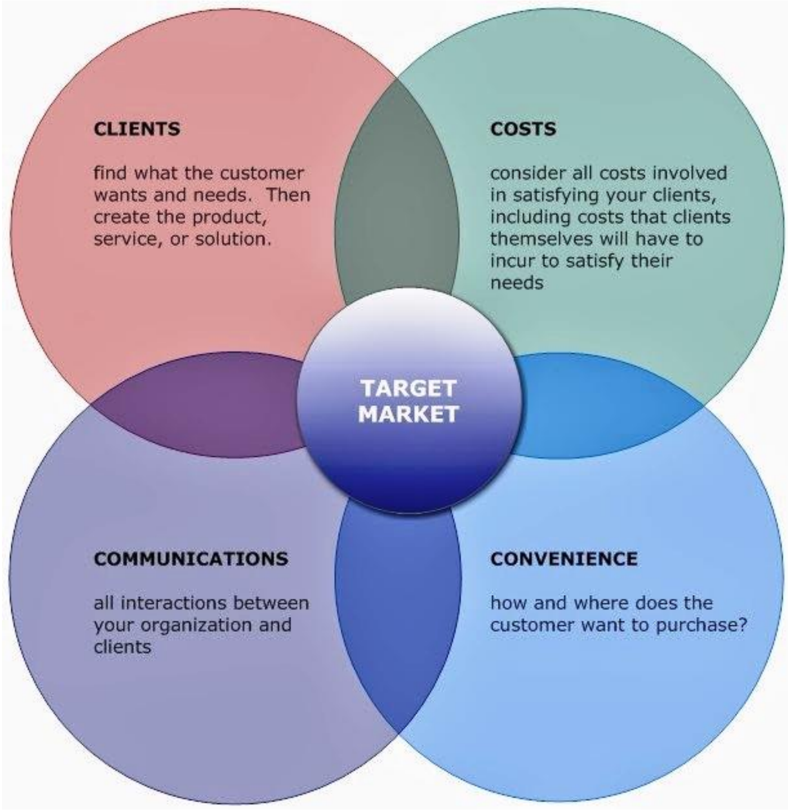
Cost evaluates the amount of money a customer is willing to exchange for satisfaction. If think about consumer perspective the price becomes the cost.

III. Convenience:

The marketers offer the product should easily be available to the customers and consumers. Convenience means strategically place the product on many sales points.

IV. Communication:

It is the last element of 4 Cs marketing mix. While using this approach marketers don’t promote but communicate the value they offer to the customers.



Marketers can use 4Ps, 7Ps or 4Cs of marketing mix and it greatly influences the marketing plan.

2. Product Mix of Marketing

A. Concept of Product

We can define a product anything – goods, services and ideas – that can be offered in a market to satisfy customer needs and wants. A product has a bundle of tangible and intangible characteristics.

Definition

Product is "Anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need. It includes physical objects, services, persons, places, organizations and ideas".

Kotler, Wong, Saunders, Armstrong

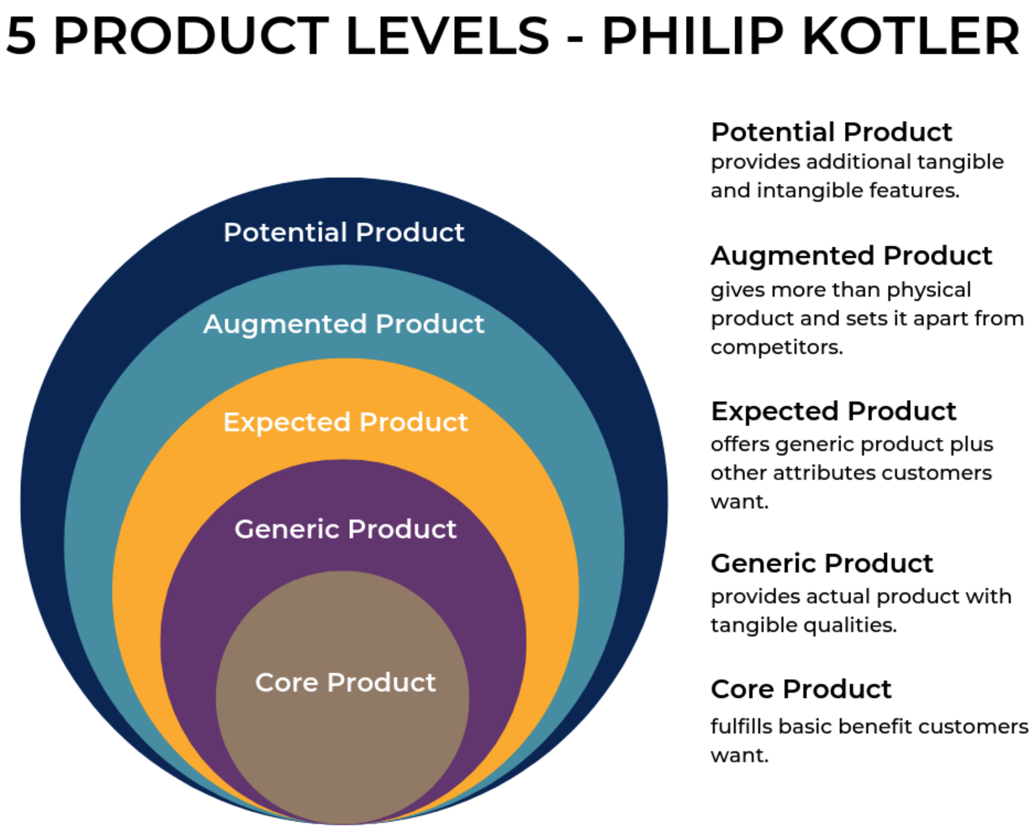
What is a Product?

A Pair of Nike shoes, a mobile phone device, a Volvo truck, a Samsung LED, your bank account, and a doctor advice all the products. The above definition of a product by Philip Kolter not only consists tangible product attributes, for example, a car, an office, a book, a mobile device but according to a broader view of a product, its consist ideas, services, physical object, place and even organizations and persons.

The above definition also covers the service in marketing. Those activities, benefits and satisfactions are essentially intangible – one party offer to another for sale. Service activities include banking services, renting rooms in a hotel, doctor consolation, haircutting, repair and maintenance services.

I. Levels of a Product

Theodore Levitt proposes that in planning its market offering, the marketer needs to think through 5 levels of the product. Each level adds more customer value and taken together forms Customer Value Hierarchy.



i. Core Benefit or Product:

This is the most fundamental level. This includes the fundamental service or benefit that the customer is really buying. For example, a hotel customer is actually buying the concept of "rest and sleep"

ii. Basic or Generic Product:
The marketer at this level has to turn the core benefit to a basic product. The basic product for hotel may include bed, toilet, and towels.

iii. Expected Product:
At this level, the marketer prepares an expected product by incorporating a set of attributes and conditions, which buyers normally expect they purchase this product. For instance, hotel customers expect clean bed, fresh towel and a degree of quietness.

iv. Augmented product:
At this level, the marketer prepares an augmented product that exceeds customer expectations. For example, the hotel can include remote-control TV, fresh, flower room service and prompt check-in and checkout. Today's competition essentially takes place at the product-augmentation level. Product augmentation leads the marketer to look at the user's total consumption system i.e. the way the user performs the tasks of getting, using fixing and disposing of the product.
Theodore Levitt pointed out that the real competition is not what the companies have manufactured in the factories, but between what they add to their factory output in the form of packaging, services, advertising, customer advice, financing, delivery arrangements, warehousing and other things that people value. Some things should be considered in case of product-augmentation strategy.
a Each augmentation adds cost. The extra benefits available in hotels add cost
b. Augmented benefits soon become expected benefits. The unexpected additions like flower, remote-controlled TV soon become very much expected by the customers from the hotel.
c. As companies raise the price of their augmented product, some companies may offer a stripped- down" i.e. no-augmented product version at much lower price. There are always a set of low- cost hotel are available among the 5-star hotels.

v. Potential Product:
This level takes into care of all the possible augmentations and transformations the product might undergo in the future. This level prompts the companies to search for new ways to satisfy the customers and distinguish their offer. Successful companies add benefits to their offering that not only satisfy customers, but also surprise and delight them. Delighting is a matter of exceeding expectations.

II. Product Hierarchy:
Each product is related to certain other products. The product hierarchy stretches from basic needs to particular items that satisfy those needs. There are 7 levels of the product hierarchy:

1. Need family:
It is the core need that underlines the existence of a product family.
2. Product family:
All the product classes that can satisfy a core need with reasonable effectiveness.

3. Product class:
A group of products within the product family recognised as having a certain functional coherence.
4. Product line:
A group of products within a product class that are closely related because they perform a similar function, are sold to the same customer groups, are marketed through the same channels or fall within given price range.

5. Product type:
A group of items within a product line that share one of several possible forms of the product. For instance, palm top is one product type.

6. Brand:
The name associated with one or more items in the product line that is used to identify the source or character of the items.
7***. Item/ unit/product variant:***
It is a distinct unit within a brand or product line distinguishable by size, price, appearance or some other attributes.

III. Types of products
When someone goes to a market, he/she can find a variety of products, whereas some are for the end users while others are for resellers. In the following lines, we will be discussing different types of products.

a. Consumers Products

If the end-user a consumer then it is a consumer product but if the end-user is a business then it will be classified as a business product. For instance, a printer is either a consumer or business product, depending on who is the consumer.

Furthermore, consumer products fulfill personal need and desire. There are two categories of consumer products, consumable and durable. For instance, you can purchase a bottle of Coca-Cola that can quench your thirst. A good example of a durable product is a bicycle. Once you purchase it and you can use it for a longer period of time.

b. Industrial Products

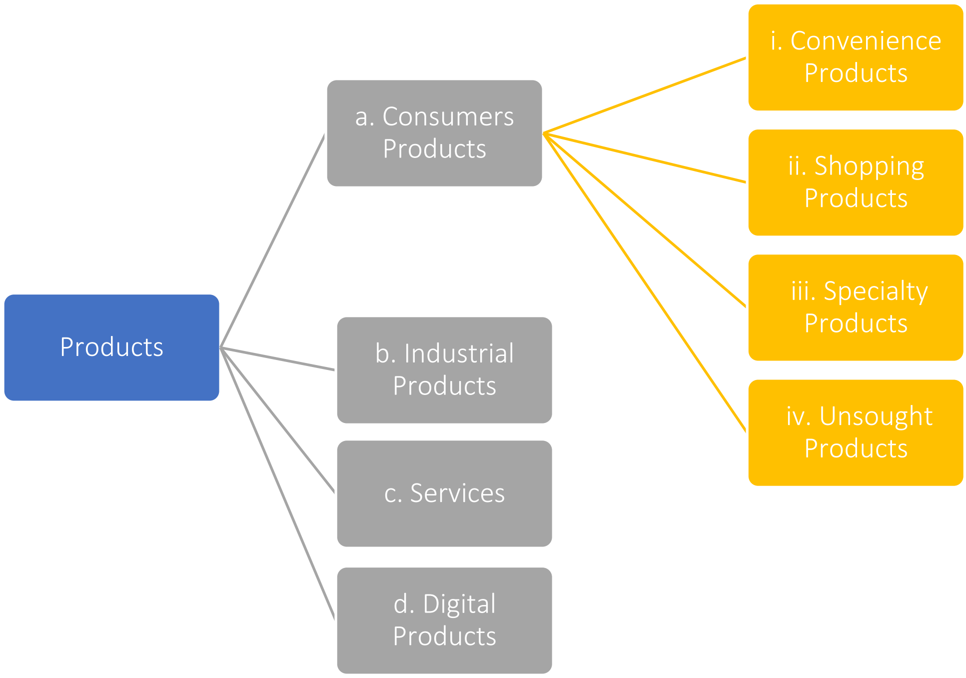
Industrial products are those products that are purchased for further processing in a manufacturing or business process. The main difference between consumer and industrial product lies in the usage for which it is bought. For instance, if a person is buying a lawnmower for his personal use then it is a consumer product. But if he purchases the same product for his landscaping business then it is a business product.

c. Services

A service is an intangible part of a product. It is an action or effort to fulfil a demand or satisfy customer needs. It is unable to store or own it and consumed at a point of sale. For instance, if you visit a doctor, he offers his services to cure a disease. Other examples of services are banking services, postal or educational service and many more.

d. Digital Products

A digital product is created in a digital format as a file which might be for sale or not. A person can download and stream it by using a computer or other electronic devices. Any digital product might include audio video file, e-book, desktop or mobile applications, downloadable templates graphics, fonts and PSD files. Consumers who purchase these digital products are known as digital buyers.


Products
a. Consumers Products
b. Industrial Products
c. Services
d. Digital Products
i. Convenience Products
ii. Shopping Products
iii. Specialty Products
iv. Unsought Products

Types of Consumer Products

According to Philip Kolter, these products can be classified into 4 types of consumer products. Here we will discuss it with marketing considerations.

i. Convenience Products
ii. Shopping Products
iii. Specialty Products
iv. Unsought Products

i. Convenience Products

Convenience products are frequently purchased by customers. There are required very little buying efforts when drawing a comparison to buying these products. These consumer products are low priced. Due to widespread distribution, these are available in different convenience locations according to consumer wants and needs. Producers adopt mass promotion strategies.

Convenience Products Examples: Newspapers, matchbox, Soups, Toothpastes etc.

ii. Shopping Products

Shopping Products are those consumer products that are less frequently purchase. Consumers need shopping efforts and planning to decide and compare this type of consumer products.

In the selecting and purchasing process, customers keep in mind the attributes like product quality price and design. Consumers spend more of their time and efforts to gather information and compare available alternatives.

Examples of consumer products include television, clothing, furniture, airline services.

These shopping products have higher prices and distribute through fewer outlets. Marketers promote these products through personal selling and different advertisement campaigns.

iii. Specialty Products

Specialty Products are those consumer goods having distinctive characteristics and brand identification for which a significant group of buyers is ready to make a specific purchase effort. This type of consumer products, consumers make efforts in the decision-making process. Specialty products need serious efforts to make a purchase. Specific consumers are involved in purchasing efforts.

Specialty products examples include legal and professional services, luxury goods and cars, designer clothes and many more.

Another good example of specialty products is **Mercedes-Benz MaybachExelero** and**BugattiVeyron** these are one of the world most expensive cars. If a certain consumer wants to buy one, he can even travel from one country to another. These types of products are less comparable with each other. Those willing to buy these cars invest their time to reach dealers who carrying their desired product.

These products are highly priced and follow exclusive distribution and available in fewer outlets. For example, Bugatti is available in 17 countries throughout the world. Promotional strategies are carefully targeted to reach the targeted consumers.

iv. Unsought Products

Unsought products are types of consumer products that consumers don't know and even if they know about it they don't buy these products under normal circumstances. Consumers don't care about these types of product and think about it when they need it.
Unsought Products Examples include Life Insurance, Smoke detectors, Home alarms and pre-planned funnel service.
Unsought product pricing and distribution varies, and promotion strategies need aggressive marketing efforts i.e. more advertising and personal selling than other types of products.
Following are the marketing consideration for four types of consumer products

B. Product Development

New Product Development

If a company wants to be successful in the long-term, it has to engage in new product development process to introduce new products and satisfy its customers' needs. There are thousands of new products enter into the process but only few reach to the market. Therefore, it is very important to understand your customers, market conditions and competitors who are offering the same type of products. Every product goes through 8 steps of new product development process.

Step-I: Idea Generation

Idea generation is the first step of New **Product** Development process. It is a systematic search to find out new ideas. It comes from everywhere and in any form. In the first stage, new ideas are collected from many sources, which are

- **Internal Sources.** Mostly, large companies have their own formal Research and Development department. But normally any **employee** can come up with a good idea.
- **Customers.** A company should always listen to customers' questions, complaints and feedbacks that help to generate new product ideas to satisfy customer problems.
- **Competitors.** To generate ideas companies can conduct **competitors SWOT analysis**.
- **Distributors and suppliers.** Also known as **collaborators** are close to the market. They know the consumer problems and new ideas and techniques to address these problems.

Step-II: Idea Screening

Idea generation can provide us with a pool of ideas. But the second step of new product development process is to find good ideas and drop the poor one. Following are some of the factors influencing evaluating criteria to make it succeeded

- Is the product useful to customer's needs?
- Company objectives and resources (people and skills)?

- Company strengths and weaknesses?
- Affordability, advertising and distribution?
- Current trends?
- What is the expected return on investment

Step-III: Concept Development and Testing

Concept development and testing is the third step of new product development process. A product concept provides a detailed description of the idea, keep in mind your consumer perspective.

Those ideas qualify the screening stage to become a concept and it must be tested. Companies cannot launch a new product without properly testing the concept. Concept testing uses help companies to investigate customer reactions before introducing the product to the market.

A more physical and visual presentation is required for a more reliable concept test. The concept further engages target market. After exposing the concept, companies ask questions from consumers. Companies want to know the customer's reactions in term of feedback.

Step-IV: Marketing Strategy and Business Analysis

In this step, the company develops marketing and business strategy to introduce a new product in the market successfully. The company engages different business units – to perform marketing and financial analysis – to meet the marketing objectives.

The company initially explains target market and product positioning. It should also explain sales forecast, market share and profit both in short and long-run. The company also describes the marketing mix strategy.

Business analysis involves a detailed review of company cost, sales, profit projections whether the company is satisfied with objectives.

Step-V: Product Development

In this step, the product concept is transformed into a physical product. In the development stage, a prototype is designed that is functional and able to satisfy the consumer wants. The product undergoes serious tests to make sure its effectiveness and performance.

Step-VI: Test Marketing

After designing a successful prototype, it is introduced for further research and feedback. With the help of test marketing, the company tries to understand the consumers and dealers feedback and reaction. Important changes are made in the actual product if needed. This step completes the process empowers the company to successfully introduce the new product in the market.

Step-VII: Commercialization

Test marketing helps the company to make decisions and launch the new product in the market. Commercialization is introducing the new product in the target market. The marketing mix strategies are applied. Four decisions are important when launching a new product.

- **When** to introduce the product.
- **Where** to launch a new product in single or multiple location, national or international market.
- **To whom** the company must decide distribution and promotion (already decided in test marketing phase).

- **How** (action plan) a company should introduce the new product in the target market.

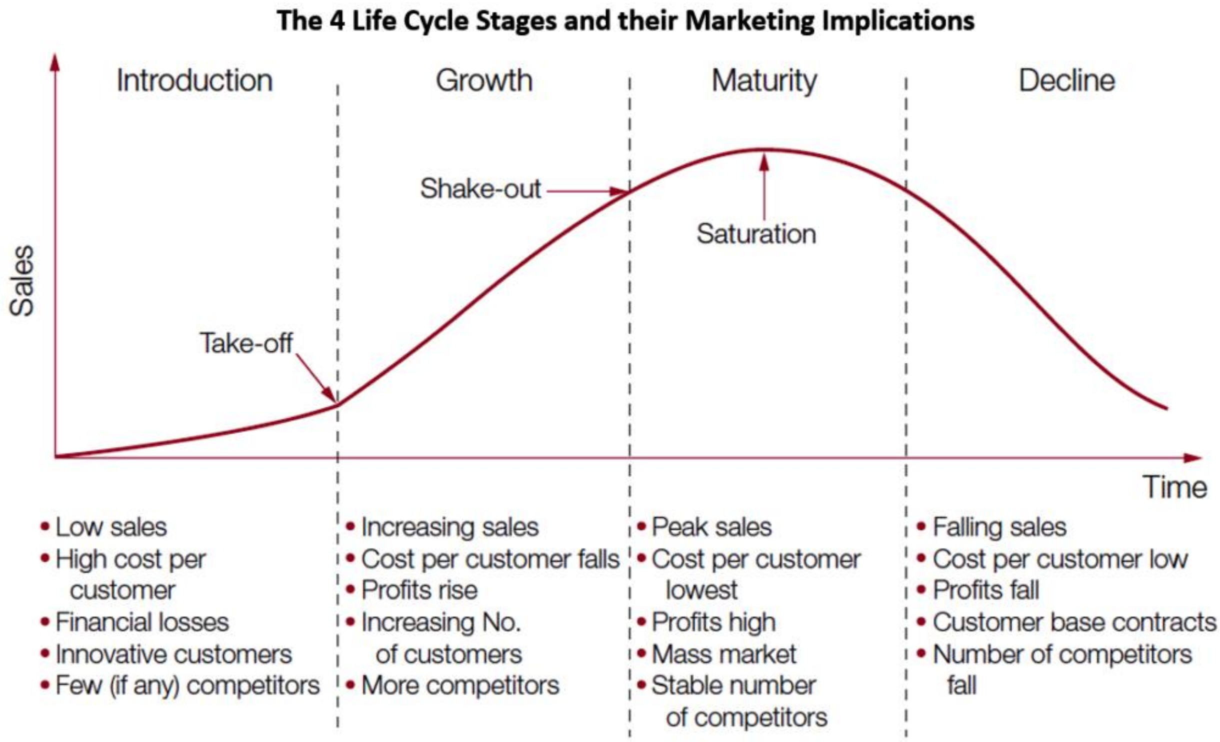
Step-VIII: Introduction
A detailed introduction plan is required for a positive impact of the new product in the market. This is also known as the first stage of Product Life Cycle.

C. Product Life Cycle

Consumers buy unlimited products every day. Like a human being, every product has a certain life cycle. Products start its journey and get older and popular but after some time become less popular and demand for new products increases when introduced in the market.
When a company launches a new product, it must be familiar with its different product life cycle stages. Due to a limited lifespan, the company must invest its resources in new product development to make sure that the product has a long and healthy life cycle.

Stages of Product Life Cycle (PLC)
- Introduction
- Growth
- Maturity
- Decline

Introduction Stage
At this stage, the product is distributed and made available for sale.Launching a new product is a very expensive activity for any company. Due to the small market size, the sales volume is very slow. Marketers work hard to create sufficient demand for the new product in the market. Customers must be encouraging to try the product again and again.
If a company wants to build market share, it may adopt low penetrating pricing strategy. If want to recover cost, implement skimming pricing strategies.
The revenue generation is very low and mainly covers research and development that means no profit at this stage.



Growth Stage

The growth stage provides a company with strong growth in terms of sales volume and profit earned. This happens because companies achieve economies of scale that leads to cost reduction. This helps the company to invest more resources in terms of advertising and promotion of the product. Due to more promotion both public awareness and probability increases.

There are valid chances that the product also faces competition by the introduction of new products in the market. if competition increases the prices may decrease.

Mostly prices remain same and the company approaches new distribution channels to fulfil increasing demand.

Maturity Stage

In the maturity stage, the product cost decreases due to learning curve and high production volume. Now the company should maintain the market share what have achieved. This is a competitive time for companies and products to strategically mobilize its resources.

Incentives should be offered to distributors to prefer the product placement over competitors. Product differentiation and diversification are important to maintain competitive advantages. New competitors introduce same products in the market that also affect the product pricing and profitability.

Decline Stage

In product decline stage is the last stage of Product Life Cycle (PLC). The product is getting older and starts to shrink. One of the reason is the saturated market due to competitors' product with new features and decreased need and want. This situation is unavoidable, but the company still has many options.One option is rejuvenating the product by adding new features to attract more customers. If possible harvest the product and target the loyal customers.

Manufacturing industry must understand the concept of Product Life Cycle as it can affect both the company's portability and sustainability. It will help the manufacturers to better understand and manage life cycle framework proactively.
This PLC framework is more applicable in the manufacturing industry than individual brand, which can face great variability.
If any changes occur in the Marketing Mix element, it can affect the life cycle span of any product. Pricing strategies or advertising campaigns can affect the product sales at each stage of the product. For example, even in the product decline stage, lowering the prices and effective advertising strategies may increase the product sales.

Extending the Product Life Cycle
For successful products, a business will want to do all it can to extend the growth and maturity phases of the life cycle, and to delay the decline phase.
What can businesses do to extend the product life cycle?
To do so, it may decide to implement extension strategies - which are intended to extend the life of the product before it goes into decline.
Examples of extension strategies are:
1. **Advertising** – try to gain a new audience or remind the current audience
2. **Price reduction** – more attractive to customers
3. **Adding value** – add new features to the current product, e.g. improving the specifications on a smartphone
4. **Explore new markets** – selling the product into new geographical areas or creating a version targeted at different segments
5. **New packaging** – brightening up old packaging or subtle changes

Evaluating the Product Life Cycle Model
The product life cycle model is by definition simplistic. It is used to predict a likely shape of sales growth for a typical product.
Whilst there are many products whose sales do indeed follow the classic shape of the life cycle model, it is not inevitable that this will happen.
For example, some products may enjoy a rapid growth phase, but quickly move into a decline phase if they are replaced by superior products from competitors or demand in the market overall declines quickly.Other products with particularly long life cycles seem to enjoy a maturity phase that lasts for many years.

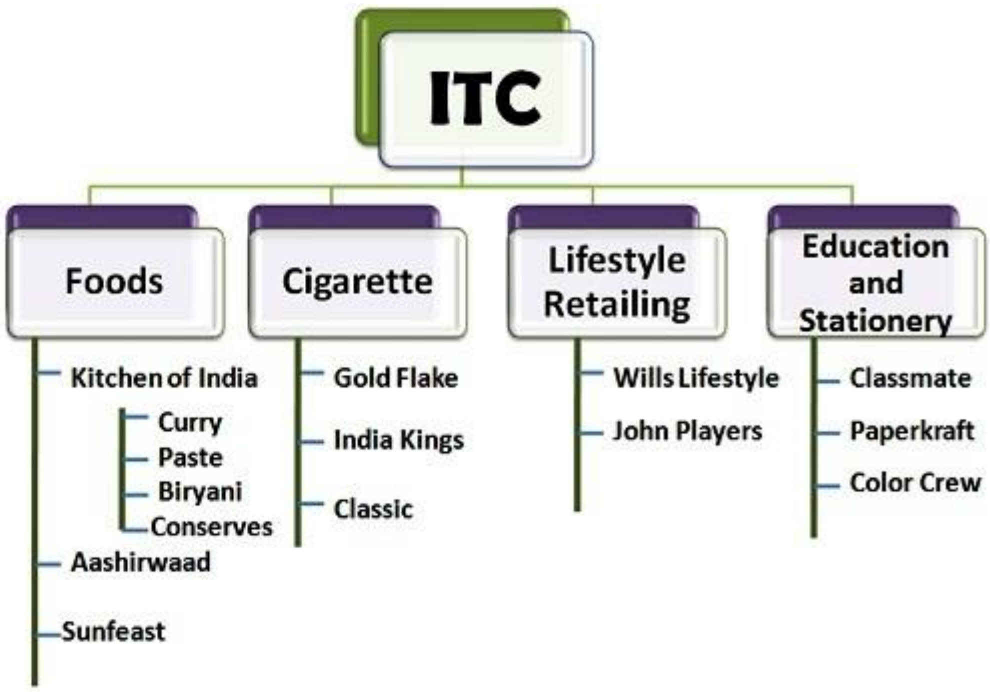
D. Product Mix

Product mix or product assortment is a set of total number of products lines that a seller offers in the **market** to its buyers. The company may have one or several product lines and each product line may have several products. When these product lines get together are known as product mix of the company.

a) Product Mix – Width

Width or breath is the company's product mix that means the total number of product lines that a company offers to sell.

For instance, if a company offers milk and yogurts, this indicates that its product mix has two lines. Similarly, a cosmetic company manufactures four different types of products – jewelry, cosmetics, fashion and household items. Its product mix width is 4.



b) Product Mix – Depth

Depth of product mix means the total number of products a company offers within a certain product line. There may be different variations in the product e.g. size, flavor, taste and many other characteristics. For example, Medicam toothpaste sells four sizes and two flavors mean it has a depth of eight.

c) Product Mix – Length

The length of product mix means total number of products within a company's product lines. For example, if a company has 10 product lines and each line has 3 product variations then product mix length is (10×3) = 30.

Length of the product mix refers to the total number of products in the mix. If a company has 5 product lines and 10 products under each product lines, the length of the mix will be 50 [5 x 10].

d) Product Mix Consistency

At last, the consistency of a product mix is the close relationship between different product lines. The more product variation means less product consistency. For example, a dairy company has two product lines milk and yogurt. Both the lines have same users and distribution channelsdue to low product variation and high product mix consistency. Take another example of Philips Electronics with 7 product lines having high production mix variation and low consistency.

Product Mix Example

Let us take a small example to understand the product mix of **ITC:**

Food **–**Kitchen of India, Ashiwaad, Sunfest

Cigarette –Gold Flake, India Kings, Classic

Lifestyle retailing –Wills Life Style, John Players

Education & Stationery – Classmate, Papercraft, Color Crew

Product Depth – 4 in food, 3 in Cigarette,2 in Lifestyle retailing, and 3 in Education & Stationery.

Product Length – 11

Product Width – 4

Product consistency – High consistency ITC focus on basic consumption of people.

Different between Product Mix and Product Line

Product mix refers to the total number of products of a company offer to sell. On the other hand, product line refers to related products with similar users and functions. In the above example of Nike, the footwear, apparels and equipment are all product lineswhen these product lines come together known as product mix.

3. Pricing Mix of Marketing

Pricing is an important element of marketing mix. Every company should choose **strategic choices** when pricing the products to successfully achieve business objectives. Marketing Mix Pricing is the only element that generates revenue while the other three elements represent costs.

A. Marketing Mix Price Definition

Price —The amount of money charged for a product or service, or the sum of the values that consumers exchange for the benefits of having or using the product or service. Principles of marketing

Today companies pricing environment is dynamic. The **economic fluctuations** put companies in a crucial position. According to some marketers virtually they don't have pricing power. They don't have any chance to raise prices instead they are slashing the prices on and off. In this way pricing affects both the manufacturing and services industry.

B. Importance of Pricing in Marketing Mix

Most of the time marketers give more importance to activities like market research, **product management**, promotion and distribution. These are considered important aspects of marketing mix. But pricing is also a very important element in the 4 P's of **marketing mix**. This is the only element that generates revenue and supports other activities like product distribution, promotion and advertisement.

Pricing is Flexible: Pricing is the only single variable that is flexible and can be changed within no time. On the other hand, the remaining elements of marketing mix like distribution channels, **promotional campaigns** and can increase the cost.

Set the right Price: When setting the price keep in mind the strategic objective of the organization. For example, if a marketer set too high or too low in both pricing decisions it can affect the sale growth.

Positioning: When setting a price, it conveys a message to your potential customers about your product and service and creates a perceived value of marketing mix. This perceived value can affect the **consumer decision-making** process. High pricing means high-quality products and services. **Low pricing** products and services indicate that you are a low-cost provider.

C. Marketing Mix Pricing Objectives

A company pricing decisions are based on objectives to be attained in the future. Following are some of the pricing objectives.

- Profit maximization
- Profit margin maximization
- Sales Growth
- Market Share
- Survival

D. Factors Affecting Pricing Strategies

Before discussing pricing strategies, let us discuss what factors to consider when companies setting prices.

Internal Factors Affect Pricing Decisions

Those internal factors affect the pricing consist

1) ***Cost:*** It is the base for the price that can be charged for products and services. When setting the prices, a company should cover both fixed and variable costs.
2) ***Marketing mix strategy:*** price is important marketing mix tool that helps to achieve the marketing objectives. Price decisions coordination product, placement and **promotion decisions** must be coordinated
3) ***Marketing objectives*****:** Marketing objectives of the company like **target market** and positioning strategies influences pricing decision.
4) ***Product Life Cycle:*** Different **stages of product life cycle** affect the pricing decisions
5) ***Image of the Firm:*** Another factor affects the pricing decision is the image and goodwill of the company.

External Factors Affect Pricing Decision

1) ***Competition:*** When setting the product price, the company must understand the level of competition in the market.
2) ***Consumers:*** When fixing the price keep in mind the consumer purchasing power and price sensitivity.
3) ***Economic Conditions****:* The economic factors include interest rate, inflation and economic boom and recession.
4) ***Government Controlled Economy*** is another factor to be considered.

E. Different Pricing Strategies

i. Penetration Pricing

When companies use **penetration pricing strategies**, the focus is to gain market share. Goods and services are offered at lower prices than its competitors. Marketers want to increase consumer awareness of products and services and influence consumer to let's give it a try. When a company sets lower prices, can damage its profitability, but in the long run they can raise the price after successful market penetration strategy.

ii. Premium Pricing

When a company introduces a **new product** with a competitive advantage, it uses premium pricing strategy. The higher prices appeal competitors to launch products into the market, the supply increases and prices fall.

This pricing strategy is very effective in the initial production life cycle. Those businesses with unique value propositions are recommended to use premium pricing. To make this acceptable to customers, companies are focused to **create value** perception. Besides creating high value product, the marketers must focus on **marketing efforts** to support the premium pricing, it includes product packaging and decoration of stores and stalls.

iii. Economy Pricing

Companies use economy pricing to target price-conscious customers. Mostly it is used by**retailers** and food suppliers. With this strategy, businesses set the price as low as possible by keeping the promotional and marketing cost to the minimum. Due to large sales volume, the low-pricing strategy is very effective for large retail stores like **Tesco**. Small business cannot use this strategy because they don't sell enough products.

iv. Price Skimming

This pricing strategy helps business to increase their sales when introducing new products and services. During the introduction stage of product life cycle, price skimming set high prices. These prices gradually decreasing as competitors introduce the same goods in the market.

v. Psychological Pricing

Marketers use psychological pricing that influences the buyers to buy products and services based on their emotions rather than logic sense. For example, if a company set the price of a book at \$ 99 it is more attractive than at \$ 100. Even though \$ 1 difference is very small, but consumer perceives \$99 as cheaper and attractive.

vi. Bundle Pricing

When businesses set bundle pricing, they sell several products combined into a single package for a lower price. Bundling strategy is a smart way to move those unsold items taking up space.

It can also create value perception in customers' mind that they are getting value for their money.
Bundle pricing better works for those companies having complementary product lines. For example, a restaurant can offer a complimentary salad or green tea on a full platter dish. Those video games and movies at the end of their product life cycle are sold with Blu-ray awesome bundle.

vii. Promotional Pricing

Promotion strategy of pricing means discount is offered on a certain product. For instance, buy one & get one free offer, usually, such offers are given for a limited time. The purpose of providing such offers to play with the minds of customers, unconsciously; customers are tricked into believing that they don't want to miss the offer.

viii. Dynamic Pricing

Demand pricing is also synonymously used for dynamic pricing; it is a relative term used in the online platform. Dynamic pricing means different pricing is charged from the different customers depending upon the urgency, customer's ability and demand of the customers.
For instance, Amazon and Flipkart use this strategy by collecting data from the browsing history of the customer. If the customer is in a hurry and urgent need of work; then relatively more price is charged than usual.

ix. Freemium Pricing

Freemium is an internet-based pricing strategy where a service is offered for free in the beginning, but the price is charged on the premium package with some additional features. However, freemium pricing strategy is different from the premium pricing strategy because freemium offers free sample which you can use without paying anything, you'll only be charged when you want additional features. Candy Crush Saga is the most common example which offers you to play the game for free, but if you want more lives, and then you should pay to get those premium features.

4. Notes on

A. Penetration Pricing

Penetration pricing refers to a pricing strategy that can be used by marketers to gain market share. Marketers implement this pricing strategy by initially offering low prices to attract customer, increase sale and positive brand image especially for the newly developed products and services.

Penetration pricing strategy is a price war between rivals in the industry where every company wants to cut the prices and remain the lowest in the market to capture the market share and develop customer loyalty.

This pricing strategy is generally used by companies who are new entrants in the market. When companies offer the lowest price for their offerings, customers will switch their loyalty towards the product. Penetrating strategy is very effective in the introduction phases of the product life cycle with no or little product differentiation.

There are certain situations where penetration pricing is very effective. The first situation when there is low level of product differentiation. Next is the price elastic of demand and last situation is the product or services suitability for the mass market.

Following the main objectives of using penetration strategy:

- To create brand awareness and loyalty
- To increase market share
- To switch customer loyalty
- To beat competitors in the market and industry

Skimming Price vs. Penetration Pricing

Skimming pricing strategy is opposite to the market penetration pricing. Marketers use penetration pricing to offer new products at low prices with fairly low profit margins. On the other hand marketers use skimming pricing strategy to offer products at high prices keep in mind the high profit margins. Skimming strategy is very effective for technological products where the demand is not consistent and customers are lower price sensitive and ready to pay higher prices.

If a business targets niche markets and offers differentiate products or services from its competitors can easily take advantage from skimming price strategy.

Examples of Penetration Pricing Strategies

a) Netflix (DVD rental and online streaming)

Few years back watching a movie at weekends was a tradition and people usually head towards a local video shop to rent a movie for the night. Netflix changed this tradition and convinced consumers to wait for a day or two to get their movies. Netflix offered subscription charges of one dollar where many video stores were charging upto 5 dollar. This introductory pricing strategy was very effective that damaged the traditional video providers such as Blockbuster. Netflix not only edged out many competitors but provided a whole new watching experience to viewers.

b) Samsung (smartphones)

Samsung is continuously engaged in manufacturing android phones and keep the prices low to capture market share and develop brand loyalty. In addition to this, Samsung has also come in alliance with other mobile companies to offer Android-based phones at very low prices in exchange for commitments towards longer term contracts. Consumers fall in love with low priced phone and avoid noticing the contract cost.

Advantages of Penetration Pricing

Penetration pricing strategy creates a positive brand image in the minds of customers and it becomes the referral group. It also creates a world of mouth campaigns.

Since this pricing strategy increase market share as a result sales volume increases and production cost decreases.

Introductory low prices provide no or little time to competitors to react and retain its customers. This opportunity allows companies to switch customer loyalty.

Disadvantages of Penetration Pricing

When a company launch a product or service and offer introductory penetration prices, the customers expect everyday low pricing which is not the case. If the prices increases it can affect the customers' expectations.

If a company has luxury product lines it is unable to use penetration strategy because it can affect the rest of the product lines that can leads to negative brand image.The Penetration pricing strategy is not always effective, for example, when a company target a low priced industry where prices are already low. In this case the existing companies have already built the trust of customers.

B. Psychological Pricing

Psychological pricing is the art and process of using the factional numbers instead of the whole figures. For instance, marketers price their products 499/-, instead of the whole number 500/-. Secondly, they capitalize the first digit and make the font of the other digit smaller. All customers would see is the capital 4 and not the smaller 99.

In simple words, it's the process of deceiving the perception of customers at first appearance and tricking them into visiting your shop or outlet.

Where is Psychological Pricing Used?

Shopping malls, food chain hotels and restaurants like McDonald's and grocery retail stores use such pricing strategy, where they use fractional figures, big font and small font combination, limited offers, or buy one and get one free offer. It creates a win-win scenario both for the customers and the company as well.

Five Psychological Pricing Strategies

As we have discussed the impact of psychological pricing in the minds of customers. However, different marketers use different strategies for pricing, here are some of the most commonly used strategies are as follows;

a) Charm Pricing Strategy

It's the type of strategy that ends with the number 9 or 99. There are two major reasons are behind it; first, people consider the number 9 as a lucky number in many cultures. Secondly, marketers changed the whole number just by reducing one cent. For instance, reducing one cent from 5, it becomes 4.99, and consumers perceive the fractional figure cheaper than the original price. Even though there isn't much any difference.

b) Prestige Pricing Strategy

Prestige pricing is the absolute opposite of charm pricing strategy. Where marketers don't use fractional figures, rather they prefer round numbers. For instance, instead of using 499, here they'd say 500.

c) Comparative Pricing Strategy

It's a very tricky strategy where a company launches two similar products at one time, but the price of one product is striking and eye-catching than the other. Such offers create a conflict in the minds of customers in terms of choosing between two products. Whether customer chooses a lower-priced product or the higher price product, it'll be a win-win situation for the company either way.

Cosmetics, fashion and luxury items industries usually adopt such strategies. Where companies launch the same products at one time as the company offers two tuxedos at one time, but their prices are different. Now, customer would tend to think that more costly mean more quality.

d) Price Appearance

When prices are changed in the market, smart marketers advertise their products with the old price. The sale of the company increases as a result because people want to take advantage of the old price.

Companies should use attractive fonts and charming eye-catching colors for the price to make it look interesting. Big fonts and colorful descriptions bring the customer to your doorstep.

Here I'd like to reference the **research study of Robin and Keith**, according to their report, if you change the font, size, and color of two prices, make the targeted price in bigger font size and another one in the smaller size. These small things have unintentional psychological connotations, whether customers think about it or not. He'd go for it.

e) Competitive Pricing

Competitive pricing is the strategy of setting the price of your product or service relevant to the competitors' pricing schemes. It is the first thing that a customer notices because price matters in day to day routine things.

The final result of competitive pricing doesn't end well because both competitors would end up lowering each other's product prices. But marketers have gotten very smart over the years, now; they lower the price of their product at a level because it's very costly to drown your competitors. Companies keep in mind the image of their respective brand, social awareness, usage of the product and how often people buy your product or service.

Advantages of Psychological Pricing

i. More Sales Generation

Price of the product is the main concern of the majority of consumers, whenever they come across such offers. Then they prefer to buy it and take advantage of the limited offers. The marketers who implement their psychological pricing effectively, they gather a lot of public attention. When you have the attention of people, then you can sell whatever you want. Sale of companies increases after the psychological pricing.

ii. Easy Implementation

It's all about market research and studying consumers' behavior and finding out their pain points. Target those things that they are looking for when you implement your pricing like this, and then you can have the desired result. Implementation of psychological pricing is not a difficult process if you have done your basic homework.

iii. Price Bands

Having said earlier that it's all about pricing when you go out for shopping most of the time; customers also compare different brands based on their prices. When one brand offers something at a lower price, then it gets the attention of people and becomes their price brand. Even though it's only less with some fractions, but it matters a lot to the consumers.

For instance, a person wants to buy an automobile vehicle, one brand is selling it at $15000, and the other is selling it at 14999. The difference of $1 between both of these brands would make one price brand over the other.

iv. Control

Round figures are very easy to calculate and manipulate it for your purpose. Fractional figures, on the other hand, are difficult are calculate and misuse. Therefore, intra-organizational fraudulent activities happen because of the round figures most of the time, where employees of the company move around the cash and take their cut out of it.

Round figures aren't easy unless you do the complete mathematical calculations. Therefore, the company would get a better control over its employees and system.

v. Non-rational Pricing

It has a unique non-rational impact on the minds of customers, whether it's right or wrong that's another topic for discussion. But we can't deny its impact, and companies increase sales because of the non-rational pricing strategies.

Disadvantages of Psychological Pricing

i. Long-term Pricing Expectations

Fractional pricing doesn't give you the immediate market response sometimes; you have to wait for the market to respond to your psychological pricing. It may vary from strategy to strategy; it's usually a long-term process.

ii. Calculation

Manual calculation of fractional pricing would be a bit tiresome, especially when there are more figures. The more the figures are, the more laborious it would be. If the cashier has a computer and tag sensor, then they can overcome the calculation problem.

iii. Rational Pricing

Sometimes customers don't like confusing pricing, and they reject all types of fractional figures. Therefore, it's not a good pricing strategy if your target market is comprised of rational people.

Examples of Psychological Pricing

499/-, 999/-, buy one get one free offer, 1000/-, and 10,000/- all are the examples of different types of psychological pricing of various product categories.

Conclusions

It's better to know the market and read customers' type, whether they are rational or irrational. If they are rational, then they'd prefer round figures, vice versa for the irrational market. If you apply the wrong pricing strategy in the wrong market, then it won't work. Therefore, it's better to know the market and customers' behavior before applying any strategy.

C. Dynamic Pricing

Dynamic Pricing also goes by many names such as time-based-pricing, surge-pricing, demand pricing, and real-time pricing. By definition, it's a pricing strategy where a business sets variable and flexible prices of its products and services depending on the multiple factors like demand, supply chain, competition, location, time frame, and other market conditions.

Most importantly, dynamic pricing depends on the marketing factors, not the behavior and attitude of the customers like in differential pricing strategy. That's the main difference between dynamic pricing and differential pricing.

Where is Dynamic Pricing Used?

Businesses and industries that often use dynamic pricing are entertainment, hospitality, tourism, electrician, retail and public transport. Since there are multiple factors, therefore, every business follows different approaches towards pricing.

Types of Dynamic Pricing Strategy

As we know that dynamic pricing is variable and not fixed. Therefore, it depends on certain variables and factors and it changes along with it. Different businesses follow different marketing strategies depending upon their circumstances. Here are some of the following types of dynamic pricing strategies that different businesses follow depending upon their circumstances.

i. Segmented Pricing
ii. Service Time
iii. Time of Purchase
iv. Peak Time Users
v. Changing Conditions

i. Segmented Pricing

Segmented pricing is the type of strategy where certain segments of the people are capable and willing to pay more for the product or service. For instance, the pricing of airline tickets of business and first-class is higher because the rich and business people can pay more.

It is because certain people prefer luxury and comfort over price. Sometimes companies offer different services to those who are willing to pay more. Like if you pay more, then the company would provide you the warranty. Otherwise, there won't be any warranty.

ii. Service Time

Service time is the type of pricing strategy when you deliver the product much faster than the ordinary time. For instance, the price of dry cleaning on the same day is higher. It is because casual delivery time is comprised of 3 to 5 days. When you want the service on the same day, then you have to pay more.

Some service providers offer faster delivery on big orders at the same price, the purpose of such offers is to increase the customers' loyalty.

iii. Time of Purchase

Time of purchase is a type of strategy when companies and businesses offer discounts on certain days. The price of airline tickets of economy class is much lower on certain days than the normal price. It is because the demand is lower during the offseason, the purpose is to increase the sale and create some demand even if it costs the company.

iv. Peak Users

Transporters usually use a peak pricing strategy. For instance, the fare of trains and airline tickets is higher during the holidays, rush and crowded hours. It is higher because the services are in high demand if you don't take the deal. Someone would avail of the offer.

The per-call rate is higher in the busy hours. The price of electricity is higher at 6 to 9 PM *because people usually watch something on their TVs.*

v. Changing Conditions

It is the type of pricing strategy when the life of the product is short and uncertain market condition. Businesses use this marketing strategy under such circumstances. According to a study conducted by the Olin School of Business that companies usually earn more profit by adopting a changing condition pricing strategy. Companies can increase their sales by lowering prices during the off-seasons. When the demand is higher, then they can increase their prices.

Implementing Dynamic Pricing

Implementing a successful dynamic pricing strategy doesn't just happen out of the blue. It is a step by step process, here it follows;

1. Commercial Objectives
2. Develop a Dynamic Pricing Strategy
3. Choose a Pricing Strategy
4. Develop Pricing Rules
5. Choose the Product Range
6. Formulate Pricing Rules
7. Implement and Monitor

1. Commercial Objective

First of all, company should define the objectives.. The purpose is to find out what customers expect from the company.Whatever the objectives of the company are, it must be fully understood before applying dynamic pricing

2. Develop a Dynamic Pricing Strategy

Now, the company has to develop your pricing strategy that supports your business objectives. For instance, if your company has objectives of increasing profit and more visibility, then you should adopt the high-runner strategy. Amazon usually follows this strategy, where you offer competitive pricing on popular products, but you charge more on the less competitive products. Once you bring the customer to your store, then it's highly probable that he'd surf and check out other products.

The company should keep in mind two things while developing a pricing strategy. First of all, pricing strategies should be easier to implement. Secondly, it should be easier to evaluate.There should be a link between your company's objectives and the prices you set, and you should also keep in mind the perception of the public.

3. Choose a Pricing Strategy

There are many ways to **choose a pricing strategy,** but these three methods are very common.

- ***Cost-Plus Pricing*** – it means the cost of the product, plus factory overheads, and finally the sale price.

- ***Competitors-Based Pricing*** – here you set the price of your product or service what competitors are charging.
- ***Value-Based Pricing*** – the value of product or service in the customer's eyes. If customers perceive the value of the product higher, then the company would charge higher.

Different businesses choose a mix of 2 or 3 strategies depending on their requirement. For instance, cost-plus and value-based pricing or competitors based pricing, because that's how it suits their business. Therefore, a business should choose a pricing method that suits its business requirements.

4. Develop Pricing Rules

Once you have chosen a pricing method, now you should develop rules. Those rules are more likely the algorithm and it'll decide for you. However, it involves two steps;

5. Choose the Product Range

First of all, you choose the range of products that you have in your stock like; TV stock>10, where applying the price rule of X.

6. Formulate the Pricing Rules

Once you have chosen the product range, now fill the value X with price, where competitors' pricing would X&Y and pricing would elastic.

7. Implement and Monitor

Now, you've reached the stage where you can implement the pricing strategy. But it's better to make sure that your pricing method matches your objectives.

After implementing the pricing strategy, make sure that it should be working well and it should deliver the results what it was supposed to do.

Advantages of Dynamic Pricing

Some of the advantages of dynamic pricing are as follows;

i. Boost Sales

Companies can increase their sale by dynamic pricing. It usually happens when businesses lower the prices of their product or services because less pricing attracts the attention of people. More sales help companies to achieve their **sales targets** that are difficult to achieve under normal pricing.

ii. Profit Maximization

When the competitors of your company are selling products at higher prices, you can offer the same products at lower prices. By choosing the dynamic pricing, the sales of your company would increase. When the sale increases, then the profit margin would increase by more sales. All of this won't be possible without dynamic pricing.

iii. Saves Time and Costs

The pricing software that retailers most use is connected with the internet, and it keeps updating itself with the pricing of other competitors. With a few simple settings, you can launch the dynamic pricing. If you have to do manually, it would take a lot of time and resources to manage the whole stock of inventory.

iv. Beat Competition

When you offer the same product or service at a lower price by dynamic pricing, then you'd attract the attention of the market. More customers would come to buy your product or service, more customers mean more sales. More sales would generate more profit, that's how you'd beat the competitors.

Disadvantages of Dynamic Pricing

Some of the disadvantages of dynamic pricing are as follows;

a. Customers Sentiments

Customers usually don't like dynamic pricing because it makes them uncertain. After all, customers prefer fixed pricing of products or services. Customers don't like it even when it saves them money on some occasions. Dynamic pricing makes customers feel like the company is overcharging them, or playing with them. Before applying dynamic pricing, make sure that it should match with the brand image of the company.

b. Risk of Price War

Dynamic pricing can sometimes escalate the circumstances. Like when one competitor lowers the prices, other competitors lower it more. The process continues until they reach a point where both competitors drown each other's business. Pricing software is much better in this regard that it doesn't allow companies to lower at a certain price.

c. Unable to Implement in Every Industry

Dynamic pricing is good, but it's difficult to implement a dynamic pricing strategy in every industry. It is possible in the tourism, hospitality, and mainly in the service industry. But you can't apply this strategy in the manufacturing industry, where there're wholesalers and retailers are involved, the company can't change its price every month.

d. Price Fluctuation

The sudden increase in prices is a headache for many customers. For instance, Sydney shooting incident of 2014, when more people started contacting Uber, the pricing software Uber increased the prices up to 4 times higher because of the higher demand. The company justified it later that it was the software and it was difficult and risky for the drivers to be there at the incident, but it was a great headache for the people.

Examples of Dynamic Pricing

a. Ecommerce

Ecommerce and online stores mostly use dynamic pricing because it is easier to implement via online rather than physical stores, you just have to change the commands, and software would do the rest.

Amazon relies heavily on its pricing software; it determines the prices of different products based on their brands value, competition and demands.

b. Hotels

Hotels also use dynamic pricing. Perhaps you'd have noticed the same thing that the prices of food items and rooms in the offseason are much lower as compared to the in-season.

c. Transportation

Uber, trains, and airlines are very a great user of dynamic pricing in the transportation industry. The price tickets increase in the holidays, weekends and busy hours because people usually travel during this time of the year. When the demand goes up, the fare also goes up.

What is Skimming Pricing?

D. Skimming Pricing

Price skimming is the strategy where marketers charge higher price of its product and service in the beginning, and then reduce it over time.

The purpose of charging more is because of many reasons; like covering the initial research and development cost, and to check the demand whether customers would pay for it or not.

Once the company sees the opportunity of demand and growth in the market, then it starts producing it at a mass scale, and that would lower the price of the product or service. As a result, the business also attracts many price-conscious consumers.

The word skimming came from the consecutive layers of cream, addition, and melting of cream tells us that the firm reduces the price the same way.

How Pricing Skimming Works?

The phenomenon of price skimming occurs whenever a new scarce product enters the market, competition is low and demand for the product is high, and the business accumulates as much profit as it could to take advantage of the situation.

There are many price-conscious consumers in the market; the company lowers the price of its product or service to make it readily affordable to them. Once the price of the product is lower, then it would become very difficult for the potential newcomers to enter the market. When the new firm enters the market and the already existing business would crash the market by lowering the price of its products.

On the other hand, **price penetration** is the strategy where marketers lower the price of its products and service, with the plan of grabbing a great market share. It usually happens in the category of common low-priced items; like ordinary household products. It's because such items are everybody's needs, and everyone expects a lower price.

Companies and businesses use price skimming strategies in the following circumstances like;

- Customers would perceive that high prices mean better quality.
- People have a thirst for the new product and they would be willing to pay more for the product.
- When the firm lowers the prices, then it would attract new users and sale increases as a result. Economies of scale would also lower per-unit cost.
- When the price is high, then new firms would be reluctant to enter the market. It's because they know that the price would fall at any time, and their investment would go along with it.

Limits of Price Skimming Strategy

If the firm maintains high prices of its products and services for a long time, the customers won't want the company to lower its prices. The majority of the consumers would revert to the cheap producers, and it would be a great loss of market share.

Therefore, a business should avoid price skimming strategy as soon as meeting its targets and covering its initial research and development cost.

If a firm uses price skimming strategy of its products that already exist in the market, then it won't work. It's because customers would expect more features at the same price, they would ask what it is for them to replace the product.

Advantages of Price Skimming

Some of the advantages of price skimming are as follows;

i. Higher Profit

Tech companies like Apple, Google, Samsung, and Huawei employ hundreds of employees in their research and development programs. They spent billions of dollars annually in their search for launching innovative products and services.

Therefore, when such companies launch a new product and they charge a high price for it, then it's justifiable that they have invested a lot. If your business has spent a lot of resources, producing something innovative and creative, and it would be justifiable to charge higher, in the end, to cover up the initial cost.

ii. Enhance Brand Image

It's a general perception that good brand means high price, and better quality product also equals high price. However, when you follow the price skimming strategy, then tags like prestigious brands and better quality are associated with your brand.

Some status-oriented customers prefer and willing to pay a higher price for the product and service. The company generates profit to finance its upcoming projects. When the firm reaches its target, then it lowers the prices and makes the product available for the mass audience. The sale increases and the company achieves the maximum market share.

iii. Market Segmentation

As we know that marketers divide the consumer market into different segments, price-conscious and quality conscious customers are among those categories. The firm targets a different segment of the market in the different stages of a product's life cycle.

In the beginning, when the company uses the skimming strategy, then it targets the quality conscious and brand prestige customers; these people don't much care about the price. The scarcity of the product and status matters to them more.

A price-conscious segment of the market belongs to the middle and lower-middle-class of the people, their income is limited and they prefer a cheaper product and have better function. In the second stage of skimming the product's life cycle, the company targets this segment of the market.

iv. Experiment New Ideas

When the company introduces a new product in the market, the product is actually in the experiment stage of its life cycle. Its early users are guinea pigs of the new product; the company makes changes based on their feedback. Once the product passes all the tests, then the company launches it at a mass scale. These early users also do the word of mouth marketing for the company.

Disadvantages of Price Skimming

Price skimming strategy isn't with disadvantages, here they are;

1. Applicable on if Demand is Inelastic

Not every tech company is big like Apple and Google; many companies are struggling to make their space in the competition. Customers don't pay high prices every company follows a price skimming strategy, and demand doesn't always increase when the price of the product changes. A company that is barely making both ends meet; when it changes its price, then it would harm its sales. The first thing a company should do is to make the price and demand inelastic, the purpose is that changes in one factor shouldn't affect the other. But not every company has the luxury to be inelastic.

2. Do not Work in the Overcrowded Market

A market comprises of many competitors that are working in the same niche as you are; pricing your product or service becomes a very crucial stage in such circumstances. It is because if you launch your product with the skimming strategy, and the competitors came after with the price penetration strategy, then it would be a great set back.

The curve between demand and price isn't inelastic in the crowded market with a lot of competitors. Therefore, business and the company shouldn't follow the price skimming strategy in the competitive market.

3. Generate Competition

When a business like Apple's iPhone makes a profit with its price skimming strategy, then it would attract the attention of competitors like Samsun and Huawei. Soon after they would also launch their product with some more features but different styles. Apple won't lower its product prices because it hasn't covered up its costs. More and more competitors would keep on entering the market with the same or updated style.

The process continues until a company launches some unique products with new features, and the competitors would start following it again. That's how the market usually operates; high profitable product attracts competitors to enter the market.

4. Early Users feel cheated

Whenever a company significantly lowers the price of its products and services; it is because of the competition or any other factor. It makes the old customers furious who have paid a higher price for the same product. Apple had to face the same backlash from customers back in 2007 when the company reduced the price of iPad 33%.

Therefore, the company should lower the price of its products and services gradually after the price skimming strategy. If a company changes the prices of its product hastily, then it would face severe reactions from its customers.

Examples of Price Skimming Strategy

Electronic products like mobile phones are great examples of price strategy. Whenever, a brand like Sony, LG, Samsung, Huawei, Apple, Google, Nokia Oppo, Vivo, or any other launches a new model of a mobile phone. Then the price of it is very high, the company follows the price strategy at this stage of the product life cycle. When other companies start offering the same product but with more features; or the company launches some new model, then the prices of the previous start declining gradually. Sometimes the company even stop manufacturing the previous model after launching the new models.

E. Other Pricing Strategies:

i. Product Line Pricing

Line pricing is the use of a limited number of price points for all the product offerings of a vendor. Price points are prices at which demand for a given product is supposed to stay relatively high. Line pricing serves several purposes that benefit both buyers and sellers. Customers want and expect a wide assortment of goods, particularly shopping goods. Many small price differences for a given item can be confusing.

ii. Pricing during Difficult Economic Times

Every company has a unique pricing strategy during a boom period, based on their own product, market, and managerial decision making. However, during a recession, many companies may be tempted to abandon these strategies. After all, if customers are less willing to spend money, simplistic logic suggests that, by cutting prices, you can attract more customers. However, this strategy should be approached with caution.

Cutting prices can quieten customer complaints and help boost sales for a time, but can have longer-term effects on profitability, and weaken the brand's image. Reductions can also lead customers to expect discounts whenever the economy dips, causing them to wait to make purchases in the future.

A model of pricing based on 'rational' economic theory suggests that prices are set by the forces of supply and demand, and individual companies in a perfectly competitive market must follow the equilibrium price. However, real life is not so simple; people do not always act in the prescribed logic. Sometimes prices go up and people buy more, and vice versa.

iii. Everyday Low Pricing

Everyday low price (EDLP) is a pricing strategy promising consumers a low price without the need to wait for sale price events or comparison shopping.

EDLP saves retail stores the effort and expense needed to mark down prices in the store during sale events, as well as to market these events. EDLP is believed to generate shopper loyalty. It was noted in 1994 that the Wal-Mart retail chain in America, which follows an EDLP strategy, would buy "feature advertisements" in newspapers on a monthly basis, while its competitors would advertise 52 weeks per year.

Procter & Gamble, Wal-Mart, Food Lion, Gordmans, and Winn-Dixie are firms that have implemented or championed EDLP. One 1992 study stated that 26% of American supermarket retailers pursued some form of EDLP, meaning the other 74% were Hi-Lo promotion-oriented operators.

iv. High/Low Pricing

High-low pricing is a method of pricing for an organization where the goods or services offered by the organization are regularly priced higher than competitors. However, through promotions, advertisements, and or coupons, lower prices are offered on other key items consumers would want to purchase. The lower promotional prices are designed to bring customers to the organization where the customer is offered the promotional product as well as the regular higher priced products.

High-low pricing is a type of pricing strategy adopted by companies, usually small and medium sized retail firms. The basic type of customers for the firms adopting high-low price will not have a clear idea about what a product's price would typically be or have a strong belief that "discount sales = low price. " Customers for firms adopting this type of strategy also have strong preference in purchasing the products sold in this type or by this certain firm. They are loyal to a specific brand.

There are many big firms using this type of pricing strategy (ex: Reebok, Nike, Adidas). The way competition prevails in the shoe industry is through high-low price. Also high-low pricing is extensively used in the fashion industry by companies (ex: Macy's and Nordstrom) This pricing strategy is not only in the shoe and fashion industry but also in many other industries. However, in these industries one or two firms will not provide discounts and works on fixed rate of earnings. Those firms will follow everyday low price strategy in order to compete in the market.

v. Cost-Plus Pricing

Cost-plus pricing is the simplest pricing method. The firm calculates the cost of producing the product and adds on a percentage (profit) to that price to give the selling price. This method although simple has two flaws: it takes no account of demand and there is no way of determining if potential customers will purchase the product at the calculated price.

vi. Limit Pricing

A limit price is the price set by a monopolist to discourage economic entry into a market, and is illegal in many countries. The limit price is the price that the entrant would face upon entering as long as the incumbent firm did not decrease output. The limit price is often lower than the average cost of production or just low enough to make entering not profitable. The quantity produced by the incumbent firm to act as a deterrent to entry is usually larger than would be optimal for a monopolist, but might still produce higher economic profits than would be earned under perfect competition.

vii. Pricing above Competitors

Pricing above competitors can be rewarding to organizations, provided that the objectives of the policy are clearly understood and that the marketing mix is used to develop a strategy to enable management to implement the policy successfully. Pricing above competition generally requires a clear advantage on some non-price element of the marketing mix. In some cases, it is possible due to a high price-quality association on the part of potential buyers. Such an assumption is increasingly dangerous in today's information-rich environment. Consumer Reports and other similar publications make objective product comparisons much simpler for the consumer. There are also hundreds of dot.com companies that provide objective price comparisons. The key is to prove to customers that your product justifies a premium price.

viii. Pricing below Competitors

While some firms are positioned to price above competition, others wish to carve out a market niche by pricing below competitors. The goal of such a policy is to realize a large sales volume through a lower price and profit margins. By controlling costs and reducing services, these firms are able to earn an acceptable profit, even though profit per unit is usually less. Such a strategy can be effective if a significant segment of the market is price-sensitive and/or the organization's cost structure is lower than competitors. Costs can be reduced by increased efficiency, economies of scale, or by reducing or eliminating such things as credit, delivery, and advertising. For example, if a firm could replace its field sales force with telemarketing or online access, this function might be performed at lower cost. Such reductions often involve some loss in effectiveness, so the trade off must be considered carefully.

ix. Product-Mix Pricing

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

x. Product-line pricing

Many sellers use well-established price points (such as $200, $350, and $500 for suits) to distinguish the products in their line. The seller's task is to establish perceived-quality differences that justify the price differences.

xi. Optional-feature pricing

Automakers and many other firms offer optional products, features, and services along with their main product. Pricing these options is a sticky problem because companies must decide which items to include in the standard price and which to offer as options.

xii. Captive-product pricing

Some products require the use of ancillary, or captive, products. In the razor industry, manufacturers often price their razors low and set high mark-ups on their blades. However, there is a danger in pricing the captive product too high in the aftermarket (the market for ancillary supplies to the main product). Caterpillar, for example, makes high profits in the aftermarket by pricing its parts and service high. This practice has given rise to "pirates," who counterfeit the parts and sell them to "shady tree" mechanics who install them, sometimes without passing on the cost savings to customers. Meanwhile, Caterpillar loses sales

xiii. Two-part pricing

Two-part pricing, practiced by many service firms, consists of a fixed fee plus a variable usage fee. As an example, telephone users pay a minimum monthly fee plus charges for calls beyond a certain area. The challenge is how much to charge for the basic service and how much for the variable usage. The fixed fee should be low enough to induce purchase; the profit can then be made on the usage fees.

xiv. By-product pricing

The production of certain goods—meats, chemicals, and so on— often results in by-products, which can be priced according to their value to customers. Any income earned on the by-products will make it easier for the company to charge less for the main product if competition forces it to do so. Sometimes companies do not realize how valuable their by-products are.

Until Zoo-Doo Compost Company came along, many zoos did not realize that one of their by-products—their occupants' manure—could be an excellent source of additional revenue.

xv. Product-bundling pricing

Sellers often bundle their products and features at a set price. An auto manufacturer, for instance, might offer an option package at less than the cost of buying all of the options separately. Because customers may not have planned to buy all of the components, the savings on the price bundle must be substantial enough to induce them to buy the bundle.

Unit-VI Module-8 Place and promotion decision – Marketing channels and value networks, VMS, IMC, Advertising and Sales promotion

1. Place Mix in Marketing

Place is not only about physical movement of products from manufacturers to customers but also about the ease of access to products, the way they are displayed, and the environment in which they are presented. The marketer may adopt different channels of intermediaries to reach the end user. The choice of distribution channel is affected by several factors.

The channel of distribution denotes the intermediaries involved in the process whereby a product passes from the manufacturer to consumers. It is very important for the producers to involve middlemen in order to reach consumers. Firstly, middlemen reduce the problems of both producers and consumers. Secondly, they help in distributing the products over a large area.

This element of marketing mix basically concerns with physical distribution and channel of distribution. This is the last element of marketing mix but very important as marketing goals can be achieved only if the products reach the hand of consumers conveniently.

This element concerns with making the products available to the customers effectively. That means the right products can be made available to the right consumers, in the right way, at the right time and at the right place, and in the right form.

Place decisions involve:

i. Studying geographical concentration of customers

ii. Studying types of distribution channels and channel members

iii. Analyzing various relevant factors affecting channel decisions

iv. Selecting suitable channel of distribution.

v. Strategic decisions related to distribution activities

vi. Physical distribution including transportation, communication, warehousing, inventory control, insurance, banking, etc.

vii. Balancing distribution costs and selling price

viii. Designing a suitable distribution network, and long-term distribution strategies

ix. Developing and adopting logistics management for effective distribution of products

Key decisions for the Place Mix have been suumarised below:

Place or Distribution Mix	❖ Objectives of Physical Distribution
	❖ Key Decisions of Physical Distribution ▪ Transportation ▪ Warehousing ▪ Inventory Management ▪ Insurance ▪ Billing and Collection
	❖ Direct versus Indirect Distribution
	❖ Market Channel options
	❖ Channel Members' Services
	❖ Market Logistic Management

A. Concept of Market Distribution Channel

A distribution channel is a process of delivering the product to the end customers. The route or channel could be in the form of wholesaler, retailer, distributor, etc. or it could be the direct contact between the customer and the company. The route or channel could be long or short depending upon the geography and other factors; it's the company that decides what route to choose for the delivery of the product.

B. Functions of Distribution Channel

It's very important to understand the role of distribution channel that it doesn't just deliver the product. It is more than that; it also performs many other functions that are as follows;

i. ***Information***: One of the most important functions of the distribution channel is that it carries and transfers the information about the company, brand, product's features, and other important things.
ii. ***Promotion***: What product to promote at a certain time, it's the function of the distribution channel. They stop the supplies of other products, and customers have no choice but to use a certain product. That's how they manipulate their power.
iii. ***Contact***: Contacts are very important in the distribution channel. Having a list of all the right contacts is an asset to your business. It's because if you choose the wrong people for distribution, then they'll get your product delayed.
iv. ***Matching***: Choosing the right distribution channel that matches the product price is the key to the success of the business.
v. ***Negotiation:*** Distribution channels would negotiate the product's price with suppliers on your company's behalf. Without their negotiations, your product won't end customers.
vi. ***Physical Distribution***: Distribution doesn't mean that you're delivering and moving the products around. Sometimes, you have to assemble, store, manage, and transport the final product from the manufacturers to the end consumers.

vii. ***Financing***: When wholesalers and retailers jump in and buy the company's inventory in bulk quantity. It's great news for the manufacturers and the customers as well. That's how long the distribution channel facilitates the product to minimize the cost.

viii. ***Risk-Taking:*** The distribution channel isn't all about transporting. Sometimes, distributors have to take risk of buying a company's product without knowing whether the product would sell or not.

C. Types of Distribution Channels

Different types of distribution channels and their sub-channels are as follow;

a. Direct Distribution Channel

The direct distribution channel is when the manufacturers sell their products directly to the end customers. It doesn't involve many channels and intermediaries, because the route is short. Company's retail shop, selling through mail order, door to door selling, or sale at your shop are some of the main examples of direct distribution channels.

b. Indirect Distribution Channel

The indirect distribution channel is when the manufacturer or the company employs middlemen or third-party personals to sells its products to the consumer. We can categorize the indirect distribution channel into three categories depending upon the number of channels involved.

i. One Level Channels

One level channel means that only one channel is involved. For instance, the company sells its product to the retailers, and then retailer to the end customer. Or the manufacturing company has its retail shop, and sells its products to the end consumers. The automobile company sells its cars to the dealers.

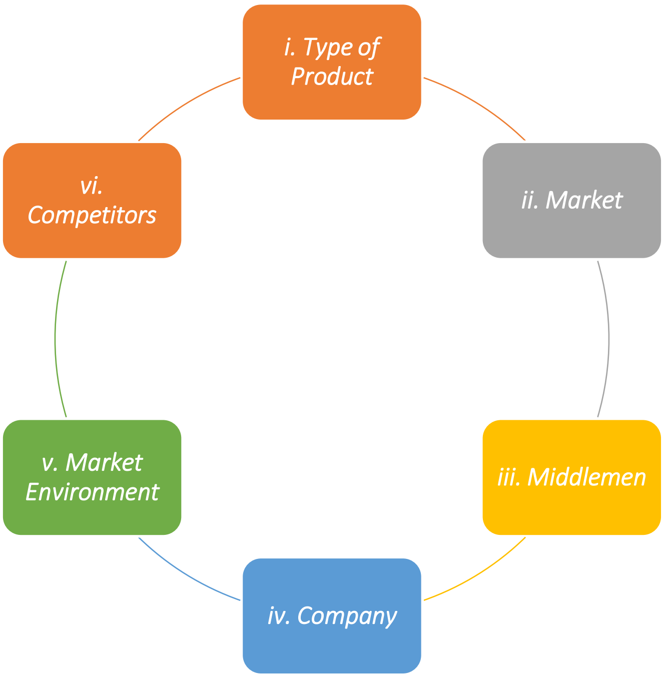
ii. Two-level Channels

Two-level channels mean when two channels/intermediaries/middlemen are involved between the company and the customers. It starts when the manufacturer sells its product to the wholesaler, wholesaler to the retailer, and then retailer to the end customer. Companies follow the two-level channels when they have to cover the vast and larger customer market.

iii. Three Level Channels

Three-level channels mean where three channels/intermediaries/middlemen are involved. It usually occurs when manufacturing companies employ agents and brokers to contact wholesalers, wholesalers to retailers, and then retailers to end consumers.
Companies follow the three-level channels when the product is limited, and the customer market area is big and geographically dispersed.

D. Factors affecting the choice of distribution channel



i. Type of Product

If your product is fragile and easily perishable, then you should use the short route channel for the distribution of your product. If the product has a long term expiration date, then you have many options to choose a variety of distribution; short, long, or dual.
If the product is tech-oriented, it means that you have to employ tech sales personals to sell the product, its better if you choose the short for the sale of technical products. If the product has a high value, it's preferable if you sell it through sales travelers rather than employing the intermediary channels.

ii. Market

If the target market of your business is consumer-based, B2C, then retailing is necessary. However, if your market is business, B2B, then you won't need retailers.
If your company planning to cover a larger market area, then you'll need a chain of intermediaries to reach the final customers.
If you analyze the customers' information like location, number, size, and the purchasing habits of customers, then it would give you an idea that what channel you should use for your business. Most important, whether your target customer is patient enough to travel and wait for your product.

iii. Middlemen

Intermediaries and middlemen play a vital role in the decision making of choosing the right channel. You should prefer those intermediaries that market your product along with delivering it.
Most importantly, you should prefer those intermediaries that provide the maximum sales even at a lower unit price. A maximum sale would help you to meet your targets easily.

iv. Company

The size of the company also matters a lot in the selection of the distribution. If the company is big and well established, then it won't employ many channels to sell its products. On the other, a new small company would use many distribution channels to sell its products because it has to make a name for its brand and it has less experience.

v. Market Environment

If the economy of the country is in recession, then the company would use short and cheaper distribution channels. If the economy is prospering, then it would have many options. Distance and transport also matter a lot in some products.

vi. Competitors

The marketers of your company should closely look at what types of distribution channel competitors are employing. It would give you an idea of what other distribution channels you should use. For instance, if competitors are using the retailing, then you should use the door to door sale to have a better impact.

E. Dual Distribution

Dual distribution means when the manufacturing company uses more than one channel/intermediary at the same time. For instance, a company uses wholesalers and agents to target customers while the company has its retail shop to sell products directly to the customers.
Mobile phone companies have their retail franchises and stores and they also use wholesalers to target wider markets.

F. Reverse Channels

Reverse channels occur when the end customer returns the product to retailers, retailer to wholesaler, and then wholesaler to the manufacturing company. Warranty claims are very good examples of the reverse channel.

G. Distribution Channels for Services Company

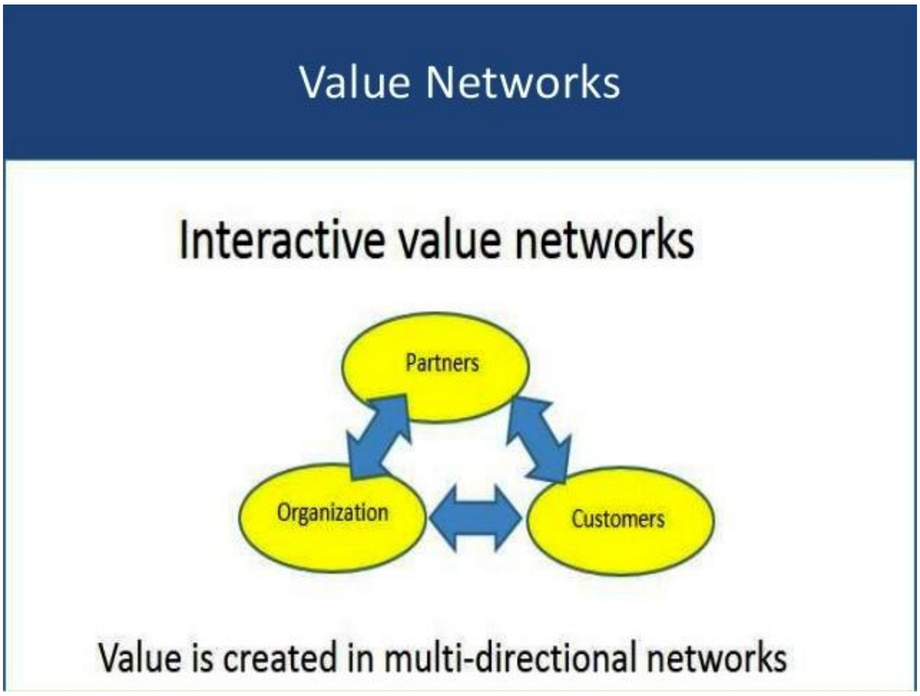
Tangible products have definite physical characteristics; you can store them in the warehouses and then sell them to the end customers. Intangible services like software don't have any physical existence, storing it wouldn't be a problem. It doesn't mean service companies don't need distribution channels. The Internet serves as the intermediary here in the era of technological advancement.

H. Ecommerce the Emerging Distribution Channel

The Internet has indeed removed the unnecessary channels and intermediaries like customers can buy software directly from the service-producing companies. But it has also revolutionized many manufacturing and service delivery processes.
However, many small manufacturing companies use online platforms like Amazon, Alibaba, Draz, etc. as an intermediary to sell their products directly to the end customers. Many e-commerce stores serve as the intermediary channel between the customers and the manufacturers.

I. Value Network

Value network is a system of partnerships and alliances that a firm creates to source, augment, and deliver its offerings.
A network which creates partnership and value in purchase, production and selling of products is referred to as value network. Value network looks at the whole supply chain system players as partners rather than customers. The purpose of value network is to increase productivity, save cost and increase revenue. Companies are willing to take the procurement process on online for accuracy and speed. Companies exactly know each partner's role in influencing or disrupting normal operations.



Companies have developed distribution channel and network through which it supplies final product to customers. This distribution channel and network are referred to as the marketing channel. Companies invest time and money in a well functioning marketing channel. The marketing channels are an integral part of marketing and promotional activity of the company. A worth system is a lot of associations among associations as well as people interfacing with one another to profit the whole gathering. A worthy system enables individuals to purchase and sell items. These systems can be imagined with a basic mapping instrument indicating hubs (individuals) and connectors (connections).

In business and trade, esteem systems are a case of a financial biological system. Every part depends on each other to cultivate development and increment esteem. Worth system individuals can comprise of outside individuals (e.g., clients) or inward individuals, for example, innovative work groups. Worth systems improve advancement, social welfare, the earth, just as numerous different territories. Shortcoming in one hub can influence the whole organize. For instance, if an improvement group is powerless, the generation group has a harder time making the item, which can leave a purchaser hanging tight for their shipment.

Types of value Networks

Single-Tier Value Network

Single-tier network marketing is very simple, you sign up for the program, then you start selling the company's **products** or services and get your commission based on your sales. However, it doesn't require you to recruit other sales agent to do the work for you. You just have to focus on your sales and customer relationship building.

Betterware, Kleeneze, Avon, beauty cream company follows this single-tier marketing. Some online platforms also follow the single level marketing where you drive traffic into their website and get paid like pay-per-click (PPC), or pay-per-lead (PPL).

Two-Tier ***Value Network***

Double-tier or Two-tier network marketing requires from its members to recruit others. In this model, you get paid both ways; direct sale of product or service (or bringing traffic into their website) and recruitment of other members to work under you. Ken Evoy Site sell is a very good example of two-tier network marketing.

Multi-Level Value Network

As the name implies multi-level marketing (MLM) involves two or more tiers and it's based on the distribution marketing based network. MLM allows its members to earn money when the tier is five or more times deep and there some other incentive for recruitment. It has two other types of network strategies like name-driven network marketing and market-driven network marketing.

Amway

Amway is a short form of 'American Way,' a global American company; it's been in the direct selling and MLM business for the past 60 years with the estimated revenue of 8.8 billion US dollars. Its products are beauty creams and cosmetics, medicines and home care. Amway hires and works with affiliated companies to conduct its operations and it's been doing it in more than a hundred countries.

Amway calls its distributors independent business owner (IBO), these IBOs get their commission through personal sales and the retails mark up given by the company, plus performance bonuses on achieving the company's targets. Harvard Business School calls Amway as one of the most successful direct selling and MLM companies in the world.

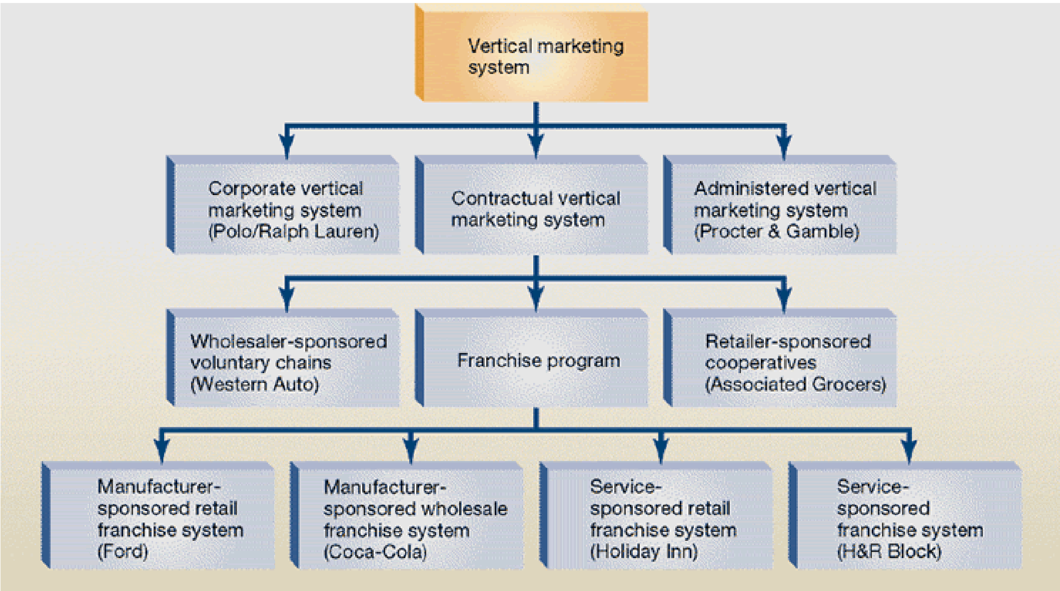
Avon

Avon is also a direct selling and multi-level marketing company with estimated annual revenue of 5.5 billion US dollars worldwide. It is 133 years old and it sells products in the category of personal care, beauty, and household items.

Avon recruits its sale personals and trains them for door to door direct selling; the sale members are called 'Avon ladies' and 'Avon men.' According to an estimate, Avon sales members are 500 to 600 million people across the world in more than 100 countries.

J. Vertical Marketing System:

Manufacturer, sales executives, Distributor and retailers, should form the vertical marketing system and act in an unified manner to eliminate the Middleman and Agent system for the sales and marketing of products and services in order to enhance profitability.



Vertical Marketing System (VMS) holds the promise to overcome the unproductive conflicts which results when the above agencies work independently instead of an unified manner. VMS can achieve economies of scale through their size, bargaining power and elimination of duplicated services.

A vertical marketing system (VMS) is one in which the main members of a distribution channel--producer, wholesaler, and retailer--work together as a unified group in order to meet consumer needs. In conventional marketing systems, producers, wholesalers, and retailers are separate businesses that are all trying to maximize their profits. When the effort of one channel member to maximize profits comes at the expense of other members, conflicts can arise that reduce profits for the entire channel. To address this problem, more and more companies are forming vertical marketing systems.

Vertical integration is the expansion of a company by moving forward or backward within your vertical market or industry.

An example of forward integration might be ITC buying wheat from farmers to produce Aashirwad atta and Sunfeast biscuits recently.

- ***Corporate VMS*** - A group of companies performing different tasks under one ownership.
- ***Contractual VMS*** - Independent companies that join together for mutual benefit. Producer, wholesaler and retailer have sub-groups.
    - Producer/Wholesaler - Franchise operations fall in this category. The manufacturer licenses the wholesaler to distribute the product.
    - Producer/Retailer - Another franchise operation where the retailer must meet certain quotas to operate under the company name. Must be a strong company name.
    - Retailer/Wholesaler - If the wholesalers are the owners they encourage retailers to band together to buy as a group to receive more desirable pricing. If the retailers are the owners, they are called co-operatives. They buy from the jointly-owned wholesaler and share the profits those purchases generate.

- ***Administered VMS*** - The big dog in the meat house concept. Whoever wields the most economic power within the group can force greater cooperation and support from other members of the group.
  If you can't go vertical, go horizontal. Horizontal simply means that instead of companies being under your control in a vertical stack. They are beside you as equals. You don't control them, they don't control you. But, you still need each other. If you are a small business or just starting you may need them more than they need you.

2. Promotion Mix in Marketing

Promotion-mix refers to an optimum combination of different promotional tools and techniques; with a view to maximizing sales and profits.
The need for promotion-mix arises because all promotional tools and techniques are not equally effective and appealing. Promotion mix imparts a variety to the promotional efforts of the marketing manager.

A. Integrated Marketing communication

In today's marketing environment, promotion involves integrated marketing communication (IMC). In a nutshell, IMC involves bringing together a variety of different communication tools to deliver a common message and make a desired impact on customers' perceptions and behavior. As an experienced consumer in the English-speaking world, you have almost certainly been the target of IMC activities. (Practically every time you "like" a TV show, article, or a meme on Facebook, you are participating in an IMC effort!)
Marketing Communication?

Defining marketing communication is tricky because, in a real sense, everything an organization does has communication potential. The price placed on a product communicates something very specific about the product. A company that chooses to distribute its products strictly through discount stores sends a distinct message to the market. Marketing communication refers to activities deliberately focused on promoting an offering among target audiences. The following definition helps to clarify this term:
Marketing communication includes all the messages, media, and activities used by an organization to communicate with the market and help persuade target audiences to accept its messages and take action accordingly.
Integrated marketing communication is the process of coordinating all this activity across different communication methods. Note that a central theme of this definition is persuasion: persuading people to believe something, to desire something, and/or to do something. Effective marketing communication is goal directed, and it is aligned with an organization's marketing strategy. It aims to deliver a particular message to a specific audience with a targeted purpose of altering perceptions and/or behavior. Integrated marketing communication (IMC) makes this marketing activity more efficient and effective because it relies on multiple communication methods and customer touch points to deliver a consistent message in more ways and in more compelling ways.

Integrated Marketing Communication or IMC is a marketing strategy that aligns and interconnects the various platforms and communication channels to create a singular branding message. Through the use of an IMC approach towards marketing, a brand can achieve a variety of competitive advantages.
The IMC approach is targeted towards achieving maximum brand awareness through marketing channels such as advertising and content creation. Larger brands use it to retain their business persona. While smaller businesses use it to create an impact in the market.

B. The Promotion Mix: Marketing Communication Methods

The promotion mix refers to how marketers combine a range of marketing communication methods to execute their marketing activities. Different methods of marketing communication have distinct advantages and complexities, and it requires skill and experience to deploy them effectively. Not surprisingly, marketing communication methods evolve over time as new communication tools and capabilities become available to marketers and the people they target.

Advertising

Advertising makes use of multiple **platforms and media channels** to present the brand message. Thus, by using the IMC approach in advertising, you can advertise a singular brand message across different classes and social groups to achieve maximum reach. Since this is one of the most expensive forms of marketing, an IMC approach can provide the best ROI as well.

Sales Promotion

For any form of sales promotion, such as a giveaway or a contest run through an IMC approach, you can achieve a greater short term branding success. The sole purpose of sales promotions is to draw attention towards a particular product or brand. Thus, you can add this with a singular branding message that provides insight into the brand values.

Personal Selling

With the help of personal selling, you can highly customize customer and salesperson interactions to provide maximum **customer satisfaction**. Later stages of marketing make heavy use of personal selling techniques. So, an IMC campaign can help plan these techniques as well.

Public Relations

A brand often conducts workshops, competitions, and other events to promote their presence. In such cases, the usage of a singular communication platform that incorporates all the aspects of the brand is the best means of reaching out to the target markets.

Direct Marketing

An IMC based email marketing campaign can generate brand awareness alongside leads. This holds true for other forms of direct marketing such as telecalling as well. So, with the help of an IMC based approach in targeted marketing, you will be able to generate brand awareness regardless of lead quality.

Digital marketing:

Digital marketing covers a lot of ground, from Web sites to search-engine, content, and social media marketing. Digital marketing tools and techniques evolve rapidly with technological advances, but this umbrella term covers all of the ways in which digital technologies are used to market and sell organizations, products, services, ideas, and experiences. However, social media marketing and mobile marketing may be identified as separate methods.

Guerrilla marketing:

This newer category of marketing communication involves unconventional, innovative, and usually low-cost marketing tactics to engage consumers in the marketing activity, generate attention and achieve maximum exposure for an organization, its products, and/or services. Generally guerrilla marketing is experiential: it creates a novel situation or memorable experience consumers connect to a product or brand.

Social Media Marketing

Social media based communication is one of the primary ways through which a brand should reach out to its target markets. An IMC strategy will ensure that all social media based content carries the core branding message.

Mobile Marketing

Smartphone and other smart devices are a perfect way to market a brand to the new generations. Thus, by creating an integrated approach you can present core brand values through mobile marketing.

I. Advertising

Advertising is any paid form of communication from an identified sponsor or source that draws attention to ideas, goods, services or the sponsor itself. Most advertising is directed toward groups rather than individuals, and advertising is usually delivered through media such as television, radio, newspapers and, increasingly, the Internet. Ads are often measured in impressions (the number of times a consumer is exposed to an advertisement).

Advertising has three primary objectives: to inform, to persuade, and to remind.

- ***Informative Advertising*** creates awareness of brands, products, services, and ideas. It announces new products and programs and can educate people about the attributes and benefits of new or established products.
- ***Persuasive Advertising*** tries to convince customers that a company's services or products are the best, and it works to alter perceptions and enhance the image of a company or product. Its goal is to influence consumers to take action and switch brands, try a new product, or remain loyal to a current brand.
- ***Reminder Advertising*** reminds people about the need for a product or service, or the features and benefits it will provide when they purchase promptly.

Components of advertising:
i) The message comes from the messaging framework: What message elements should the advertising convey to consumers? What should the key message be? What is the call to action? How should the brand promise be manifested in the ad? How will it position and differentiate the offering? With advertising, it's important to remember that the ad can communicate the message not only with words but also potentially with images, sound, tone, and style.

ii) The Appeal: Along with message, the creative strategy also identifies ***the appeal,*** or how the advertising will attract attention and influence a person's perceptions or behavior. Advertising appeals can take many forms, but they tend to fall into one of two categories: informational appeal and emotional appeal.

The informational appeal offers facts and information to help the target audience make a purchasing decision. It tries to generate attention using rational arguments and evidence to convince consumers to select a product, service, or brand. For example:

More or better product or service features: Ajax "Stronger Than Dirt"
Cost savings: Wal-Mart "Always Low Prices"
Quality: John Deere "Nothing runs like a Deere"
Customer service: Holiday Inn "Pleasing people the world over"
New, improved: Verizon "Can you hear me now? Good."

The emotional appeal targets consumers' emotional wants and needs rather than rational logic and facts. It plays on conscious or subconscious desires, beliefs, fears, and insecurities to persuade consumers and influence their behavior. The emotional appeal is linked to the features and benefits provided by the product, but it creates a connection with consumers at an emotional level rather than a rational level. Most marketers agree that emotional appeals are more powerful and differentiating than informational appeals. However, they must be executed well to seem authentic and credible to the the target audience. A poorly executed emotional appeal can come across as trite or manipulative. Examples of emotional appeals include:
Self-esteem: L'Oreal "Because I'm worth it"
Happiness: Coca-Cola "Open happiness"

Anxiety and fear: World Health Organization “Smoking Kills”
Achievement: Nike “Just Do It”
Attitude: Apple “Think Different”
Freedom: Southwest “You are now free to move about the country”
Peace of Mind: Allstate “Are you in good hands?”
Popularity: NBC “Must-see TV”
Germophobia: Chlorox “For life’s bleachable moments, there’s Chlorox”

II. Public relations (PR)

Public relations (PR) is the process of maintaining a favorable image and building beneficial relationships between an organization and the public communities, groups, and people it serves. Unlike advertising, which tries to create favorable impressions through paid messages, public relations do not pay for attention and publicity. Instead, PR strives to earn a favorable image by drawing attention to newsworthy and attention-worthy activities of the organization and its customers. For this reason, PR is often referred to as “free advertising.

Public Relations Technique	Role and Description	Examples
Media Relations	Generate positive news coverage about the organization, its products, services, people, and activities	Press release, press kit, and interview leading to a news article about a new product launch; press conference
Influencer/Analyst Relations	Maintain strong, beneficial relationships with individuals who are thought leaders for a market or segment	Product review published by a renowned blogger; company profile by an industry analyst; celebrity endorsement
Publications and Thought Leadership	Provide information about the organization, showcase its expertise and competitive advantages	Organization’s annual report; newsletters; white papers focused on research and development; video case study about a successful customer
Events	Engage with a community to present information and an interactive “live” experience with a product, service, organization or brand	User conference; presentation of a keynote address; day-of-community-service event
Sponsorships	Raise the profile of an organization by affiliating it with specific causes or activities	Co-sponsoring an industry conference; sponsoring a sports team; sponsoring a race to benefit a charity
Award Programs	Generate recognition for excellence within the organization and/or among customers	Winning an industry “product of the year” award; nominating customer for an outstanding achievement award
Crisis Management	Manage perceptions and contain concerns in the face of an emergency situation	Oversee customer communication during a service outage or a product recall; execute action plan associated with an environmental disaster

III. Sales Promotions

Sales promotions are a marketing communication tool for stimulating revenue or providing incentives or extra value to distributers, sales staff, or customers over a short time period. Sales promotion activities include special offers, displays, demonstrations, and other nonrecurring selling efforts that aren’t part of the ordinary routine. As an additional incentive to buy, these tools can be directed at consumers, retailers and other distribution partners, or the manufacturer's own sales force.

Companies use many different forms of media to communicate about sales promotions, such as printed materials like posters, coupons, direct mail pieces and billboards; radio and television ads; digital media like text messages, email, websites and social media, and so forth.

Companies use sales promotions to increase demand for their products and services, improve product availability among distribution channel partners, and to coordinate selling, advertising, and public relations. A successful sales promotion tries to prompt a target segment to show interest in the product or service, try it, and ideally buy it and become loyal customers.

There are two types of sales promotions: consumer and trade. A consumer sales promotion targets the consumer or end-user buying the product, while a trade promotion focuses on organizational customers that can stimulate immediate sales.

Consumer Sales Promotion Techniques

Most consumers are familiar with common sales promotion techniques including samples, coupons, point-of-purchase displays, premiums, contests, loyalty programs and rebates.

i) Sample: A sample is a sales promotion in which a small amount of a product that is for sale is given to consumers to try. Samples encourage trial and an increased awareness of the product. You have probably purchased a product that included a small free sample with it—for example, a small amount of conditioner packaged with your shampoo.

ii) Coupons: Often paired with samples are coupons. Coupons provide an immediate price reduction off an item. The amount of the coupon is later reimbursed to the retailer by the manufacturer. The retailer also gets a handling fee for accepting coupons. When the economy is weak, more consumers collect coupons and look for special bargains such as double coupons and buy-one-get-one-free (BOGO) coupons. While many consumers cut coupons from the inserts in Sunday newspapers, other consumers find coupons for products and stores online. Stores may also provide coupons for customers with a loyalty card.

Consumers can download coupons on many mobile phones. Mobile marketing and the Internet give consumers in international markets access to coupons and other promotions. In India, the majority of coupons used are digital, while paper coupons still have the largest share in the United States.

iii) Point-of-purchase displays: Point-of-purchase displays encourage consumers to buy a product immediately. These displays draw attention to a product by giving it special placement and signage. Coupon machines placed in stores are a type of point-of-purchase display. When a consumer sees a special display or can get a coupon instantly, manufacturers hope the easy availability or the discount will convince them to buy, increasing overall sales in the process.

A variety of different sales promotions are conducted online. Common online consumer sales promotions include incentives such as free items, special pricing for product bundles (buying multiple products together), free shipping and sweepstakes.

iv) Premium: Another very popular sales promotion for consumers is a premium. A premium is a product or offer a consumer receives when they buy another product. Premiums may be offered free or for a small shipping and handling charge with proof of purchase (sales receipt or part of package). Remember wanting your favorite cereal because there was a toy in the box? The toy is an example of a premium.

v) Contests and sweepstakes are also popular consumer sales promotions. Contests are games of skill offered by a company that offer consumers the chance to win a prize. Cheerios' Spoonfuls of Stories contest, for example, invited people to submit an original children's story and the chance to win money and the opportunity to have their story published.

Sweepstakes are games of chance people enter for the opportunity to win money or prizes. Sweepstakes are often structured as some variation on a random drawing.

vi) Loyalty programs are sales promotions designed to get repeat business. Loyalty programs include things such as frequent flier programs, hotel programs, and shopping cards for grocery stores, drugstores, and restaurants. Sometimes point systems are used in conjunction with loyalty programs. After you accumulate so many miles or points, an organization might provide you with a special incentive such as a free flight, free hotel room, or free sandwich. Many loyalty programs, especially hotel and airline programs have partners to give consumers more ways to accumulate and use miles and points.

vii) Rebates are popular with both consumers and the manufacturers that provide them. When you get a rebate, you are refunded part (or all) of the purchase price of a product after completing a form and sending it to the manufacturer with your proof of purchase. The trick is completing the paperwork on time. Many consumers forget or wait too long to do so and, as a result, don't get any money back. This is why rebates are also popular with manufacturers. Rebates sound great to consumers until they forget to mail them in.

The table, below, summarizes the different types of sales promotions designed for both consumers and businesses.

Consumer Sales Promotions	B2B Sales Promotions
Coupons	Trade shows and conventions
Sweepstakes or contests	Sales contests
Premiums	Trade and advertising allowances
Rebates	Product demonstrations
Samples	Training
Loyalty programs	Free merchandise
Point-of-purchase displays	Push money

IV. Personal Selling

Personal selling uses in-person interaction to sell products and services. This type of communication is carried out by sales representatives, who are the personal connection between a buyer and a company or a company's products or services. Salespeople not only inform potential customers about a company's product or services, they also use their power of persuasion and remind customers of product characteristics, service agreements, prices, deals, and much more. In addition to enhancing customer relationships, this type of marketing communications tool can be a powerful source of customer feedback, as well. Later we'll cover marketing alignment with the sales process in greater detail. This section focuses on personal selling as one possible tool in the promotional mix.

Effective personal selling addresses the buyer's needs and preferences without making him or her feel pressured. Good salespeople offer advice, information, and recommendations, and they can help buyers save money and time during the decision process. The seller should give honest responses to any questions or objections the buyer has and show that he cares more about meeting the buyer's needs than making the sale. Attending to these aspects of personal selling contributes to a strong, trusting relationship between buyer and seller.
Common personal selling tools and techniques include the following:
i. Sales presentations*:* in-person or virtual presentations to inform prospective customers about a product, service, or organization
ii. Conversations*:* relationship-building dialogue with prospective buyers for the purposes of influencing or making sales
iii. Demonstrations*:* demonstrating how a product or service works and the benefits it offers, highlighting advantageous features and how the offering solves problems the customer encounters
iv. Addressing objections*:* identifying and addressing the concerns of prospective customers, to remove any perceived obstacles to making a purchase
v. Field selling*:* sales calls by a sales representative to connect with target customers in person or via phone
vi. Retail selling*:* in-store assistance from a sales clerk to help customers find, select, and purchase products that meet their needs
vii. Door-to-door selling*:* offering products for sale by going door-to-door in a neighborhood
viii. Consultative selling*:* consultation with a prospective customer, where a sales representative (or consultant) learns about the problems the customer wants to solve and recommends solutions to the customer's particular problem
ix. Reference selling*:* using satisfied customers and their positive experiences to convince target customers to purchase a product or service

Conditions for personal selling:

- **Product situation**: Personal selling is relatively more effective and economical when a product is of a high unit value, when it is in the introductory stage of its life cycle, when it requires personal attention to match consumer needs, or when it requires product demonstration or after-sales services.
- **Market situation**: Personal selling is effective when a firm serves a small number of large-size buyers or a small/local market. Also, it can be used effectively when an indirect channel of distribution is used for selling to agents or middlemen.
- **Company situation**: Personal selling is best utilized when a firm is not in a good position to use impersonal communication media, or it cannot afford to have a large and regular advertising outlay.

- **Consumer behavior situation**: Personal selling should be adopted by a company when purchases are valuable but infrequent, or when competition is at such a level that consumers require persuasion and follow-up.

V. Direct marketing

Direct marketing activities bypass any intermediaries and communicate directly with the individual consumer. Direct mail is personalized to the individual consumer, based on whatever a company knows about that person's needs, interests, behaviors, and preferences. Traditional direct marketing activities include mail, catalogs, and telemarketing. The thousands of "junk mail" offers from credit card companies, bankers, and charitable organizations that flood mailboxes every year are artifacts of direct marketing. Telemarketing contacts prospective customers via the telephone to pitch offers and collect information. Today, direct marketing overlaps heavily with digital marketing, as marketers rely on email and, increasingly, mobile communications to reach and interact with consumers.

The purpose of direct marketing is to reach and appeal directly to individual consumers and to use information about them to offer products, services and offers that are most relevant to them and their needs. Direct marketing can be designed to support any stage of the AIDA model, from building awareness to generating interest, desire, and action. Direct marketing, particularly email, also plays a strong role in post-purchase interaction. Email is commonly used to confirm orders, send receipts or warrantees, solicit feedback through surveys, ask customers to post a social media recommendation, and propose new offers.

VI. Digital Marketing:

Digital marketing is an umbrella term for using a digital tools to promote and market products, services, organizations and brands. As consumers and businesses become more reliant on digital communications, the power and importance of digital marketing have increased. The direct marketing section of this chapter already discussed two digital tools: email and mobile marketing, which fit into both categories. This section will discuss other essential tools in the digital marketing tool kit: Web sites, content marketing and search-engine optimization (SEO), and social media marketing.

Web-Site Marketing

Web sites represent an all-in-one storefront, a display counter, and a megaphone for organizations to communicate in the digital world. For digital and bricks-and-mortar businesses, Web sites are a primary channel for communicating with current and prospective customers as well as other audiences. A good Web site provides evidence that an organization is real, credible, and legitimate.

The variety of online Web-site-building services now available make setting up a basic Web site relatively simple and inexpensive. Once the Web site is established, it can continue to be fairly easy and inexpensive to maintain if the organization uses cost-effective and user-friendly tools. On the other hand, sophisticated Web sites can be massively expensive to build and maintain, and populating them with fresh, compelling content can devour time and money. But organizations can adjust the scope, scale, and resources required for their Web sites in proportion to their business objectives and the value they want their Web sites to deliver.

Search-Engine Optimization and Content Marketing

Search-engine optimization (SEO) is the process of using Internet search engines, such as Google, Bing, and Yahoo, to gain notice, visibility, and traffic from people conducting searches using these tools. SEO works in lockstep with content marketing, which takes a strategic approach to developing and distributing valuable content targeted to the interests of a defined audience, with the goal of driving sales or another profitable customer action. In other words, content marketers create worthwhile Internet content aimed at their target audiences. Then organizations use SEO tactics to get this content noticed and to generate new traffic and sales leads.

Together, SEO and content marketing can help boost awareness and brand perceptions about the value a company provides. Content marketing can help an organization gain visibility as an expert or leader in its competitive set. Together these marketing communications tools help organizations get noticed and stay top of mind among individuals seeking the types of products or services they offer.

How SEO Works:

The basic premise behind search-engine optimization is this: People conduct Internet searches. The search terms they use bring up a given set of results. When someone is searching for the types of things your organization offers, as a marketer you want your results to be at the top. You can boost your search rankings by identifying and applying SEO and content marketing strategies to the search terms people use when they are looking for products or services like yours. It may even be worth paying to get their attention, because people searching for the things you offer are likely to be better-qualified prospective customers.

How Content Marketing Works

There is a popular saying among digital marketers: "Content is king." Good content attracts eyeballs, while poor content does not. Content marketing is based on the premise that marketers can use Web content as a strategic asset to attract attention and drive traffic of target audiences. As a marketer, part of your job is to help the organization publish substantive Web content–articles, videos, e-books, podcasts, images, infographics, case studies, games, calculators, etc.–that will be interesting for your target segments. When you do this, you should incorporate your optimal search terms into the content, so that it's more likely to show up in organic search results. You should also look for ways to link to that content from other Web pages, so that search-engine "bots" (or computer programs) responsible for cataloguing Web sites will think your content is popular and well regarded by the Internet-user community. As your content appears in search results, it will rank higher as more and more people click through to your content and link to it from other locations on the Internet.

VII. Social Media Marketing

Social media marketing is the use of online applications, networks, blogs, wikis, and other collaborative media for communicating brand messaging, conducting marketing, public relations, and lead generation. Social media are distinctive for their networking capabilities: they allow people to reach and interact with one another through interconnected networks. This "social" phenomenon changes the power dynamic in marketing: no longer is the marketer the central gatekeeper for all communication about a product, service, brand, or organization. Social media allows for organic dialogue and activity to happen directly between individuals, unmediated by a company. Companies can (and should) listen, learn, and find ways to participate authentically.

Social media marketing focuses on three primary objectives:

1. ***Creating buzz:*** Developing and publishing messages (in a variety of formats–e.g., text, video, and images) that is disseminated via user-to-user contact
2. ***Fostering community:*** Building ways for fans to engage with one another about a shared interest in a brand, product, or service
3. ***Facilitating two-way communication:*** Online conversations are not controlled by the organizations. Instead, social media promotes and encourages user participation, feedback, and dialogue

How Social Media Marketing Works

Organizations have opportunities to engage in social media for marketing purposes in several ways: paid, earned, and owned social media activity.

- ***Paid:*** Paid social media activity includes advertisements on social media (placed in various locations), sponsored posts or content, and retargeting advertisements that target ads based on a consumer's previous actions. This type of social media activity is best suited for sales, lead generation, event participation, and incorporation into IMC campaigns.
- ***Earned:*** Earned social media activity involves news organizations, thought leaders, or other individuals who create content about an organization. It is particularly suited to supporting public relations efforts.
- ***Owned:*** Owned social media activity happens through social media accounts that an organization owns (e.g., Facebook page, Twitter handle, Instagram name, etc.). This activity is ideal for brand awareness, lead generation, and goals around engaging target audiences.

Effective use of social media to reach your target audience requires more effort by an organization than the traditional marketing methods. Not only must an organization create unique content and messaging, but it must be prepared to engage in two-way communication regarding the content that it produces and shares on social media. To be effective at using social media to reach target audiences, an organization must:

- ***Create unique content, often.*** Social media, unlike traditional methods, cannot rely on static content. An organization must regularly publish new, unique content to stay relevant on any social media platform.
- ***Ask questions.*** To foster engagement, an organization must solicit feedback from users, customers, and prospects. This is critical to creating conversation, insight, and discussion on social media platforms.
- ***Create short-form media.*** Most social media platforms have character limits per post. Users on social media expect to be able to scan their feed. Long posts (even within character limits) tend to underperform. The more succinct an organization can be, the better.
- ***Try different formats.*** Most social media platforms provide users with the option to add images and video to text. Social media is becoming an increasingly visual medium, where content that performs the best usually includes an image or video. Try to convert messages into images and video when possible for maximum reach.
- ***Use a clear, immediate call to action.*** Social media works best for achieving marketing goals with a clear call to action that a user can do immediately from their computer or

mobile device. Examples include 1) Web traffic (click-through), 2) downloads of content (e.g., white papers, articles, etc.), 3) online purchases, and 4) engagement (comment, like, share, view, read).

Common Social Media Marketing Tools

What's hot in social media is a moving target, but the following table provides a listing and description of primary social media platforms.

Tool	Description
Blogs	Long- or short-form medium for communicating with audiences
YouTube	Video-hosting social media site
Twitter	Short-form (140 character) "microblogging" medium that is intended for text and image sharing
Facebook	Long-form (up to 2,000 characters per post) medium for sharing text, images, videos, and other multimedia content
Instagram	Image-based social network that is intended as a visual medium. Does not have capabilities to drive click-through rate (CTR) because posts offer no link option
Google+	Long-form medium for sharing text, images, videos, and other multimedia content
Pinterest	Medium for sharing photos and visual content categorized by theme
LinkedIn	Long- or short-form medium for sharing text, images, videos, and other multimedia content targeted to the business community

VIII. Guerrilla Marketing

Guerrilla marketing is a relatively new marketing strategy that relies on unconventional, often low-cost tactics to create awareness of and goodwill toward a brand, product, service, or even a company. The term "guerrilla marketing" itself comes from Jay Conrad Levinson, who coined the term in his 1984 book *Guerrilla Advertising*. Though "guerrilla" has military connotations (the word means "little war), guerrilla promotion strategies often combine elements of wit, humor, and spectacle to capture people's attention and engage them in the marketing act. Guerrilla marketing is memorable. And, like the renegade militias it was presumably named for, unexpected.

Practitioners of guerrilla marketing today have used other words to describe it: *disruptive, antiestablishment*, *newsworthy*, and *a state of mind*. By its nature, guerrilla marketing defies precise description, so it may be worthwhile to view an example before going further.

Classic Guerrilla: Nike Livestrong at the Tour de France

Although this campaign was a full-blown IMC effort, at its core it was really a memorable guerrilla marketing stunt: the spectacle of painting the streets of France during the world-famous Tour de France bicycle race in 2008. Designed to generate awareness for Nike, the nonprofit 'Livestrong Foundation' and the cause of fighting cancer, marketers succeeded in sharing inspiring messages of hope with their target audiences: athletes, sports enthusiasts and people affected by cancer, particularly young people.

Guerrilla Tactic	Description

Graffiti	Graffiti marketing, a subset of guerrilla marketing, turns walls, alleys, and streets into larger-than-life canvases for marketing activity.
Stencil graffiti	Use of stencils to create repeated works of graffiti, with the stencils enabling the project team to rapidly recreate the same work in multiple locations. Stencils tend to be smaller-scale and simpler than classic graffiti art.
Undercover, or stealth marketing	Use of marketers or paid actors to go "undercover" among peers to engage unsuspecting people in a marketing activity of some sort. For example, attractive actors are paid to strike up conversations, rave about a new mobile device, and then ask people to take a photo using the device, so that they get hands-on experience with the product in question.
Stickers	Inventive use of stickers as a temporary medium for creating an image, posing an illusion, or conveying a message
Flash mobs	A group of people organized to perform an action at a predetermined place and time; usually they blend in with bystanders initially and then join the "mob" activity at the designated moment, as in the Do Re Mi video, above.
Publicity stunts	Extraordinary feats to attract the attention of the general public, as well as media
Treasure hunts	Placing a series of online and offline "treasure hunt" clues in an urban environment and inviting target audiences to participate in the hunt to win prizes and glory
Sham events	Staging an activity or event that appears real, but in fact is a fake, for the purposes of drawing attention and making a statement