Auditing Course Material

Part 54 of 61 (Chapters 5301-5400)

5. Differentiation

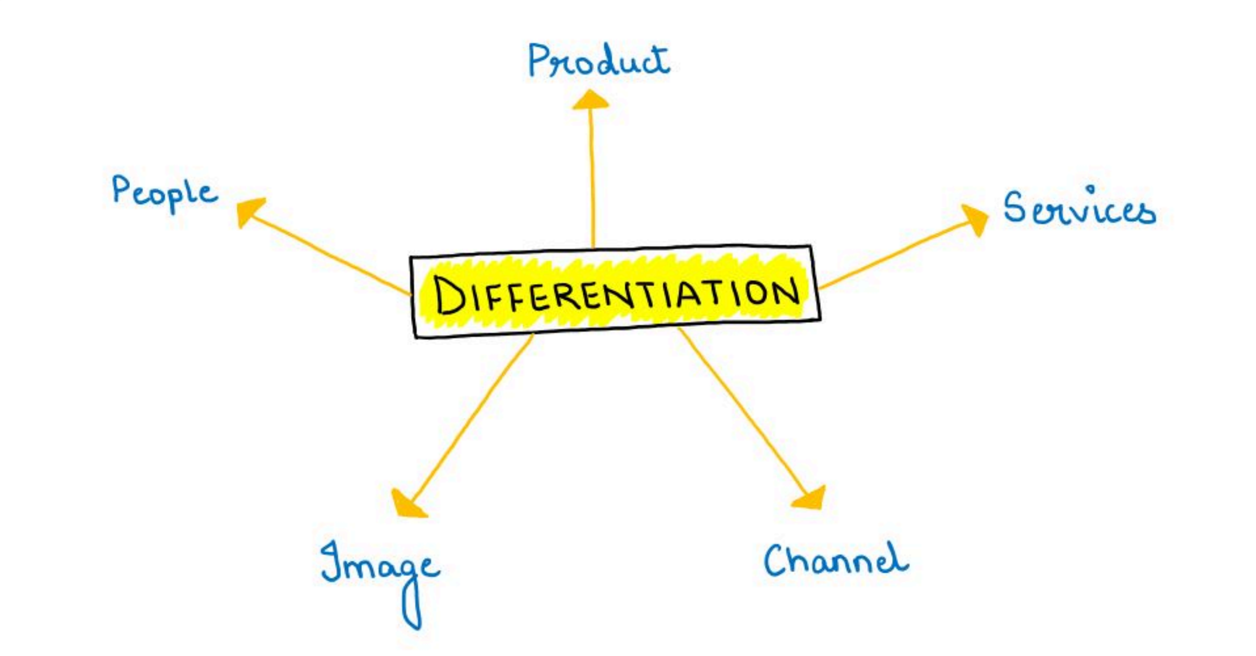
Differentiation is the process of making a product or service distinct and unique from competitors in the eyes of the target market. It involves highlighting specific attributes, features, benefits, or services that set the product apart from similar offerings in the market. Differentiation allows a company to offer something of value that competitors do not, giving it a competitive edge. The goal is to provide value that competitors cannot easily replicate, allowing the company to target a specific group of customers who will recognize and value those differences.

5. Differentiation

In order to establish profitable relationships with intended customers, marketers need to grasp customer needs more effectively than rivals and deliver enhanced customer value. By effectively differentiating itself and establishing a distinctive position that offers superior customer value, a company gains a competitive advantage.

Competitive advantage is an advantage over competitors gained by offering greater customer value, either through lower prices or by providing more benefits that justify higher prices.

If a company positions its product as providing top-notch quality and service, it must ensure that the product genuinely stands out in terms of the promised quality and service.



In the quest for differentiation, the companies explore various avenues throughout the customer experience:

1. **Product Differentiation**: For instance, Patanjali distinguishes its Ayurvedic products by emphasizing natural ingredients and health benefits. Similarly, Tanishq differentiates its jewelry with unique designs and purity assurance, setting it apart in the market.

2. **Services Differentiation**: Companies like Flipkart in India differentiate through quick and efficient delivery services, enhancing customer experience. Additionally, Tata Sky sets itself apart by offering customer-centric service and innovative features in its DTH services.

3. **Channel Differentiation**: Reliance Retail stands out in the Indian market through an extensive network of well-planned and strategically located outlets, providing convenience and accessibility to customers.

4. **People Differentiation**: Indian companies such as Taj Hotels differentiate through their well-trained and hospitable staff, enhancing the overall customer experience and service quality.

5. **Image Differentiation**: Brands like Amul have established a distinct image based on reliability and trust in delivering quality dairy products, fostering a strong brand perception among consumers.

5. Differentiation

If a company identifies multiple potential differentiators that offer competitive advantages, it must now decide which ones to focus on for its positioning strategy. This involves determining the number of distinctions to emphasize and the specific ones.

Some marketers advocate promoting only one key benefit aggressively to the target market; in essence, concentrating on the product or brand's **unique selling proposition** (USP). If a product possesses a clear USP, all marketing communications should center around conveying, "Purchase this product, and you'll gain this benefit."

Not all brand differences hold significance or prove worthwhile; not every difference serves as an effective differentiator. A distinction is worth establishing if it meets the following criteria:

- **Important:** The difference delivers a highly valued benefit to target buyers.
- **Distinctive:** Competitors do not offer the difference, or the company can offer it in a more distinctive way.
- **Superior:** The difference is superior to other ways that customers might obtain the same benefit.
- **Communicable:** The difference is communicable and visible to buyers.
- **Preemptive:** Competitors cannot easily copy the difference.
- **Affordable:** Buyers can afford to pay for the difference.
- **Profitable:** The company can introduce the difference profitably.

5. Differentiation

Competitive Advantage refers to the unique edge or superiority a company has over its competitors, which allows it to attract more customers, generate higher sales, or maintain better margins. It is what makes a company's offerings more desirable than others in the minds of customers.

In simple words, it's the reason why customers choose you over your competitors.

Marketers play a vital role in creating and communicating competitive advantage. It can be built through the following key strategies:

1. Differentiate on Existing Attributes
Improve or highlight existing features that matter most to customers.

Offer better quality, faster service, or lower prices than competitors.

Focus on superior distribution, customer support, or after-sales service.

Example: Domino's differentiates with fast delivery ("30 minutes or free").

2. Introduce New Attributes
Add new features, services, or benefits that competitors don't offer.

Innovate on design, technology, convenience, or sustainability.

Solve a problem in a new way that adds value.

Example: Apple introduced fingerprint sensors and Face ID as new attributes for secure unlocking.

3. Build a Strong Brand
A strong brand creates emotional connection, trust, and loyalty—making it harder for customers to switch.

Use consistent branding, storytelling, and emotional messaging.

Invest in customer experiences that reflect the brand promise.

Example: Nike stands out with the brand message "Just Do It", inspiring motivation beyond just shoes.

---

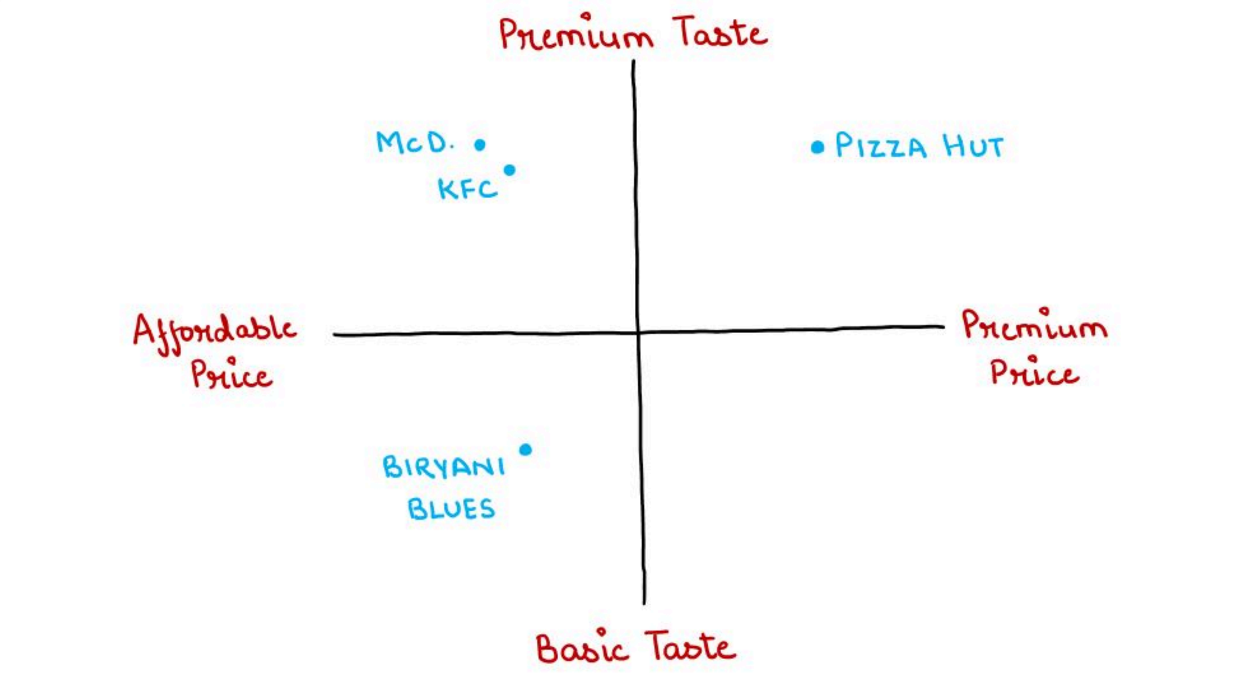
5. Differentiation

Positioning Map (also known as Perceptual Map) is a visual representation that illustrates how consumers perceive different brands in the market relative to each other, based on important attributes or dimensions. It is a strategic tool used in marketing to show how a brand, product, or service is positioned within the market in relation to its competitors. The positioning map helps businesses understand their competitive landscape and identify potential opportunities for differentiation.

Key Elements of Positioning Map are:

- Attributes/Dimensions: These are the key factors or characteristics that consumers consider when evaluating products or brands. These could include price, quality, taste, innovation, convenience, or any other relevant attribute.
- Perceptions of Brands: The map visually represents how consumers perceive different brands or products on these attributes, allowing companies to see where their brand stands relative to competitors.
- Competitive Clusters: Brands that share similar attributes or target similar customer segments tend to form competitive clusters on the map. This helps identify direct competitors and market gaps.
- Axes: Positioning maps often have two axes representing the most significant dimensions (e.g., price vs. quality, taste vs. convenience), where brands are plotted according to consumer perceptions.

To illustrate, price and taste have been identified as the significant dimensions of the Fast-food industry. The perceptual map showing existing brands along these dimensions is given below.



Consider the following:

1. McDonald's and KFC fall within a similar price range, forming a competitive cluster where these brands directly compete for consumer preference based on taste and value.
2. Pizza Hut, with its focus on a diverse menu and premium pricing, targets a unique market segment that prioritizes variety and is willing to pay a premium for it.
3. Local chains like Biryani Bites, specializing in regional cuisine, cater to a different market segment and are not in direct competition with the global fast-food giants.

6. Customer Value Proposition

A **Customer Value Proposition** is a clear statement that explains why a customer should choose your product or service over competitors. It highlights the unique value your offering delivers by solving a problem or fulfilling a need better than others.

Customer Value Proposition = Total Customer Benefits – Total Customer Costs

Total Customer Benefits: All the advantages or value a customer perceives in the product/service.

Total Customer Costs: All the costs the customer associates with acquiring and using the product—this includes not just price, but also time, effort, and risk.

Domains of Customer Value are:

- *Functional Value:* The practical or utilitarian benefits of the product.
  Example: A washing machine cleans clothes quickly and efficiently.
- *Psychological Value:* The emotional or social benefits that create a sense of satisfaction or identity.
  Example: Buying an iPhone may give a sense of prestige or belonging to a premium brand.
- *Monetary Value:* The financial aspect—how much money the customer saves or gains by using the product.
  Example: A fuel-efficient car reduces monthly petrol expenses.

Example:
A food delivery app like Zomato may offer the following:

- Functional Value: Fast and convenient delivery
- Psychological Value: Satisfaction, comfort, and trust in reliable service
- Monetary Value: Discounts and free delivery options

If these benefits outweigh the cost (money, wait time, app usage), the Customer Value Proposition is strong—and the customer is more likely to choose or stay loyal to the service.

6. Customer Value Proposition

Customer Value Analysis (CVA) is a systematic approach to understand how customers perceive the value of a product or service compared to competitors. It involves identifying, measuring, and improving the value a customer gets from your product or service. The process helps companies build a strong Customer Value Proposition (CVP).

Here are the steps involved in Customer Value Analysis:

1. Identify Customer Needs and Expectations

Objective: Understand what customers value the most and the factors they consider when choosing a product or service.

Action: Conduct market research, surveys, focus groups, and analyze customer feedback to identify their functional, psychological, and monetary needs.

Example: A food delivery service like Zomato would need to identify if customers value speed (functional), trust in service (psychological), or affordability (monetary).

2. Assess Competitor Offerings

Objective: Compare how your product or service fares against competitors in terms of the benefits offered.

Action: Examine your competitors' products and services in detail. Evaluate the value they provide and how it compares to yours.

Example: Compare Zomato's delivery speed, service quality, and costs with competitors like Swiggy or local food delivery services.

3. Determine Total Customer Benefits

Objective: Calculate all the perceived benefits your product or service provides to the customer.

Action: Identify all functional, psychological, and monetary benefits offered. Consider tangible benefits (e.g., features, quality, efficiency) and intangible benefits (e.g., brand prestige, satisfaction).

Example: For Zomato, the functional benefit would be fast and reliable delivery; the psychological benefit might be a sense of trust or security in the service; and the monetary benefit would be discounts or deals offered.

4. Calculate Total Customer Costs

Objective: Identify all the costs that customers incur in acquiring and using the product or service.

Action: Consider not only the monetary cost (price) but also the time cost (how long it takes to order or use), effort cost (ease of use), and psychological cost (stress or dissatisfaction).

Example: Zomato's total customer costs would include the cost of food, delivery charges, time waiting for delivery, and any frustration from delayed orders.

5. Calculate Customer Value

Objective: Subtract the total customer costs from the total customer benefits to determine the perceived value.

Action: Use the following formula:

Customer Value = Total Customer Benefits – Total Customer Costs

Example: If Zomato's benefits (speed, reliability, discounts) outweigh the costs (price, delivery time, effort), then the customer value proposition is strong.

6. Evaluate and Compare

Objective: Compare the customer value of your product/service with that of competitors.

Action: Assess how much value your product creates compared to competitors and whether your value proposition is compelling enough to retain customers.

Example: Zomato could compare its customer value to that of Swiggy, determining which has the higher perceived value based on the benefits-to-cost ratio.

7. Identify Areas for Improvement

Objective: Find gaps or opportunities to enhance the customer value proposition.

Action: Look for areas where your product or service can outperform competitors or where you can reduce costs to improve value.

Example: Zomato could explore ways to reduce delivery time or offer additional discounts to create more value for customers.

8. Communicate and Deliver the Value Proposition

Objective: Make sure the value customers will receive is clearly communicated.

Action: Craft a clear and compelling Customer Value Proposition (CVP) that communicates your unique value to customers.

Example: Zomato could communicate its CVP by highlighting fast delivery, trust, and value for money, which resonates with customers' needs.

9. Monitor and Adjust

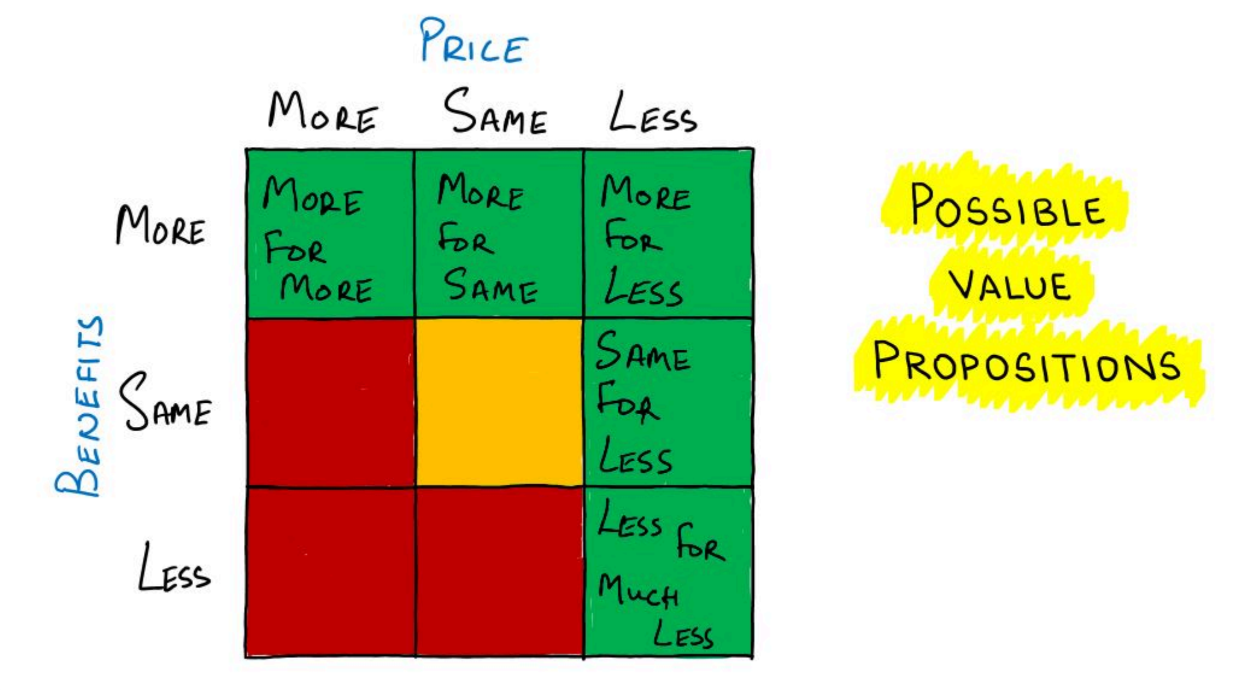
Objective: Continuously monitor customer feedback, market conditions, and competitors to ensure the value proposition remains competitive.
Action: Use metrics and customer insights to adjust the offering and ensure it meets changing needs.
Example: Zomato may adjust its pricing model or delivery options based on customer feedback or changes in competitor strategies.

By following these steps, businesses can assess the value they deliver to customers and optimize their Customer Value Proposition (CVP), ensuring they meet customer needs and stay ahead of competitors.

---

6. Customer Value Proposition

The holistic positioning of a brand is referred to as the brand's **value proposition**—the complete array of benefits on which the brand differentiates itself and establishes its position. It serves as the response to the customer's query, "Why should I opt for your brand?"



The figure shows possible value propositions on which a company might position its products. In the figure, the five cells on the top row and right-most column represent winning value propositions—differentiation and positioning that give the company a competitive advantage. The cells at the lower left and bottom, however, represent losing value propositions. The center cell represents at best a marginal proposition.

Possible value propositions on which a company might position its products are given below:

1. More for More: More-for-more positioning involves providing the most upscale product or service and charging a higher price to cover the higher costs. A more-for-more market offering not only offers higher quality, it also gives prestige to the buyer. It symbolizes status and a loftier lifestyle.

2. More for the Same: A company can attack a competitor's value proposition by positioning its brand as offering more for the same price. For example, if any firm positions itself as the "upscale discounter."

3. The Same for Less: Offering the same for less can be a powerful value proposition—everyone likes a good deal. They don't claim to offer different or better products.

4. Less for Much Less: A market almost always exists for products that offer less and therefore cost less. In these cases, consumers will gladly settle for less-than-optimal performance or give up some of the bells and whistles in exchange for a lower price. Therefore, Positioning involves meeting consumers' lower performance or quality requirements at a much lower price.

5. More for Less: This would be the winning value proposition to offer more for less. Many companies claim to do this. And, in the short run, some companies can achieve such lofty position. Yet in the long run, companies will no doubt find it very difficult to sustain such best-of-both positioning. Offering more usually costs more, making it difficult to deliver on the "for-less" promise. Companies that try to deliver both may lose out to more focused competitors.

7. Market Positioning

In addition to choosing the segments it aims to reach, the company must determine its value proposition—how it will generate unique value for these chosen segments and the positions it seeks to establish within those segments.

Product positioning refers to how consumers perceive the product's key attributes, representing its standing in consumers' perceptions compared to rival products. Often, positioning is influenced not only by the product itself but also by the product's brand identity. Branding specialists suggest that while products are made in factories, brands are formed within people's minds.

Positioning is the act of designing the product and service offering of a company in the minds of the customers so that:

- The consumer can relate the product and service offering to a need or want,
- The marketer can create a distinctive image of himself and
- The consumer can perceive a brand’s characteristics relative to those of competitive offerings.

Positioning involves defining and communicating how a brand compares to its competitors, focusing on both similarities and differences.

To determine the positioning, marketers must:
(1) select a frame of reference by identifying the target market and key competitors,
(2) establish the ideal points-of-parity and points-of-difference that align with the chosen frame of reference, and
(3) craft a brand mantra that captures the brand’s core positioning and essence.

---

7. Market Positioning

Frame of Reference refers to identifying which competitors a brand competes with and how they should be analyzed in the market. It involves determining the target market and the key competitors based on product categories, customer needs, and market segments.

For example, Pepsi competes with Coca-Cola in the soft drink market. However, the competition may be broader when considering other drink categories like coffee, energy drinks, or bottled water. So, the frame of reference can change depending on how a company defines its competitors and market space.

Key Points:

- Category Membership: Identifying the product category and the closest substitutes.
- Industry vs. Market Competitors: Industry competition focuses on companies offering similar products, while market competition can include any business addressing the same customer need (e.g., pencils and typewriters for writing needs).
- Broader Competition: Companies should look beyond immediate competitors to identify potential future threats or competitors from emerging technologies or industries.

---

7. Market Positioning

Points-of-Difference (PODs) are unique attributes or benefits that a consumer associates with a brand and believes it cannot find to the same extent with its competitors. These differentiators make a brand stand out in the market, offering an edge over others.

Types of Points-of-Difference can be:

- Functional PODs: These relate to practical benefits that a product offers, such as better performance, durability, or efficiency. Tata Salt positions itself as the "Desh ka namak" (nation's salt), emphasizing its purity and iodized benefits, which make it a healthier option compared to competitors.
- Emotional PODs: These focus on the emotional connection between the brand and consumers, such as trust, happiness, or inspiration. Amul uses the tagline “The Taste of India” and associates itself with joy, nostalgia, and the comfort of home-cooked food, fostering an emotional connection with consumers.
- Self-Expressive PODs: These help consumers express their identity or personal values. Royal Enfield motorcycles represent adventure, masculinity, and independence, appealing to consumers who want to project an image of ruggedness and freedom.

Criteria for Strong Points-of-Difference are:

- *Desirability to Consumers:* The attribute must be relevant and valuable to the consumer. Patanjali Ayurved uses natural and herbal ingredients, a key benefit for consumers who prefer products made from natural, chemical-free ingredients.
- *Deliverability by the Company:* The company must have the resources and commitment to deliver the brand’s promises consistently. HDFC Bank offers quick and reliable banking services, including 24/7 customer support, something that is consistently available and valued by consumers.
- *Differentiability from Competitors:* The brand’s association must be seen as distinct and superior to what competitors provide. Swiggy differentiates itself in the competitive food delivery market by offering fast delivery times, user-friendly apps, and features like live tracking, setting it apart from other competitors like Zomato.

Examples of Strong Points-of-Difference in Indian Brands are:

- Tata Motors: Known for its innovation in electric vehicles (EVs) like Tata Nexon EV, which offers an affordable and eco-friendly alternative in the Indian car market.
- Airtel: Differentiates itself through superior network coverage and innovative services such as Airtel Thanks rewards program and a strong 4G network presence in rural areas.
- Bajaj Pulsar: Known for performance and styling in the motorcycle category, with a focus on youth and thrill-seeking consumers.

These brands have strong points-of-difference that make them stand out, creating customer loyalty and a competitive advantage in their respective markets.

7. Market Positioning

Points-of-Parity (POPs) are attributes or benefits that are not unique to a brand but are shared with other brands in the same category. These are necessary conditions for a brand to be considered a legitimate competitor in a market, but they do not provide a competitive advantage.

Types of Points-of-Parity are:

- *Category Points-of-Parity:* These are the basic requirements or essential attributes that consumers expect in a product or service category. In the travel industry, for a travel agency to be credible, it must offer basic services such as air and hotel reservations, vacation packages, and payment options. These are the minimum expectations for a company to be considered a legitimate travel agency.
- *Correlational Points-of-Parity:* These occur when a positive brand attribute or benefit leads to a negative perception in another area. A brand that is known for being inexpensive may struggle to also be viewed as a premium or high-quality brand. Consumers may see a trade-off between affordability and quality, leading to a negative association with one of these attributes.
- *Competitive Points-of-Parity:* These are used to counteract competitors' strengths and establish that a brand is at least equal to competitors in key areas. Hyundai, when entering the global market, had to ensure that its vehicles met basic standards for reliability, safety, and performance—attributes that consumers expected from any car brand. Once Hyundai achieved parity in these areas, it could then emphasize other points-of-difference (e.g., value for money, warranty coverage).

Points-of-parity ensure that a brand is seen as a viable option in the market by meeting essential consumer expectations. While achieving points-of-difference (PODs) can provide a competitive edge, POPs are crucial to positioning because they demonstrate that a brand is on par with its competitors in key areas. Brands can gain a competitive advantage by focusing on differentiating themselves in other areas while ensuring they meet the required points-of-parity.

Coca-Cola and Pepsi both have category points-of-parity (carbonated soft drink, sugar content, similar flavors) and competitive points-of-parity (availability in stores, reasonable pricing). However, they differentiate themselves with branding, emotional appeal, and unique marketing strategies.

7. Market Positioning

Once a brand positioning strategy is finalized, it is important to communicate it effectively to the target audience. This communication involves several crucial steps:

1. Create a Positioning Statement

A positioning statement clearly outlines what makes the brand unique and why consumers should choose it. The key components include:

- Target Audience: Who is the brand designed for?
- Frame of Reference: What category does the brand belong to?
- Point of Difference: What sets the brand apart from competitors?
- Reason to Believe: Why should customers trust the brand’s claims?

Example:
Positioning Statement for Bajaj Pulsar:
"For young, adventurous riders looking for power and style, Bajaj Pulsar offers cutting-edge performance and bold design, making every ride an unforgettable experience."

2. Communicate Category Membership

It’s crucial to clearly define the category the brand is in, helping consumers quickly understand the market it belongs to. For instance, if a brand offers a new energy drink, the messaging should focus on the energy drink category, making it easier for consumers to compare it to other brands in that category.

Example:
For Red Bull India, the messaging focuses on the "energy drink" category:
"Red Bull is the energy drink that gives you wings." This tells consumers exactly where it belongs and what its primary purpose is.

3. Communicate Conflicting Benefits

Some brands manage to offer benefits that may seem contradictory. These conflicting benefits need to be communicated clearly so that consumers understand the value they provide despite apparent contradictions.

Example:
For Tata Nano, the brand communicated its position as the "cheapest car" in India but also ensured it was "safe" and "comfortable," making the idea of an affordable car more aspirational without sacrificing essential benefits.

4. Positioning as Storytelling

Storytelling is a powerful tool to help a brand connect emotionally with consumers. By sharing a narrative, brands can humanize themselves and become more relatable and memorable.

Example:
For Amul, the brand's story of serving fresh dairy products with "The Taste of India" resonates deeply with its target audience. Amul’s advertising, often humorous and timely, becomes part of everyday conversations, making it more memorable to the Indian audience.

Benefits of Storytelling:

- Emotional Connection: It creates a personal connection with the consumer.
- Relatability: Makes the brand feel more like a part of the consumer's life.
- Memorability: A good story stays with the audience, making the brand top of mind.

Example:
For Fevicol (a popular adhesive brand), the commercials often tell funny, relatable stories of how its strong bond holds things together. It’s not just an adhesive, but a symbol of reliability and lasting power in Indian households.

7. Market Positioning

It is not unusual for a brand to recognize multiple existing or potential perspectives of competition, particularly when the competitive landscape broadens or the company intends to venture into new product categories.

In such scenarios, marketers face a decision. When dealing with multiple frames of reference, there are two main approaches. One is to first *establish the most effective positioning* for each type or category of competitors and then *explore if it is possible to create a unified positioning* that can effectively encompass them all. However, if the competition is highly diverse, it might be necessary to prioritize competitors and select the most significant group of competitors to serve as the competitive frame. An essential factor to remember is to avoid attempting to cater to all preferences—that often results in a position that lacks distinctiveness and effectiveness.

Moreover, when confronted with numerous competitors spanning various categories or subcategories, it could be beneficial to either craft positioning at the category level for all relevant categories (e.g., "quick-serve restaurants" or "supermarket take-home coffee" for Starbucks) or identify an exemplary brand from each category (such as McDonald's or NESCAFÉ for Starbucks). This strategic choice can help maintain clarity and relevance across diverse markets.

---

7. Market Positioning

On occasions, a company might find itself in a position where it can simultaneously fit into two different competitive perspectives using the same set of attributes and benefits. In these instances, the attributes and benefits that serve as points-of-difference in one category become points-of-parity in the other, and vice versa. This strategic approach can lead to expanded market coverage and appeal to a broader range of customers.

For instance, Subway restaurants have positioned themselves as providers of sandwiches that are both healthy and delicious. This positioning allows them to establish a point-of-parity (POP) concerning taste and a point-of-difference (POD) on health when compared to fast-food chains like McDonald’s and Burger King. Simultaneously, Subway also creates a POP on health and a POD on taste when compared to health food restaurants and cafés.

Straddle positions provide brands with the opportunity to address various consumer preferences and attract a wider audience. Although straddle positioning seems appealing as it attempts to offer a compromise between differing consumer desires, it also comes with a challenge. If the points-of-parity and points-of-difference lack credibility, the brand might not be seen as a legitimate competitor in either of the categories it is trying to straddle. This highlights the importance of maintaining authenticity and delivering on the promises made to consumers.

---

8. Other Approaches of Positioning

Emotional Branding

Many marketing professionals emphasize the importance of including both rational and emotional elements in a brand's positioning. This means that a brand's positioning should include aspects that appeal to both logical reasoning and emotional connections.

Brand Mantras

To refine brand positioning and guide how marketers help consumers perceive a brand, companies can define a brand mantra. This succinct phrase, consisting of three to five words, encapsulates the essence of the brand and is closely related to concepts like "brand essence" and "core brand promise." Its purpose is to ensure that everyone within the organization, as well as external marketing partners, comprehends the fundamental representation of the brand with consumers, allowing them to align their actions accordingly.

Brand Narratives and Storytelling

Instead of outlining specific attributes or benefits, some marketing experts describe brand positioning as telling a narrative or story. Many companies find value in crafting a rich and imaginative story behind their product or service. Five components contribute to narrative branding: the brand story in words and metaphors, the consumer journey, the visual language, the experiential expression of the narrative, and the brand's role in consumers' lives. A framework for a brand story includes the setting, cast, narrative arc, and language elements.

Cultural Branding

Douglas Holt asserts that companies aiming to build iconic, leading brands need to gather cultural insights, follow cultural branding principles, and employ cultural experts.

---

1. Introduction

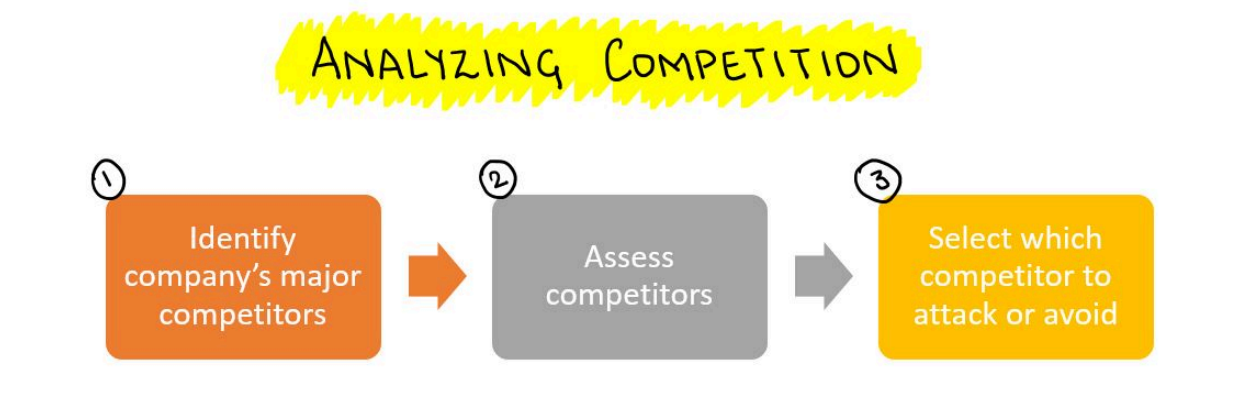
To prepare an effective marketing strategy, a company must consider its competitors as well as its customers. Building profitable customer relationships requires satisfying target consumer needs better than competitors do. A company must continuously analyze competitors and develop competitive marketing strategies that position it effectively against competitors and give it the strongest possible competitive advantage.

Competitive advantage is an advantage over competitors gained by offering consumers greater value.

---

2. Analyzing Competition

Competitor Analysis first involves identifying the company's major competitors, using both an industry-based and a market-based analysis. The company then gathers information on competitors' objectives, strategies, strengths and weaknesses, and reaction patterns. With this information in hand, it can select competitors to attack or avoid.



Let us understand these 3 steps:

1. Identify company's major competitors
2. Assess Competitors
3. Select which competitors to attack or avoid

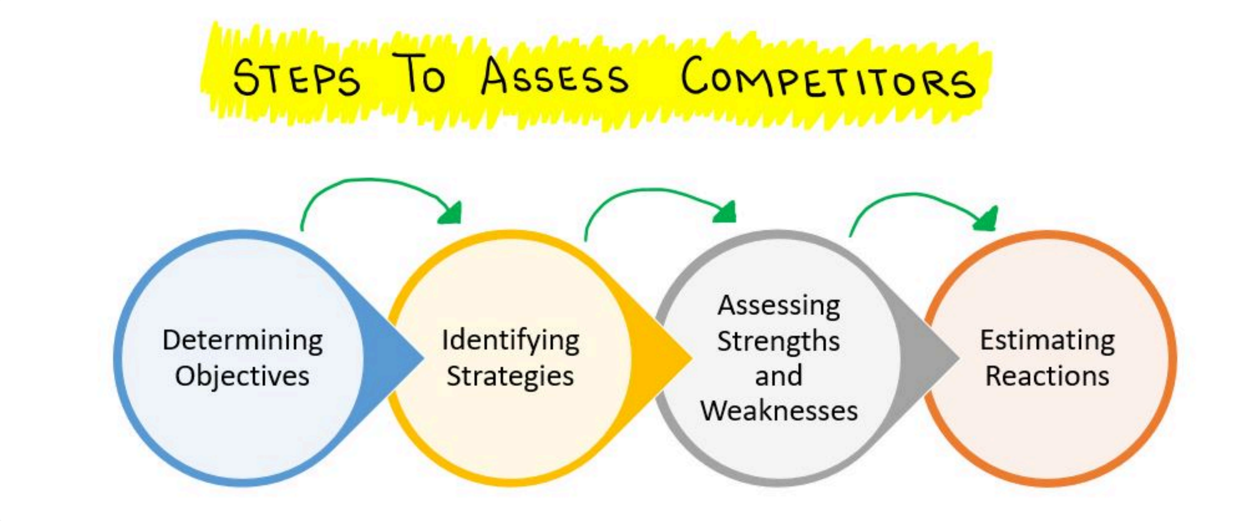
2. Analyzing Competition

In determining its major competitors, a company should adopt a broad perspective rather than narrowly defining its competition. While the immediate competitors offer similar products and services to the same customer base at similar prices, a more comprehensive view includes all companies within the same product category. For example, a hotel like the Taj Hotel doesn't only compete with other hotels but also with any businesses providing accommodations to travelers.

Taking this perspective further, competitors extend to all companies offering products or services that fulfill the same consumer needs. In this broader context, the Taj Hotel competes not just with other lodging options but with all travel and leisure offerings, including cruises, vacation homes, and international vacations.

To avoid **competitor myopia,** companies must be vigilant about recognizing both direct and indirect competitors. Overemphasizing immediate rivals can lead to overlooking less obvious but equally significant challenges in the market landscape.

2. Analyzing Competition



Assessing competitors is a critical aspect of strategic marketing that involves collecting, interpreting, and continuously updating competitive intelligence. To effectively assess competitors, several key activities should be adopted:

1. Determining Competitors' Objectives: Understanding a competitor's objectives is essential. Companies need to ascertain the relative importance placed by competitors on various goals, such as current profitability, market share growth, technological leadership, and more. This knowledge reveals a competitor's satisfaction with their current position and helps anticipate their responses to different competitive actions. For example, a cost-focused competitor will react strongly to cost-reduction innovations but less so to increased advertising.

2. Identifying Competitors' Strategies: Competitors can often be grouped into strategic categories based on their pursuit of similar strategies within a particular target market. Intense competition typically exists within these strategic groups. However, rivalry can also extend beyond groups due to overlapping customer segments, perceived similarities in product offerings, and expansions into new strategy segments.

3. Assessing Competitors' Strengths and Weaknesses: Understanding a competitor's strengths and weaknesses is crucial. This information can be gathered through various means, including secondary data, personal experience, customer feedback, and benchmarking against industry leaders. Companies may also conduct primary marketing research to gain insights into how customers, suppliers, and dealers perceive competitors.

4. Estimating Competitors' Reactions: Predicting a competitor's likely actions and reactions is essential for effective strategy development. The competitor's objectives, strategies, strengths, and weaknesses play a significant role in shaping their responses to market changes, such as price adjustments, increased promotional efforts, or new product launches. Additionally, understanding a competitor's business philosophy, culture, and guiding beliefs provides valuable insights into their behavior.

2. Analyzing Competition

In determining the primary competitors to confront or evade, a company's strategic decisions regarding customer focus, positioning, and marketing strategies significantly shape its competitive landscape. Several factors guide this selection process:

Assessment of Competitors: Companies often opt to engage with weaker competitors, requiring fewer resources and time. Yet, triumphing against them might yield limited gains. Conversely, contending with stronger competitors demands more effort but often results in higher returns due to their weaknesses.

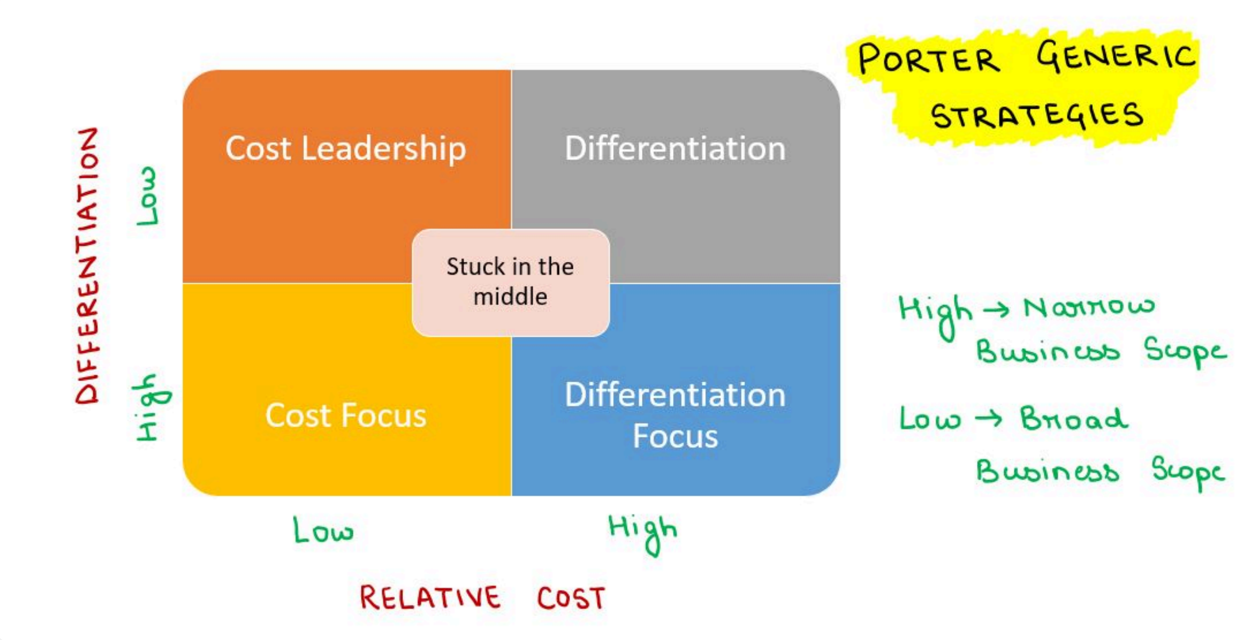
Customer Value Analysis: Evaluating competitor strengths and weaknesses via customer value analysis is pivotal. Identifying valued customer attributes and assessing performance against rivals helps discern where a company stands in delivering superior value. This insight allows for price advantages or increased market share based on superior offerings.

Strategic Impact of Competitors: Competitors can bring strategic benefits by sharing development costs, validating new technologies, or stimulating market demand. However, not all competitors are beneficial—some play by industry rules (good competitors), while others break them (bad competitors), opting for aggressive tactics and high risks.

Uncontested Market Spaces: Instead of direct rivalry, some companies seek uncharted territories with no direct competition. Adopting a "blue ocean strategy," they create unique products or services, rendering competition inconsequential. This value innovation sparks new demand, often pushing rivals into insignificance by inventing uncontested market spaces.

3. Porter Generic Strategies

Michael Porter suggested basic competitive positioning strategies that companies can follow—three winning strategies and one losing one.



The 3 winning strategies are as follows:

1. Overall cost leadership: Here the company works hard to achieve the lowest production and distribution costs. Low costs let the company price lower than its competitors and win a large market share.

For example, Maruti Suzuki, a leading car manufacturer, has a strong focus on cost leadership. By optimizing its production and supply chain efficiencies, Maruti ensures lower production costs. This strategy enables them to price their cars competitively, capturing a significant market share in the affordable car segment in India.

2. Differentiation: Here the company concentrates on creating a highly differentiated product line and marketing program so that it comes across as the class leader in the industry.

For example, Mercedes-Benz in India strategically focuses on differentiation. The brand emphasizes luxurious features, cutting-edge technology, and a superior driving experience. Their marketing campaigns position Mercedes-Benz as a premium and innovative choice in the luxury car market, creating a perception of class leadership.

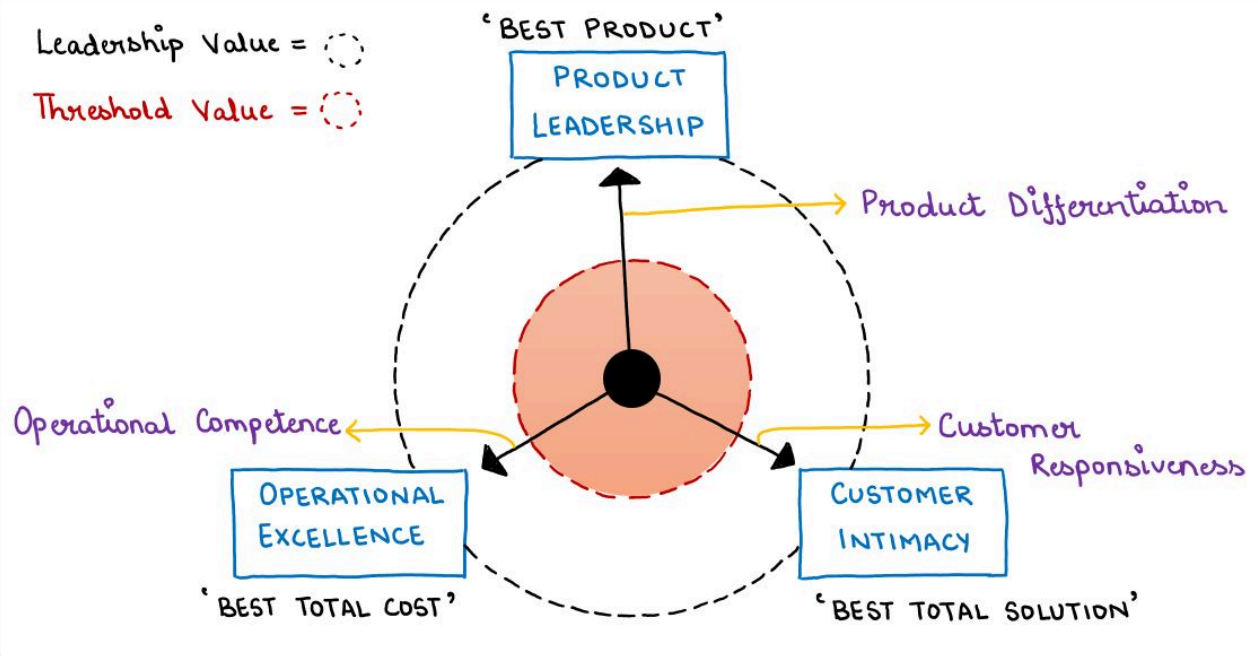
3. Focus: Here the company focuses its effort on serving a few market segments well rather than going after the whole market.

For example, Royal Enfield, a subsidiary of Eicher Motors, follows a focused strategy. It concentrates on a niche market segment of retro-style motorcycles. Their motorcycles cater to enthusiasts seeking classic designs and an authentic riding experience, allowing them to establish a strong brand presence and loyal customer base within this specialized segment.

Companies that pursue a clear strategy—one of the above—will likely perform well. The firm that carries out that strategy best will make the most profits. But firms that do not pursue a clear strategy—**middle-of-the-roaders (stuck in the middle)** often suffers.

3. Porter Generic Strategies

Later, 2 Marketing Consultants, *Michael Treacy* and *Fred Wiersema* in their book ‘The Discipline of Market Leaders’ modified Porter's generic strategies to describe 3 basic "value disciplines" that can create customer value and provide a competitive advantage.



These are given below:

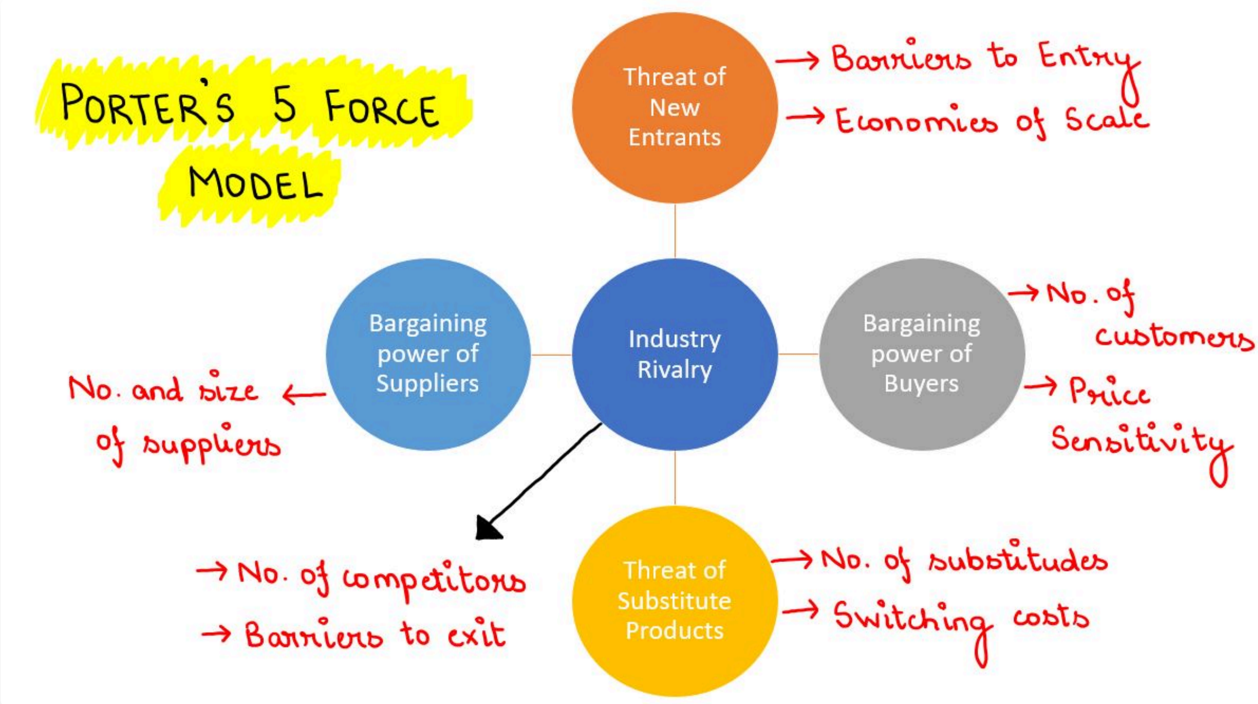
1. **Operational excellence:** The company provides superior value by leading its industry in price and convenience. It works to reduce costs and create a lean and efficient value delivery system. It serves customers who want reliable, good-quality products or services but want them cheaply and easily.

2. **Customer intimacy:** The company provides superior value by precisely segmenting its markets and tailoring its products or services to exactly match the needs of targeted customers. It specializes in satisfying unique customer needs through a close relationship with and intimate knowledge of the customer.

3. **Product leadership:** The company provides superior value by offering a continuous stream of leading-edge products or services. It aims to make its own and competing products obsolete. Product leaders are open to new ideas, relentlessly pursue new solutions, and work to get new products to market quickly. They serve customers who want state-of-the-art products and services regardless of the costs in terms of price or inconvenience.

Some companies successfully pursue more than one value discipline at the same time. But by trying to be good at all value disciplines, a company usually ends up being best at none. Thus, most excellent companies focus on and excel at a single value discipline while meeting industry standards on the other two. Such companies design their entire value delivery network to single-mindedly support the chosen discipline.

4. Porter's 5 Forces Model



Michael Porter provided a framework that models an industry as being influenced by five forces. He contends that a corporation is most concerned with the intensity of competition within its industry. The level of this intensity is determined by basic competitive forces. The collective strength of these forces determines the ultimate profit potential in the industry, where profit potential is measured in terms of long-run return on invested capital. In carefully scanning of its industry, a corporation must assess the importance to its success of each of 5 forces: threat of new entrants, rivalry among existing firms, threat of substitute products or services, bargaining power of buyers, bargaining power of suppliers. The stronger each of these forces, the more limited companies are in their ability to raise prices and earn greater profits. Although Porter mentions only five forces, a sixth—**other stakeholders**—is added here to reflect the power that governments, local communities, and other groups from the task environment wield over industry activities.

The strategic business manager seeking to develop an edge over rival firms can use this model to better understand the industry context in which the firm operates. These 6 competitive forces are:

1) Threat of New Entrants

New entrants to an industry can raise the level of competition, thereby reducing its attractiveness. They are, therefore, threats to an established corporation. The threat of new entrants largely depends on the barriers to entry. High entry barriers exist in some industries (e.g., shipbuilding) whereas other industries are very easy to enter (e.g., estate agency, restaurants). Some of the possible barriers to entry are:

1. *Economies of scale:* Scale economies in the production and sale of a product in an industry provides competitive edge over others. For example, Intel has a significant cost advantage over any new rival in the production and sale of microprocessors.
2. *Product differentiation:* Corporations such as Procter & Gamble and General Mills, which manufacture products such as Tide, create high entry barriers through their high levels of advertising and promotion.
3. *Capital requirements:* The need to invest huge financial resources in manufacturing facilities creates a significant barrier to entry to any competitor for example, in order to produce large commercial airplanes Boeing and Airbus have competitive advantage.
4. *Switching costs:* Once a software program such as Excel or Word becomes established in an office, office managers are very reluctant to switch to a new program because of the high training costs.
5. *Access to distribution channels:* Small entrepreneurs often have difficulty obtaining supermarket shelf space for their goods because large retailers charge for space on their shelves and give priority to the established firms who can pay for the advertising needed to generate high customer demand.
6. *Cost disadvantages independent of size:* Once a new product earns sufficient market share to be accepted as the standard for that type of product, the maker has a key advantage. Microsoft's development of the first widely adopted operating system

(MSDOS) for the IBM-type personal computer gave it a significant competitive advantage over potential competitors. Its introduction of Windows helped to cement that advantage so that the Microsoft operating system is now on more than 90% of personal computers worldwide.
7. *Government policy:* Governments can limit entry into an industry through licensing requirements by restricting access to raw materials, such as oil-drilling sites in protected areas.

2) Threat of Substitutes

A substitute product is a product that appears to be different but can satisfy the same need as another product. For example, e-mail is a substitute for the fax. The presence of substitute products can lower industry attractiveness and profitability because they limit price levels. To the extent that switching costs are low, substitutes may have a strong effect on an industry. Tea can be considered a substitute for coffee. If the price of coffee goes up high enough, coffee drinkers will slowly begin switching to tea. The price of tea thus puts a price ceiling on the price of coffee.

Sometimes the identification of possible substitute products or services, which means searching for products or services that can perform the same function, even though they have a different appearance and may not appear to be easily substitutable, is a very difficult task. This threat of substitute products depends on Buyers' willingness to substitute, the relative price and performance of substitutes, the costs of switching to substitutes.

3) Bargaining Power of Suppliers

Suppliers are the businesses that supply materials & other products into the industry. The cost of items bought from suppliers (e.g., raw materials, components) can have a significant impact on a company's profitability. If suppliers have high bargaining power over a company, then in theory the company's industry is less attractive. Suppliers can affect an industry through their ability to raise prices or reduce the quality of purchased goods and services. A supplier or supplier group is powerful if some of the following factors apply:

1. The supplier industry is dominated by a few companies, but it sells to many (for example, the petroleum industry).
2. Its product or service is unique and/or it has built up switching costs (for example, word processing software).
3. Substitutes are not readily available (for example, electricity).
4. Suppliers are able to integrate forward and compete directly with their present customers (for example, a microprocessor producer such as Intel can make PCs).
5. A purchasing industry buys only a small portion of the supplier group's goods and services and is thus unimportant to the supplier (for example, sales of lawn mower tyres are less important to the tyre industry than are sales of auto tyres).

4) Bargaining Power of Buyers

Buyers are the people/organisations who create demand in an industry. Buyers affect an industry through their ability to force down prices, bargain for higher quality or more services and play competitors against each other. A buyer or a group of buyers is powerful if some of the following factors hold true:

1. A buyer purchases a large proportion of the seller's product or service (for example, oil filters purchased by a major auto maker).
2. A buyer has the potential to integrate backward by producing the product itself (for example, a newspaper chain could make its own paper).
3. Alternative suppliers are plentiful because the product is standard or undifferentiated (for example, motorists can choose among many petrol pumps).
4. Changing suppliers' costs very little (for example, office supplies are easy to find).
5. The purchased product represents a high percentage of a buyer's costs, thus providing an incentive to shop around for a lower price (for example, gasoline purchased for resale by convenience stores makes up half their total costs).
6. A buyer earns low profits and is thus very sensitive to costs and service differences (for example, grocery stores have very small margins).
7. The purchased product is unimportant to the final quality or price of a buyer's products or services and thus can be easily substituted without affecting the final product adversely (for example, electric wire bought for use in lamps).

5) Intensity of Rivalry

The intensity of rivalry between competitors in an industry will depend on the structure of competition, the structure of industry costs, degree of differentiation, switching costs. In most industries, corporations are mutually dependent. A competitive move by one firm can be expected to have a noticeable effect on its competitors and thus may cause retaliation. For example, companies such as Dell and Gateway into a PC industry previously dominated by IBM, Apple, and Compaq increased the level of competitive activity to such an extent that any price reduction or new product introduction was quickly followed by similar moves from other PC makers.

According to Porter, intense rivalry is related to the presence of several factors, including:

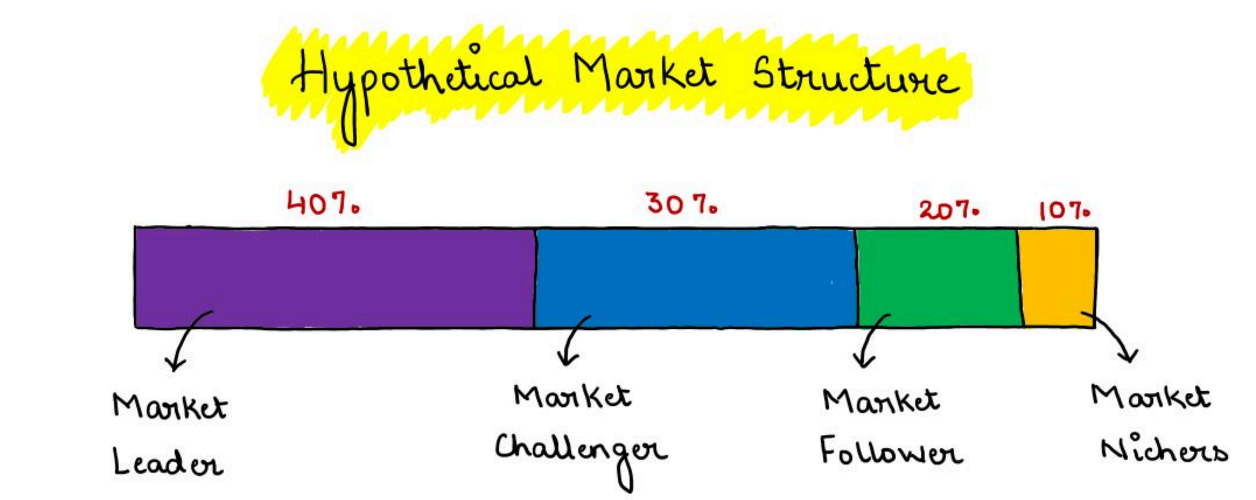
1. *Number of competitors:* When competitors are few and roughly equal in size, such as in the auto and major home appliance industries, they watch each other carefully to make sure that they match any move by another firm with an equal countermove.
2. *Rate of industry growth:* Any slowing in passenger traffic tends to set off price wars in the airline industry because the only path to growth is to take sales away from a competitor.
3. *Product or service characteristics:* A product can be very unique, with many qualities differentiating it from others of its kind or it may be a commodity, a product whose characteristics are the same, regardless of who sells it. For example, most people choose a petrol station based on location and pricing because they view petrol as a commodity.
4. *Amount of fixed costs:* Because airlines must fly their planes on a schedule, regardless of the number of paying passengers for any one flight, they offer cheap standby fares whenever a plane has empty seats.
5. *Capacity:* If the only way a manufacturer can increase capacity is in a large increment by building a new plant (as in the paper industry), it will run that new plant at full capacity to keep its unit costs as low as possible thus producing so much that the selling price falls throughout the industry.
6. *Height of exit barriers:* Exit barriers keep a company from leaving an industry. The brewing industry, for example, has a low percentage of companies that voluntarily leave the industry because breweries are specialized assets with few uses except for making beer.
7. *Diversity of rivals:* Rivals that have very different ideas of how to compete are likely to cross paths often and unknowingly challenge each other's position. This happens often in the retail clothing industry when a number of retailers open outlets in the same location thus taking sales away from each other.

6) Relative power of other stakeholders

A sixth force should be added to Porter's list to include a variety of stakeholder groups from the task environment. Some of these groups are governments (if not explicitly included elsewhere), local communities, creditors (if not included with suppliers), trade associations, special-interest groups, unions (if not included with suppliers), shareholders, and complementors. A complementor is a company (e.g., Microsoft) or an industry whose product works well with a firm's (e.g., Intel's) product and without which the product would lose much of its value. An example of complementary industries is the tyre and automobile industries. The importance of these stakeholders varies by industry. The issue, therefore, is that when complements are an important determinant of demand for an industry's products, industry profits depend critically on there being an adequate supply of complementary products. When the number of complementors is increasing and they produce attractive complementary products, it boosts demand and profits in the industry and can open up many new opportunities for creating value. Conversely, if complementors are weak and are not producing attractive complementary products, it can be a threat that slows industry growth and limits profitability.

---

5. Competitive Positions



Firms competing in a given target market at any point in time differ in their objectives and resources. Based on the roles firms play in the target market, there are 4 types of competitive positions a firm has acquired:

1. Market leader: The market leader is dominant in its industry. It has the largest market share and extensive distribution arrangements.

2. Market challenger: A Market challenger is a runner-up firm that is fighting hard to increase its market share in an industry.

3. Market follower: A market follower is an organisation in a strong, but not dominant position that is content to stay at that position. The rationale is that by developing strategies parallel to those of the market leader, they will gain a good share of the market while being exposed to very little risk. This is a *play it safe* strategy.

4. Market specialist or Niche: In this niche strategy, the firm concentrates on a select few target segments that the other firms in an industry overlook or ignore. This is also called a *focus strategy*. By focusing marketing efforts on one or two narrow market segments and tailoring the marketing mix, the organisation can better meet the needs of that target market. The firm typically looks to gain a competitive advantage through effectiveness rather than efficiency.

---

6. Market Leader Strategies

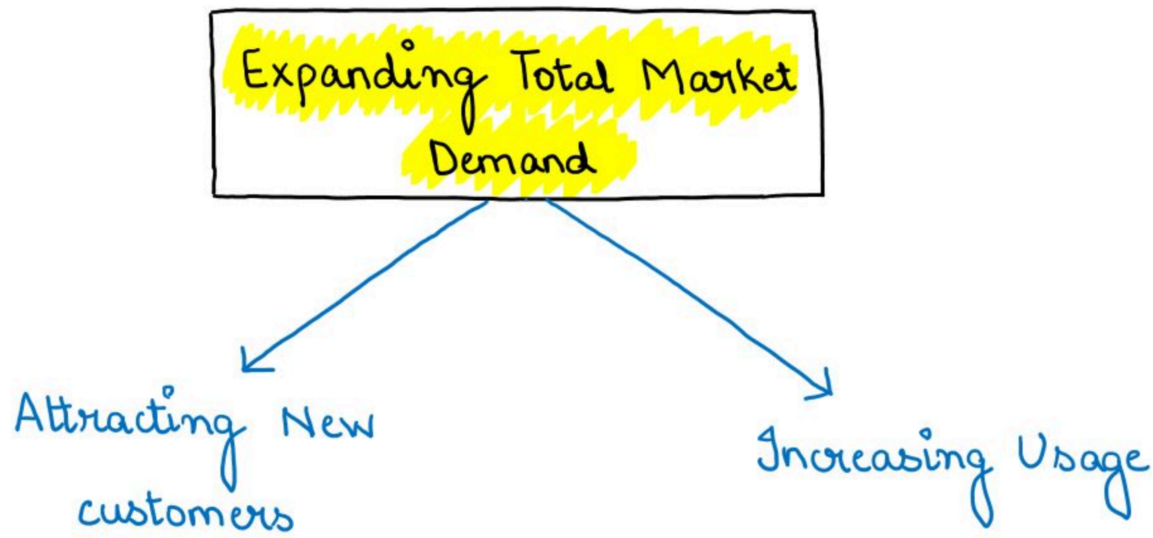
The Market leader has the largest market share and usually leads the other firms in price changes, new product introductions, distribution coverage, and promotion spending. Competitors focus on the leader as a company to challenge, imitate, or avoid.

To remain market leader, a firm can take any of 3 actions.

1. First, they can find ways to *expand total demand*.
2. Second, they can *protect their current market share* through good defensive and offensive actions.
3. Third, they can try to *expand their market share further*, even if market size remains constant.

---

6. Market Leader Strategies



When the overall market expands, the dominant company tends to garner the most advantages. Typically, the market leader seeks new avenues either by acquiring new customers or by increasing usage among existing ones.

1. Attracting New Customers

a. **Market-Penetration Strategy:** Companies employ strategies like Coca-Cola's efforts to entice non-soda drinkers, expanding their consumer base. By targeting health-conscious individuals or those preferring non-carbonated beverages, Coca-Cola broadens its market reach.

b. **New-Market Segment Strategy**: Brands like Apple tap into a new market segment with innovative gadgets, attracting users who seek advanced technology experiences. This strategy enables Apple to explore a previously untapped market.

c. **Geographical-Expansion Strategy:** Xiaomi's entry into diverse global markets brings its affordable smartphones to new regions, accessing customers who previously didn't have access to its products.

2. Increasing Usage

a. **Product Redesign:** LG introduces energy-efficient appliances, encouraging increased usage by emphasizing sustainability and cost-effectiveness. Such innovation prompts consumers to utilize these appliances more frequently.

b. **Enhanced Accessibility:** Amazon's expansion of Prime services and one-day deliveries increases consumer interaction and prompts more frequent purchases, thus enhancing overall usage frequency.

6. Market Leader Strategies

Firms can protect their market share using two main approaches: Proactive Marketing and Defensive Marketing. Here's a breakdown of how companies in India use these strategies.

1. Proactive Marketing

(i) Responsive Anticipation

This strategy is about recognizing market trends and making moves before they fully manifest. For instance, Reliance Jio anticipated the shift to high-speed data services in India. By entering the market with affordable 4G data plans, Jio responded to a growing demand for better internet connectivity, forcing competitors like Airtel and Vodafone to quickly adapt.

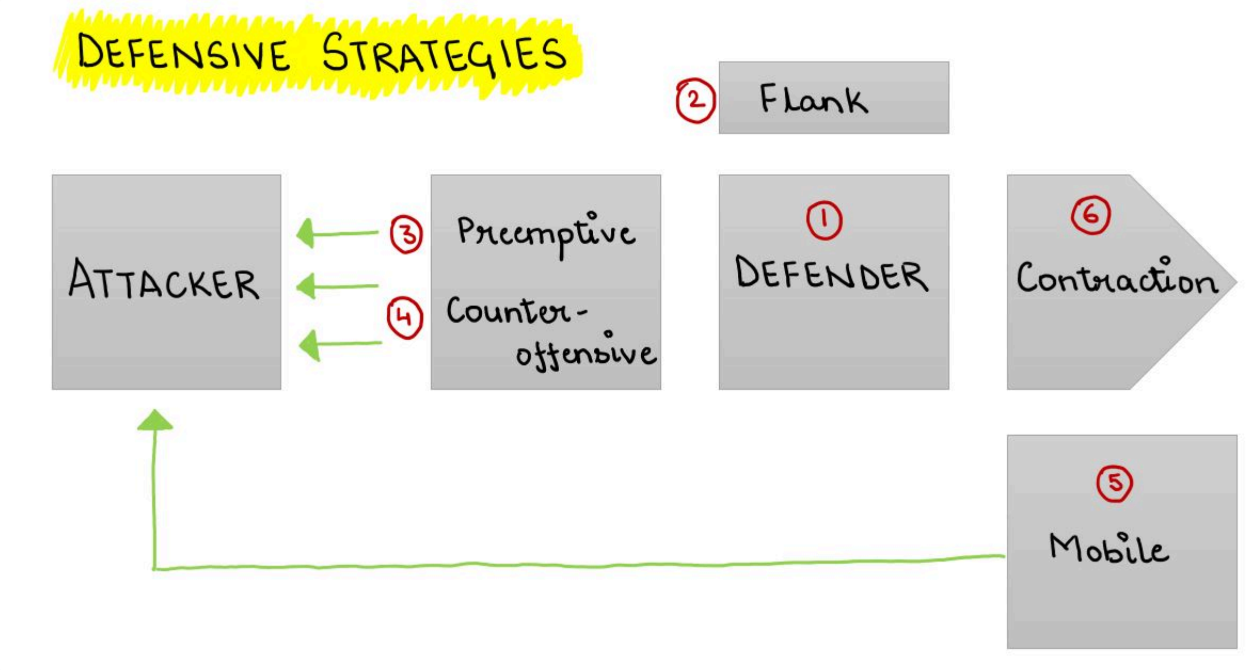
(ii) Creative Anticipation

This strategy involves creating new market opportunities. Ola and Uber both anticipated the need for convenient, mobile-based transportation services. By innovating the ride-hailing market in India, both companies changed how people approached commuting, creating a whole new service category.

2. Defensive Marketing

(i) Position Defense

This strategy involves occupying a strong and desirable position in the consumer's mind. Tata Motors with its Tata Nano (the cheapest car) owned the position of "affordable car" in the Indian market for budget-conscious consumers, making it tough for competitors to break into the same category.



(ii) Flank Defense

Market leaders must defend weak spots by strengthening vulnerable areas. Hindustan Unilever has used flank defense to maintain dominance in personal care by offering different variants like Dove (premium) and Lux (mass-market) to cater to both higher-income and budget-conscious consumers.

(iii) Preemptive Defense

In this strategy, a company moves quickly to preempt competition by launching new products or features first. Coca-Cola India introduced innovative packaging for its beverages like Coca-Cola in smaller-sized bottles, anticipating the shift toward smaller portions for a more affordable price point. This move discouraged competitors like Pepsi from capturing market share in that segment.

(iv) Counteroffensive Defense

When a competitor attacks, market leaders counterattack directly. Maruti Suzuki, when challenged by Honda and Hyundai in the compact car market, countered with the launch of new models and aggressive pricing strategies to retain its leadership in the Indian automobile sector.

(v) Mobile Defense

Market leaders stretch their domains by diversifying or broadening their market. Mahindra & Mahindra has expanded from its core SUV business into new segments like electric vehicles (EVs), with its e2oPlus electric car, ensuring that it remains relevant in an evolving market.

Market broadening involves shifting focus from the current product to underlying generic need. *Market diversification* shifts the company's focus into unrelated industries.

(vi) Contraction Defense

In some cases, companies may need to withdraw from less profitable markets to focus on their core strengths. ITC Limited made a strategic decision to focus more on FMCG and hotels and reduced its dependency on the tobacco segment over time. This allowed ITC to strengthen its presence in the growing consumer goods market. This is also called *strategic withdrawal*.

---

6. Market Leader Strategies

In highly competitive markets, gaining even a small share of the market can significantly boost a company's revenue. However, gaining market share doesn't always directly translate into higher profits, especially for companies in labor-intensive industries. To understand the implications of increasing market share, companies must assess several key factors.

1. Antitrust Issues

Acquiring more market share may raise concerns of monopolistic practices, potentially leading to legal action from competitors. In India, Jio disrupted the telecommunications industry by gaining market share through aggressive pricing and free data offers, forcing competitors like Airtel and Vodafone Idea to react. These actions led to regulatory scrutiny and antitrust concerns, especially regarding the competition in the market. While Jio expanded rapidly, it had to navigate issues such as price wars, public backlash, and regulatory oversight.

2. Economic Costs

The cost of acquiring market share can exceed the revenue it generates if not managed carefully. For instance, in the automobile industry, Maruti Suzuki has been the dominant player in India's entry-level car market. However, in recent years, Maruti shifted its focus towards more premium offerings like the Nexa range of vehicles, rather than pushing for more volume in the already saturated entry-level segment. By doing so, it maintained profitability without getting bogged down in price wars with smaller competitors like Tata Motors and Hyundai. Hyundai in turn capitalized on the Creta and Verna models, tapping into the mid-premium segment. The focus here is on the right kind of customer, which doesn't necessarily have to be the highest volume of customers.

The cost of market share can also include significant marketing expenses. In India, Ola and Uber initially entered into fierce competition, slashing ride fares to capture more market share. However, both companies have since realized that deeper price cuts were unsustainable and began to differentiate on service quality, with Uber focusing on premium services and Ola innovating with electric vehicle rides.

3. Risk of Pursuing the Wrong Marketing Activities

In some cases, companies attempt to increase market share by cutting prices, but this strategy may not always work as competitors often react in kind. For example, in the food delivery market, Zomato and Swiggy have gone back and forth with price cuts and discounts. However, Swiggy also invested heavily in better customer service, faster delivery times, and introducing a subscription service called Swiggy Super, to offer value over price. Price cuts alone couldn't guarantee sustained market share, and both companies have had to focus on service quality, brand loyalty, and customer experience to increase their market share.

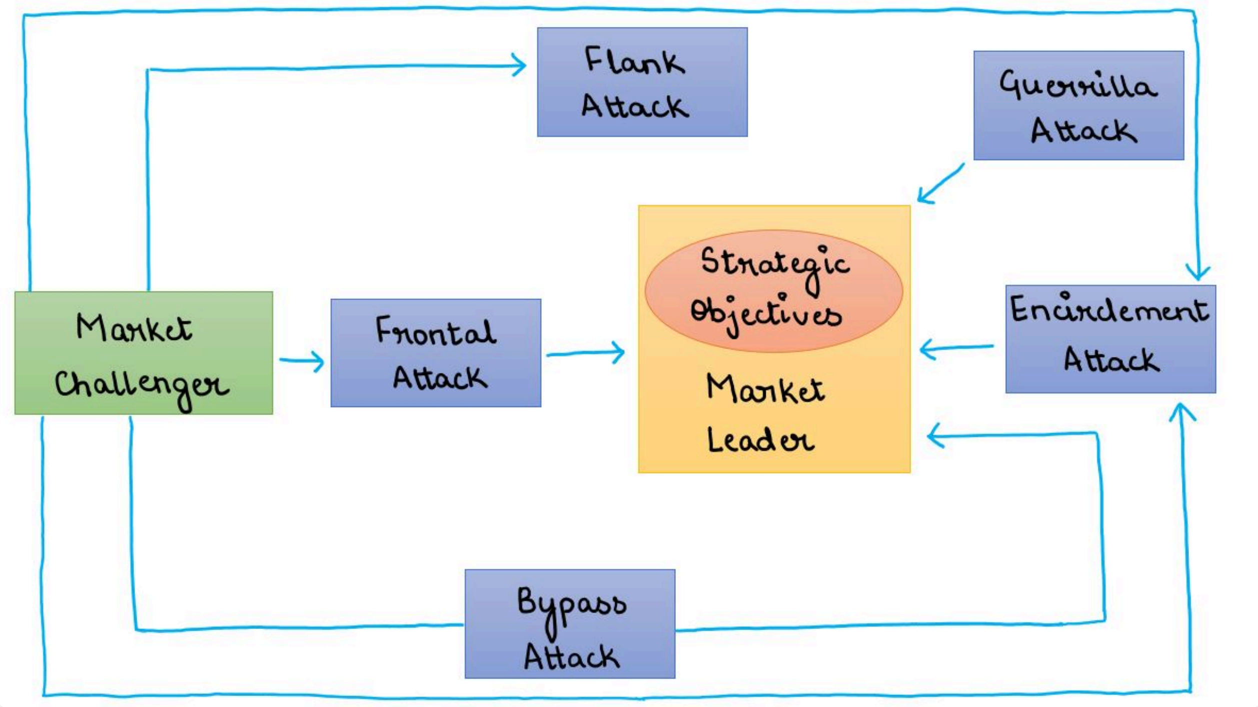
4. Impact on Product and Service Quality

Increasing market share too quickly can overstretch resources and impact product or service quality. One example from India is Paytm, which aggressively pushed its market share in the digital payment space. While it quickly gained users, it struggled at times to manage service quality, especially with transaction failures and technical issues. This created customer dissatisfaction and negatively impacted its brand perception. Paytm had to invest significantly in improving its infrastructure and customer service to maintain its dominance.

Another example is BigBasket in the online grocery delivery market. Initially, the platform had service delays and complaints about product quality. However, as the company increased its market share, it invested in improving its delivery times, product availability, and customer support, which eventually strengthened its position.

7. Market Challengers Strategies

A market challenger must first define which competitors to challenge and its strategic objective. The challenger can attack the market leader, a high-risk but potentially high-gain strategy. Its goal might be to take over market leadership. Or the challenger's objective may simply be to wrest more market share.



We can distinguish 5 attack strategies used by Market Challengers:

1. Frontal Attack: In a *pure frontal attack*, the attacker matches its opponent's product, advertising, price, and distribution. The principle of force says the side with the greater resources will win. A *modified frontal attack*, such as cutting price, can work if the market leader doesn't retaliate and if the competitor convinces the market its product is equal to the leader's.

2. Flank Attack: A flanking strategy is another name for identifying shifts that cause gaps to develop in the market, then rushing to fill the gaps. Flanking is particularly attractive to a challenger with fewer resources and can be more likely to succeed than frontal attacks. A flank attack can be directed along two strategic dimensions— geographic and segmental.

3. Encirclement Attack: Encirclement attempts to capture a wide slice of territory by launching a grand offensive on several fronts. It makes sense when the challenger commands superior resources.

4. Bypass Attack: Bypassing the enemy altogether to attack easier markets instead offers three lines of approach: diversifying into unrelated products, diversifying into new geographical markets, and leapfrogging into new technologies.

5. Guerilla Attacks: Guerrilla attacks consist of small, intermittent attacks, conventional and unconventional, including selective price cuts, intense promotional blitzes, and occasional legal action, to harass the opponent and eventually secure permanent footholds.

8. Market Follower Strategies

Theodore Levitt argues that a strategy of product imitation might be as profitable as a strategy of product innovation. In **innovative imitation**, as he calls it, the innovator bears the expense of developing the new product, getting it into distribution, and informing and educating the market. The reward for all this work and risk is normally market leadership. However, another firm can come along and copy or improve on the new product. Although it may not overtake the leader, the follower can achieve high profits because it did not bear any of the innovation expense.

Four broad strategies can be distinguished:

1. Counterfeiter: The counterfeiter duplicates the market leader's product and package and sells it on the black market or through disreputable dealers.

2. Cloner: The cloner emulates the leader's products, name, and packaging, with slight variation.

3. Imitator: The imitator copies some things from the leader but maintains differentiation in terms of packaging, advertising, pricing, or location.

4. Adapter: The adapter takes the leader's products and adapts or improves them. The adapter may choose to sell to different markets, but often the adapter grows into the future challenger.

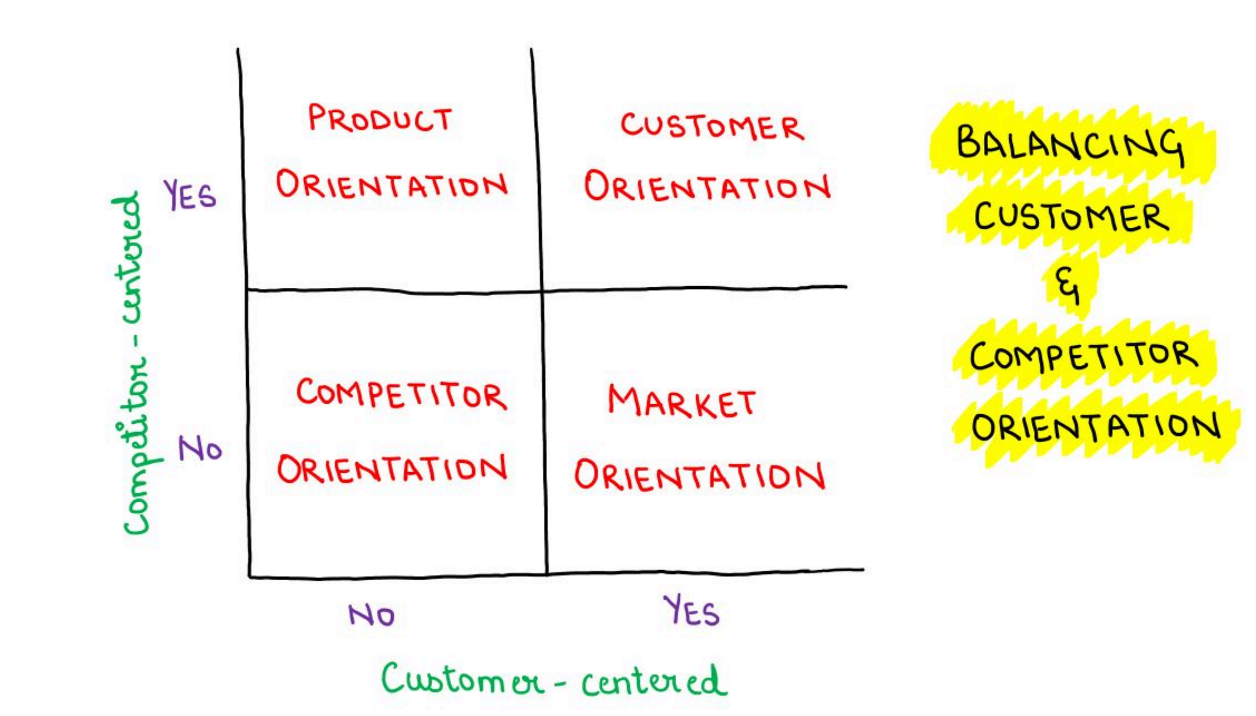
9. Market Nicher Strategies

Companies with limited market shares can achieve remarkable profitability by strategically targeting niche markets. They possess an in-depth understanding of their specific customer base, allowing them to cater to their needs exceptionally well. By providing high value, such companies can command premium prices, streamline manufacturing costs, and foster a robust corporate culture and vision. This strategic approach enables niche-oriented companies to attain high-profit margins, contrasting the high-volume approach of mass marketers.

However, niches can diminish over time, necessitating continual innovation and the creation of new market segments. For instance, an Indian company like Titan Company Limited, with its niche in premium watches, expanded its offerings to include more affordable lines while maintaining its premium status. By diversifying within **multiple niches** rather than relying on a single niche, companies enhance their resilience and increase their likelihood of long-term survival and success.

10. Balancing Customer and Competitor Orientations

A competitive orientation is important in today's markets, but companies should not overdo their focus on competitors. Companies are more likely to be hurt by emerging consumer needs and new competitors than by existing competitors.



Different types of Companies Orientation are given below:

- A *Product-centered company* is the one that pays little attention to either customers or competitors.
- A *Customer-centered company* is a company that focuses on customer developments in designing its marketing strategies and delivering superior value to its target customers.
- A *Competitor-centered company* is one that spends most of its time tracking competitors' moves and market shares and trying to find strategies to counter them.
- A *Market-centered company* is a company that pays balanced attention to both customers and competitors in designing its marketing strategies.

Figure shows that the companies might have any of 4 orientations. First, they might be product oriented, paying little attention to either customers or competitors. Next, they might be customer oriented, paying attention to customers. In the third orientation, when a company starts to pay attention to competitors, it becomes competitor oriented. Today, however, companies need to be market oriented, paying balanced attention to both customers and competitors.

11. Competitor Analysis Framework

This framework involves comparing multiple companies (competitors) based on selected attributes, assigning weights to each attribute, and then scoring each competitor based on those attributes. The final step is to calculate a total score to assess the overall competitive position.

Steps to Create the Framework are:
1. Identify Competitors: Choose the companies (competitors) to compare.
2. Identify Key Attributes: Select key attributes that impact the market or customer decision-making process (e.g., price, quality, customer service, innovation, brand recognition, etc.).
3. Assign Weights to Attributes: Based on their importance, assign a weight to each attribute. Weights should sum to 1 or 100%.
4. Score the Competitors: Score each competitor on each attribute, typically on a scale from 1 to 5 (1 = poor, 5 = excellent).
5. Calculate Total Scores: Multiply the score by the weight for each attribute, then sum up the results to get the total score for each competitor.

Example Framework: Fast Food Industry Competitor Analysis

Step 1: Identify Competitors
Let's compare McDonald's, Burger King, KFC, and Subway.

Step 2: Identify Key Attributes
We select the following attributes for comparison:

- Price: The affordability of the product.
- Quality: Perceived product quality.
- Customer Service: Quality of service provided to customers.
- Innovation: New product offerings, menu variety.
- Brand Recognition: How well the brand is recognized and perceived globally.

Step 3: Assign Weights to Attributes
We assign the following weights based on their importance:

- Price: 0.2
- Quality: 0.3
- Customer Service: 0.2
- Innovation: 0.1
- Brand Recognition: 0.2

Step 4: Score Competitors
Now, we score each competitor on a scale of 1 to 5 (1 = poor, 5 = excellent) for each attribute.

Attribute	McDonald's	Burger King	KFC	Subway
Price	5	4	4	5
Quality	4	4	5	4
Customer Service	4	4	4	4
Innovation	3	4	3	5
Brand Recognition	5	4	4	4

Step 5: Calculate Total Scores
Now, multiply the score for each attribute by its corresponding weight and then sum them up to calculate the total score for each competitor.

Attribute	McDonald’s	Burger King	KFC	Subway
Price (0.2)	5 * 0.2 = 1.0	4 * 0.2 = 0.8	4 * 0.2 = 0.8	5 * 0.2 = 1.0
Quality (0.3)	4 * 0.3 = 1.2	4 * 0.3 = 1.2	5 * 0.3 = 1.5	4 * 0.3 = 1.2
Customer Service (0.2)	4 * 0.2 = 0.8	4 * 0.2 = 0.8	4 * 0.2 = 0.8	4 * 0.2 = 0.8
Innovation (0.1)	3 * 0.1 = 0.3	4 * 0.1 = 0.4	3 * 0.1 = 0.3	5 * 0.1 = 0.5
Brand Recognition (0.2)	5 * 0.2 = 1.0	4 * 0.2 = 0.8	4 * 0.2 = 0.8	4 * 0.2 = 0.8

Total Score Calculation:

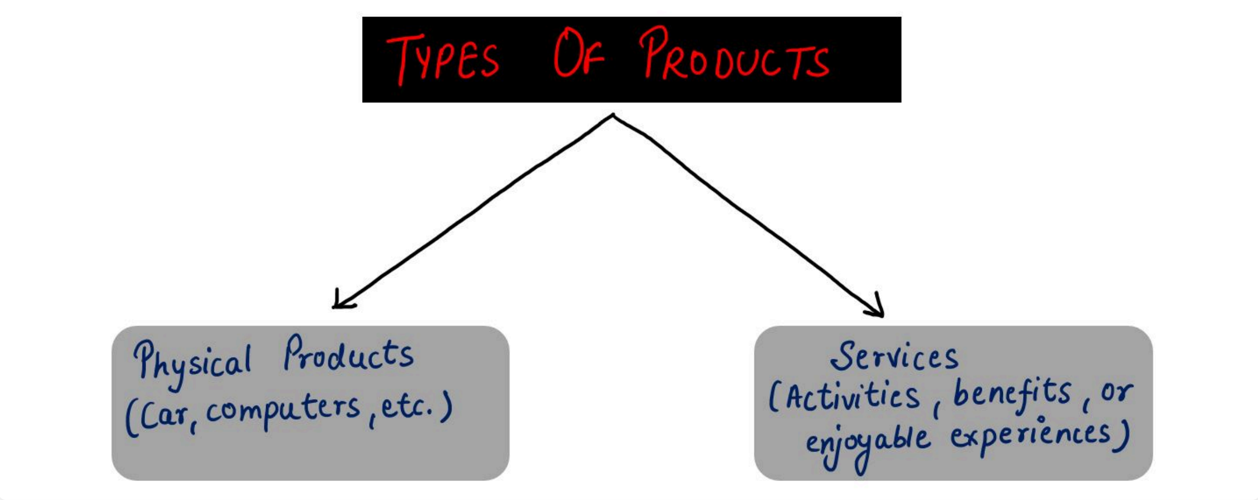
Competitor	Total Score
McDonald’s	1.0 + 1.2 + 0.8 + 0.3 + 1.0 = **4.3**
Burger King	0.8 + 1.2 + 0.8 + 0.4 + 0.8 = **4.0**
KFC	0.8 + 1.5 + 0.8 + 0.3 + 0.8 = **4.2**
Subway	1.0 + 1.2 + 0.8 + 0.5 + 0.8 = **4.3**

Conclusion:

- McDonald's and Subway tie for the highest score with 4.3.
- KFC and Burger King have slightly lower scores (4.2 and 4.0 respectively).

This framework helps visualize how different competitors perform based on attributes that matter to consumers. It provides insights into where a brand stands compared to others and can help marketers identify strengths and areas for improvement.

1. Introduction



A **product** is anything that can be offered to people to fulfill their needs or wants. This includes physical things like cars and computers, but also services, events, people, places, organizations, and even ideas. We use the word "product" broadly to cover all these things. For example, an iPad, a car, and a box of treats are products, but so are flights and investments.

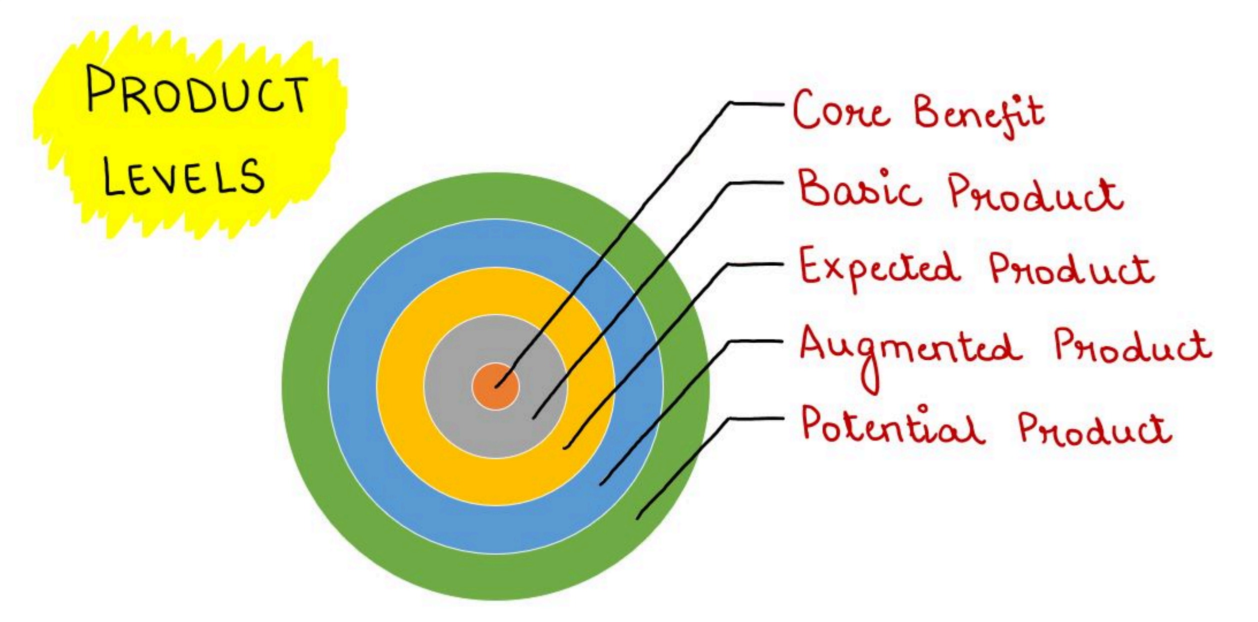
Services are a type of product that includes activities, benefits, or enjoyable experiences that can be sold, but they are intangible, meaning you do not own something physical. For instance, a day at an amusement park or a night at a hotel are services.

---

2. Product Levels

Customers will choose a product based on their perceived value of it. Satisfaction is the degree to which the actual use of a product matches the perceived value at the time of the purchase. A customer is satisfied only if the actual value is the same or exceeds the perceived value.

In planning its market offering, the marketer needs to address 5 product levels. Each level adds more customer value, and the 5 constitute a customer-value hierarchy.



1. **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".

2. **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.

3. **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.

4. **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.

5. **Potential Product:** This level takes into account 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.

3. Product Differentiation

Differentiation in products can take on diverse forms, encompassing aspects such as size, shape, and physical composition. For example, even a commonplace item like aspirin can exhibit differentiation through factors like dosage, size, shape, color, coating, or action time. This strategy of differentiation aims to provide distinct choices within a familiar product category.

Variations in features represent another avenue for differentiation, surpassing the basic functionality of products. Through conducting surveys among recent purchasers and evaluating the trade-off between customer value and company expenses for each feature, marketers can pinpoint suitable novel attributes. This process involves ranking features based on factors like demand, timing of introduction, competitive landscape, and potential for imitation.

The concept of **performance quality** categorizes products into one of four levels: low, average, high, or superior. Performance quality signifies the degree to which a product's fundamental attributes perform. Particularly in a value-oriented model where elevated quality is offered at a reasonable cost, focusing on performance quality becomes paramount. Nevertheless, the emphasis should be in accordance with the target market and competitive environment, rather than necessarily achieving the highest attainable level.

Buyers anticipate a high **conformance quality**, denoting the extent to which all manufactured units adhere to stipulated specifications. Consistency across units holds great importance. For instance, if each Porsche 911 off the production line accelerates to 60 miles per hour within 10 seconds, it showcases high conformance quality. Firms undertake thorough testing to ensure this level of uniformity.

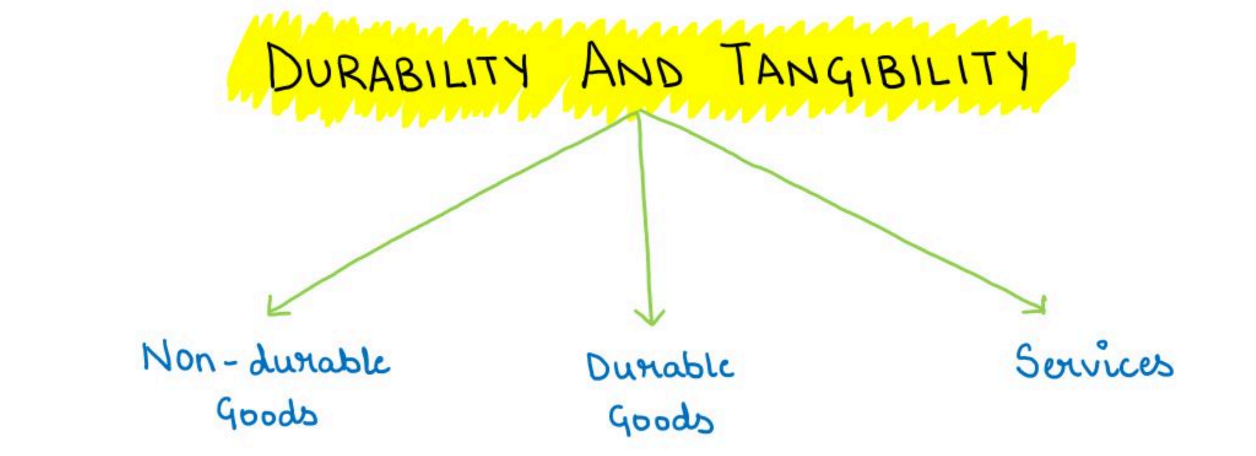
Durability and reliability constitute vital attributes. **Durability** reflects the expected operational lifespan of a product under regular or challenging conditions, proving particularly crucial for robust goods like vehicles and kitchen appliances. Similarly, **reliability** indicates the likelihood of a product malfunctioning or failing within a designated timeframe, commanding a premium. Brands renowned for reliability, such as Maytag, frequently enjoy customer allegiance.

Repairability evaluates how easily a product can be rectified in case of malfunctions. Optimal repairability empowers users to address issues with minimal cost and effort.

The element of style significantly influences a product, communicating its visual and tactile traits. A unique style contributes to differentiation that competitors find arduous to emulate.

Customization offers firms the opportunity to tailor offerings to individual preferences, enhancing differentiation. Online platforms like Zazzle and Cafe Press empower users to create personalized clothing and merchandise. Brands like Nike enable customers to design their own shoes and apparel, resulting in substantial revenue.

3. Product Differentiation



Products can be categorized into three groups according to their durability and tangibility.

1. **Nondurable Goods:** Nondurable goods are tangible items that are typically consumed in one or a few uses, such as beer and shampoo. These goods are purchased frequently and demand strategies involving widespread availability, competitive pricing, and heavy advertising to encourage trial and preference.

2. **Durable Goods:** Durable goods are tangible items designed for extended use, like refrigerators, machine tools, and clothing. Marketing these goods requires personalized selling, servicing, higher margins, and seller assurances due to their long-term nature.

3. **Services:** Services are intangible, variable, perishable products like haircuts, legal advice, and appliance repairs. These products demand quality control, credibility, and adaptability. Establishing customer trust and ensuring consistent quality are key.

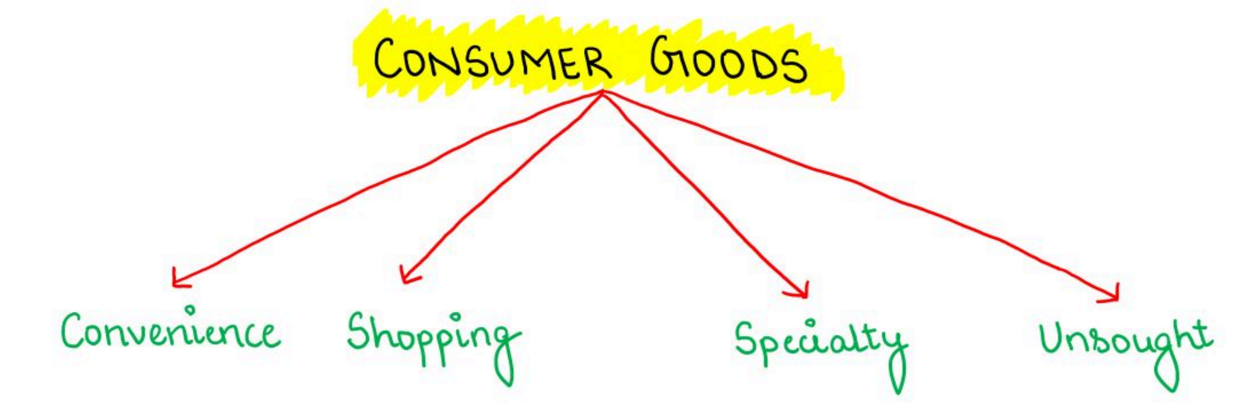
---

4. Product Classification

Products are classified based on their durability, tangibility, and usage—whether they are intended for consumers or industries. Each type requires a specific marketing approach.

---

4. Product Classification



Consumer products are products and services bought by final consumers for personal consumption. When we classify the vast array of consumer goods on the basis of shopping habits, we distinguish among convenience, shopping, specialty, and unsought goods.

1. The consumer usually purchases **convenience goods** frequently, immediately, and with minimal effort. Examples include soft drinks, soaps, and newspapers. Staples are convenience goods consumers purchase on a regular basis. Impulse goods are purchased without any planning or search effort, like candy bars and magazines. Emergency goods are purchased when a need is urgent—umbrellas during a rainstorm, boots and shovels during the first winter snow.

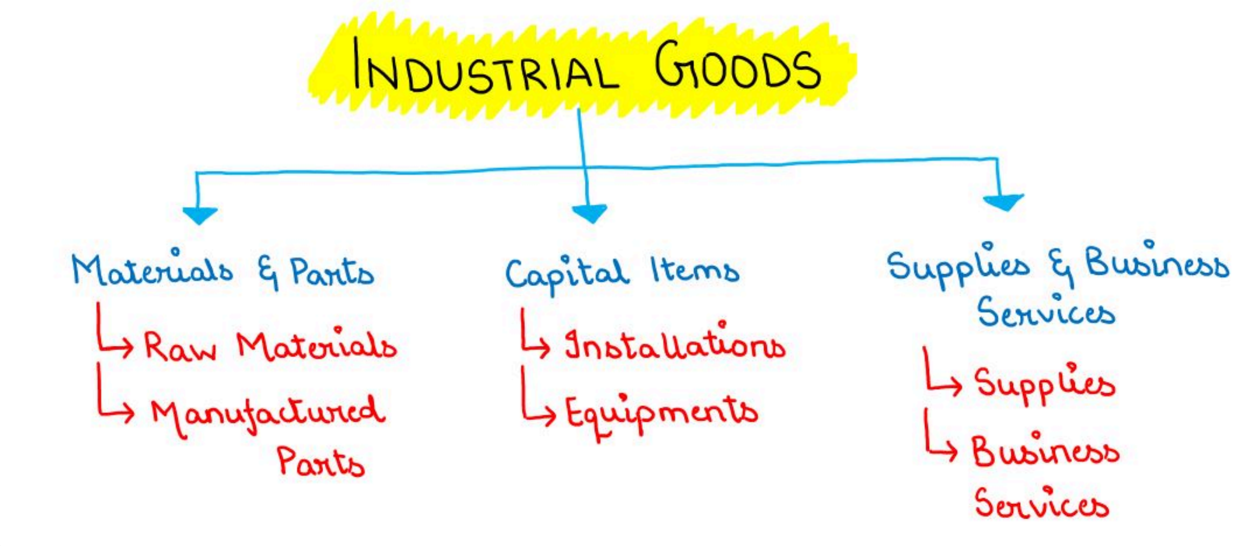
Type of Consumer Product				
Marketing Considerations	**Convenience**	**Shopping**	**Speciality**	**Unsought**
Customer buying behaviour	Frequent purchase, little planning, little comparison or shopping effort, low customer involvement	Less frequent purchase, much planning and shopping effort, comparison of brands on price, quality, style	Strong brand preference and loyalty, special purchase effort, little comparison of brands, low price sensitivity	Little product awareness, knowledge (or, if aware, little or even negative interest)
Price	Low price	Higher price	High price	Varies
Distribution	Widespread distribution, convenient locations	Selective distribution in fewer outlets	Exclusive distribution in only one or a few outlets per market area	Varies
Promotion	Mass promotion by the producer	Advertising and personal selling by both producer and resellers	More carefully targeted promotion by both producer and reseller	Aggressive advertising and personal selling by producer and resellers
Examples	Toothpaste, magazines, laundry detergent	Major appliances, televisions, furniture, clothing	Luxury goods, such as Rolex watches or fine crystal	Life insurance, donations to Canadian Blood Services

2. Shopping goods are those the consumer characteristically compares on such bases as suitability, quality, price, and style. Examples include furniture, clothing, and major appliances. Homogeneous shopping goods are similar in quality but different enough in price to justify shopping comparisons. Heterogeneous shopping goods differ in product features and services that may be more important than price. The seller of heterogeneous shopping goods carries a wide assortment to satisfy individual tastes and trains salespeople to inform and advise customers.

3. **Specialty goods** have unique characteristics or brand identification for which enough buyers are willing to make a special purchasing effort. Examples include cars, stereo components, and men’s suits. A Mercedes is a specialty good because interested buyers will travel far to buy one. Specialty goods don’t require comparisons; buyers invest time only to reach dealers carrying the wanted products. Dealers don’t need convenient locations, although they must let prospective buyers know where to find them.

4. **Unsought goods** are those the consumer does not know about or normally think of buying, such as smoke detectors. Classic examples of known but unsought goods are life insurance, cemetery plots, and gravestones. Unsought goods require advertising and personal-selling support.

4. Product Classification



Industrial products are those products purchased for further processing or for use in conducting a business. Thus, the distinction between a consumer product and an industrial product is based on the purpose for which the product is purchased. If a consumer buys a lawn mower for use around home, the lawn mower is a consumer product. If the same consumer buys the same lawn mower for use in a landscaping business, the lawn mower is an industrial product.

We classify industrial goods in terms of their relative cost and how they enter the production process: materials and parts, capital items, and supplies and business services.

1. Materials and parts

Materials and parts are goods that enter the manufacturer's product completely. They fall into two classes: raw materials, and manufactured materials and parts.

Raw materials further fall into two major groups:

1. *Farm products* (wheat, cotton, livestock, fruits, and vegetables) *and natural products* (fish, lumber, crude petroleum, iron ore). Their perishable and seasonal nature gives rise to special marketing practices, whereas their commodity character results in relatively little advertising and promotional activity.

2. *Natural products* are limited in supply. They usually have great bulk and low unit value and must be moved from producer to user. Fewer and larger producers often market them directly to industrial users. Because users depend on these materials, long-term supply contracts are common. The homogeneity of natural materials limits the amount of demand-creation activity.

Manufactured materials and parts fall into two categories, Component materials (iron, yarn, cement, wires) and component parts (small motors, tires, castings).

1. *Component materials* are usually fabricated further—pig iron is made into steel, and yarn is woven into cloth. The standardized nature of component materials usually makes price and supplier reliability key purchase factors.

2. *Component parts* enter the finished product with no further change in form, as when small motors are put into vacuum cleaners, and tires are put on automobiles. Most manufactured materials and parts are sold directly to industrial users.

2. Capital items

Capital items are long-lasting goods that facilitate developing or managing the finished product. They include two groups: installations and equipment.

Installations consist of buildings (factories, offices) and heavy equipment (generators, drill presses, mainframe computers, elevators). They are usually bought directly from the producer, whose sales force includes technical personnel, and a long negotiation precedes the typical sale. Producers must be willing to design to specification and to supply post-sale services. Advertising is much less important than personal selling.

Equipment includes portable factory equipment and tools (hand tools, lift trucks) and office equipment (personal computers, desks). These types of equipment don't become part of a finished product. They have a shorter life than installations but a longer life than operating supplies. Although some equipment manufacturers sell direct, more often they use intermediaries, because the market is geographically dispersed, buyers are numerous, and orders are small. Quality, features, price, and service are major considerations. The sales force tends to be more important than advertising, although advertising can be used effectively.

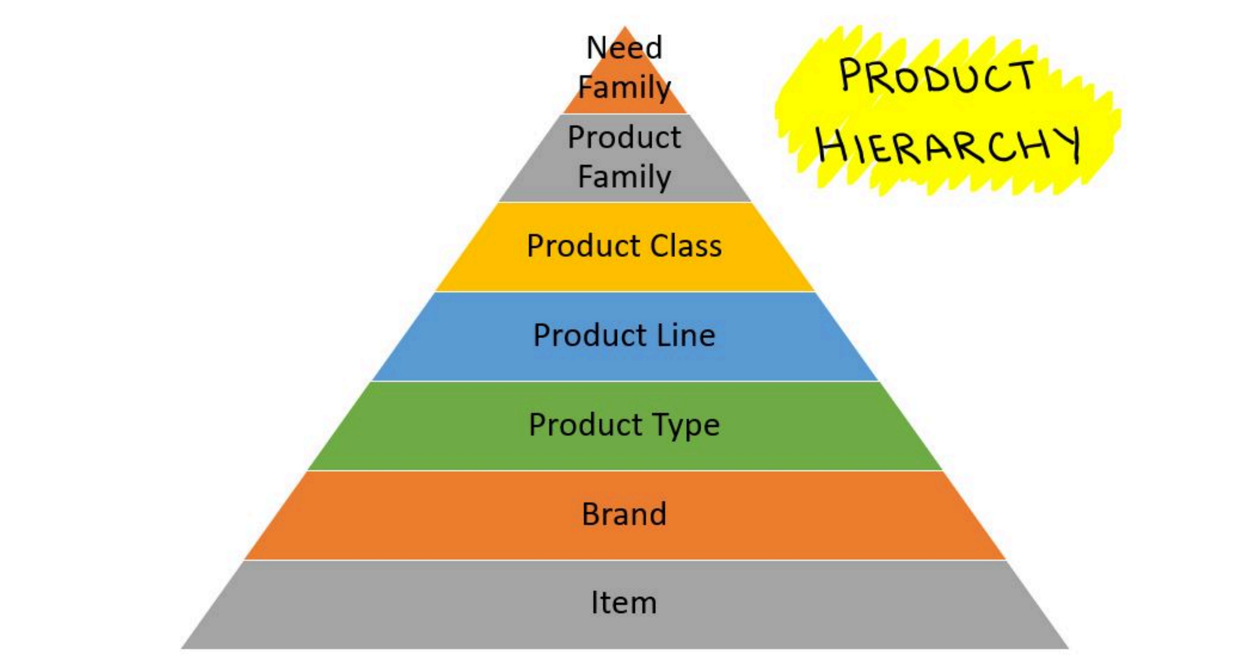
3. Supplies and business services

Supplies and business services are short-term goods and services that facilitate developing or managing the finished product.

Supplies are of two kinds: *maintenance and repair items* (paint, nails, brooms) and *operating supplies* (lubricants, coal, writing paper, pencils). Together, they go under the name of MRO goods. Supplies are the equivalent of convenience goods; they are usually purchased with minimum effort on a straight-rebuy basis. They are normally marketed through intermediaries because of their low unit value and the great number and geographic dispersion of customers. Price and service are important considerations, because suppliers are standardized and brand preference is not high.

Business services include *maintenance and repair services* (window cleaning, copier repair) and *business advisory services* (legal, management consulting, advertising). Maintenance and repair services are usually supplied under contract by small producers or from the manufacturers of the original equipment. Business advisory services are usually purchased on the basis of the supplier's reputation and staff.

5. Product Hierarchy



The concept of the product hierarchy encompasses a spectrum from fundamental needs to specific products designed to fulfill those needs. We can delineate 7 tiers within the product hierarchy:

1. Need family: The core need that underlines the existence of a product family. Let us consider computation as one of needs.

2. Product family: All the product classes that can satisfy a core need with reasonable effectiveness. For example, all of the products like computer, calculator or abacus can do computation.

3. Product class: A group of products within the product family recognised as having a certain functional coherence. For instance, personal computer (PC) is one product class.

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. For instance, portable wire-less PC is one product line.

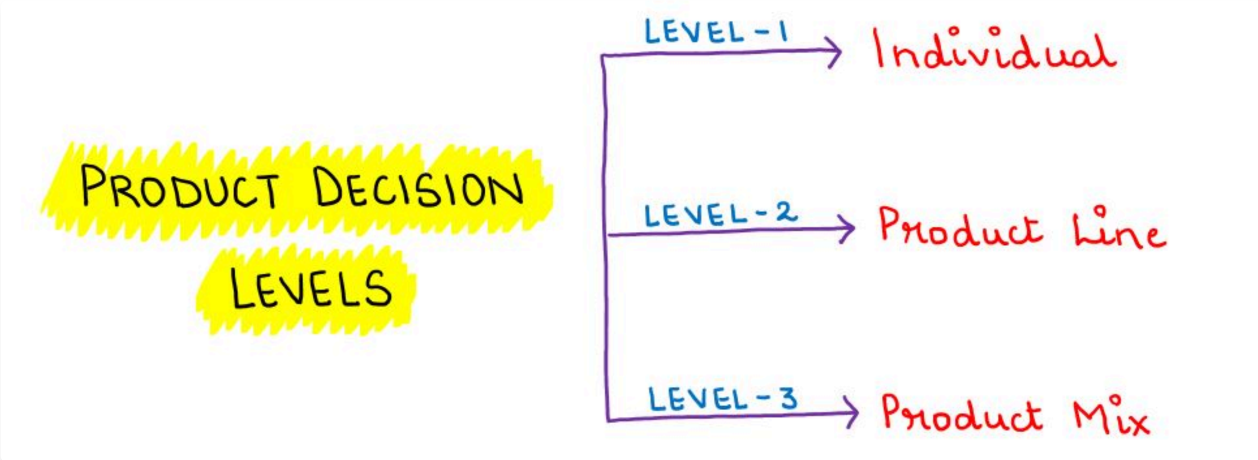
5. Product type: A group of items within a product line that share one of several possible forms of the product. For instance, palm top is one product type.

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. For example, Palm Pilot is one brand of palmtop.

7. Item/stock-keeping unit/product variant: A distinct unit within a brand or product line distinguishable by size, price, appearance or some other attributes. For instance, LCD, CD- ROM drive and joystick are various items under palm top product type.

6. Product Decisions Levels

Marketers make product (and service) decisions at 3 levels:



1. Individual Product Decisions

2. Product Line Decisions

3. Product Mix Decisions.

Let us understand each one by one

6. Product Decisions Levels

The figure shows the important decisions in the development and marketing of individual products (and service). The focus of all these decisions is to create core customer value.

1. Product Attributes

Developing a product (or service) involves defining the benefits that it will offer. These benefits are communicated and delivered by product attributes such as quality, features, and style and design.

(i) **Product Quality** is the characteristics of a product or service that bear on its ability to satisfy stated or implied customer needs. It is one of the marketer's major positioning tools. Quality affects product or service performance; thus, it is closely linked to customer value and satisfaction. Quality should not be defined instead, in terms of creating customer value and satisfaction. The American Society for Quality defines quality as the characteristics of a product or service that bear on its ability to satisfy stated or implied customer needs. **Total Quality Management (TQM)** is an approach in which all of the company's people are involved in constantly improving the quality of products, services, and business processes.

Product quality has 2 dimensions: *level* and *consistency*. In developing a product, the marketer must first choose a quality level that will support the product's positioning. Here, product quality means performance quality—the product's ability to perform its functions. Beyond quality level, high quality also can mean high levels of quality consistency. Here, product quality means conformance quality—freedom from defects and consistency in delivering a targeted level of performance.

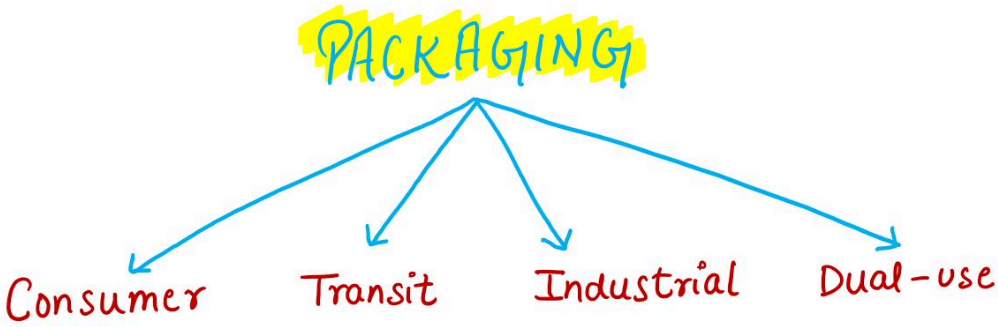
(ii) **Product Features:** A product can be offered with varying features. A stripped-down model, one without any extras, is the starting point. The company can then create higher level models by adding more features. Features are a competitive tool for differentiating the company's product from competitors' products.

(iii) **Product Style and Design:** Another way to add customer value is through distinctive product style and design. Design is a larger concept than style. Style simply describes the appearance of a product. A sensational style may grab attention and produce pleasing aesthetics, but it does not necessarily make the product perform better. Unlike style, design is more than skin deep—it goes to the very heart of a product. Good design contributes to a product's usefulness as well as to its looks. Product designers should think less about technical product specifications and more about how customers will use and benefit from the product.

2. Branding

A Brand is a name, term, sign, symbol, or design, or a combination of these, that identifies the products or services of one seller or group of sellers and differentiates them from those of competitors. Customers attach meanings to brands and develop brand relationships. As a result, brands have meaning well beyond a product's physical attributes. A brand name can become the basis on which a whole story can be built about a product's special qualities.

3. Packaging



Packaging includes the activities of designing and producing the container for a product. The container is called the package, and it might include up to three levels of material. For example, Gillett aftershave lotion is in a bottle (primary package) that is in a cardboard box (secondary package) that is in a corrugated box (shipping package) containing six dozen boxes of Gillett.

There are various types of packaging some of them are as follows:

- *Consumer packaging:* Consumer packaging is one which holds the required volume of a product for ultimate consumption. It is the means of buying household. In other words, the consumer has the option to purchase the pack size which he/she considers adequate for the consumption of his/ her family over a length of time.
- *Transit packaging:* Transit packaging is another type of packaging. It is either for the industrial consumer's use. The consumer package itself very often requires an outside package in which it is sometimes referred to a bulk package or an outer container.
- *Industrial packaging:* An industrial packaging can either describe a bulk package or the package for durable consumer goods. These are the basic package types although many subdivisions can be listed which can be broadly listed under these basic headings.
- *Dual use packaging:* A dual packaging is one which has a secondary usefulness after its contents have been consumed. The examples of dual use packaging are Drinking glasses, boxes of jewelry, waste baskets, refrigerator dishes, etc.

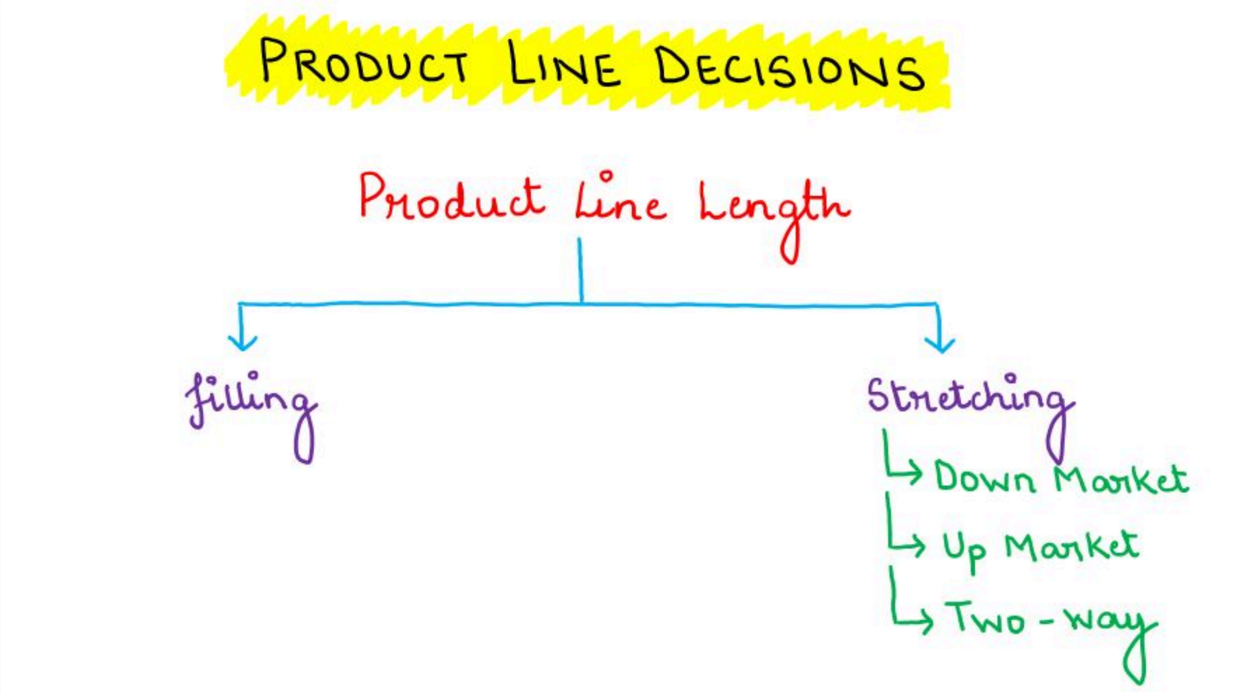
4. Labeling and Logos

Every physical product must carry a label, which may be a simple tag attached to the product or an elaborately designed graphic that is part of the package. Labels perform several functions. First, the label identifies the product or brand—for instance, the name Orange Pulp stamped on oranges. The label might also grade the product, the way canned peaches are grade labeled A, B, and C. The label might describe the product: who made it, where it was made, when it was made, what it contains, how it is to be used, and how to use it safely. Finally, the label might promote the product through attractive graphics. Customers also often become strongly attached to logos as symbols of the brands they represent.

5. Product Support Services

A company's offer usually includes some support services, which can be a minor part or a major part of the total offering. Support services are an important part of the customer's overall brand experience. Keeping customers happy after the sale is the key to building lasting relationships. The first step in designing support services is to survey customers periodically to assess the value of current services and obtain ideas for new ones. Once the company has assessed the quality of various support services to customers, it can take steps to fix problems and add new services that will both delight customers and yield profits to the company.

6. Product Decisions Levels



A Product Line is a group of products that are closely related because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlets, or fall within given price ranges.

Product Line Length

The major product line decision involves product line length—the number of items in the product line. Managers need to analyze their product lines periodically to assess each item's sales and profits and understand how each item contributes to the line's overall performance. A company can expand its product line in two ways: by line filling or line stretching.

Product line filling involves adding more items within the present range of the line. There are several reasons for product line filling: reaching for extra profits, satisfying dealers, using excess capacity, being the leading full-line company, and plugging holes to keep out competitors. However, line filling is overdone if it results in cannibalization (eating up sales of the company's own existing products) and customer confusion. The company should ensure that new items are noticeably different from existing ones.

Product line stretching occurs when a company lengthens its product line beyond its current range. The company can stretch its line downward, upward, or both ways.

1. Down Market stretch: Companies located at the upper end of the market can stretch their lines downward. They may want to introduce a lower priced line for any of these reasons:

- The company may notice strong growth opportunities as mass retailers such as Wal-Mart, Big Bazaar, Best Buy and others attract a growing number of shoppers who want Value-priced goods.
- The company may wish to tie up lower end competitors who might otherwise try to move up market. If the company has been attacked by low end competitor, it often decides to counter attack by entering the low end of the market.
- The company may find that the upper market is stagnating or declining.

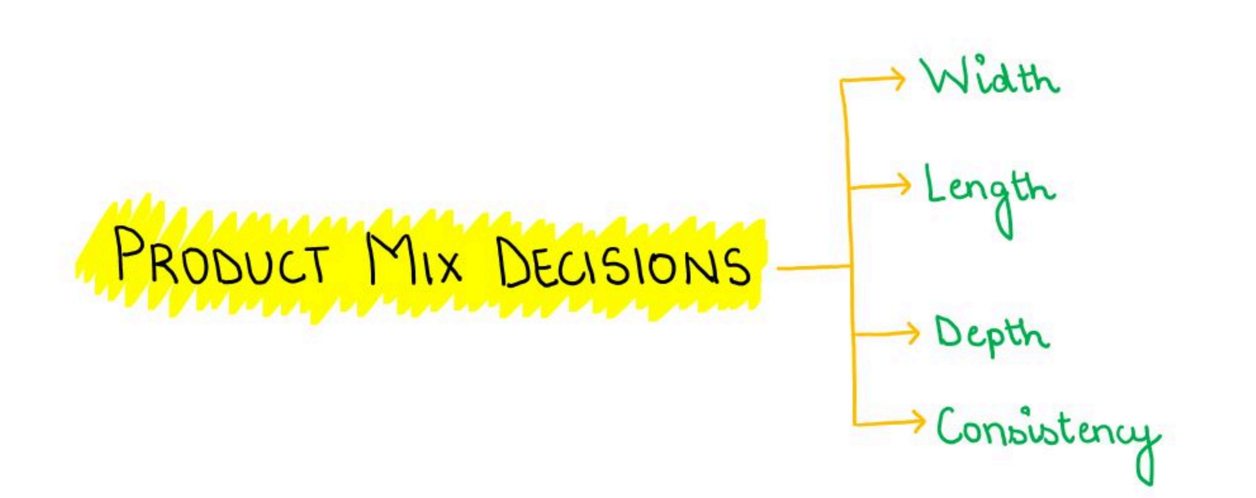
For example, Mercedes successfully introduced its C class cars at 20 lakhs without injuring its ability to sell other Mercedes cars for 60 lakhs and up.

2. Up Market stretch: Companies can also stretch their product lines upward. It may wish to enter the high end of the market for more growth, higher margins or simply to position themselves as full time manufacturers. Many markets have spawned surprising upscale segments, for instance, Star Bucks in coffee.

3. Two-way stretch: Companies serving the middle market might decide to stretch their line in both directions. Texas instruments introduced its first calculators on the medium price and medium quality end of the market. Gradually it added calculators to the lower end taking market share away from Bowmar and at the higher end to compete with Hewlett Packard.

6. Product Decisions Levels

An organization with several product lines has a product mix. Product mix (also known as product assortment) refers to the total number of product lines that a company offers to its customers. For example, a small company may sell multiple lines of products. Sometimes, these product lines are fairly similar, such as dish washing liquid and bar soap, which are used for cleaning and use similar technologies. Other times, the product lines are vastly different, such as diapers and razors. This is also called Product Portfolio.



The 4 dimensions to a company's product mix include width, length, depth and consistency.

1. Product mix width

The first of the product mix decisions refers to the product mix width. The width is all about the number of different product lines the company carries. For example, Colgate has 3 product lines (toothbrush, toothpaste and mouthwash). Thus, it has a rather limited width.

2. Product mix length

The product mix length refers to the total number of items a company carries within the product lines. For instance, Colgate carries several different brands within each line. In Colgate's oral care product line, several different categories of toothpastes can be identified. A car manufacturer may have several series in its car product line, such as 3-series, 5-series, and 7-series.

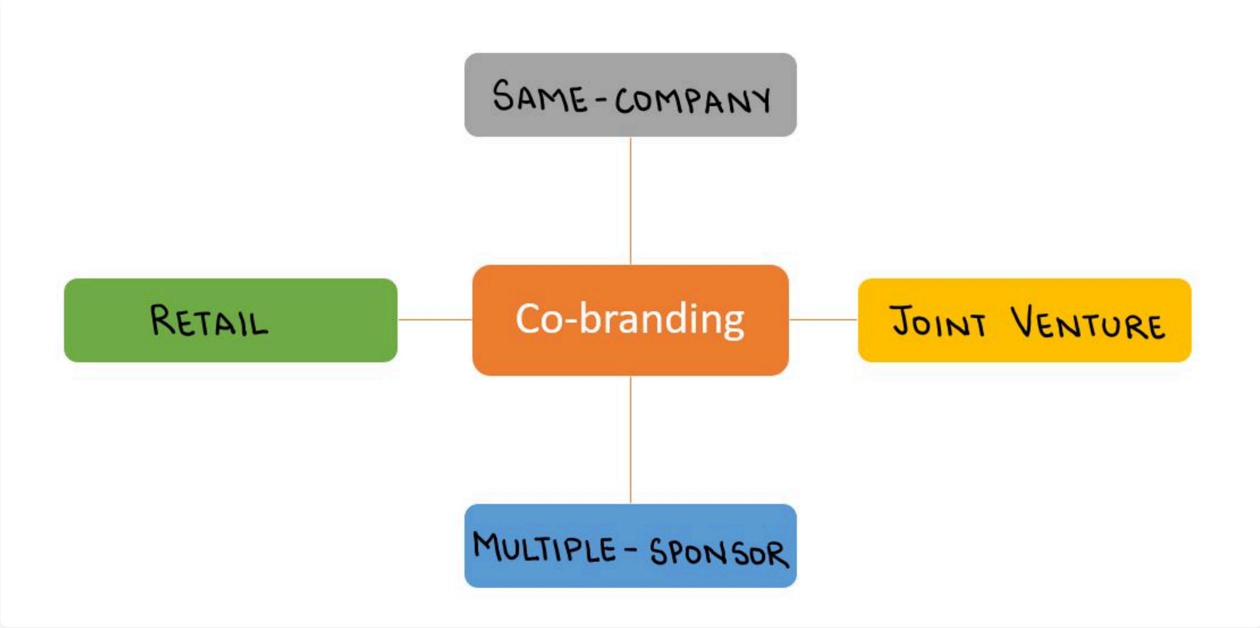
3. Product mix depth

The next one of the product mix decisions is the product mix depth. It refers to the number of versions offered for each product in the product line. For instance, Colgate toothpastes come in several tastes and variations. The vehicle manufacturer's 3-series in the car product line may be offered in several versions: convertible, coupé, sedan, and so further.

4. Consistency

The Consistency refers to how closely related the product lines are in terms of end use, production requirements, distribution channels or any other way. In Colgate's case, we can observe a rather strong consistency, which is based on the fact that all product lines constitute consumer products and go through the same distribution channels. The vehicle manufacturer also has a relatively consistent product mix, since both product lines contain consumer-vehicles, can be sold in the same way etc.

7. Co-branding



In co-branding, marketers join forces by blending their products, creating a dual branding experience that can yield significant advantages. This approach merges two or more recognized brands to form a unified product or cooperative marketing strategy.

There are 4 different types of co-branding which are mentioned below:

1. **Same-Company co-branding:** This occurs when a single company promotes its own products under different brand names. An example in India is Maruti Suzuki, which markets various car models like Swift, Baleno, and Vitara Brezza under its parent brand, Maruti.

2. **Joint-Venture co-branding:** Noteworthy brands collaborate to create a product or campaign. In India, Hindustan Unilever Limited (HUL) partnered with Pureit to create a line of water purifiers under the brand name "Pureit Marvella," leveraging the trust associated with both companies.

3. **Multiple-Sponsor co-branding:** Brands come together in a collective effort. For example, Amazon India has collaborated with various smartphone manufacturers to offer exclusive models under its "Amazon Exclusive" program, where different brands join forces to reach a wider customer base.

4. **Retail co-branding:** In this approach, different retail establishments share a physical location for mutual benefits. An example is Big Bazaar, which houses various brand outlets and product categories within its stores, offering consumers a one-stop shopping experience.

8. Ingredient Branding

Ingredient branding is a strategy within co-branding where the focus is on materials, components, or parts that are integral to other well-known branded products. These components are given their own branding to enhance their individual value, which in turn elevates the overall product's perception. It leverages the recognition and reputation of these individual components to add value to the overall product. This strategy benefits both the host product and the ingredient brand.

Ingredient branding provides a way to differentiate products and signals high quality, especially for host products with weaker branding. By incorporating trusted ingredient brands, the host product gains credibility and perceived. Tata Steel's ingredient branding approach with "Xtra" showcases this concept. Tata Steel, a well-known steel manufacturer, created the "Tata Steel Xtra" brand for its high-strength steel used in various construction projects. By branding this specific type of steel, Tata Steel not only reinforces its commitment to quality but also offers a recognizable mark of superior performance to its partners in the construction industry.

9. Warranties, Guarantees and Returns

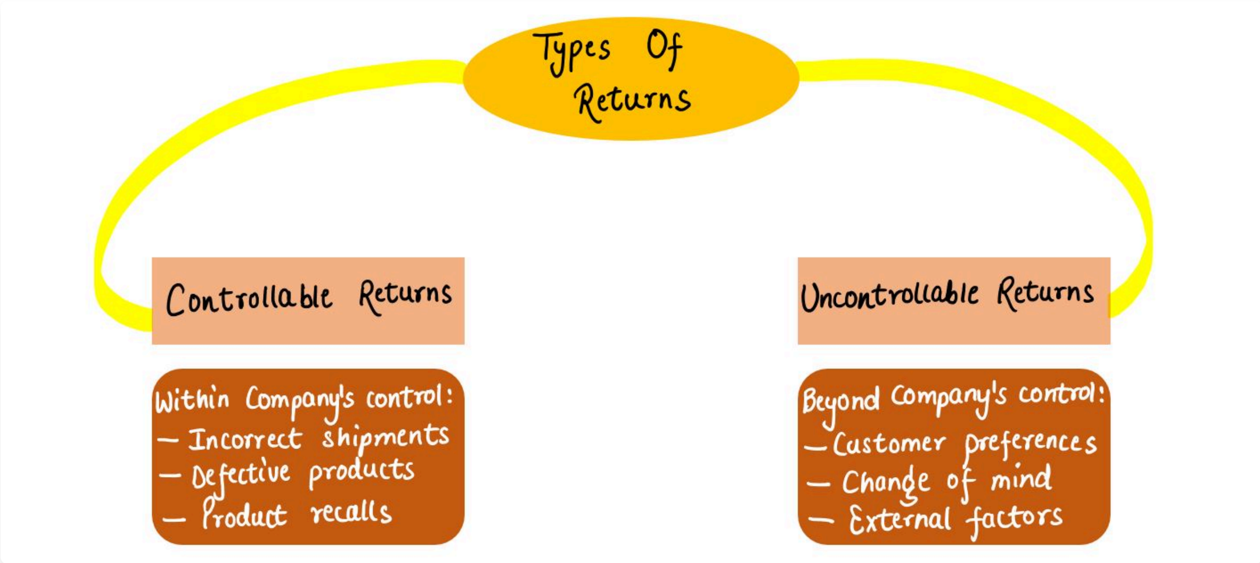
Warranties

A warranty is a formal assurance provided by a manufacturer or seller regarding the performance, quality, and condition of a product. Warranties outline what consumers can expect from the product and what remedies are available if the product fails to meet those expectations. Warranties can be expressed (explicitly stated) or implied (legally assumed), and they are legally binding agreements between the seller and the buyer. For instance, if you purchase a smartphone and it stops working within the warranty period, the manufacturer may offer to repair, replace, or refund the product at no additional cost.

Guarantees

A guarantee is a promise made by a company to the consumer that certain conditions will be met or that specific standards of performance will be upheld. Guarantees provide reassurance to consumers that the product will meet their expectations or perform as advertised. Guarantees can vary widely, from general assurances of satisfaction to specific commitments like a lifetime warranty. For example, a company might guarantee that their vacuum cleaner will pick up dirt effectively or provide a money-back guarantee if the customer is not satisfied.

Returns



Returns refer to the process by which customers return purchased products to the seller or retailer for various reasons, such as dissatisfaction with the product, defects, or incorrect orders. A well-defined return policy is essential for maintaining customer satisfaction and handling situations where products do not meet the customer's expectations. Returns can involve issuing refunds, providing replacements, or offering exchanges for different products.

Types of returns are given below:

- **Controllable Returns:** Controllable returns are those that a company has a certain degree of control over. These returns are often a result of factors within the company's control, such as incorrect shipments, defective products, or product recalls. Companies can take proactive measures to minimize controllable returns by ensuring product quality, accurate order fulfillment, and effective quality control processes.

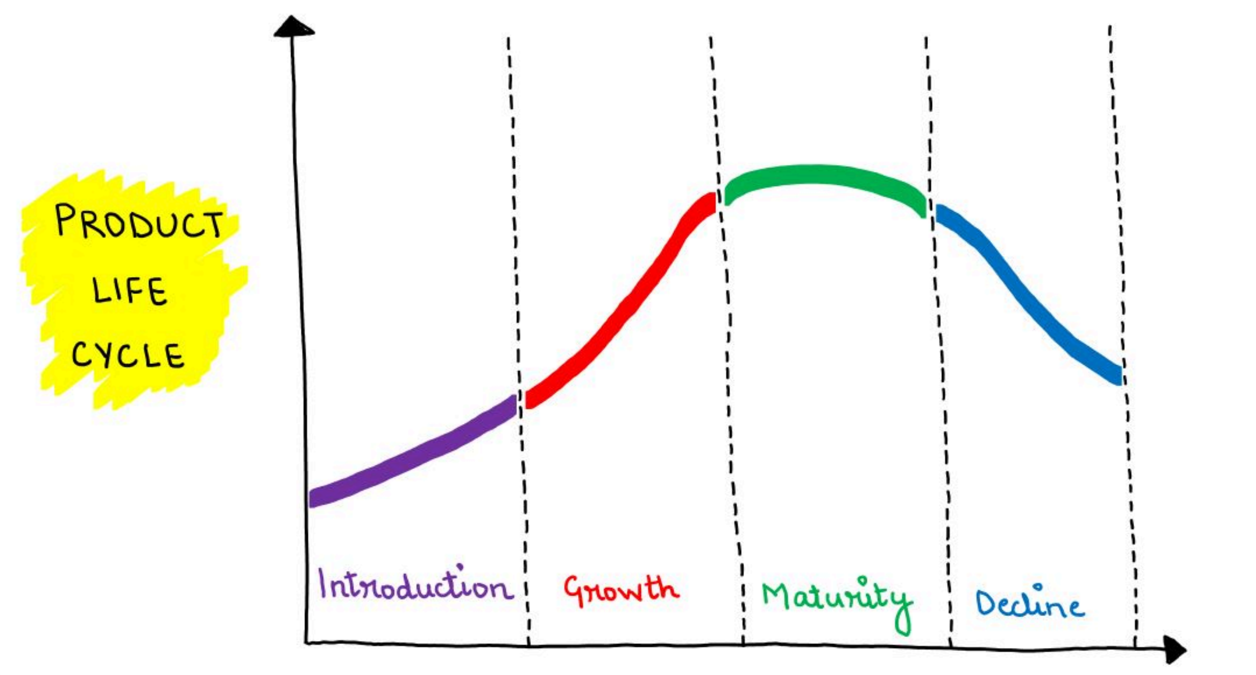
  For example, if a customer receives a defective smartphone with a malfunctioning screen, the company can take responsibility for the defect and offer a replacement or repair.

- **Uncontrollable Returns:** Uncontrollable returns are those that occur due to factors beyond the company's control. These returns are often a result of customer preferences, changes of mind, or external factors. Uncontrollable returns can be more challenging for companies to manage, as they may involve products that are in perfect condition but are being returned for non-defect-related reasons.

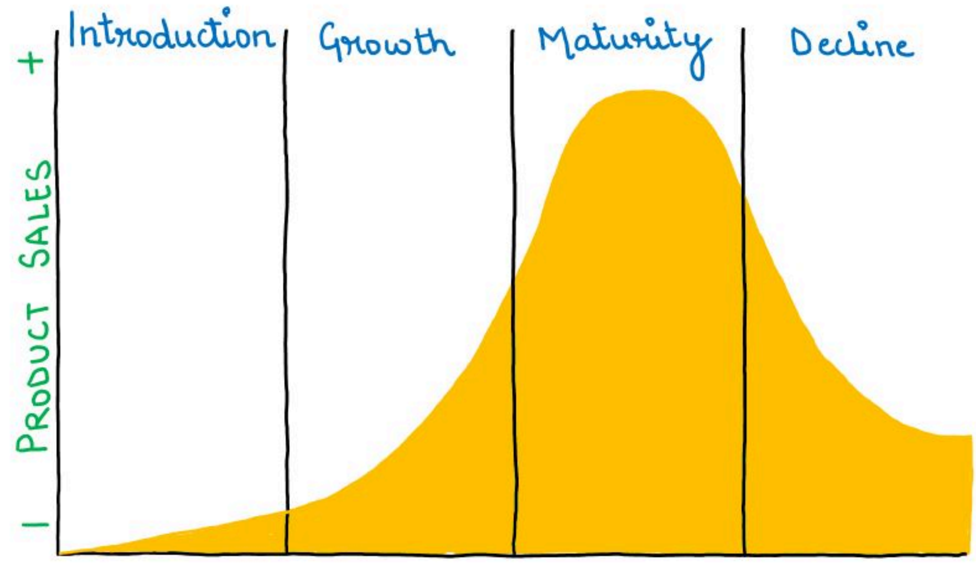
  For example, a customer returning a shirt that fits but is not the desired color would be an uncontrollable return. Similarly, a customer returning a winter coat in the spring due to changing weather conditions is another uncontrollable return.

1. Product Life Cycle

Like human beings, products also have an arc. From birth to death, human beings pass through various stages e.g., birth, growth, maturity, decline and death. A similar lifecycle is seen in the case of products. Product Life Cycle (PLC) is the course of a product's sales and profits over its lifetime. The PLC has to do with the life of a product in the market with respect to business/commercial costs and sales measures.



2. Stages of PLC



The 4 main stages of a product's life cycle and the accompanying characteristics (4P's) are:

Stage 1 - Introduction Stage

The introduction stage starts when a new product is first distributed and made available for purchase. Here, the firm seeks to build product awareness and develop a market for the product. The impact on the marketing mix is as follows:

- Product branding and quality level is established, and intellectual property protection such as patents and trademarks are obtained.
- Pricing may be low penetration pricing to build market share rapidly, or high skim pricing to recover development costs.
- Distribution is selective until consumers show acceptance of the product.
- Promotion is aimed at innovators and early adopters. Marketing communications seeks to build product awareness and to educate potential consumers about the product.

Stage 2 - Growth Stage

It is a stage in which a product's sales start climbing quickly. Here, the firm seeks to build brand preference and increase market share.

- Product quality is maintained and additional features and support services may be added.
- Pricing is maintained as the firm enjoys increasing demand with little competition.
- Distribution channels are added as demand increases and customers accept the product.
- Promotion is aimed at a broader audience.

Stage 3 - Maturity Stage

At maturity, the strong growth in sales diminishes. It normally lasts longer than the previous stages, and it poses strong challenges to marketing management. Competition may appear with similar products. The primary objective at this point is to defend market share while maximizing profit.

- Product features may be enhanced to differentiate the product from that of competitors.
- Pricing may be lower because of the new competition.
- Distribution becomes more intensive and incentives may be offered to encourage preference over competing products.
- Promotion emphasizes product differentiation.

Stage 4 - Decline Stage

It is a stage in which a product's sales fade away. As sales decline, the firm has several options:

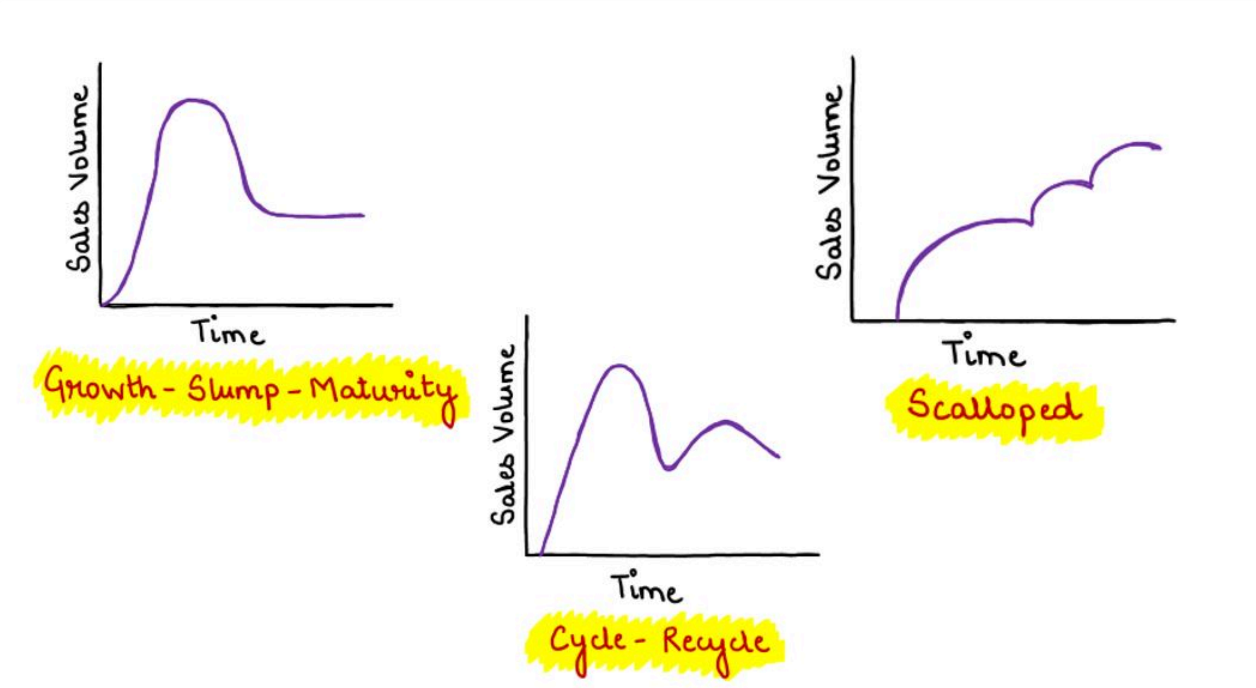
- Maintain the product, possibly rejuvenating it by adding new features and finding new uses.
- Harvest the product - reduce costs and continue to offer it, possibly to a loyal niche segment.
- Discontinue the product, liquidating remaining inventory or selling it to another firm that is willing to continue the product.

3. Key characteristics during PLC

	Introduction	**Growth**	**Maturity**	**Decline**
Characteristics				
Sales	Low sales	Rapidly rising sales	Peak sales	Declining sales
Costs	High cost per customer	Average cost per customer	Low cost per customer	Low cost per customer
Profits	Negative	Rising profits	High profits	Declining profits
Customers	Innovators	Early adopters	Middle majority	Laggards
Competitors	Few	Growing number	Stable number beginning to decline	Declining number
Marketing Objectives				
	Create product awareness and trial	Maximize market share	Maximize profit while defending market share	Reduce expenditure and milk the brand
Strategies				
Product	Offer a basic product	Offer product extensions, service, warranty	Diversify brand and models	Phase out weak items
Price	Use cost-plus	Price to penetrate market	Price to match or beat competitors	Cut price
Distribution	Build selective distribution	Build intensive distribution	Build more intensive distribution	Go selective: phase out unprofitable outlets
Advertising	Build product awareness among early adopters and dealers	Build awareness and interest in the mass market	Stress brand differences and benefits	Reduce to level needed to retain hard-core loyalists
Sales Promotion	Use heavy sales promotion to entice trial	Reduce to take advantage of heavy consumer demand	Increase to encourage brand switching	Reduce to minimal level

4. Patterns of Product Life Cycle

While the bell-shaped curve is typical, Product Life Cycles can exhibit many different alternate patterns. For example:



1. Growth-Slump-Maturity Pattern

This pattern is often observed in products like small kitchen appliances such as bread makers and toaster ovens. When these products are first introduced to the market, their sales experience a rapid increase. This initial surge is the growth stage, driven by the excitement of consumers discovering the new product. However, after this initial excitement wanes, sales start to decline, and this is referred to as the slump phase. Eventually, sales stabilize at a consistent level, maintained by latecomers who are purchasing the product for the first time and early adopters who are replacing their older models. This stable phase is known as the maturity stage.

2. Cycle-Recycle Pattern

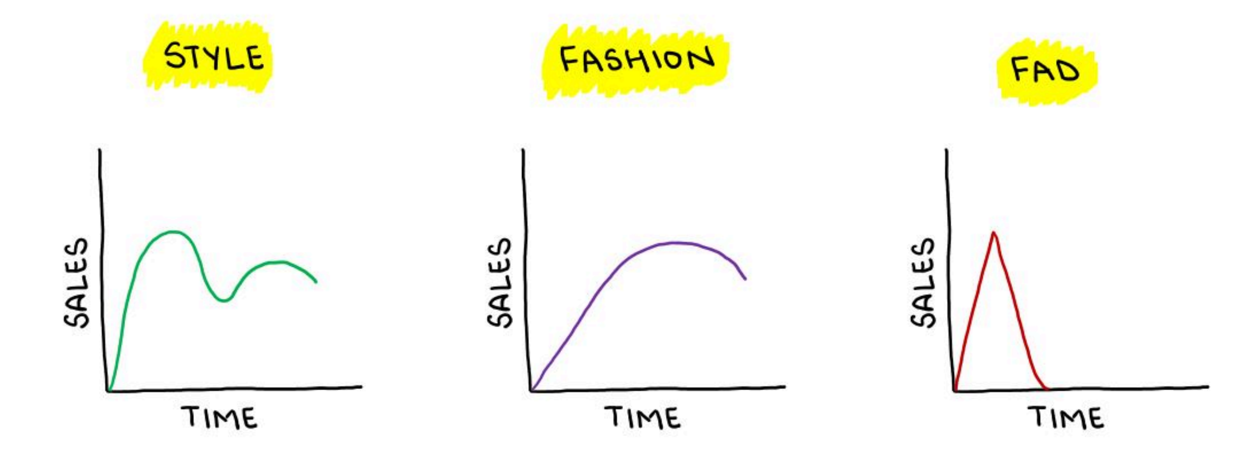
This pattern is commonly seen in the sales of new drugs within the pharmaceutical industry. When a pharmaceutical company introduces a new drug to the market, they aggressively promote it, leading to a sharp increase in sales. This promotional effort initiates the first cycle of growth. However, over time, the initial momentum fades, and sales begin to decline. To counter this decline, the company often launches another intense marketing campaign, resulting in a second cycle of increased sales. This second cycle is typically of smaller magnitude and duration compared to the first one.

3. Scalloped PLC Pattern

The scalloped pattern represents a sales trend where a product experiences a succession of life cycles, driven by the discovery of new product attributes, uses, or user segments. This pattern signifies that the product's sales go through cycles of growth, stagnation, and resurgence. An example of this pattern is illustrated by nylon sales. As new applications for nylon were discovered over time—such as for parachutes, hosiery, shirts, carpeting, boat sails, and automobile tires—sales would increase whenever these new uses were identified.

5. Style, Fashion and Fad

The concept of the Product Life Cycle (PLC) can be extended to encompass styles, fashions, and fads. These terms refer to different patterns of popularity and acceptance in various domains, such as design, fashion, and product trends.



Styles: Enduring Modes of Expression

A style represents a fundamental and unique mode of expression, which is evident in various aspects of life like housing, clothing, and art. Examples include architectural styles in homes (colonial, ranch, transitional), fashion styles (formal, casual), and art styles (realist, surrealist, abstract). Once a style is introduced, it can persist for generations, going in and out of vogue periodically.

Fashions: Presently Accepted Styles

Fashions refer to currently accepted or favored styles in terms of design, color, or theme. These trends are not limited to clothing and extend to other areas such as cars, furniture, music, and sports. For instance, punk music, clothing, and hairstyles were considered a fashion trend in the 1970s. Similarly, specific sports like handball and golf experienced phases of being fashionable.

Fads: Short-Lived Trends

Fads are characterized by their rapid rise to extreme popularity, followed by a quick decline, often disappearing almost entirely. Fads are short-lived and intense phenomena. While they might be widely embraced during a brief period, they lose their popularity just as swiftly. It is common for fads to only be identified as such in retrospect, often years after they have passed. Notable examples of fads include products like the upside-down Christmas tree, which gained widespread popularity in a short span of time.

1. Introduction

A firm can obtain new products in two primary ways: through acquisition or through its own new product development efforts.

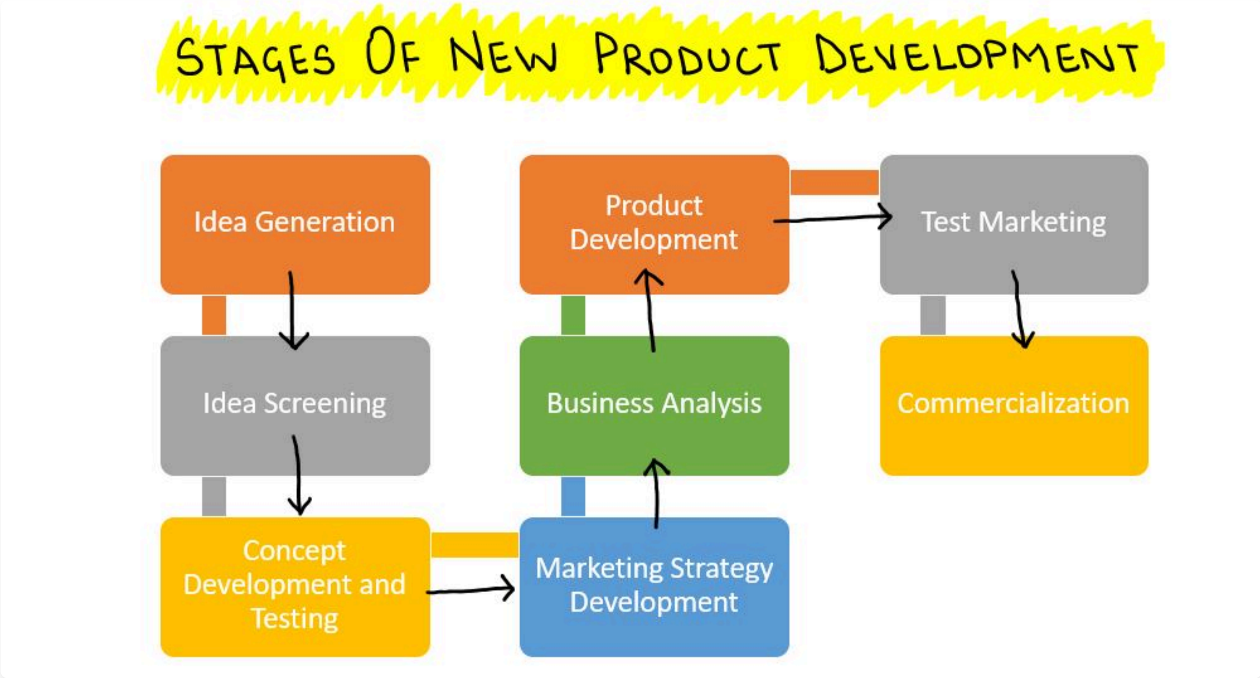
- *Acquisition:* This involves buying existing products or assets from other companies. A firm might acquire a whole company, purchase a patent, or obtain a license to produce someone else's product. Acquisition is often faster, allowing the firm to immediately benefit from the established market and technology associated with the acquired product.
- *New Product Development:* This refers to the process of creating new products from scratch within the company. It includes the development of original products, product improvements, product modifications, and even the creation of entirely new brands. In this process, the company develops products based on its own research, innovation, and market insights, which can lead to a unique competitive advantage.

In summary, **new product development** is the process through which a company designs and launches new offerings, while acquisition is about obtaining products from other firms or sources to expand its portfolio.

2. Stages of New Product Development

A company must carry out strong new product planning and set up a systematic, customer-driven new product development process for finding and growing new products.

8 stages of New Product Development are given below:



1. Idea Generation

New product development starts with idea generation—the systematic search for new product ideas. Major sources of new product ideas include internal sources (formal R&D) and external sources such as customers, competitors, distributors and suppliers, and others. More broadly, many companies are now developing crowdsourcing or open-innovation new product idea programs.

Through crowdsourcing, a company invites broad communities of people—customers, employees, independent scientists and researchers, and even the public at large—into the innovation process.

2. Idea Screening

The purpose of idea generation is to create a large number of ideas. The purpose of the succeeding stages is to reduce that number. The first idea-reducing stage is idea screening, which helps spot good ideas and drop poor ones as soon as possible.

3. Concept development and testing

An attractive idea must then be developed into a product concept. It is important to distinguish between a product idea, a product concept, and a product image. A **product idea** is an idea for a possible product that the company can see itself offering to the market. A **product concept** is a detailed version of the idea stated in meaningful consumer terms. A **product image** is the way consumers perceive an actual or potential product.

Concept testing calls for testing new product concepts with groups of target consumers. The concepts may be presented to consumers symbolically or physically.

4. Marketing Strategy Development

It refers to designing an initial marketing strategy for a new product based on the product concept. The marketing strategy statement consists of 3 parts:

(i) The first part describes the target market; the planned value proposition; and the sales, market-share, and profit goals for the first few years.

(ii) The second part outlines the product's planned price, distribution, and marketing budget for the first year.

(iii) The third part describes the planned long-run sales, profit goals, and marketing mix strategy.

5. Business Analysis

Once management has decided on its product concept and marketing strategy, it can evaluate the business attractiveness of the proposal. Business analysis involves a review of the sales, costs, and profit projections for a new product to find out whether they satisfy the company's objectives. If they do, the product can move to the product development stage.

6. Product development

It refers to developing the product concept into a physical product to ensure that the product idea can be turned into a workable market offering. Here, R&D or engineering develops the product concept into a physical product.

7. Market testing

If the product passes both the concept test and the product test, the next step is test marketing, the stage at which the product and its proposed marketing program are tested in realistic market settings. Test marketing gives the marketer experience with marketing a product before going to the great expense of full introduction. It lets the company test the product and its entire marketing program—targeting and positioning strategy, advertising, distribution, pricing, branding and packaging, and budget levels.

The companies usually choose one of following approaches:

- **Standard Test Markets:** Using standard test markets, the company finds a small number of representative test cities, conducts a full marketing campaign in these cities and uses store audits, consumer and distributor surveys and other measures to gauge product performance. It then uses the results to forecast national sales and profits, to discover potential product problems and to fine-tune the marketing programme.
- **Controlled Test Markets:** Several research firms keep controlled panels of stores which have agreed to carry new products for a fee. The company with the new product specifies the number of stores and geographical locations it wants. The research firm delivers the product to the participating stores and controls shelf location, amount of shelf space, displays and point-of-purchase promotions, and pricing according to specified plans. Sales results are tracked to determine the impact of these factors on demand.
- **Simulated Test Markets:** Companies also can test new products in a simulated shopping environment. The company or research firm shows, to a sample of consumers, ads and promotions for a variety of products, including the new product being tested. It gives consumers a small amount of money and invites them to a real or laboratory store, where they may keep the money or use it to buy items. The researchers note how many consumers buy the new product and competing brands.
- **Sales Wave:** It lets some consumers try the product at no cost. Then reoffer the product, or a competitor's product, at slightly reduced prices. See how many customers choose your product again, and gauge their satisfaction with it.

Business marketers use different methods for test marketing their new products as described below:

- **Product-use Tests:** Here the business marketer selects a small group of potential customers who agree to use the new product for a limited time. The manufacturer's technical people watch how these customers use the product. From this test, the manufacturer learns about customer training and servicing requirements.
- **Trade Shows:** These shows draw a large number of buyers who view new products in a few concentrated days. The manufacturer sees how buyers react to various product features and terms, and can assess buyer interest and purchase intentions.
- **Distributor and Dealer Display Rooms:** The new industrial product may be placed next to other company products and possibly competitors' products in the showrooms.
- **Standard or Controlled Test Markets:** These are used to measure the potential of new industrial products.

When the prototypes are ready, they are put through rigorous functional tests and customer tests. **Alpha Testing** means testing the product within the firm to see how it performs in different applications. After refining the prototype further, the company moves to Beta Testing, enlisting customers to use the prototype and give feedback on their experiences. **Beta Testing** is most useful when the potential customers are heterogeneous, the potential applications are not fully known, several decision makers are involved in purchasing the product, and opinion leadership from early adopters is sought.

8. Commercialization

Test marketing gives management the information needed to make a final decision about whether to launch the new product. If the company goes ahead with commercialization—introducing the new product into the market—it will face high costs. For example, the company may need to build or rent a manufacturing facility. And, in the case of a major new consumer product, it may spend hundreds of lakhs of rupees for advertising, sales promotion, and other marketing efforts in the first year. Thus, the company launching a new product must first decide on introduction timing, geographic strategy, target market prospects and introductory market strategy.

---

2. Stages of New Product Development

One of the key skills needed for successful new product development is creativity. Fostering creativity among employees is essential for generating innovative ideas. Here are some techniques for stimulating creativity in individuals and groups, along with examples to illustrate their application:

Attribute Listing
This technique involves listing the attributes of a product and then modifying them. For example, if designing a screwdriver, you could list its attributes such as the handle, grip, head type, and shaft. Then, you can modify each attribute, such as replacing the wooden handle with a plastic one for better durability, adding ergonomic features for comfort, or offering interchangeable screw heads for versatility.

Forced Relationships
This method involves taking multiple ideas and combining them to create new concepts. For instance, if you're designing office furniture, consider three items: a desk, a bookcase, and a filing cabinet. By forcing relationships, you could design a desk with an integrated bookcase, a desk with built-in files, or a bookcase with file compartments. This helps generate creative solutions by reimagining how separate elements can work together.

Morphological Analysis
This technique starts by identifying a problem and breaking it down into different components. For example, if the challenge is transporting goods from one place to another using a powered vehicle, consider various dimensions like the platform type (cart, chair, sling, or bed), medium (air, water, rails), and power source (electric motor, compressed air, or magnetic fields). By combining all these variables, you can generate numerous innovative transportation solutions.

Reverse Assumption Analysis
This technique involves listing the typical assumptions about an entity and then reversing them. For example, consider a restaurant: typical assumptions might be that it has menus, charges for food, and serves meals. By reversing these assumptions, you could come up with a restaurant that serves only what the chef bought that morning, or one that charges by the time you spend seated, or even one that lets customers bring their own food and provides an exotic setting. This can lead to groundbreaking business models.

New Contexts
This technique involves taking familiar processes and applying them in a new context. For example, instead of offering daycare services for people, you could consider providing daycare for pets, offering services like stress reduction for animals, therapy for pets, or even animal funerals. Another example could be rethinking how hotel check-ins work: rather than having guests go to the front desk, greet them at curbside and use wireless devices to register them, offering a more personalized experience.

Mind Mapping
This technique helps you explore different associations connected to a central idea. For example, start with the word "car" and write it at the center of the page. Then, think of the next association that comes to mind, such as "Mercedes", and link it to the word car. From there, think of the next related word, such as "Germany", and continue branching out with each new word. By following these associations, you might uncover a whole new product idea or concept, such as a high-end, German-designed electric car.

---

2. Stages of New Product Development

Once a product has passed both the concept test and the product test, the next step in the new product development process is test marketing. This is the stage where the product and its marketing program are tested in realistic market settings. Test marketing provides valuable insights into how the product will perform in the real market before launching on a larger scale, saving the company from potential risks and costs.

Types of Test Marketing are given below:

Standard Test Markets
In this approach, companies select a few representative cities to conduct a full marketing campaign. It involves store audits, consumer and distributor surveys, and other measures to assess product performance. The results help forecast national sales and profits, identify product issues, and fine-tune the marketing strategy (targeting, positioning, pricing, etc.).

Controlled Test Markets
A research firm keeps a panel of stores that agree to carry new products for a fee. The company specifies the stores and locations and provides guidance on shelf space, promotions, pricing, and displays. Sales data is tracked to evaluate how these factors affect demand for the product.

Simulated Test Markets
In this method, products are tested in a simulated shopping environment where consumers are shown ads and promotions for a variety of products, including the new one. Consumers are given a small amount of money and invited to purchase items in a real or laboratory store. The researchers analyze purchase behavior to see how the new product compares with competing brands.

Sales Wave
This approach allows consumers to try the product for free and then reoffer it at a reduced price. It measures how many customers repurchase the product, providing insights into customer satisfaction and repeat purchase behavior.

Test Marketing for Business Products is done with following approaches:

Product-Use Tests
A small group of potential customers is selected to use the product for a limited time. The company observes how these customers use the product to understand customer needs for training and servicing.

Trade Shows
Trade shows allow business marketers to present new products to a large number of buyers over a few concentrated days. This helps assess buyer reactions to product features and determine purchase intentions.

Distributor and Dealer Display Rooms
New products are placed next to existing company or competitor products in showrooms. This allows the company to gauge interest and reactions from potential buyers.

Prototyping and Testing
Once prototypes are ready, they undergo rigorous functional and customer tests:

- *Alpha Testing*: Conducted internally within the company to test the product's performance in different applications.
- *Beta Testing*: Involves real customers who use the prototype and provide feedback. It’s especially useful when the customer base is diverse, the product's applications are not fully known, and early adopters can influence wider adoption.

3. Managing New Product Development

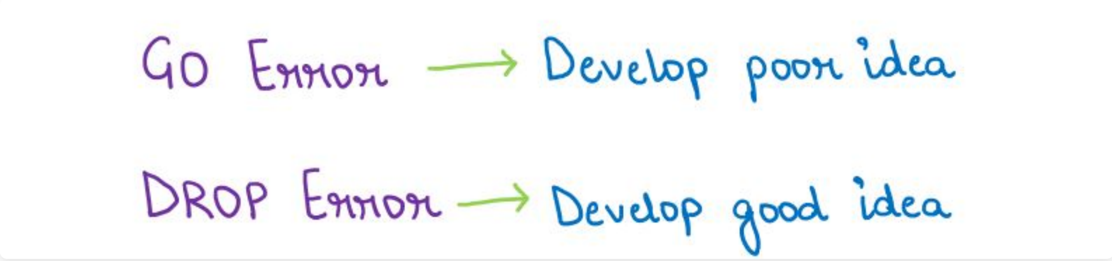
Along with the above stages of new product development, Companies must also take a holistic approach to managing this process. Successful new product development requires a customer-centered, team-based, and systematic effort.

- **Customer-centered new product development:** It focuses on finding new ways to solve customer problems and create more customer satisfying experiences.
- **Team-based new product development:** Under this approach, company departments work closely together in cross-functional teams, overlapping the steps in the product development process to save time and increase effectiveness. Instead of passing the new product from department to department, the company assembles a team of people from various departments that stays with the new product from start to finish.
- **Systematic New Product Development:** Finally, the new product development process should be holistic and systematic rather than compartmentalized and haphazard. Otherwise, few new ideas will surface, and many good ideas will sputter and die. To avoid these problems, a company can install an innovation management system to collect, review, evaluate, and manage new product ideas.

4. Managing Product Failure

A new product may fail for many reasons. Most often, companies fail to offer a unique benefit or underestimate the competition. Specific reasons are:

- A high-level executive pushes a favorite idea through in spite of negative market research findings.
- The idea is good but the market size is over-estimated.
- The product is not well designed.
- The product is incorrectly positioned in the market, not advertised effectively or over-priced.
- Development costs are higher than expected.
- Competitors fight back harder than expected.
- Shortage of important ideas in certain areas.
- Fragmented markets
- Social and governmental constraints.
- Costliness of the development process.
- Capital shortages
- Faster required development time
- Shorter product life cycle



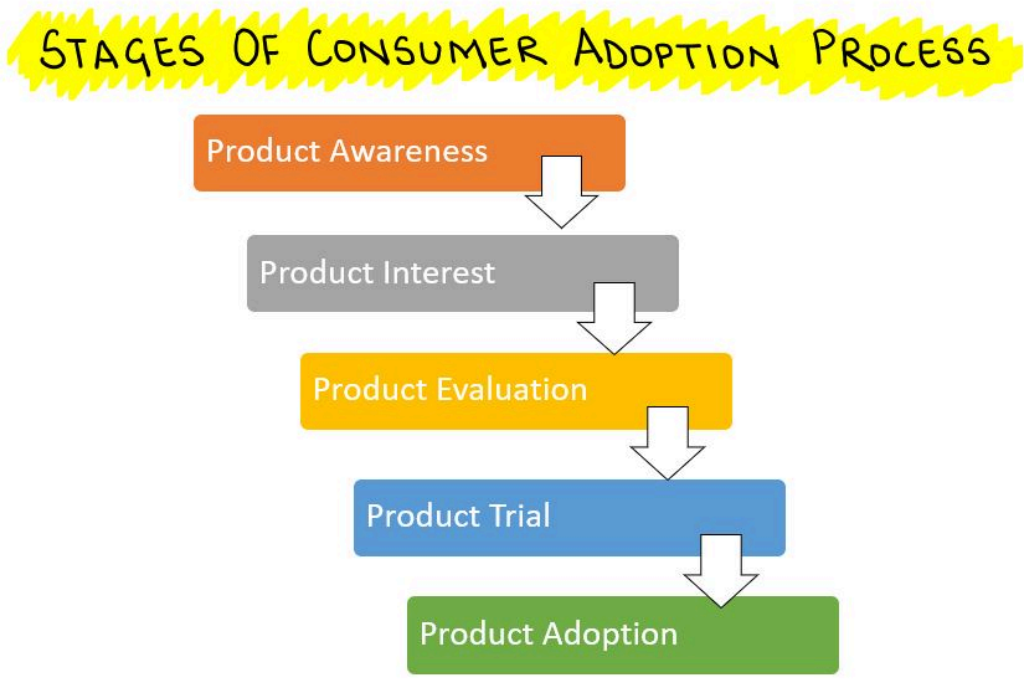
A **GO error** occurs when the company permits a poor idea to move into development and commercialization. A **DROP is an error** when a company dismisses otherwise a good idea.

An **Absolute product failure** loses money; its sales do not cover variable costs. A **Partial product failure** loses money, but its sales cover all its variable costs and some of its fixed costs. A **Relative product failure** yields a profit that is less than the company's target rate of return.

The job of translating target customer requirements into a working prototype is helped by a set of methods known as **Quality Function Deployment (QFD)**. This methodology takes the list of desired customer attributes generated by market research and turns them into a list of engineering attributes that the engineers can use for production.

5. Product Adoption

Adoption process is the mental process through which an individual pass from first hearing about an innovation to final adoption.



Adopters of new products (consumers) have been observed to move through 5 stages:

1. **Awareness:** consumer becomes aware of new product but has no information about it.
2. **Interest:** consumer is stimulated to seek information about the innovation.
3. **Evaluation:** consumer considers whether to try the innovation.
4. **Trial:** consumer tries the innovation to estimate its value.
5. **Adoption:** consumer decides to make full and regular use of new product.

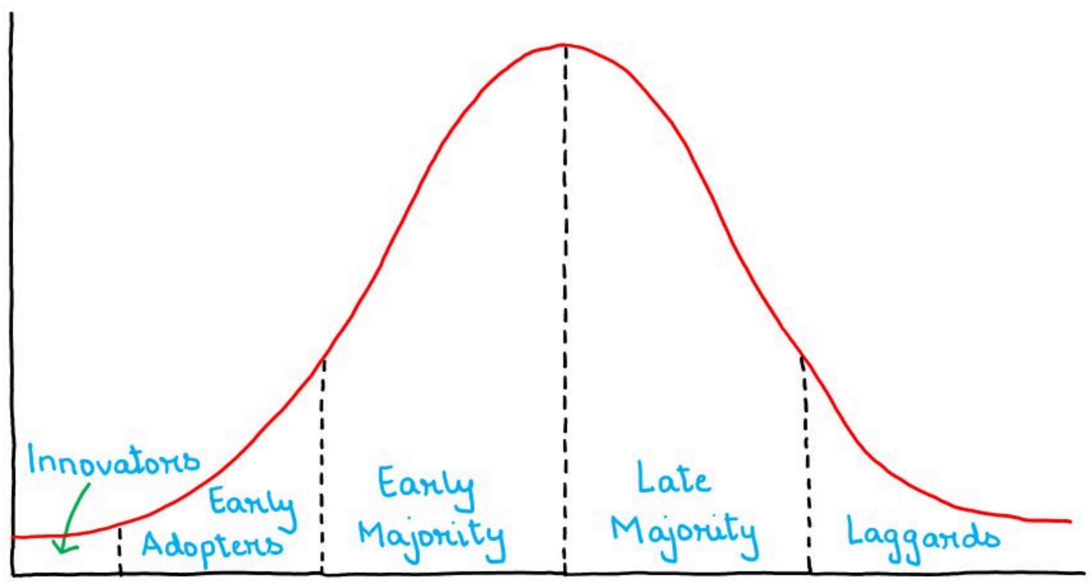
This model suggests that marketers should think about how to help consumers move through these stages.

5. Product Adoption

The **Diffusion of Innovations Theory** is a concept from social sciences that helps us understand why new products sometimes do not do well. It divides people in a group into different groups based on how likely they are to try something new. The idea behind this theory is that when a new idea comes out, it needs to spread among the group. But because each group thinks differently, spreading the idea is harder than it seems. This theory is used by marketers to explain why it's tough to get people to use new products, even when the products are really good. There are always a few people who quickly try new things, but most people wait until they're sure it's a good idea before trying it.

This theory is connected to the **Technology Adoption Life Cycle**, which is a way to show how new technology becomes popular. In this cycle, there's something called a "chasm." This is like a big gap that needs to be crossed before regular people start using a new product and it becomes successful. The Technology Adoption Life Cycle was created by a person named Geoffrey Moore, who wrote a book called "Crossing the Chasm." This theory says that when marketers want to sell technology products, they need to cross this "chasm" between people who try things early (early adopters) and the larger group (early majority) for the product to succeed.

As a whole, the new product adoption process can be modeled in the form of a bell-shaped diffusion curve.

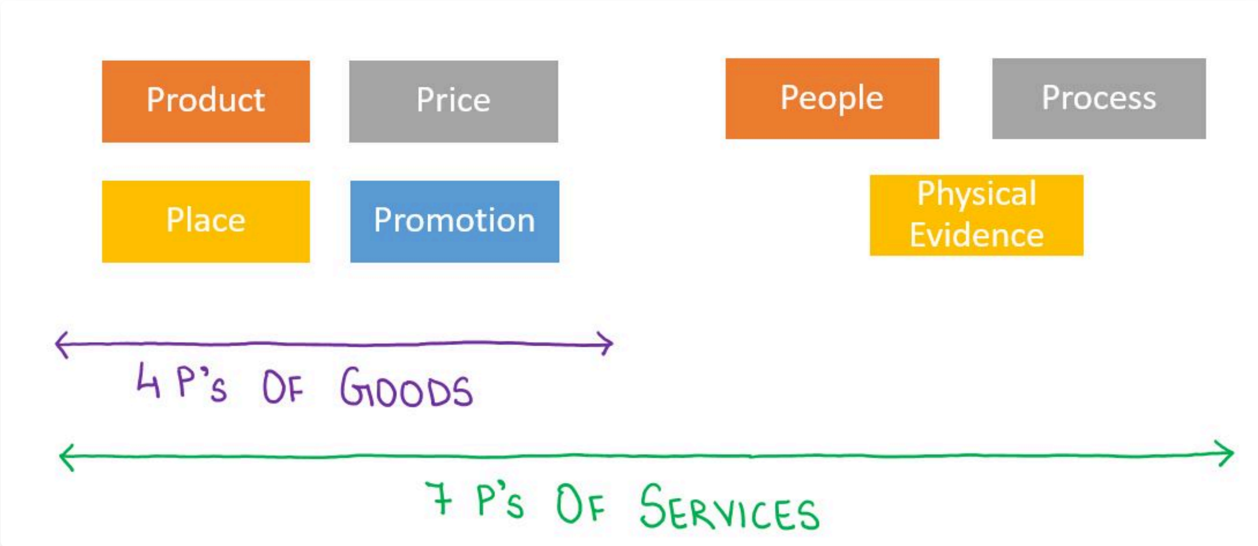


- **Innovators:** Well-informed risk-takers who are willing to try an unproven product. Innovators represent the first 2.5% to adopt the product.
- **Early adopters**: Based on the positive response of innovators, early adopters then begin to purchase the product. Early adopters tend to be educated opinion leaders and represent about 13.5% of consumers.
- **Early majority**: Careful consumers who tend to avoid risk, the early majority adopts the product once it has been proven by the early adopters. They rely on recommendations from others who have experience with the product. The early majority represents 34% of consumers.
- **Late majority:** somewhat skeptical consumers who acquire a product only after it has become commonplace. The late majority represents about 34% of consumers.
- **Laggards:** those who avoid change and may not adopt a new product until traditional alternatives no longer are available. Laggards represent about 16% of consumers.

1. Introduction

Services are a form of product that consists of activities, benefits, or satisfactions offered for sale that are essentially intangible and do not result in the ownership of anything. Examples include banking, hotel, airline travel, retail, wireless communication, and home-repair services.

Services have 3 additional P's to the 4 P's of Marketing (Product, Price, Place, promotion). 3 P's exclusive to services are People, Process and Physical evidence.



People

An essential ingredient to any service provision is the use of appropriate staff and people. Recruiting the right staff and training them appropriately in the delivery of their service is essential if the organisation wants to obtain a competitive advantage.

Process

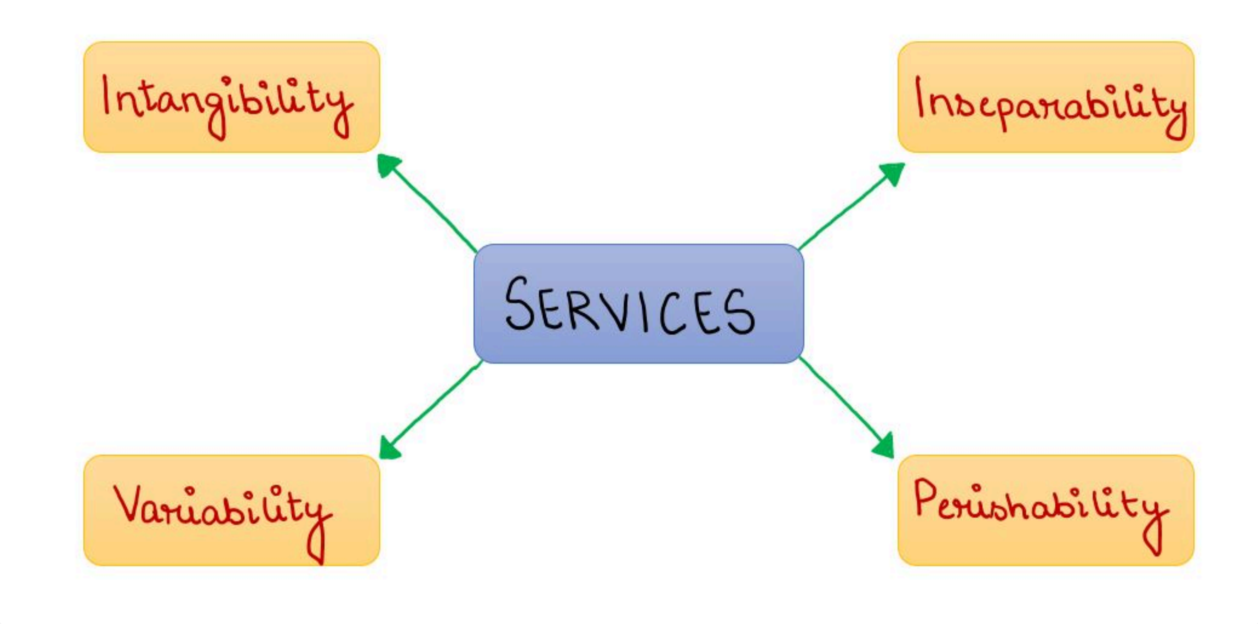
Refers to the systems used to assist the organisation in delivering the service. Banks that send out Credit Cards automatically when their customers' old one has expired again require an efficient process to identify expiry dates and renewal. An efficient service that replaces old credit cards will foster consumer loyalty and confidence in the company.

Physical Evidence

Where is the service being delivered? Physical Evidence is the element of the service mix which allows the consumer again to make judgments on the organisation. If you walk into a restaurant your expectations are of a clean, friendly environment.

2. Characteristics of Services

The services have unique characteristics which makes them different from that of goods. The most common characteristics of services are: Intangibility, Inseparability, Perishability and Variability.



Intangibility

Services are activities performed by the provider, unlike physical products they cannot be seen, tasted, felt, heard or smelt before they are consumed. Since, services are not tangibles, they do not have features that appeal to the customer's senses. So to reduce uncertainty, buyers look for signals of service quality. They draw conclusions about quality from the place, people, price, equipment, and communications that they can see. Therefore, the service provider's task is to make the service tangible in one or more ways and send the right signals about quality.

Inseparability

Services are typically produced and consumed simultaneously. In case of physical goods, they are manufactured into products, distributed through multiple resellers, and consumed later. But, in case of services, they cannot be separated from their providers, whether the providers are people or machines. If a service employee provides the service, then the employee becomes a part of the service. And customers don't just buy and use a service; they play an active role in its delivery. Customer coproduction makes provider–customer interaction a special feature of services marketing. Both the provider and the customer affect the service outcome.

Perishability

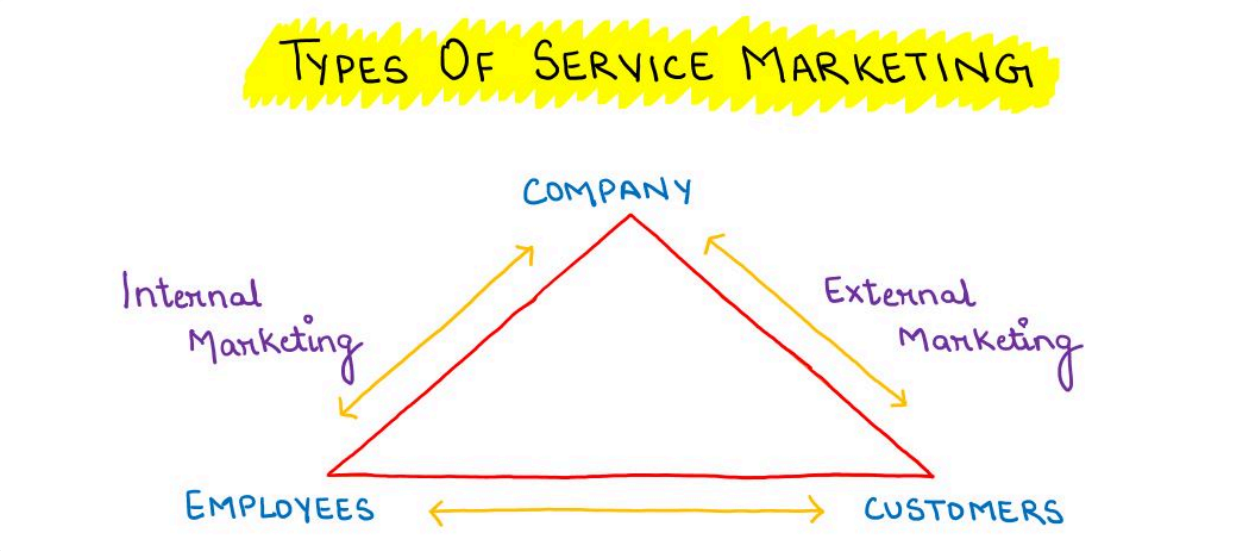
Services are deeds, performance or act whose consumption take place simultaneously; they tend to perish in the absence of consumption. Hence, services cannot be stored. The services go waste if they are not consumed simultaneously i.e., value of service exists at the point when it is required. Thus, service firms often design strategies for producing a better match between demand and supply.

Variability

Services are highly variable, means that the quality of services depends on who provides them as well as when, where, and how they are provided. Service marketers face a problem in standardizing their service, as it varies with experienced hand, customer, time and firm.

3. Types of Service Marketing

Services marketing requires more than just traditional external marketing using the four Ps. Because service encounters are complex interactions affected by multiple elements, adopting a holistic marketing perspective is especially important. The service outcome, and whether or not people will remain loyal to a service provider, is influenced by a host of variables. Holistic marketing for services requires external, internal, and interactive marketing.



External marketing describes the normal work of preparing, pricing, distributing, and promoting the service to customers.

Internal marketing means that the service firm must orient and motivate its customer-contact employees and supporting service people to work as a team to provide customer satisfaction. Marketers must get everyone in the organization to be customer centered. In fact, internal marketing must precede external marketing. The idea is to make certain that employees themselves believe in the brand so that they can authentically deliver the brand's promise to customers.

Interactive marketing means that service quality depends heavily on the quality of the buyer–seller interaction during the service encounter. In product marketing, product quality often depends little on how the product is obtained. But in services marketing, service quality depends on both the service deliverer and the quality of delivery.

---

4. Managing Service Marketing

Today, as competition and costs increased and as productivity and quality decreased, more services marketing sophistication is needed. Service companies face three major marketing tasks: They want to increase their service differentiation, service quality, and service productivity.

---

4. Managing Service Marketing

In a competitive market, many services appear similar, making it difficult for businesses to stand out. When consumers perceive services as homogeneous, their primary focus often shifts to price. However, to avoid being seen as a commodity, service providers must differentiate their offerings effectively. Service differentiation involves creating distinctive characteristics or features that set a company's services apart from its competitors.

Differentiation allows service providers to avoid competing solely on price. When a service is perceived as unique or superior in some way, consumers are willing to pay more for it.

Differentiation also creates stronger emotional connections with customers. When a company offers something unique, customers are more likely to stay loyal and recommend the service to others.

Key Strategies for Service Differentiation are given below:

1. Differentiating the Offer
The core service can be made unique by adding features or benefits that competitors don't provide. A service can be customized to meet customer needs more effectively or introduce new functionalities that make it stand out.

Example: Zomato, a food delivery service, differentiates itself with a loyalty program offering exclusive discounts, real-time tracking, and personalized recommendations.

2. Differentiating the Service Delivery
Service delivery is a crucial touchpoint for customer interaction. The speed, efficiency, and reliability of delivery can greatly influence customer satisfaction. Companies can differentiate by improving the delivery process, ensuring a smooth, reliable, and pleasant customer experience.

Example: Amazon's premium service, Amazon Prime, offers faster delivery, exclusive discounts, and a superior online shopping experience, which sets it apart from other e-commerce platforms.

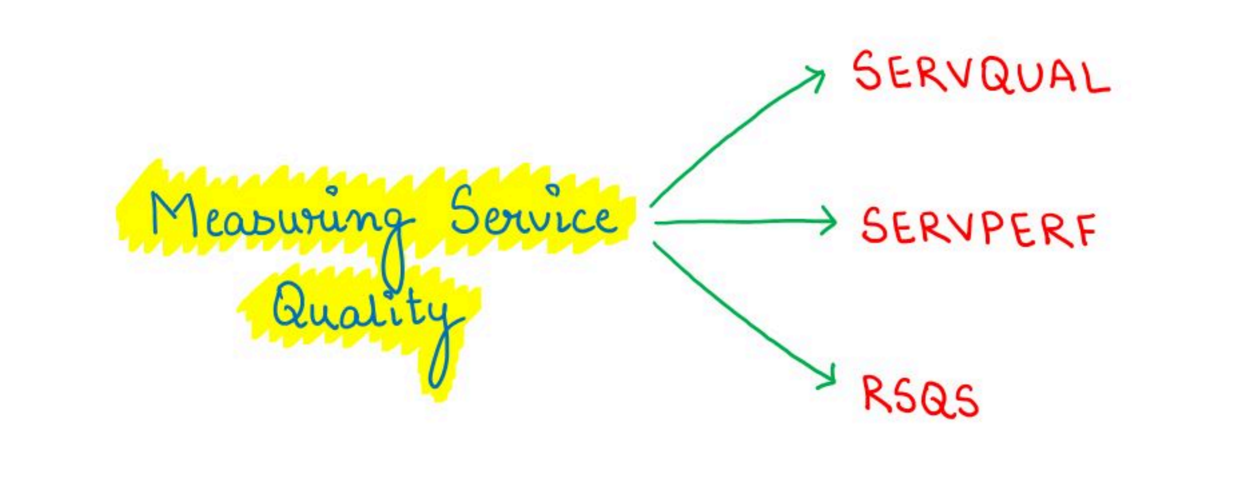
3. Differentiating Through Image
A strong brand image can make a service stand out. Branding, symbols, logos, and overall communication strategies contribute to how a brand is perceived by consumers. Creating an emotional connection through brand messaging can significantly enhance differentiation.

Example: Starbucks differentiates itself not just through its coffee, but through its consistent brand experience—its stores, customer service, and the ambiance it creates, making it more than just a coffee shop but a place for socializing.

Dimensions of Service Differentiation are:

- Ease of Ordering: Simplifying the process for customers to purchase, book, or access the service. Uber's app allows users to book a ride quickly and conveniently with a few taps.
- Speed and Timing of Delivery: Ensuring the service is delivered in a timely manner. Domino's Pizza differentiates by guaranteeing delivery within 30 minutes.
- Installation and Setup: Offering installation or setup services to enhance the customer experience. IKEA provides home delivery and assembly services, differentiating itself from other furniture retailers.
- Training and Consultation: Offering personalized training or consultation to help customers maximize the value of the service. Software companies like Microsoft offer training courses to help users maximize their use of their products.
- Maintenance and Repair: Offering ongoing support and maintenance to ensure long-term satisfaction with the service. Car manufacturers, such as Toyota, offer free scheduled maintenance for a set period after purchase.
- Managing Returns: Providing an easy and hassle-free process for returns and exchanges. Zappos is known for its no-hassle return policy, making it easy for customers to return shoes and clothing.

4. Managing Service Marketing



A service firm can differentiate itself by delivering consistently higher quality than its competitors provide. Unfortunately, service quality is harder to define and judge the product quality. Customer retention is perhaps the best measure of quality; a service firm's ability to hang onto its customers depends on how consistently it delivers value to them.

SERVQUAL

For assessing customer's perspective regarding service quality, Zeithaml, Parasuraman and Berry found 5 dimensions customers use when evaluating service quality. They named their survey instrument Service Quality model (SERVQUAL).

The service-quality model emphasizes the key prerequisites for delivering elevated service quality. Within this model, 5 gaps are identified, impeding successful delivery:

1. Disparity between customer expectations and management's perception – Management might not accurately grasp customer desires. For instance, hospital administrators might believe patients desire improved food quality, while patients prioritize nurse responsiveness.

2. Disparity between management's perception and service-quality specifications – Although management could correctly perceive customer desires, they might not establish performance benchmarks. For example, hospital administrators might prompt nurses to provide "swift" service without specifying a precise time frame.

3. Disparity between service-quality specifications and actual service delivery – Employees could be insufficiently trained or unwilling to meet the set standards; they might be subject to conflicting expectations, such as being attentive to customers while serving them quickly.

4. Disparity between service delivery and external communications – Customer expectations are shaped by statements from company representatives and advertisements. If a hospital brochure showcases elegant rooms, but patients find them to be of low quality, external communication distorts customer expectations.

5. Disparity between perceived and expected service – Customers might misunderstand the quality of service provided. For instance, a physician's frequent visits to a patient to convey care could be misinterpreted by the patient as a sign of a serious issue.

In accordance with this service-quality model, researchers have identified five key determinants of service quality, listed in descending order of significance:

- **Reliability** – The capacity to deliver the promised service consistently and accurately.
- **Responsiveness** – The willingness to assist customers promptly.
- **Assurance** – Employees' knowledge, courtesy, and ability to instill trust and confidence.
- **Empathy** – Offering personalized, caring attention to customers.
- **Tangibles** – The appearance of physical facilities, equipment, staff, and communication materials.

Based on these factors, researchers devised the 21-item SERVQUAL scale. Additionally, they highlight the existence of a *zone of tolerance*, representing a range within which a service aspect would be deemed acceptable. This zone is defined by the minimum level consumers are willing to accept and the level they perceive as attainable and appropriate.

SERVPERF

Another model to measure service quality was developed by Cronin and Taylor. It was named Service Performance model (SERVPERF). It is practically a derivative of the SERVQUAL model, but it is focused on customers' perceptions of service performances as the only relevant measure of service quality when relating it to consumer outcomes. SERVPERF has same 5 dimensions, as given by SERVQUAL model.

RSQS

Another model to measure service quality was developed by Dabholkar. It was named Retail Service Quality Scale (RSQS). The RSQS has following 5 dimensions:

1. **Physical aspects:** physical environment of store, layout, architecture etc.
2. **Reliability:** keeping promises and performing services right.
3. **Personal interaction:** Behaviour of service personnel.
4. **Problem solving:** Handling of returns and complaints.
5. **Policy:** set of strategies, procedures and guiding principles.

---

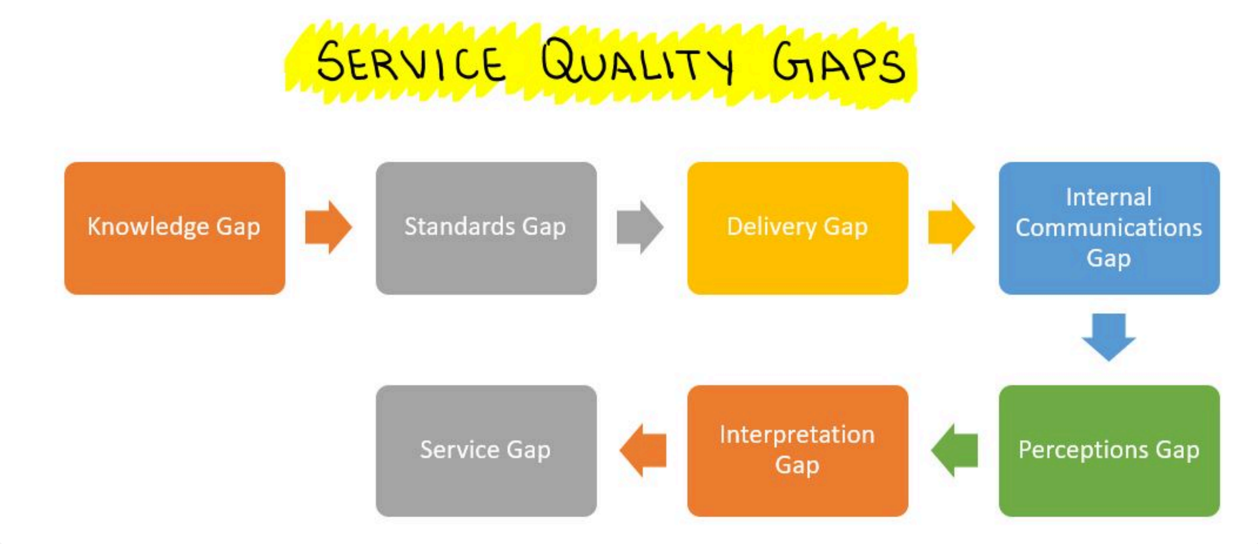
4. Managing Service Marketing

With their costs rising rapidly, service firms are under great pressure to increase service productivity. They can do so in several ways. They can train current employees better or hire new ones who will work harder or more skillfully. Or they can increase the quantity of their service by giving up some quality. However, companies must avoid pushing productivity so hard that doing so reduces quality. Attempts to streamline a service or cut costs can make a service company more efficient in the short run. But that can also reduce its longer-run ability to innovate, maintain service quality, or respond to consumer needs and desires.

---

5. Gap Analysis

An approach towards achieving conformance in services is to identify various gaps that occur during the service process. Zeithaml, Berry and Parasuraman came up with 4 such gaps that occur during service processing within the organization. They all lead to the most severe gap, that is, the gap between what the customers expected out of a service and what, according to the customers' perceptions, was eventually delivered.



Later market analysts modified this gap model and added three more gaps that can possibly occur during a service process.

Step 1. Knowledge Gap

This gap may occur at the beginning of the service process, when marketers assess what the customers' needs and expectations are from a particular service. The gap happens when there is disparity between the customers' needs/expectations and what the marketers believe them to be.

Step 2. Standards Gap

The next step of the service process is management's definition of what the target segment needs and expects. This translates into setting down standards to ensure that the service delivery meets those expectations. The gap occurs when there is a disparity between the management's perceptions and the actual delivery standards that are established by the service provider.

Step 3. Delivery Gap

The next step for the service provider is to strive to deliver the service according to its set delivery standards. The delivery gap takes place when the actual performance ability of the service provider does not match the standards set down for service delivery.

Step 4. Internal Communications Gap

The next step is for the marketing team to formulate marketing and promotional campaigns. They promote the service on the basis of specific features, quality level and so on. The internal communication gap takes place when the campaigns overpromise. In other words, the promotional campaigns convey more in terms of features, quality, and performance than what the service provider can actually deliver.

Step 5. Perceptions Gap

The next step entails the delivery of the service to the customers. The possible gap that may occur at this stage is in terms of what is actually delivered and how customers perceive what is delivered.

Step 6. Interpretation Gap

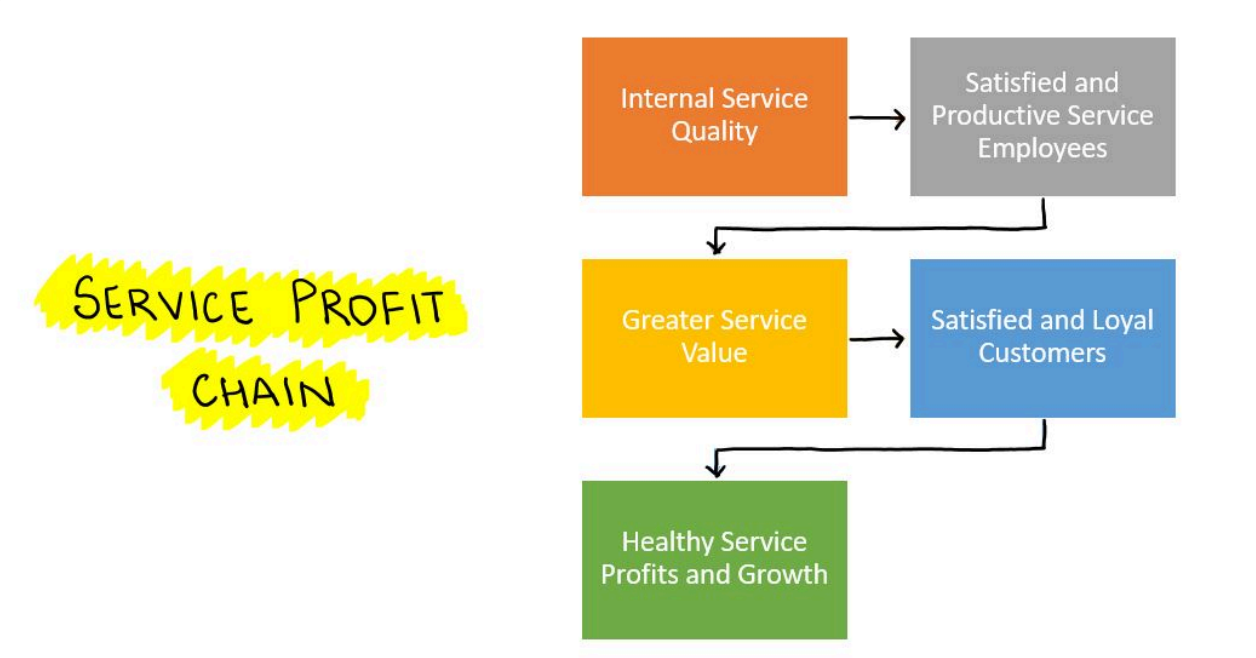
In advance of delivery, the service providers try to communicate certain promises to the customers. The interpretation gap happens when what the service provider promises is interpreted differently by the customers.

Step 7. Service Gap

It is the most severe gap that undermines the entire service process. In a way, it is a culmination of the other six kinds of gaps. When there is a disparity between what the customer expected from the service and how he or she perceived the eventual service delivery.

6. Service Profit Chain

In a service-oriented enterprise, the interaction between the customer and the frontline service personnel is crucial for service creation. The effectiveness of this interaction relies on the abilities of frontline service employees and the underlying support processes that aid them. Consequently, prosperous service-oriented businesses must allocate their focus to both their clientele and their workforce. These businesses grasp the concept of the service-profit chain, which establishes a connection between the profits of the service company and the contentment of both employees and customers.



This chain is composed of five interlinked stages:

1. **Internal service quality:** This entails exceptional employee recruitment and training, fostering a high-quality work environment, and providing robust assistance for staff engaged with customers.
2. **Satisfied and productive service employees:** This results in more content, devoted, and industrious employees.
3. **Enhanced service value:** This stage encompasses more effective and efficient creation of customer value and service delivery.
4. **Satisfied and loyal customers:** These satisfied customers not only remain loyal but also engage in repeat purchases and refer other potential customers.
5. **Healthy service profits and growth:** This culminates in exceptional performance by the service firm.

1. Introduction

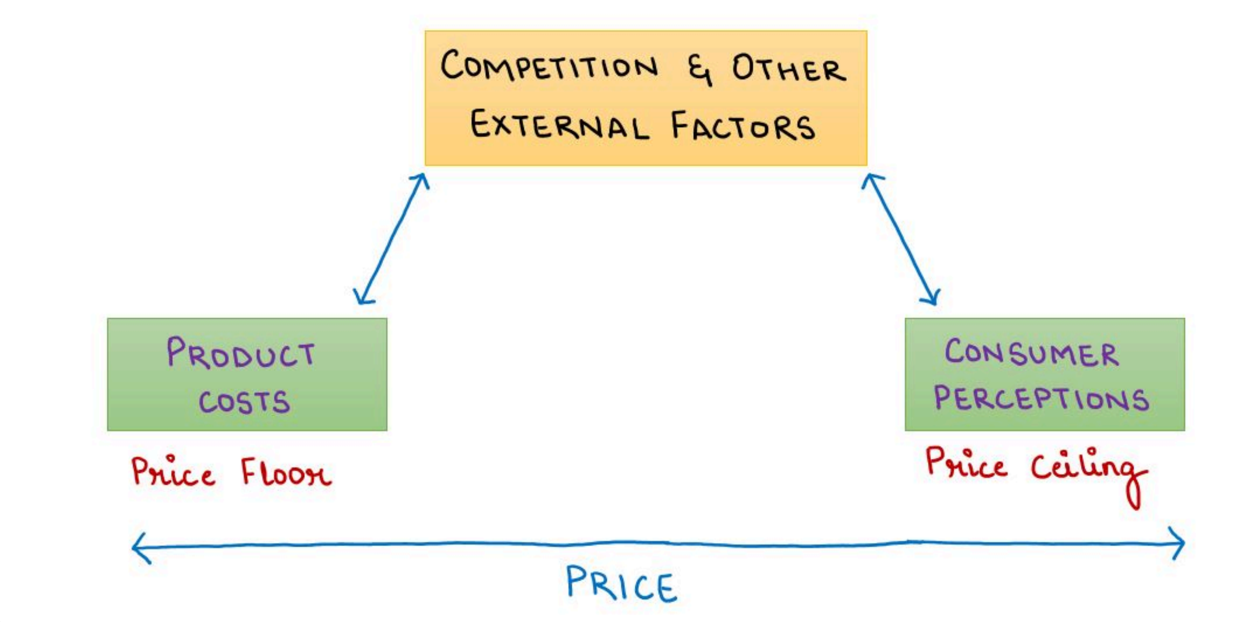
Narrowly defined, the **Price** refers to the monetary value charged for a product or service. However, when viewed more broadly, price encapsulates the entirety of the values relinquished by customers in exchange for the advantages and benefits derived from possessing or utilizing a product or service. Throughout history, price has held a primary influence over the choices made by buyers. In contemporary times, nonprice factors have gained escalating significance. Nevertheless, price continues to retain its pivotal role in determining a company's market share and profitability.

Price stands as the sole component within the marketing mix that generates revenue; all other elements within the mix correspond to costs. Furthermore, price is highly adaptable, unlike product attributes and distribution strategies, as price adjustments can be swiftly executed.

Nonetheless, pricing represents a predominant challenge for numerous marketing executives, with many companies struggling to manage it proficiently. While some managers perceive pricing as a substantial burden, favoring a concentration on other aspects of the marketing mix, astute managers recognize pricing as a fundamental strategic instrument for establishing and seizing customer value.

2. Strategy of Setting the Price

The Prices of goods and services can be calculated by considering all the factors such as the product/service cost, competition, target audience, product's life cycle, firm's vision of expansion etc. influencing the pricing strategy as a whole.

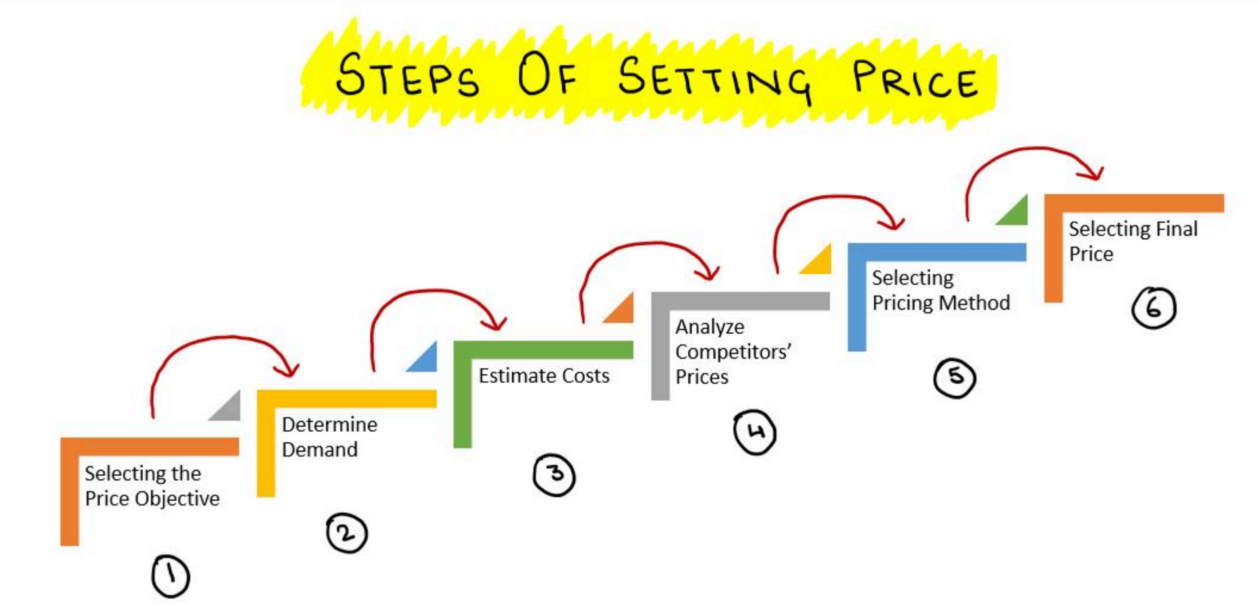


The price the company charges will fall somewhere between one that is too low to produce a profit and one that is too high to produce any demand. Various factors are taken into consideration to set the price for a product.

One is **Customer perceptions** of the product's value set the ceiling for its price. If customers perceive that the product's price is greater than its value, they will not buy the product.

Likewise, **product costs** set the floor for a product's price. If the company prices the product below its costs, the company's profit will suffer.

In setting its price between these two extremes, the company must consider several external and internal factors, including competitors' strategies and prices, the overall marketing strategy and mix, and the nature of the market and demand.



The steps of setting up a price are listed next.

2. Strategy of Setting the Price

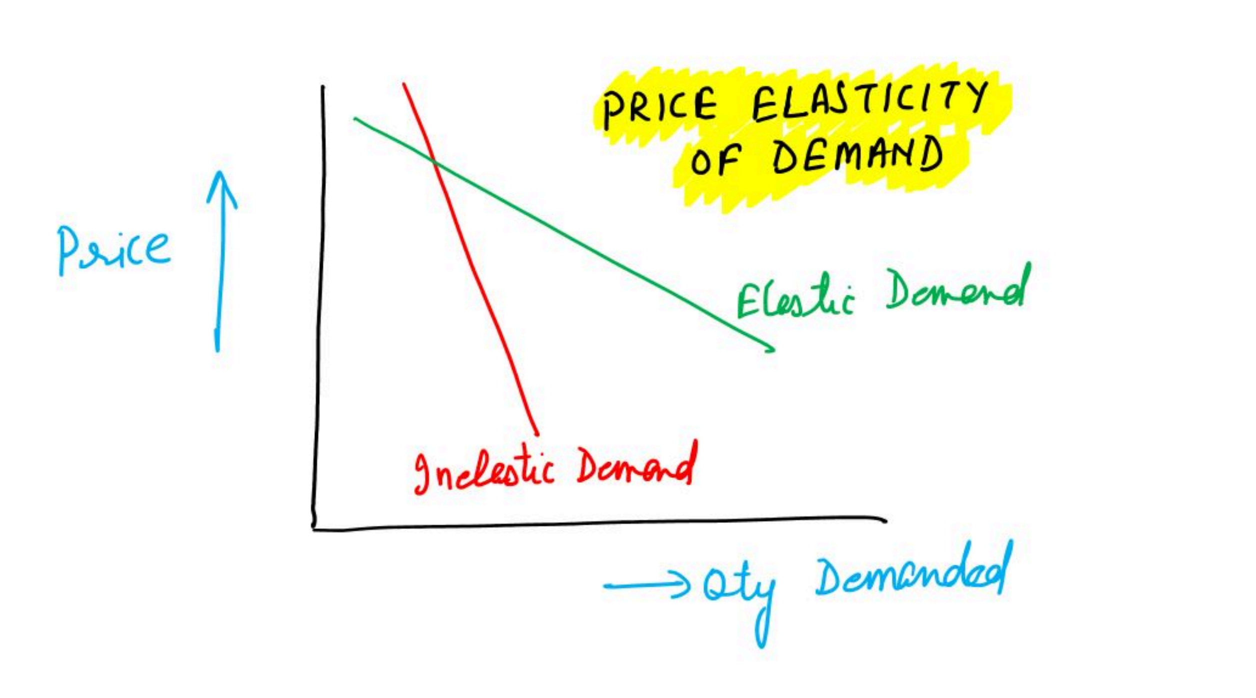
When a company offers a product or service, it needs to figure out how to set the right price. Having clear goals makes this process easier.

There are five main goals a company might have: staying in business, making the most profit now, getting the biggest share of the market, starting with a high price and lowering it slowly, or being known for high-quality products.

- **Survival:** When a company is struggling due to too much competition or changing customer preferences, its main goal is just to survive. They set prices that cover their basic costs to keep running. This is a short-term goal; in the long term, they need to find ways to add value to their offering.
- **Maximizing Current Profit:** Some companies want to make as much money as possible right away. They look at how much people are willing to pay for their product and how much it costs to make it. Then they choose a price that gives them the most profit at that moment.
- **Maximizing Market Share:** Other companies want to sell a lot, even if they make less profit on each item. They set low prices to attract more buyers and beat their competition. Over time, they hope to lower their costs and keep reducing prices.
- **Maximizing Market Skimming:** When a company has something new or special, they might start with high prices and gradually lower them. This way, they get the most money from people who really want it and are willing to pay more.
- **Product-Quality Leadership:** Some companies want to be known for having the best quality products, even if they're a bit more expensive. They want to offer a premium experience to customers who appreciate that level of quality.
- **Other Objectives:** Nonprofit organizations and public places might have different reasons for pricing. Universities want to cover some costs, while hospitals may want to cover all costs. Each business sets its price depending on what it's trying to achieve.

2. Strategy of Setting the Price

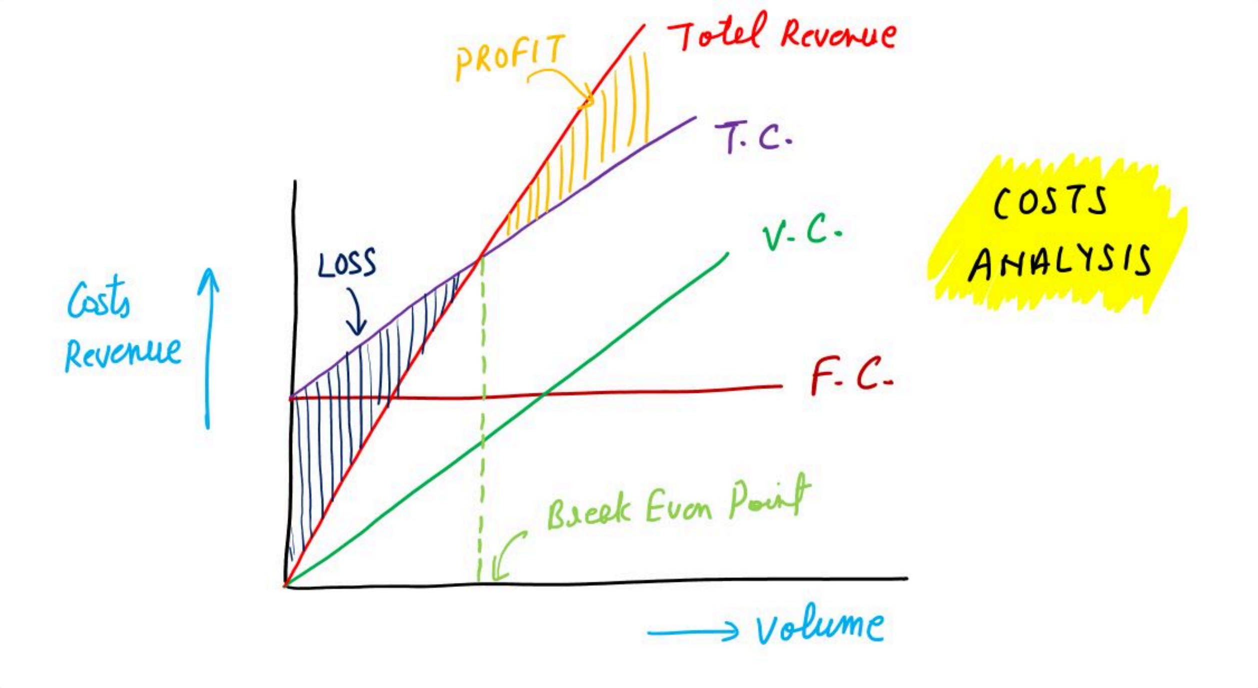
When deciding on a price, it is crucial to know how much people will want to buy at that price. This step helps a company understand how different prices affect the demand for their product. Usually, when the price goes up, the demand goes down (known as inverse relation between price and quantity demand).



Companies also need to understand how much demand changes when prices change. This is called price elasticity. If demand changes only a little when prices change a lot, it is inelastic. If demand changes a lot with a small price change, it is elastic. The more elastic it is, the more sales can increase with a small price drop. If demand is elastic, lowering the price can lead to more total revenue. But this only works if making and selling more items doesn't cost too much.

2. Strategy of Setting the Price

When determining the pricing strategy for a product, a company needs to consider its costs alongside the demand for the product. This step is crucial because costs set the minimum price a company needs to charge in order to cover its expenses and achieve profitability. There are various types of costs associated with producing and selling a product, each influencing the pricing decision differently.



Types of costs are given below:

- **Fixed Costs:** These costs are also known as overhead costs. Fixed costs remain constant regardless of the level of production or sales revenue. They include expenses like rent, interest, salaries, and utilities. These costs do not change as production increases or decreases.
- **Variable Costs:** Variable costs are directly tied to the level of production. These costs change as the production quantity changes. For instance, the cost of raw materials, packaging, and direct labor required to produce each unit falls under variable costs. While the cost per unit might remain fairly constant, the total variable costs increase as more units are produced.
- **Total Costs:** Total costs are the sum of fixed costs and variable costs for a specific production level. It gives an overall picture of how much a company needs to spend to produce a certain quantity of goods.
- **Average Cost:** Average cost is calculated by dividing the total costs by the quantity of units produced. This gives an idea of the cost per unit at a specific production level. Management aims to charge a price that covers at least the average cost at a given production level.

The **experience curve**, also known as the learning curve, demonstrates how costs decrease as accumulated production experience grows. As workers become more skilled and processes become more efficient, the cost of producing each unit decreases. This can be seen in the example of Samsung producing tablets. Initially, the cost per tablet is high, but as production accumulates, the average cost decreases due to the learning effect.

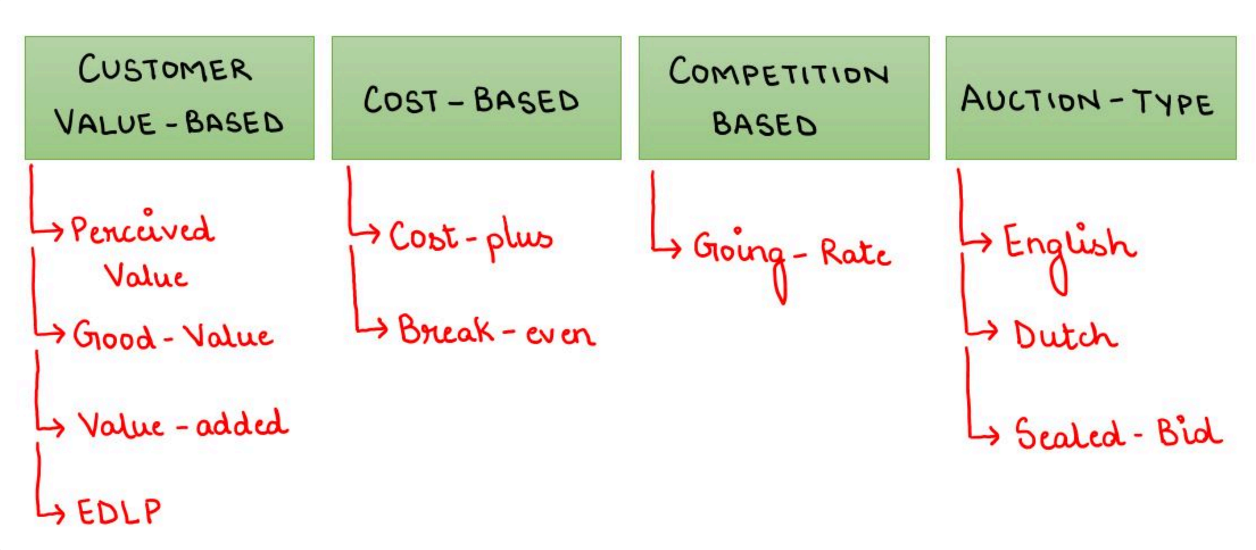
Target costing is a proactive cost management approach that involves designing and engineering a product to meet a desired target cost. This approach begins with market research to determine the ideal price at which a product will sell given its features and competition. The difference between the desired profit margin and the target price sets the target cost that the company must strive to achieve.

2. Strategy of Setting the Price

When considering the range of potential prices identified by market demand and the company's costs, it is crucial to factor in competitors' costs, prices, and potential responses. If the company's offer includes features that its closest competitor does not provide, it should assess the value of these features to the customer and incorporate that value into the competitor's price. Conversely, if the competitor's offer includes features that the company lacks, the company should subtract the value of those features from its own price. This assessment enables the company to determine whether it can price its product higher, at the same level, or lower than its competitor.

Competitors delivering a blend of affordability and quality, known as **value-priced competitors**, are gaining favor with consumers worldwide. Brands like Flipkart, Indigo and Walmart are reshaping the shopping habits of diverse consumer groups by offering products and services at reasonable prices without compromising quality. This trend poses a challenge to established players in the market.

2. Strategy of Setting the Price



There are 4 approaches to deciding a pricing method:

1. Value-Based Pricing

In Value based pricing the company first assesses customer needs and value perceptions. It then sets its target price based on customer perceptions of value. The targeted value and price drive decisions about what costs can be incurred and the resulting product design. As a result, pricing begins with analyzing consumer needs and value perceptions, and the price is set to match perceived value. It's important to remember that "good value" is not the same as "low price."

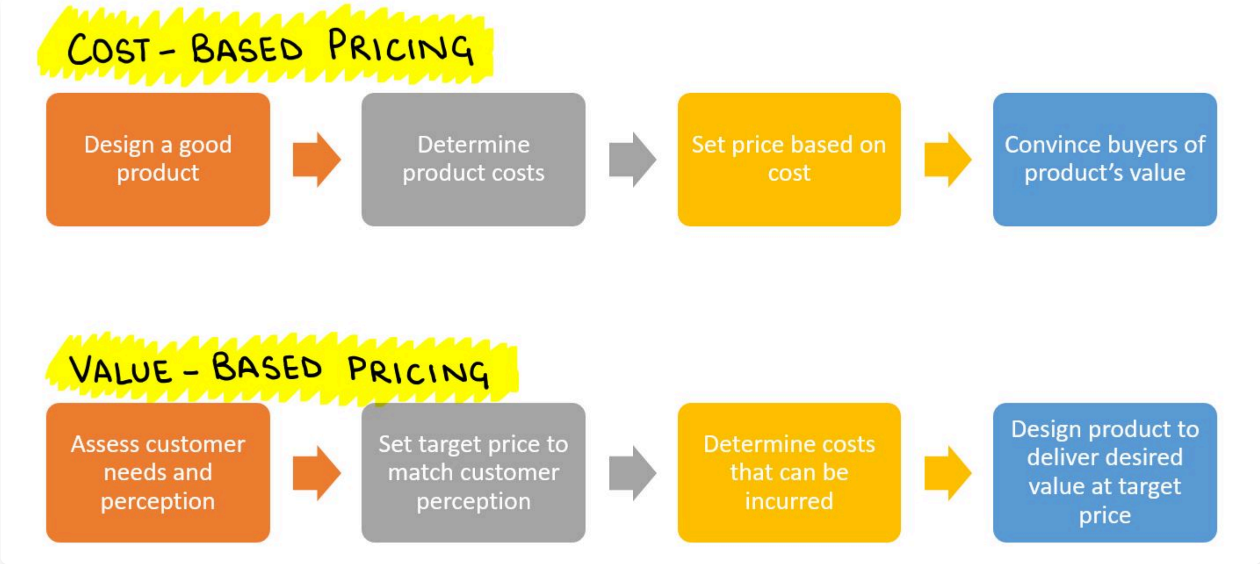
On the basis of value-based pricing, we can classify it into the following 4 types:

(i) **Perceived-Value Pricing:** A growing number of companies now base their pricing on how customers perceive value. This notion of perceived value is shaped by various factors, including how buyers view the product's performance, the quality of after-sales service, the reputation of the supplier, and more.

(ii) **Good-Value Pricing:** Many marketers are embracing good-value pricing, which entails offering a well-balanced combination of quality and service at a reasonable cost. In several instances, this approach involves introducing more affordable versions of established products. For instance, fast-food chains like Taco Bell and McDonald's offer value meals and dollar menu items, aiming to provide good quality at a fair price.

(iii) **Value-Added Pricing:** Value-based pricing doesn't solely involve charging what customers are willing to pay or lowering prices to match the competition. Many companies opt for value-added pricing strategies. Rather than reducing prices to compete, they enhance their offerings with additional features or services to justify higher prices. Similarly, certain movie theaters might introduce enhanced experiences and charge more instead of cutting services and lowering ticket prices.

(iv) **EDLP (Everyday Low Pricing):** Some retailers adopt an everyday low pricing approach, offering products at a consistently low price without frequent promotions or special sales. In contrast, high-low pricing involves setting higher regular prices but frequently offering temporary discounts. Studies indicate that customers perceive lower prices over time with everyday low pricing, even if the overall average price remains the same.



2. Cost-Based Pricing

In cost-based pricing, the foundation for setting prices is grounded in the company's expenses, which act as the minimum threshold for pricing. This method involves establishing prices that encompass the full spectrum of costs incurred in the production, distribution, and sale of a product, while also incorporating a reasonable profit margin.

For instance, let's take the case of an automobile manufacturer. They meticulously calculate the expenses associated with raw materials, manufacturing processes, distribution logistics, and marketing efforts, thus determining a fundamental cost basis for their vehicles. Subsequently, they apply a markup to this cost structure to ensure that their pricing not only covers all expenditures but also generates a profit.

Cost-Plus Pricing, also known as **Mark Up Pricing**, represents one of the simplest pricing techniques. Here, the manufacturer computes the total production costs, including fixed and variable expenses, and then adds a predetermined percentage as a markup to arrive at the final selling price. The markup serves as the profit percentage calculated based on the overall cost.

Another facet of cost-oriented pricing revolves around establishing a price point that not only covers expenses but also achieves a specific profit target. **Break-even pricing** entails identifying the threshold at which all costs are covered without a profit or loss, while **target return pricing** (also called rate of return pricing) aims to attain a predetermined profit objective. These approaches often involve a comprehensive analysis through break-even charts, which provide insights into anticipated total costs and revenues across varying levels of sales.

Absorption pricing is a pricing method where the price of a product is set to cover both variable and fixed costs. Imagine a bakery that produces cakes. In the absorption pricing approach, the bakery would calculate the variable costs per cake, such as the cost of ingredients and packaging. Additionally, they would allocate a portion of their fixed costs, such as rent for the bakery space and salaries of the employees, to each cake.

Marginal-cost pricing, on the other hand, involves setting the price of a product equal to the additional cost incurred to produce one more unit of the product. In this method, only variable costs are considered when determining the price, and fixed costs are not factored in. The goal of marginal-cost pricing is often to maximize sales volume or achieve a specific market share.

3. Competition-Based Pricing

Competition-based pricing involves setting prices based on competitors' strategies, costs, prices, and offerings. Customers assess a product's value in comparison to similar products' prices from competitors. In the strategy of **Going Rate Pricing**, the company's pricing aligns closely with competitors' prices. This approach is common in industries where products are considered commodities. In such cases, companies often mirror the pricing changes made by the market leader.

4. Auction-Type Pricing

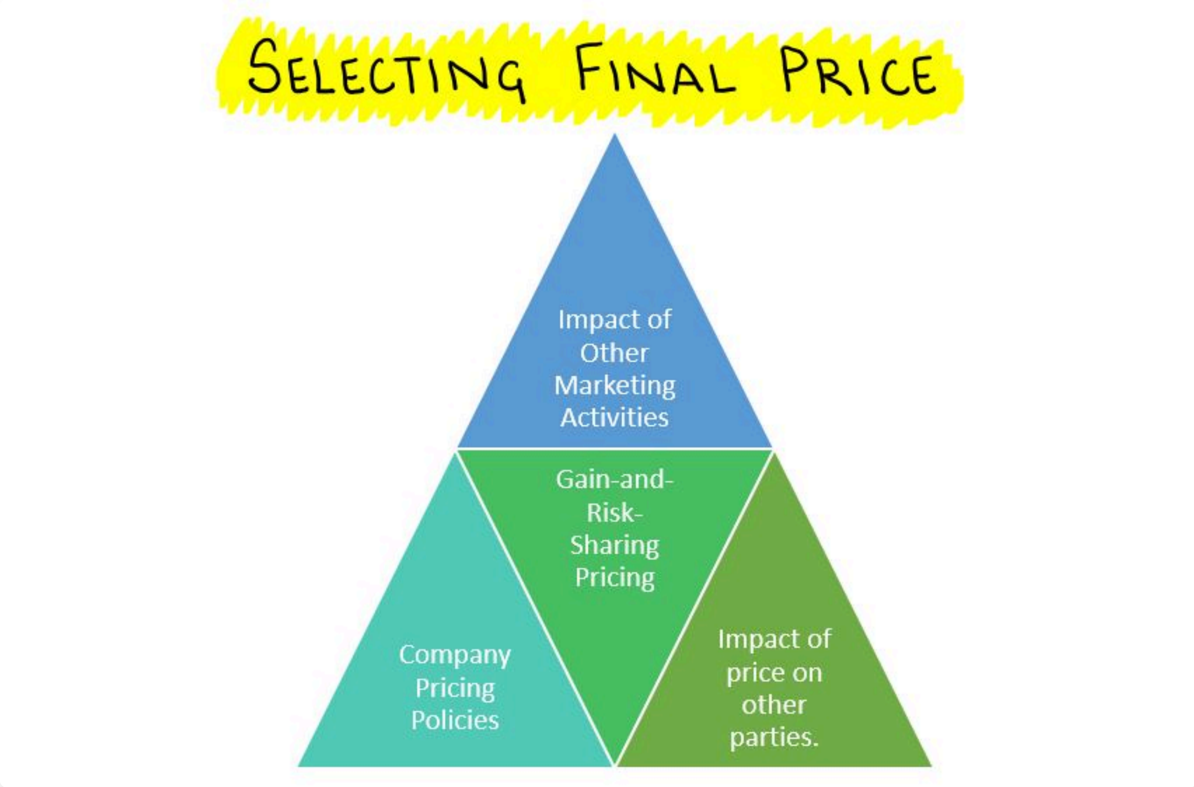
Auction-type pricing is gaining traction, particularly with the rise of online marketplaces where firms sell excess inventory or used goods. There are three primary types of auctions, each with distinct pricing mechanisms.

- **English Auctions:** These involve one seller and multiple buyers. Bidders increase their offers until the highest bid is reached. Platforms like eBay and Amazon utilize English auctions, which are also employed for selling items like antiques, real estate, and vehicles.

- **Dutch Auctions:** In this scenario, there is one seller and multiple buyers (or one buyer and multiple sellers). The auctioneer starts with a high price and gradually reduces it until a bidder accepts. Alternatively, a buyer announces a desired purchase, and potential sellers compete to offer the lowest price.
- **Sealed-Bid Auctions:** In this type of auction, potential suppliers submit only one bid, unaware of other bidders' offers. This method is often used by governments to procure supplies or award licenses. Suppliers must balance bidding high enough to turn a profit but not so high as to lose the bid.

---

2. Strategy of Setting the Price

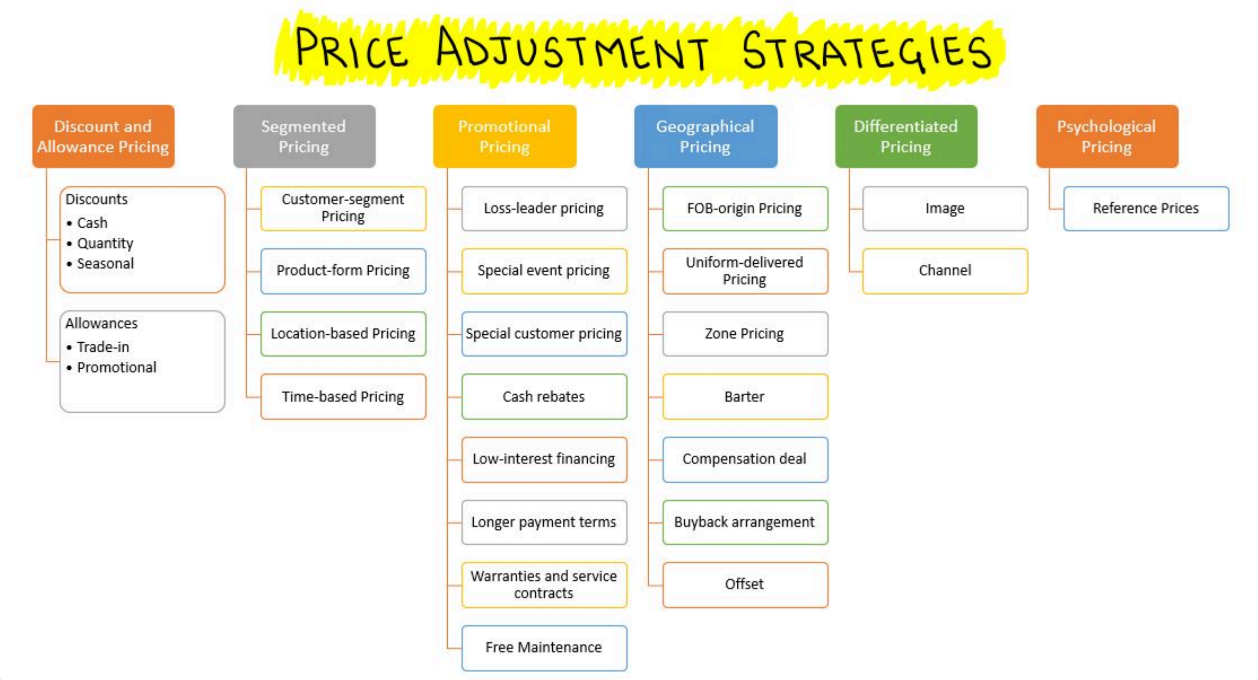


Pricing methods help narrow down the potential price range a company can consider. When choosing the ultimate price, the company must take various other factors into account, such as the influence of other marketing strategies, the company's pricing policies, gain-and-risk-sharing pricing, and the repercussions of the price on various stakeholders.

- **Influence of Other Marketing Activities:** The final price should consider the brand's perceived quality and the effectiveness of its advertising relative to competitors.
- **Company Pricing Policies:** The chosen price must align with the company's established pricing policies. However, companies may implement pricing penalties under certain circumstances. For example, airlines charge change fees for discounted tickets, banks impose charges for excess withdrawals, and service providers penalize no-shows. While such policies can be justified, marketers should exercise caution to avoid needlessly alienating customers. Many companies establish pricing departments to formulate policies and review decisions, aiming to ensure prices are reasonable for customers and profitable for the company.
- **Gain-and-Risk-Sharing Pricing:** Buyers might resist a seller's proposal due to perceived risks, as seen in significant purchases like computer hardware or corporate health plans. Sellers can address this by offering to share or fully absorb the risk if they don't deliver the expected value.
- **Impact on Other Stakeholders:** Consideration must be given to how distributors and dealers will respond to the proposed price. If their profit margins are insufficient, they might opt not to carry the product. Will the sales team be willing to sell at the designated price? How will competitors react? Could suppliers raise their prices in response to the company's pricing? Additionally, could government regulations intervene and prevent the proposed price from being charged? All these factors play a role in the final pricing decision.

---

3. Price Adjustment Strategies



Companies usually adjust their basic prices to account for various customer differences and changing situations. Here we examine some of the price adjustment strategies.

---

3. Price Adjustment Strategies

Especially in B2B (Business to Business), this price adjustment strategy is very common. Most companies adjust their basic price to reward customers for certain responses, such as the early payment of bills, volume purchases and off-season buying.

Discounts can be granted as a cash discount, a price reduction to buyers who pay their bills promptly. Typical payment terms look like this: "2/10, net 30", meaning that payment is due within 30 days, but the buyer can deduct 2 per cent if the bill is paid within 10 days. Also, a quantity discount can be given, which is a price reduction to buyers who buy large volumes. A seasonal discount is a third form of discount, being a price reduction to buyers who buy merchandise or services out of season.

Allowances refer to another type of reduction from the list price. For instance, trade-in allowances are price reductions given for exchanging an old item while buying a new one. Especially in the car industry, trade-in allowances are very common. Promotional allowances refer to payments or price reductions to reward dealers for participating in advertising and sales support programs.

---

3. Price Adjustment Strategies

Often, companies adjust their basic prices to allow for differences in customers, products and locations. In short adjusting prices to account for different segments. In segmented pricing, the company thus sells a product or service at different prices in different segments, even though the price-difference is not based on differences in costs. Several different forms of segmented pricing exist:

- Under **customer-segment pricing**, different customers pay different prices for the same product or service. For instance, museums and theatres may charge a lower admission for students and senior citizens.
- Under **product-form pricing**, different versions of the product are priced differently, although the difference is not due to cost differences. To give an example, look at a glass bottle of Coke costs Rs 10, but a can of Coke costs Rs 20. The content, though, is the same, only in a different product form. Another variant is image pricing – Some companies price the same product two different levels based on image differences at. A perfume manufacturer can put the perfume in one bottle, give it a name and image, and price it at Rs 50. It can put the same perfume in another bottle with a different name and image and price it at Rs. 200.
- Under **location-based pricing**, a firm charges different prices for different locations, although the cost of offering each location is the same. For instance, in the USA, state universities charge higher tuition fees for out-of-state students, and theatres vary their seat prices because of audience preferences for certain locations. Another variant is Channel pricing – Coca-Cola carries a different price depending on whether it is purchased from a fine restaurant, a fast-food restaurant, or a vending machine.
- Under **time-based pricing**, the firm varies its price by the season, the month, the day or even the hour. This is commonly applied in the hotel business.

---

3. Price Adjustment Strategies

Psychological pricing refers to pricing that considers the psychology of prices, not simply the economics. For instance, many consumers use price to judge quality. A Rs 5000 bottle of perfume may contain only Rs 200 worth of scent, but people will be willing to pay the Rs 5000 because the high price may indicate higher quality.

Another aspect of psychological pricing is **reference prices** which refers to the prices that buyers carry in their minds and refer to when looking at a given product. The reference price might be formed by noting current prices, remembering past prices, or assessing the buying situation.

---

3. Price Adjustment Strategies

Promotional pricing refers to temporary pricing strategies companies use to encourage customers to make purchases. This tactic aims to increase sales volume by offering customers perceived value through discounts or special deals. Several methods can be employed for promotional pricing, each with its own advantages and potential drawbacks:

- **Loss-Leader Pricing:** This involves offering a product at a price lower than its cost to attract customers into the store. While this can lead to increased store traffic and additional sales, it may negatively impact brand image and cause conflicts with manufacturers and retailers.
- **Special Event Pricing:** Businesses offer discounts during certain seasons or events to entice customers to buy. This can create a sense of urgency and excitement among consumers.
- **Special Customer Pricing:** Providing exclusive discounts to specific customers, such as loyalty program members, can encourage repeat business and customer loyalty.
- **Cash Rebates:** Companies provide customers with cash back after a purchase, incentivizing them to buy within a specific time frame. Rebates can help move inventory without directly reducing the product's price.
- **Low-Interest Financing:** Instead of lowering the price, companies offer financing with low or zero interest rates. This can be particularly effective in industries where high upfront costs might deter customers.
- **Longer Payment Terms:** By extending the repayment period, companies can lower monthly payments, making products more affordable to customers. This is often seen in industries like housing and automobiles.
- **Warranties and Service Contracts:** Including warranties or service contracts with a purchase can enhance perceived value and provide an additional incentive for customers to buy.
- **Psychological Discounting:** Setting a higher original price and then offering a "discounted" price can create the perception of a good deal, even if the final price remains the same as the regular price.

---

3. Price Adjustment Strategies

In geographical pricing, the company sets prices for customers located in different parts of the country or world. There are 5 geographical pricing strategies:

- **FOB (Free on Board)-origin Pricing:** In FOB-origin pricing, customers pay shipping costs from the factory to their location. Goods are considered delivered once on board the carrier. Each customer covers their own shipping expenses, making it fair, but this could make the company seem expensive to distant customers.
- **Uniform-delivered Pricing:** Uniform-delivered pricing charges all customers the same base price plus a standard freight charge, regardless of location. This approach simplifies pricing but might not match local preferences for some customers. It is also called postage-stamp pricing.
- **Zone Pricing:** Zone pricing categorizes customers into geographic zones with fixed total prices. Prices increase with distance. Customers within the same zone pay the same, but it might lead to dissatisfaction within zones.
- **Barter:** Barter involves trading goods or services directly without money. Peerless could exchange its paper products for other goods or services.
- **Compensation Deal:** A compensation deal offers extra incentives alongside purchased products, like discounts or rebates. Peerless might offer discounts on future purchases to buyers.
- **Buyback Arrangement:** A buyback arrangement lets customers return products for a predetermined amount later. Peerless could agree to repurchase unused paper products.
- **Offset:** Offset involves compensating for factors like environmental impact. In pricing, it might adjust prices to account for things like transportation costs over long distances.

---

3. Price Adjustment Strategies

This involves adjusting prices based on various factors like customers, products, and locations. Price Discrimination occurs when a company charges different prices that don't directly correlate with costs. In India, consider a movie theater that charges different prices for morning shows versus evening shows, even though the cost of screening the movie remains constant.

- **First-Degree Price Discrimination:** This is personalized pricing based on individual customer demand. An Indian airline might offer different prices for the same seat depending on how early a customer books, reflecting their willingness to pay.
- **Second-Degree Price Discrimination:** Charging lower prices for larger quantities. For instance, a wholesale market in India may offer discounted prices for larger quantities of fruits or vegetables.
- **Third-Degree Price Discrimination:** Charging different prices to different groups:
    - *Customer-Segment Pricing:* Different pricing for different customer groups. In India, theme parks might offer lower ticket prices for children and senior citizens.
    - *Product-Form Pricing:* Varying prices for different versions of the same product. An Indian electronics brand might offer different prices for a basic and a premium version of a smartphone.
    - *Image Pricing:* Charging different prices based on perceived differences in brand image. A cosmetic brand might price a regular lipstick lower than a limited-edition one with special packaging.
    - *Channel Pricing:* Different prices based on where customers buy. An Indian soft drink company might have different prices for their products in local grocery stores compared to cinema halls.
    - *Location Pricing:* Charging different prices for the same product in different locations. An amusement park in India might have higher ticket prices during peak tourist season compared to off-peak times.
    - *Time Pricing:* Prices varying based on timing. Restaurants in India might offer lunch specials at a lower price compared to their dinner menu, encouraging more customers during slower hours.

---

3. Price Adjustment Strategies

Dynamic pricing refers to adjusting prices continually to meet the characteristics and needs of individual customers and situations. Instead of using fixed prices, prices are adjusted on a day-by-day or even hour-by-hour basis, taking many variables into account, such as current demand, inventories and costs. Done well, dynamic pricing can help sellers to optimize sales and serve customers better. However, done poorly, it can trigger margin-eroding price wars and damage customer relationships and trust. In addition, consumers can negotiate prices at online auction sites such as eBay.

---

3. Price Adjustment Strategies

Companies that market their products internationally must decide what prices to charge in different countries. In some cases, a company can set a uniform price worldwide. In another cases the prices that a company charges in a country depends on many factors, involving economic conditions, competitive situations, laws and regulations, and the development of the wholesaling and retailing system. In addition, consumer perceptions and preferences may vary from country to country, calling for differences in price.

---

4. Price Changes

After developing their pricing structures and strategies, companies often face situations in which they must initiate price changes or respond to price changes by competitors. In some cases, the company may find it desirable to initiate either a price cut or a price increase. In both cases, it must anticipate possible buyer and competitor reactions.

Several situations may lead a firm to consider *cutting its price*. One such circumstance is excess capacity. Another is falling demand in the face of strong price competition or a weakened economy. A company may also cut prices in a drive to dominate the market through lower costs. Either the company starts with lower costs than its competitors, or it cuts prices in the hope of gaining market share that will further cut costs through larger volume.

However, there are risks associated with a price-cutting strategy:

- **Low-Quality Trap:** Consumers might assume that the product's quality is inferior due to the lower price.
- **Fragile Market Share Trap:** Lowering prices might attract customers, but they can easily shift to a lower-priced competitor in the future.
- **Shallow Pockets Trap:** Competitors with higher prices might match the lower prices, benefiting from more substantial financial resources.
- **Price-War Trap:** Competitors could engage in a price war by further lowering their prices in response.

A successful *price increase* can greatly improve profits. A major factor in price increases is cost inflation. Rising costs squeeze profit margins and lead companies to pass cost increases along to customers. Another factor leading to price increases is over-demand: When a company cannot supply all that its customers need, it may raise its prices, ration products to customers, or both.

Companies can adopt various strategies to implement price increases:

- **Delayed Quotation Pricing:** Final price is set only after the product is complete or delivered, common in industries with long production lead times.
- **Escalator Clauses:** Customers pay today's price plus a portion of any inflation increase that occurs before delivery, often based on a specified price index.
- **Unbundling:** While maintaining the base price, the company separates or prices certain elements separately, like delivery or installation.
- **Reduction of Discounts:** The company refrains from offering regular cash and quantity discounts.

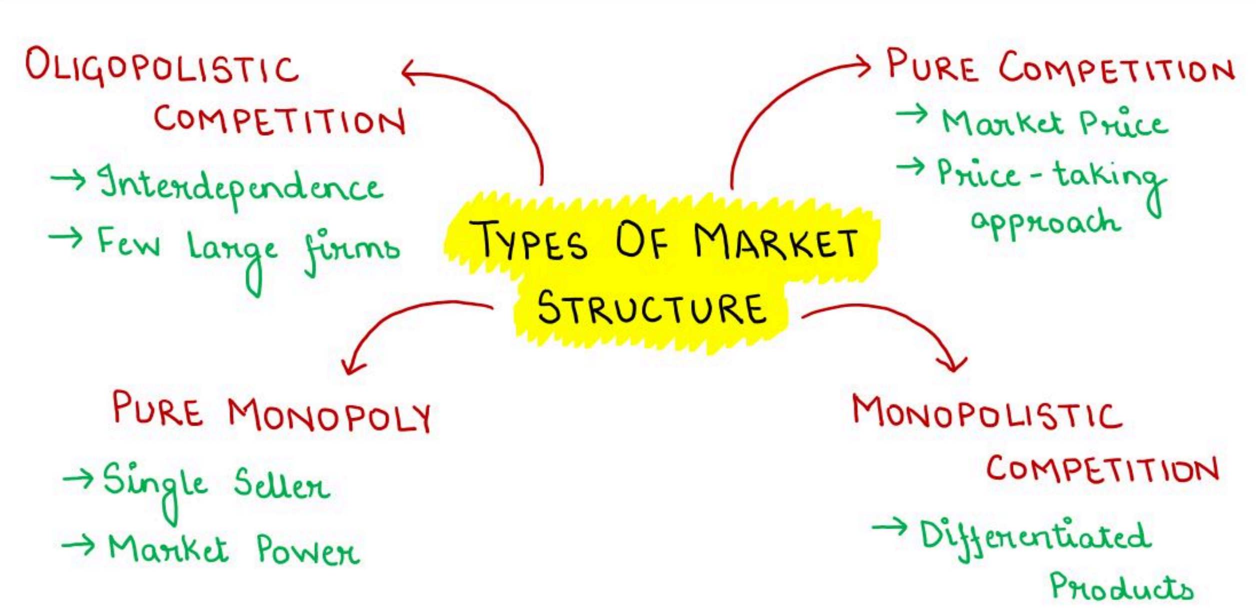
When raising prices, the company must avoid being perceived as a price gouger.

There are different implications to initiating price cuts and initiating price increases. Buyer reactions to price changes are influenced by the meaning customers see in the price change. A price increase, which would normally lower sales, may have some positive meanings for buyers or a price fall may have negative effects. Competitors' reactions flow from a set reaction policy or a fresh analysis of each situation. Competitors are most likely to react when the number of firms involved is small, when the product is uniform, and when the buyers are well informed about products and prices.

There are also many factors to consider in responding to a competitor's price changes. The company that faces a price change initiated by a competitor must try to understand the competitor's intent as well as the likely duration and impact of the change. If a swift reaction is desirable, the firm should preplan its reactions to different possible price actions by competitors. When facing a competitor's price change, the company might sit tight, reduce its own price, raise perceived quality, improve quality and raise price, or launch a fighter brand.

5. Pricing in Different Market Structures

Pricing strategies can vary significantly based on the type of market structure a marketer is operating in.



Let's explore pricing strategies for each of the four market structures, along with examples:

1. Pure Competition

In a pure competition market, where many sellers offer identical products, pricing is typically set at or near the market price to remain competitive.

> **Pricing Strategy:** Employ a price-taking approach, where prices are dictated by market forces.
>
> **Example:** Agricultural products like wheat or rice are often sold in pure competition markets (if we ignore Government intervention). Farmers have little control over pricing, as the products are nearly identical, and prices are determined by supply and demand in the market.

2. Monopolistic Competition

In monopolistic competition, there are many sellers offering slightly differentiated products. Companies can use branding and product differentiation to justify higher prices.

> **Pricing Strategy:** Employ product differentiation and use pricing as a tool to position products as unique or superior.
>
> **Example:** Smartphones are a good example. Companies like Apple and Samsung offer slightly different features and brand perceptions, allowing them to set premium prices compared to generic smartphone manufacturers.

3. Oligopolistic Competition

In an oligopoly, a small number of large firms dominate the market. Pricing decisions are influenced by mutual interdependence and competitive actions.

> **Pricing Strategy:** Consider pricing decisions carefully, often engaging in price leadership or collusion strategies. Price stability is a common feature.
>
> **Example:** The airline industry is an oligopoly. Uber and Ola closely monitor each other's prices and frequently engage in price matching or strategic pricing to remain competitive.

4. Pure Monopoly

In a pure monopoly, there is a single seller with significant market power. The monopolist has more control over pricing.

> **Pricing Strategy:** The monopolist can use price discrimination, where different prices are charged to different customer segments, or set a price that maximizes profit. Prices can be higher due to limited competition.

Example: Local utility companies often operate as pure monopolies. They can set prices based on government regulation and customer demand without the pressure of competitive pricing.

6. New Product Pricing Strategies

Pricing strategies usually change as the product passes through its life cycle. The introductory stage is especially challenging. Companies bringing out a new product face the challenge of setting prices for the first time. They can choose between two broad strategies:

1. Market Skimming Pricing

Many companies that invent new products set high prices to “skim” revenue layer by layer from the market. This is called market-skimming pricing. Market skimming makes sense only under certain conditions. First, the product’s quality and image must support its higher price, and enough buyers must want the product at that price. Second, the costs of producing a smaller volume cannot be so high that they cancel the advantage of charging more. Finally, competitors should not be able to enter the market easily and undercut the high price.

2. Market Penetration Pricing

Market-penetration pricing sets an initial low price in order to penetrate the market quickly and deeply—to attract a large number of buyers quickly and win a large market share. The high-sales volume results in falling costs, allowing the company to cut its price even further. The market must be highly price sensitive so that a low price produces more market growth. Production and distribution costs must fall as sales volume increases. The low price must help keep out competition, and the company that uses penetration pricing must maintain its low-price position.

7. Product Mix Strategies

Product mix pricing is a strategy where companies adjust their pricing approaches to effectively manage a range of products they offer. This strategy is influenced by various factors such as demand, competition, and costs.

Let's explore different scenarios of product mix pricing with examples:

1. Product Line Pricing

Consider a smartphone manufacturer like Xiaomi in India. Xiaomi offers various models of smartphones at different price points, such as the Redmi series and Mi series. Each model is priced differently based on its features and specifications, allowing customers to choose the one that fits their budget and needs.

2. Optional Feature Pricing

Tata Motors, an Indian automobile company, provides optional features in its vehicles. For instance, customers buying Tata Harrier SUVs can choose different variants with optional features like sunroofs, enhanced infotainment systems, and more. Each variant comes with a different price point based on the included features.

3. Captive Product Pricing

A common example of captive-product pricing in India is printers and ink cartridges. Printer manufacturers often sell printers at lower prices while making profits from selling ink cartridges, which are necessary for the printer to function. The printer acts as the main product, and the ink cartridges are the captive products.

4. By Product Pricing

In the Indian agricultural sector, sugarcane processing units produce sugar as the main product and molasses as a by-product. The revenue earned from selling molasses can offset the cost of sugar production, allowing the company to price sugar competitively while still maintaining profitability.

5. Product Bundling Pricing

Food delivery platforms like Swiggy and Zomato in India often offer bundled deals where customers can order a combination of dishes at a lower total price than if they were purchased individually. This encourages customers to order more items and try a variety of dishes.

8. Ethics in Pricing

In the realm of pricing, ethical considerations intertwine with legal obligations to ensure fair competition and protect consumers. A range of practices and regulations guide pricing strategies, with a focal point on preserving market integrity and customer trust.

Price Fixing: A Breach of Competition

Price fixing stands is prohibited. This involves companies secretly coordinating prices to avoid undercutting each other and to control market dynamics. Such collusion restricts competition and leads to inflated prices for consumers. Price fixing is unequivocally illegal, attracting substantial fines and legal consequences. Bid rigging pertains to scenarios where parties manipulate the bidding process to favor a predetermined outcome. It involves agreeing not to submit bids or withdrawing bids upon the request of others. Bid rigging disrupts the essence of competitive bidding and hampers market fairness.

Predatory Pricing: Balancing Profit and Competition

Predatory pricing is a strategy where prices are set below cost to harm competitors or monopolize the market. Such actions impede fair competition and can lead to long-term negative consequences. While pricing below cost for short-term reasons is acceptable, persistent predatory pricing undermines the competitive landscape.

Price Discrimination: Fairness Across Customer Levels

The Competition Act 2002 ensures fair treatment across customer segments by mandating consistent price terms for similar levels of trade. Price discrimination has an adverse effect on competition and, therefore, would amount to a restrictive trade practice under the Competition Act 2002. Such a practice is regulated through the mechanism of an inquiry conducted by the Competition Commission of India.

Deceptive Pricing: Honesty in Pricing Communication

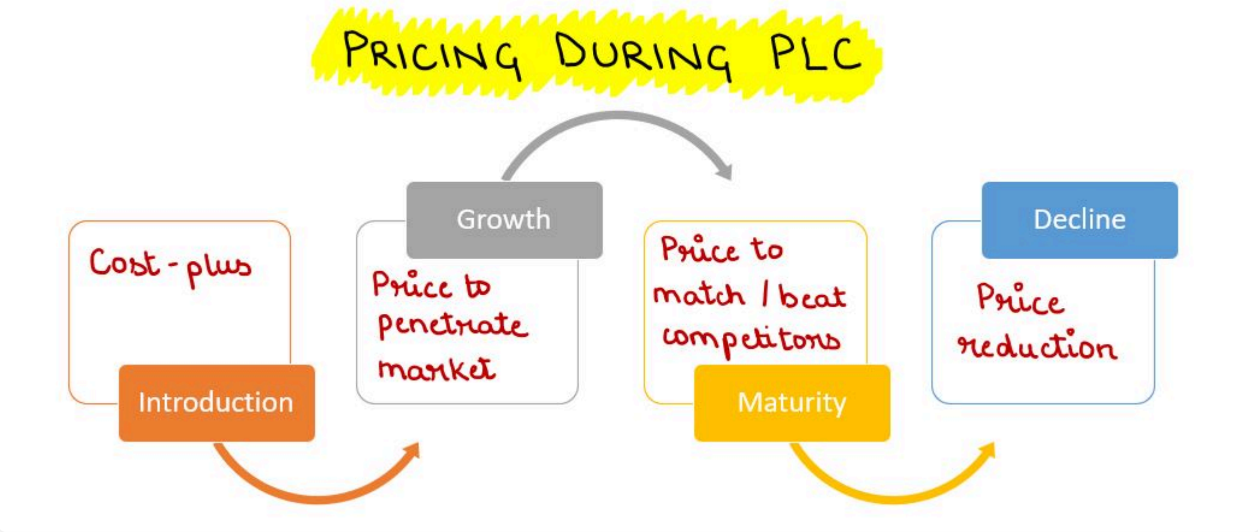
Deception occurs when sellers claim prices or savings that aren't actually accessible to consumers. This includes tactics like the "bait and switch," where a low-priced item is advertised but unavailable, leading customers to purchase a higher-priced alternative. Deceptive pricing practices erode trust and are subject to legal sanctions.

Scanner Fraud and Price Confusion: Ensuring Transparency

The advent of scanner-based checkouts has raised concerns about scanner fraud, where customers are overcharged due to system errors or intentional manipulation. Price confusion adds to the challenge, arising when pricing methods befuddle consumers about the actual cost.

9. Pricing during PLC

Pricing strategies during various stages of the Product Life Cycle (PLC) play a crucial role in maximizing a product's profitability and market presence.



Let's explore these pricing strategies with examples for each stage:

1. Introduction Stage - Cost-Plus Pricing

In the introduction stage, the primary goal is to establish a market presence and gain awareness. Price is often set to cover costs while leaving room for a modest profit. Cost-plus pricing ensures that expenses are covered as the product enters the market. Consider the launch of a new smartphone by a tech company. In the introduction stage, the company may set the price based on production costs, including materials, labor, and overhead, and then add a markup to cover these costs and generate some profit.

2. Growth Stage - Price to Penetrate Market

During the growth stage, the aim is to expand market share rapidly. Pricing is often set aggressively to penetrate the market, attract more customers, and outpace competitors. Lower prices can encourage trial and adoption. Ride-sharing platforms like Uber or Ola used aggressive pricing strategies with discounted rides and incentives to penetrate new markets and acquire a large customer base during the growth phase of their business.

3. Maturity Stage - Price to Match or Beat Competitors

In the maturity stage, the market is saturated, and competition is intense. Companies often price their products to match or beat competitors. Price wars may occur, leading to competitive pricing. The soft drink industry, with brands like Coca-Cola and Pepsi, exemplifies this stage. These companies frequently adjust their prices to remain competitive, offering discounts, promotions, or price matching to maintain or gain market share.

4. Decline Stage - Price Reduction

In the decline stage, the product faces declining demand as newer alternatives emerge. Companies may reduce prices to extend the product's life cycle or maximize revenue from remaining customers. DVD players have entered the decline stage with the advent of streaming services. To clear inventory and attract remaining customers, companies often reduce prices significantly. This can include price cuts or bundle deals with DVDs.

It's important to note that pricing strategies are not fixed and may vary based on specific market conditions, competition, and consumer behavior. Effective pricing strategies should consider both the stage of the product life cycle and the broader market dynamics to achieve the desired business objectives.

1. Marketing Channel

Producing a product or service and making it available to buyers requires building strong relationships not only with customers but also with suppliers, resellers, and various service providers. These relationships are managed through a system known as the supply chain, which is divided into upstream and downstream partners.

Upstream partners include firms that supply raw materials, components, parts, information, finances, and expertise needed to create a product or service.
Example: For a smartphone manufacturer, upstream partners include chipmakers, display manufacturers, battery suppliers, and logistics providers.

Downstream partners refer to marketing channels or distribution channels that look toward the customer. These include wholesalers, retailers, agents, and facilitators who help in delivering the final product to the market.
Example: A Samsung phone passes through distributors and retail stores (like Croma or Reliance Digital) before reaching the final customer.

A marketing channel (also known as a distribution channel or trade channel) is a set of interdependent organizations involved in making a product or service available for use or consumption by the consumer or business user. Most producers do not sell their products directly to the final users. Instead, they rely on intermediaries who help perform important distribution functions such as storage, transportation, promotion, financing, and customer service.

Channel Intermediaries
Marketing channels consist of 3 broad types of intermediaries:

1. Merchants
These are intermediaries who buy, take ownership (title) of the product, and resell it to the next party in the chain. They take risk and earn profit by reselling at a higher price.
Examples:
Wholesalers: Buy in bulk from producers and sell in smaller quantities to retailers.
E.g., Metro Cash & Carry, Ingram Micro
Retailers: Sell directly to end consumers.
E.g., D-Mart, Big Bazaar, Flipkart, Reliance Trends

2. Agents
These intermediaries do not take title of goods but act on behalf of producers or buyers to negotiate sales. They are often paid commissions or fees.

Examples:
Brokers in real estate or commodity markets
Manufacturers' representatives who sell industrial goods
Export agents who handle international clients

3. Facilitators
Facilitators help in the distribution process but do not take title and do not negotiate sales. They provide supporting services like transportation, advertising, financing, and warehousing.

Examples:
Transport companies: Blue Dart, FedEx
Banks: Offering credit or payment facilities
Advertising agencies: Promoting products in the target market
Third-party warehouses: DHL, Gati, Shiprocket

2. Marketing Channel System

A **Marketing Channel System** refers to the specific set of marketing channels that a firm employs to make its products or services available to consumers or business users. It is not just one channel but a strategic configuration of intermediaries (such as wholesalers, retailers, agents, and facilitators) that a company selects and manages to fulfill customer demand.

📘 **Definition:** A marketing channel system is the particular arrangement of marketing intermediaries a firm uses to convert potential buyers into profitable orders and ensure efficient product availability.

Decisions about the marketing channel system are among the most critical for management because:

- Channels affect customer experience and sales performance.
- They represent a substantial opportunity cost—poorly designed channels can lead to lost sales or higher expenses.
- Channel strategies are long-term and difficult to change frequently.

Example: A smartphone company may decide to use both e-commerce platforms (like Amazon) and offline retailers (like Reliance Digital) to reach different customer segments.

🔹 Value Delivery Network

The **Value Delivery Network** includes the entire chain of participants involved in the creation, distribution, and sale of a product—from raw material suppliers to end consumers.

📘 **Definition:** A value delivery network is an interconnected system of suppliers, manufacturers, distributors, retailers, and customers that collaborates to improve the performance of the entire supply chain.

Example: In the automobile industry, this includes:

- Tire, engine, and seat manufacturers (component suppliers)
- Automobile assemblers (e.g., Hyundai)
- Transporters who move cars to dealerships
- Car dealerships where customers make purchases

Each participant adds value and helps enhance the efficiency and effectiveness of delivering the final product to the end user.

A well-designed marketing channel system contributes to building a **Value Network System**, which includes not just suppliers and customers but all strategic alliances and partnerships that help in sourcing, augmenting, and delivering the firm's offerings.

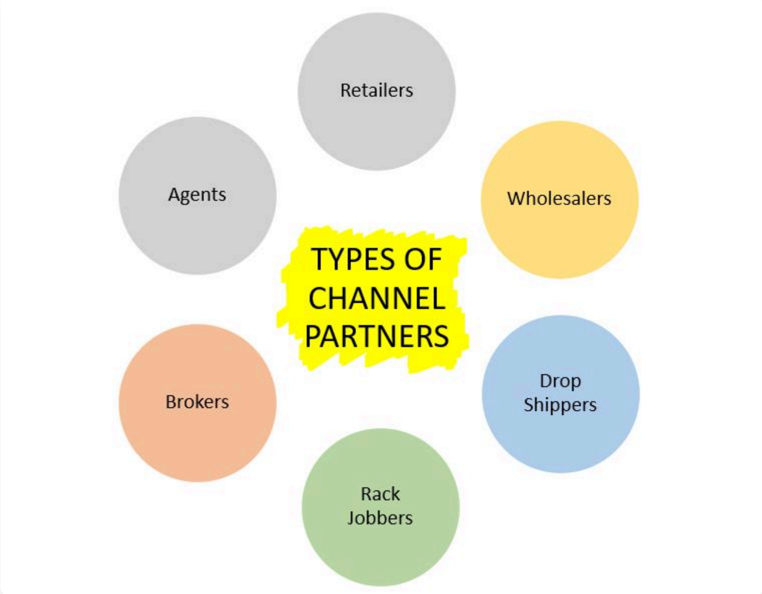
📘 **Definition:** A value network is a broader system of collaborations, extending beyond immediate partners to include stakeholders such as second-tier suppliers, customers' customers, R&D institutions, and regulators.

Example:

- An electronics brand may collaborate with:
  - Raw material providers (silicon or circuit boards)
  - Logistics partners (e.g., Blue Dart)
  - Online platforms (Amazon)
  - Fintech companies (to offer EMIs)
  - Review sites and tech influencers (for visibility)
  - Regulatory bodies (for product certification)

All these partnerships together form a **value network** aimed at delivering **enhanced customer value**.

3. Channel Partners



Channel partners are essential intermediaries that help move products or services from producers to final consumers within the **distribution network**. These partners do not just transport or sell goods—they add value by handling storage, marketing, sales, and customer service functions. Each type of channel partner plays a distinct role in the supply chain, and together they form the backbone of a company's **marketing channel system**.

Types of Channel Partners

1) Retailers

Retailers are businesses that **sell directly to end consumers**. They can operate through physical stores, online platforms, or both. Retailers are responsible for selecting, displaying, and marketing the products they sell.

Example:
Reliance Retail operates thousands of outlets across India, offering groceries, fashion, electronics, and more—both offline and online.

2) Wholesalers

Wholesalers purchase goods in **bulk from manufacturers** and resell them to retailers, businesses, or other wholesalers. They often take ownership of goods and bear risks such as damage or unsold inventory.

Example:
Metro Cash & Carry India acts as a wholesaler, supplying restaurants, hotels, and shopkeepers with products in large quantities.

3) Drop Shippers

Drop shippers do **not keep inventory**. They pass on customer orders to manufacturers or wholesalers, who then ship the product directly to the customer. Drop shipping reduces handling and storage costs.

Example:
Flipkart uses drop shipping for selected items where the product is shipped directly from the supplier to the buyer without passing through Flipkart's warehouse.

4) Rack Jobbers

Rack jobbers manage and maintain **product displays** inside retail stores. They own the products until they are sold and restock shelves regularly, usually for non-food items in supermarkets or pharmacies.

Example:
In-Store Focus supplies and maintains merchandise racks in grocery stores, handling stock and display of items like batteries,

cosmetics, or magazines.

---

5) Brokers

Brokers act as **connectors between buyers and sellers** but do **not take ownership** of goods. They usually specialize by product category or customer type and earn commissions from transactions.

Example:
Sharekhan is a stock market brokerage firm that facilitates buying and selling of stocks on behalf of clients, earning fees per trade.

---

6) Agents

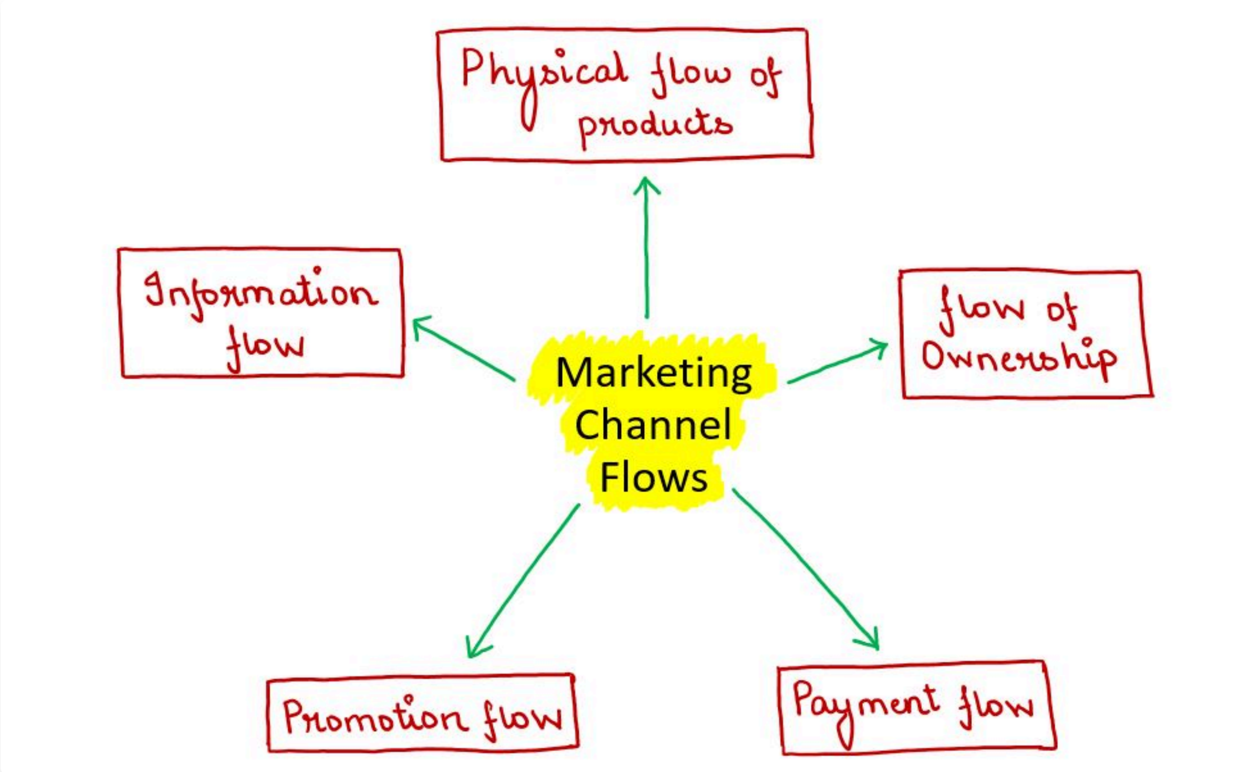
Agents perform sales or marketing functions **on behalf of producers or buyers** without owning the product. Unlike brokers, agents typically have **ongoing relationships** with one side of the transaction.

Types of agents include:

- **Real Estate Agents**: Represent sellers or buyers in property transactions.
  - *Example: PropTiger* assists clients in buying/selling homes, offering listing, pricing, and negotiation services.
- **Manufacturers' Agents**: Represent small manufacturers who lack their own sales team.
  - *Example:* A manufacturer of industrial tools may hire an agent to sell to hardware stores.
- **Advertising Agencies**: Work as marketing agents providing services such as ad design, media buying, and campaign management.
  - *Example: Ogilvy India* helps brands run TV and digital ad campaigns, acting as a liaison between the company and media channels.

---

4. Flows in Distribution Channel



In a marketing channel, various flows contribute to the movement and exchange of goods and information between manufacturers, intermediaries, and consumers.

1. Physical Flow of Products

This refers to the movement of tangible goods from manufacturers to consumers through various intermediaries in the distribution channel. For example, in the automobile industry, cars move through the physical flow from the manufacturer to dealerships. The vehicles are transported from the manufacturing plant to regional distribution centers and then to individual dealerships for sale to consumers.

2. Flow of Ownership

This denotes the transfer of legal rights and responsibilities associated with the product as it moves through the distribution channel. For example, in the retail industry, when a customer purchases a laptop from an electronics store, the ownership of the product is transferred from the store to the customer. Prior to the sale, the store owned the laptop as part of its inventory.

3. Payment Flow

This involves the movement of money or payments between the parties involved in the marketing channel for the products or services rendered. For example, when a customer buys a product online, the payment flow occurs when the customer pays for the item using a credit card. The money moves from the customer's account to the retailer's account, completing the transaction.

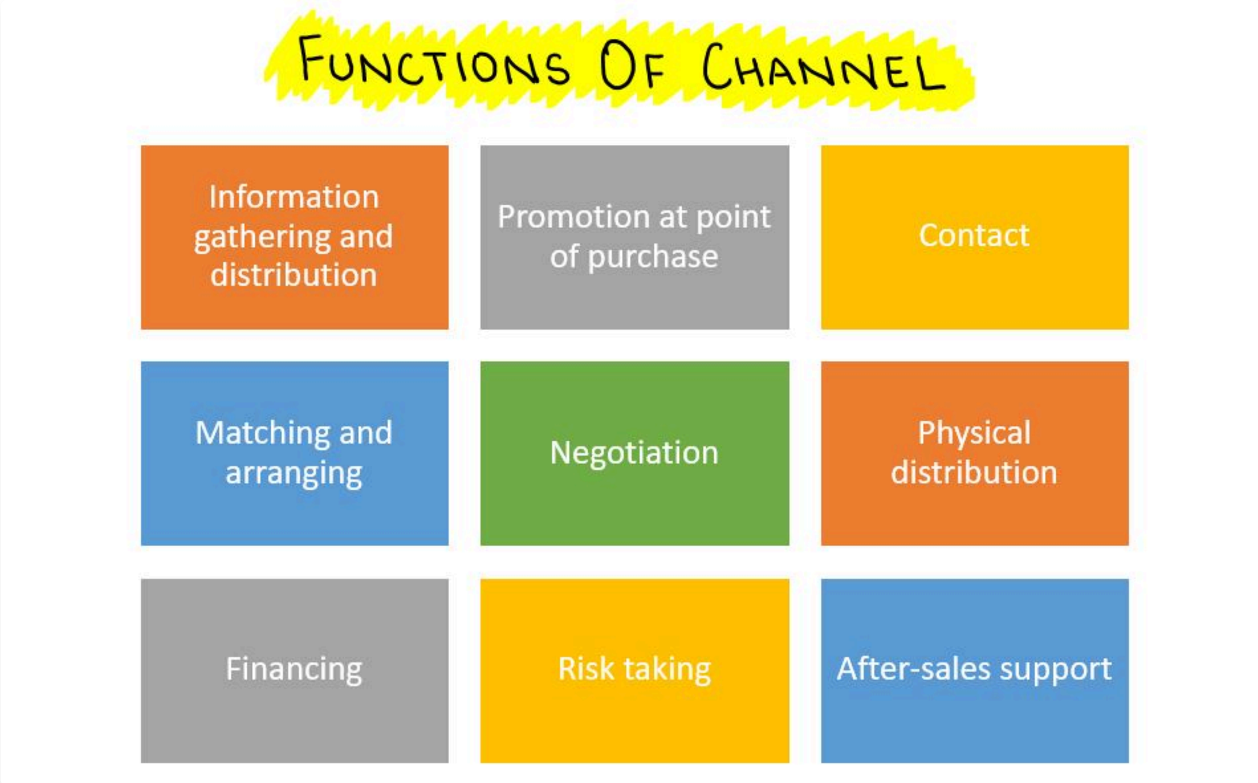
4. Information Flow

This refers to the transmission of data and knowledge related to products, market trends, consumer preferences, and other relevant information among channel members. For example, in the food industry, farmers provide information about their produce (such as type, quality, and quantity) to wholesalers through electronic platforms. This information helps wholesalers make informed decisions about purchasing and distribution.

5. Promotion Flow

This involves the communication and promotion activities used to create awareness, persuade customers, and encourage them to purchase products or services within the channel. For example, in the fashion industry, a designer collaborates with influencers to promote a new clothing line. Through social media campaigns, these influencers showcase the products, creating buzz and driving consumer interest in the collection.

5. Functions of Distribution Channel



Distribution channels are not just conduits for moving goods—they perform a wide range of essential functions that add value to both producers and consumers. These functions are executed by **channel collaborators** such as wholesalers, retailers, brokers, agents, transporters, and service providers. Each function contributes to making products available, accessible, and desirable in the market.

🔹 1. Information Collection and Dissemination

Channel members closer to the customer, such as **retailers**, often collect critical market insights about **consumer preferences, buying habits, competitor activities, and local trends**. This information is communicated back to manufacturers to help in:

- Product development
- Demand forecasting
- Marketing strategy

Example: A fashion retailer may observe declining interest in a product style and inform the manufacturer to adjust future inventory or designs.

🔹 2. Point-of-Purchase Promotion

While manufacturers typically invest in **national-level advertising**, local channel members are responsible for **in-store or regional promotions** to drive sales at the point of purchase. This may include:

- Shelf displays
- Local ads
- Discount coupons
- Store events

Example: A supermarket may run a “Buy 1 Get 1 Free” campaign on a beverage brand, supported by promotional displays near checkout counters.

🔹 3. Customer Interaction and Prospecting

Channel partners like **sales agents, brokers, or retailers** interact directly with consumers and potential buyers. They help in:

- Generating leads
- Demonstrating products
- Closing sales
- Providing customer guidance

Example: Field sales representatives for insurance or home appliances identify new customers and secure orders within local communities.

🔹 4. Matching and Customization

Distribution channel members help match the **product offering with customer requirements**. This includes:

- Customizing product installations
- Assembling parts
- Offering variety through product assortment

Example: A kitchen cabinet distributor may tailor the installation to fit specific kitchen dimensions. Specialty retailers display multiple color or size options to meet individual customer needs.

🔹 5. Negotiation and Transaction Facilitation

Channel intermediaries such as **brokers and agents** assist in negotiating:

- Price
- Quantity
- Delivery terms
- After-sales conditions

They help align producer and buyer expectations, making the transaction smoother and more transparent.

Example: A real estate agent negotiates between home sellers and buyers to finalize deals that benefit both.

🔹 6. Physical Distribution and Logistics

Many channel partners are involved in the **physical movement and storage** of products. This includes:

- Transportation (trucks, couriers, rail)
- Warehousing
- Inventory management

Example: Logistics companies like Delhivery or Blue Dart handle product shipment from manufacturer to retailer, ensuring timely and safe delivery.

🔹 7. Financial Facilitation

Certain channel members offer **financial services** to help customers make purchases. This includes:

- Store credit cards
- Consumer financing
- Installment payment systems

Example: Canadian Tire offers in-store credit cards, allowing customers to purchase goods and pay later. Automobile dealers often partner with banks to offer loans.

🔹 8. Risk Management

Channel partners take on part of the **risk associated with transporting, handling, and storing** goods. This includes risks like:

- Theft
- Damage
- Spoilage
- Unsold inventory

Example: A wholesaler purchasing perishable goods accepts the risk of non-sale due to spoilage.

🔹 9. Post-Sales Service and Support

Some products require **after-sales support** for customer satisfaction and loyalty. Channel partners often handle:

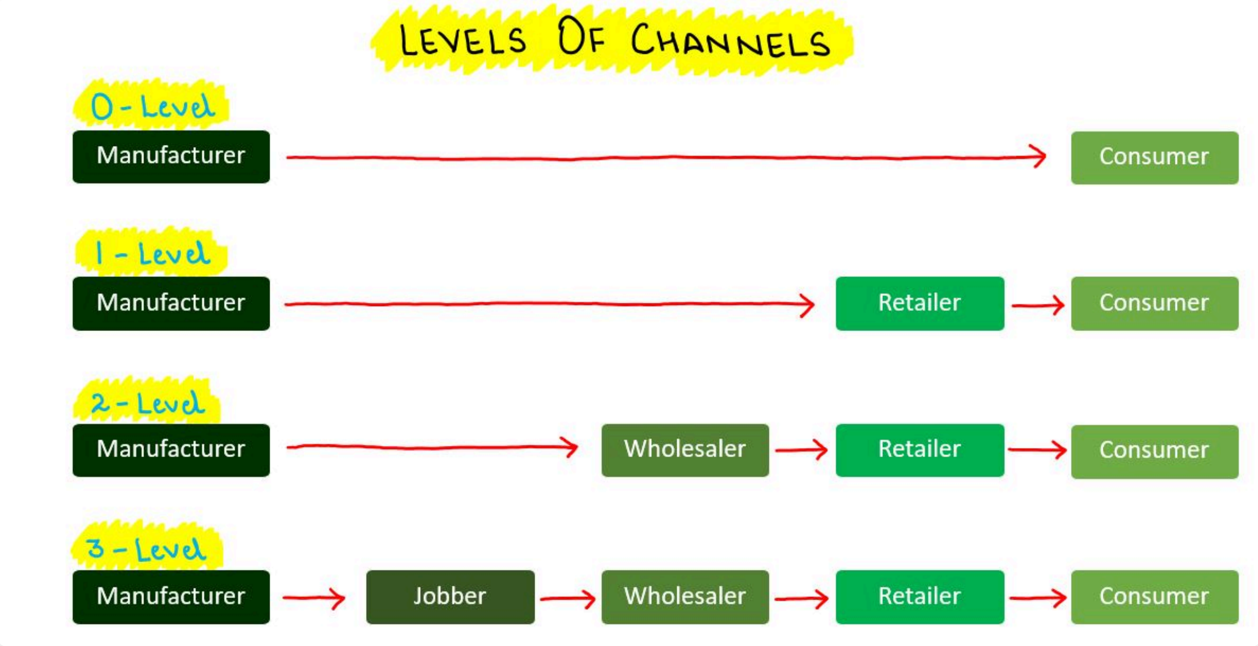
- Installation
- Repairs
- Warranty claims
- Maintenance services

Example: Electronics retailers like Croma offer post-sales servicing, repairs, and exchange services for appliances.

---

6. Level of Channels

Companies can design their distribution channels to make products and services available to customers in different ways. Each layer of marketing intermediaries that performs some work in bringing the product and its ownership closer to the final buyer is a channel level. Channel levels consist of consumer marketing channel or the industrial marketing channels. A factor common among both channel levels is that both include the producer as well as the end customer. The number of intermediary levels indicates the length of a channel.



1. Zero-Level Channel (Direct Marketing Channel)

This channel level involves a direct connection between the manufacturer and the final customer. It is characterized by the absence of intermediaries. Examples include mail-order sales, online selling, TV shopping, telemarketing, door-to-door sales, home parties, and manufacturer-owned stores. This approach offers direct engagement with customers, enabling personalized experiences and direct control over the marketing process. Additionally, it minimizes the complexities associated with intermediaries.

2. One-Level Channel

In a one-level channel, a single intermediary, typically a retailer, stands between the producer and the consumer. This intermediary plays a pivotal role in bridging the gap and facilitating the purchase process for end customers. Retailers can encompass a variety of businesses, ranging from local shops to large department stores. In this setup, producers have a more straightforward connection to their target customers, allowing for focused marketing strategies.

3. Two-Level Channel

This channel level incorporates two intermediaries—usually a wholesaler and a retailer. The wholesaler buys products in bulk from the manufacturer and then distributes them to retailers. The retailers, in turn, sell these products to the end consumers. This configuration offers advantages like economies of scale and efficient distribution. It is often observed in industries like agriculture, where wholesalers aggregate produce from various farms and supply it to local retailers.

4. Three-Level Channel

A three-level channel encompasses three intermediaries, typically including a manufacturer, a wholesaler, and a retailer. This structure, while more intricate, can offer benefits such as extended market reach and specialized distribution. The meatpacking industry, for instance, may involve wholesalers selling to jobbers who then distribute to small-scale retailers.