Auditing Course Material

Part 53 of 61 (Chapters 5201-5300)

6. Process of Strategic Planning

Regardless of whether they delegate goal-setting autonomy to their business divisions or engage in central planning, all corporate headquarters engage in four fundamental strategy planning activities:

1. Defining the corporate mission
2. Establishing strategic business units
3. Assigning resources to each strategic business unit
4. Assessing growth opportunities

1. Defining the Corporate Mission

A corporate mission statement is a concise and carefully crafted declaration that articulates the fundamental purpose, values, and aspirations of an organization. This statement is typically formulated through collaborative efforts involving managers, employees, and sometimes customers. Its primary function is to instill a collective understanding of the organization's purpose, offering a shared sense of direction and opportunity for all stakeholders involved.

A well-crafted mission statement serves as a guiding beacon, reflecting a visionary outlook or an ambitious yet attainable goal—often referred to as an "impossible dream." This statement is designed to provide a roadmap for the company's trajectory over the span of the next 10 to 20 years, outlining its long-term objectives and ideals.

2. Establishing Strategic Business Units (SBUs)

Large companies manage different businesses, each requiring its own strategy. SBUs are identified based on being a single business or a collection of related businesses, having its own competitors, and having a manager responsible for strategic planning and profit performance. The purpose is to develop separate strategies and allocate appropriate funding.

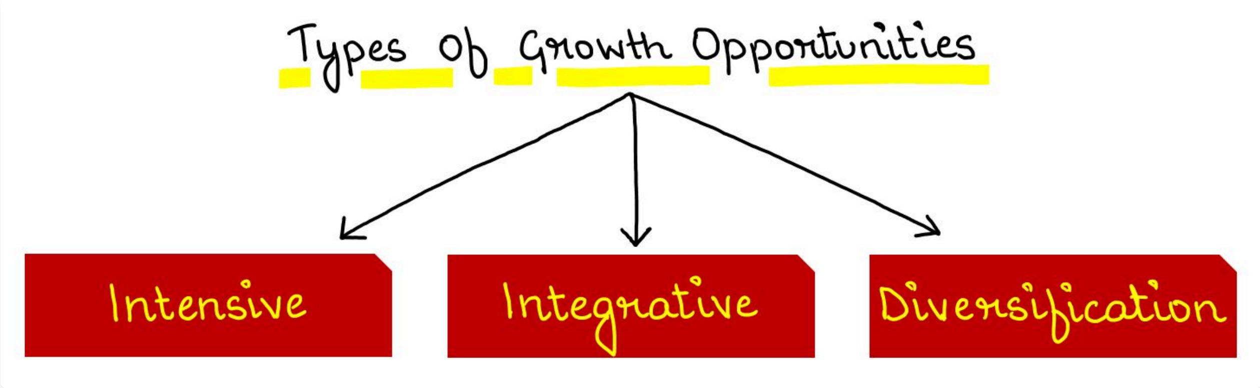
A prime illustration of Strategic Business Units (SBUs) can be observed in conglomerates like Procter & Gamble or LG. These corporations encompass diverse product categories under a unified umbrella.

For instance, LG operates as a conglomerate producing consumer durables such as refrigerators, washing machines, air-conditioners, and televisions. These distinct product categories are structured as separate SBUs, allowing for independent tracking of revenues, costs, and profits. Upon granting SBU status, each unit gains autonomy in decision-making, investments, budget allocation, and operational strategies. This autonomy enables swift responsiveness to market shifts or pre-emptive adjustments, facilitating agility in adapting to evolving market dynamics.

3. Assigning Resources to Each SBU

Upon establishing SBUs, management is tasked with determining the allocation of corporate resources to each unit. This allocation process involves deciding which types of resources, such as capital, human resources, and marketing funds, should be distributed to individual SBUs. To aid in this decision-making process, portfolio-planning models like the GE/McKinsey Matrix and BCG's Growth-Share Matrix are often employed.

4. Assessing Growth Opportunities



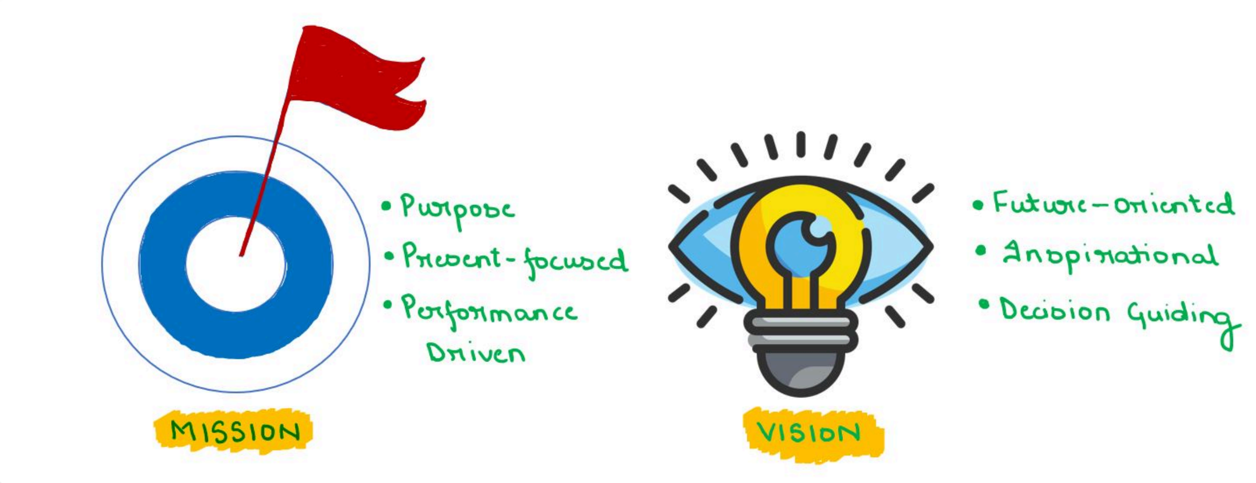
Assessing growth opportunities involves planning new businesses, downsizing, or terminating older businesses.

The three types of growth opportunities are discussed:

- *Intensive Growth:* Reviewing opportunities for improving existing businesses using strategies like market penetration, market development, and product development.
- *Integrative Growth:* Increasing sales and profits through backward, forward, or horizontal integration within the industry.
- *Diversification Growth:* Seeking opportunities outside the present businesses, considering concentric, horizontal, or conglomerate strategies.

These steps provide a comprehensive view of the strategic planning process, from defining the mission to assessing growth opportunities and making resource allocation decisions based on strategic business units.

7. Mission and Vision



A **Mission** statement tells you the fundamental purpose of the organization. It concentrates on the present. It defines the customer and the critical processes. It informs you of the desired level of performance. On the other hand, a **Vision** statement outlines what the organization wants to be. It concentrates on the future. It is a source of inspiration. It provides clear decision-making criteria.

The table shows differences between vision and mission.

Difference	Vision	Mission
Answers question	Why are we here?	What do we do? For whom do we do it? What is the benefit?
Time	Vision Statement talks about the very long-term future like in an ideal world our vision would be...	Mission Statement talks about the organization's present leading to the future.
Change	Vision should remain intact, even if the market changes dramatically, because it speaks to what your company represents, not just what it does.	Mission Statement may change if the organization outlives the industry it started in, but it should still tie back to core vision and values.
About	Vision statement outlines where an organization wants to be in the future. Communicates both long-term purpose and values of the organization.	Mission Statement talks about how the organization will get where it wants to be. Defines the organization's purpose and primary objectives. Mission Statement puts the Vision into practice.
Function	Describes where the organization sees itself years from now. Shapes customer's understanding of why they should work with the organization.	Lists broad goals for which the organization is formed. Prime function is internal, to define the key measure of success and its prime audience is the leadership team and stockholders.
Employees	Identifies why employees need/want to work with the organization and gives direction about how they are expected to behave and inspires them to give their best.	Helps the team act and guides them in what they should do.

7. Mission and Vision

A mission statement defines the core purpose of a company — why it exists and what it seeks to achieve. It serves as a guiding light for decision-making and communicates the organization's intent to employees, customers, and stakeholders. A well-crafted mission statement sets the tone for strategy, culture, and performance expectations.

One of the most important characteristics of a good mission statement is that it should focus on a **limited number of goals.** It should not try to cover everything but instead concentrate on the company's key priorities. By narrowing the focus, the organization avoids confusion and ensures that efforts are directed toward what matters most.

A strong mission statement should also **emphasize the company's major policies and core values.** This includes beliefs that guide the company's behavior — such as commitment to quality, customer-centricity, innovation, or sustainability. When values are embedded in the mission, it ensures consistency in actions across departments and geographies.

Another critical aspect is to clearly **define the primary market or customer segment** the company aims to serve. Whether the company caters to youth, businesses, rural consumers, or high-income individuals, this clarity ensures targeted strategies. For example, LIC's mission is deeply rooted in serving the insurance needs of Indian families, particularly in underserved areas.

A good mission statement must also take a **long-term view.** It should not be based on short-term trends or operational tasks. Instead, it should express the company's enduring purpose and aspirations. This helps in sustaining direction even during changing market conditions.

Lastly, a mission statement should be **short, memorable, and meaningful.** It should be simple enough to be remembered by employees at all levels, yet powerful enough to inspire. A statement that is too long or filled with jargon loses its impact. For instance, Google's mission — "To organize the world's information and make it universally accessible and useful" — is a classic example of clarity and relevance.

8. Implementing: Executing the Strategy

Marketing implementation is the process that turns marketing plans into marketing actions to accomplish strategic marketing objectives. Whereas marketing planning addresses the what and why of marketing activities, implementation addresses the who, where, when, and how.

Under the step of "Implementing" in the process of strategic management, several crucial actions are undertaken to put the formulated strategy into practice. These actions include:

Resource Allocation: Identifying and allocating necessary resources such as finances, human capital, technology, and other assets required for executing the strategy.

Setting Objectives and Goals: Breaking down the broader strategy into specific, actionable objectives and goals for various departments or teams within the organization.

Communication: Ensuring effective communication of the strategy across the organization to all stakeholders, including employees, managers, and other relevant parties. This involves clarifying roles, responsibilities, and expectations.

Training and Development: Providing necessary training, skills development, and education to employees to equip them with the capabilities required to execute the strategy successfully.

Implementing Changes: Making organizational changes or adjustments in processes, structures, or systems as needed to align with the strategic objectives.

Monitoring Progress: Putting in place mechanisms to track and monitor the progress of strategy implementation, using key performance indicators (KPIs), milestones, or other metrics to assess how well the strategy is being executed.

Adapting and Flexibility: Being open to adaptation and flexibility when implementing the strategy, allowing for adjustments if unforeseen circumstances or challenges arise.

Leadership Involvement: Ensuring active leadership involvement and support throughout the implementation process to motivate and guide teams toward the achievement of strategic objectives.

These actions collectively aim to ensure that the strategy devised during the planning phase is effectively put into action, fostering the organization's progress towards its desired goals and objectives.

9. Controlling: Measuring and Correcting

Because many surprises occur during the implementation of marketing plans, marketers must practise constant marketing control—the process of measuring and evaluating the results of marketing strategies and plans and taking corrective action to ensure that objectives are attained.

Marketing control involves four steps. Management first sets specific marketing goals. It then measures its performance in the marketplace and evaluates the causes of any differences between expected and actual performance. Finally, management takes corrective action to close the gaps between its goals and its performance. This may require changing the action programs or even changing the goals.

Operating control involves checking ongoing performance against the annual plan and taking corrective action when necessary. Its purpose is to ensure that the company achieves the sales, profits, and other goals set out in its annual plan. It also involves determining the profitability of different products, territories, markets, and channels.

Strategic control involves looking at whether the company’s basic strategies are well matched to its opportunities. Marketing strategies and programs can quickly become outdated, and each company should periodically reassess its overall approach to the marketplace.

Under the step of "Controlling" in the process of strategic management, the following actions are typically undertaken:

Performance Measurement: Establishing metrics and key performance indicators (KPIs) to assess the progress and success of the implemented strategy. This involves regularly measuring and evaluating actual performance against the set benchmarks.

Comparison and Analysis: Comparing actual results with the predetermined targets and analyzing any discrepancies or variations. For instance, if a retail chain aimed to increase sales by 10% but achieved only a 5% increase, understanding the reasons behind this variance is crucial.

Identifying Deviations: Identifying areas where the organization deviates from the planned course of action or where objectives are not being met. This could involve examining financial performance, market share, customer satisfaction, or other relevant factors.

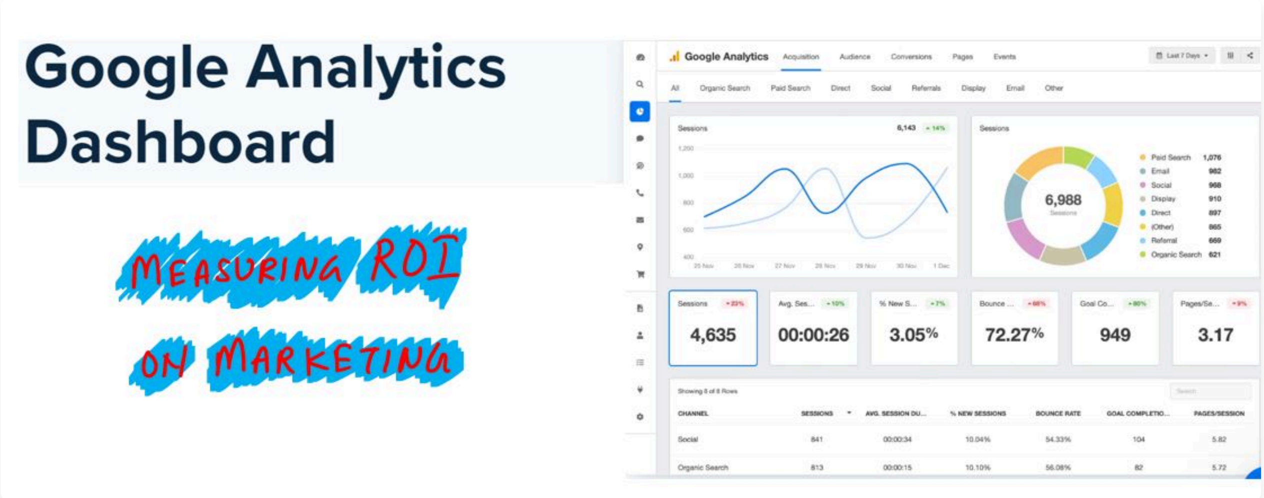
Taking Corrective Actions: Implementing corrective measures or adjustments to realign activities with the strategic plan. For example, if an IT company's new product launch is not meeting sales projections, revisiting the marketing strategy or enhancing product features might be necessary.

Feedback Loop: Establishing a feedback loop to continuously learn from the evaluation process. This involves integrating insights gained from performance assessments into future planning and implementation processes.

Revising Strategies: Revising or updating strategies if the evaluation reveals significant deviations or if external factors necessitate a change. For instance, a hospitality company might revise its marketing approach based on changing consumer preferences or economic shifts.

This controlling phase ensures that the strategic objectives set during planning are being achieved, enabling the organization to make informed decisions and adjustments to stay aligned with its long-term goals.

9. Controlling: Measuring and Correcting



Marketers are being increasingly called upon to justify their activities through return on marketing investment, or marketing ROI—the net return from a marketing investment divided by the costs of the marketing investment. It measures the profits generated by investments in marketing activities.

A company can assess return on marketing in terms of standard marketing performance measures, such as brand awareness, sales, or market share. Marketing performance measurements are called **metrics**, and are measured and calculated using software tools, a process that has become much easier since the advent of the Internet and online advertising.

Some of the most frequently used marketing metrics include measurements of customer satisfaction, customer retention, market share, marketing spending, revenue, website traffic, and profits.

The challenge facing today’s marketers, however, is that not everything can be reduced to numbers: Many qualitative marketing results, including enhanced brand recognition, reputation, and customer loyalty, are difficult to measure.

Moreover, although marketing executives are under increasing pressure to show a return on investment for their programs, many say that they lack the technological resources needed to measure these programs.

There are many tools available to assist marketers with measuring and analyzing their marketing activities. **Google Analytics**, for example, is a free software tool that helps marketers and website owners understand who is coming to their website, what they are doing there, and how they can use that information to optimize their online activities. It tracks details such as which pages on the website visitors land on, how much time they spend on each page, and which links they click on—and collects all that data as sets of numbers, or metrics. But numbers and metrics by themselves have no meaning; they become usable marketing information only through analysis—and that’s where tools such as Google Analytics come in.

10. Marketing Strategy Process

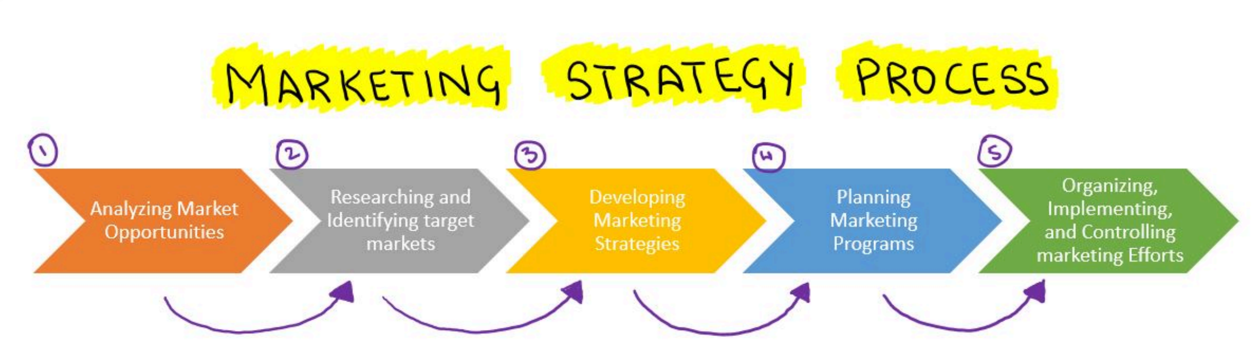
Consumers are in the center. The goal is to create value for customers and build profitable customer relationships. Next comes marketing strategy. The marketing strategy is the marketing logic by which the company hopes to create the customer value and achieve the profitable relationships.

The company decides which customers it will serve (segmentation and targeting) and how (differentiation and positioning). It identifies the total market and then divides it into smaller segments, selects the most promising segments, and focuses on serving and satisfying the customers in these segments.

Guided by marketing strategy, the company designs an integrated marketing mix made up of factors under its control—product, price, place, and promotion (the four Ps).

To find the best marketing strategy and mix, the company engages in marketing analysis, planning, implementation, and control. Through these activities, the company watches and adapts to the actors and forces in the marketing environment. In later chapters, we will discuss each one in more depth.

Marketing Strategy Process



Marketing plans focus on a product/market and consists of the detailed marketing strategies and programs for achieving the product's objectives in a target market.

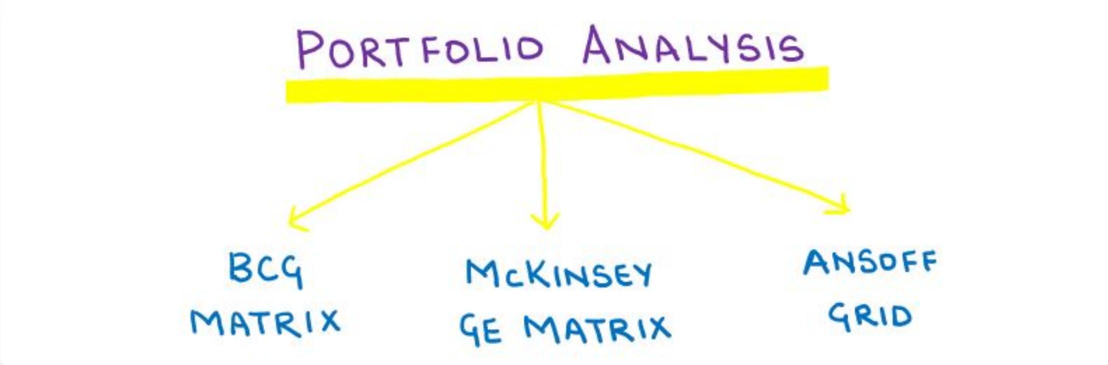
The strategic level deals with target markets and value proposition. The tactical level deals with actual product features, promotion, pricing, service, sales channels, merchandising).

The marketing planning process involves five essential steps:
1. Analyzing market opportunities: This step emphasizes measuring market potential, forecasting future demand, and conducting thorough analyses of buyers and competitors.
2. Researching and identifying target markets: Identify and analyze potential markets based on demographics and behavior. Select target markets aligning with company goals and resources.
3. Developing marketing strategies: This involves determining product positioning concerning quality, price, and advertising. It includes initiating product development, conducting tests, launching the product, and adapting it as needed due to growth or environmental changes.
4. Planning marketing programs: This step involves deciding on budget allocation, marketing expenses, and structuring the marketing mix encompassing product, placement, price, and promotion.
5. Organizing, implementing, and controlling the marketing effort: This encompasses three types of marketing control—annual-plan control, profitability control, and strategic control.

Marketing control is measuring and evaluating the results of marketing strategies and plans and taking corrective action to ensure that the objectives are achieved.

More than ever, today's marketers are being held accountable for linking their strategies and tactics to measurable marketing performance outcomes. One important marketing performance measure is marketing return on investment (or marketing RoI). Marketing RoI is the net return from a marketing investment divided by the costs of the marketing investment. It measures the profits generated by investments in marketing activities.

11. Business Portfolio Analysis



Business portfolio analysis is a pivotal element in strategic planning, where a company scrutinizes and assesses its collection of businesses and products. Guided by the company's mission and objectives, this analysis seeks to identify the optimal alignment of the company's strengths and weaknesses with emerging opportunities in the external environment. In essence, it's about creating a business portfolio that not only reflects the company's identity but also positions it for sustained success.

For large enterprises with multifaceted portfolios, the process can be complex yet indispensable. **Portfolio analysis** involves a meticulous evaluation, allowing management to strategically allocate resources, fortify profitable ventures, and phase out or divest from less robust components. It is a dynamic tool that not only illuminates the present state of the company's portfolio but also serves as a compass for future strategic decisions, ensuring the company remains agile and responsive in a competitive landscape.

At the heart of business portfolio analysis lies the quest for strategic optimization. Companies must strategically deploy resources into their most lucrative ventures while divesting from those that may hinder overall performance. This analytical process is the bridge between a company's internal capabilities and the ever-evolving external landscape. By deciphering the strengths and weaknesses of individual products and businesses, portfolio analysis guides companies in crafting a resilient and forward-looking portfolio that aligns seamlessly with their overarching goals. It's a dynamic process that not only shapes the present but also charts a course for sustained relevance and success in the future.

Many different approaches involving different display matrices have evolved over the years, with the common objective of successful diversification. Some of the common display matrices for portfolio analysis are:
1. BCG Matrix
2. McKinsey GE Matrix
3. Ansoff Product Market Expansion Grid

Let us discuss them one by one.

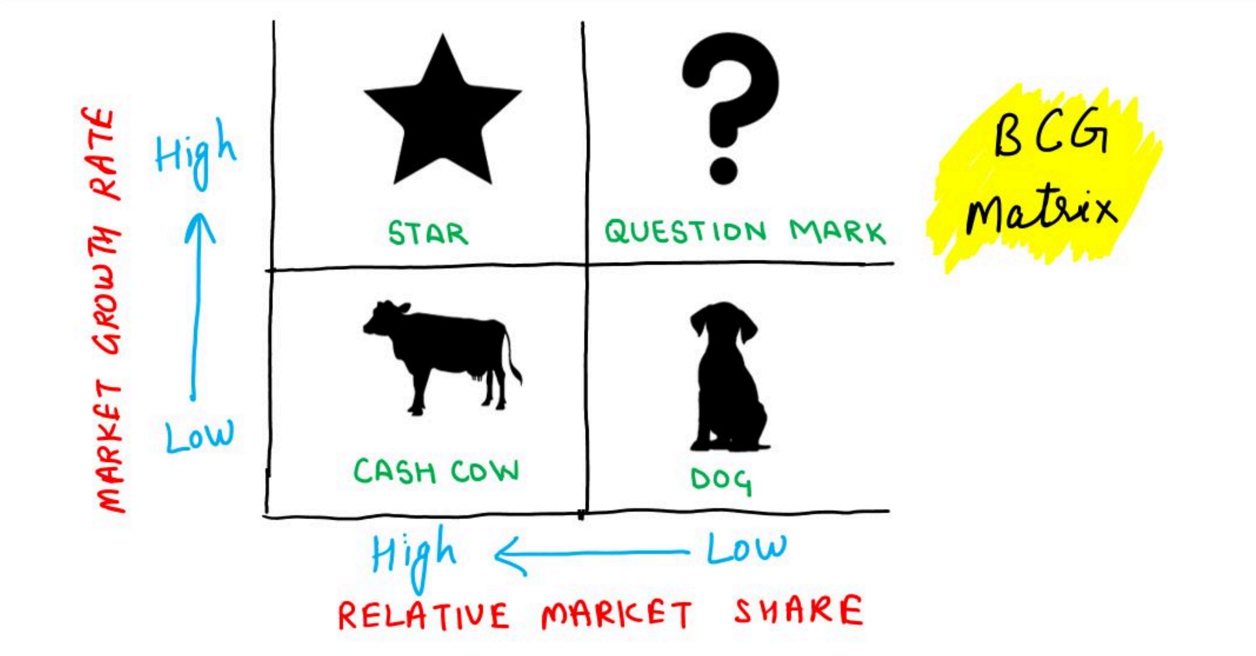
11. Business Portfolio Analysis

Boston Consulting Group (BCG)'s Portfolio Analysis is based on the premise that majority of the companies carry out multiple business activities in a number of different product-market segments. Together these different businesses form the Business Portfolio, which can be characterized by two parameters:
1. Company's relative Market Share for the business
2. Overall Growth Rate of that business

Relative Market Share is stressed on the assumption that the relative competitive position of the company would determine the rate at which the business generates cash. An organization with a higher relative share of the market compared to its competitors will have higher profit margins and therefore higher cash flows. Relative Market Share is defined as the market share of the relevant business divided by the market share of its largest competitor.

The selection of the **Rate of Growth** of the associated industry is based on the understanding that an industrial segment with high growth rate would facilitate expansion of the operations of the participating company. It will also be relatively easier for the company to increase its market share and have profitable investment opportunities. High growth rate business provides opportunities to plough back earned cash into the business and further enhance the return on investment.

The BCG matrix classifies the business activities along the vertical axis according to the 'Business Growth Rate" (meaning growth of the market for the product), and the 'Relative Market Share' along the horizontal axis. The two axes are divided into Low and High sectors, so that the BCG matrix is divided into four quadrants.



Businesses falling into each of these quadrants are classified with broadly different strategic categories, as explained below:

1. Cash Cows

The businesses with low growth rate and high market share are classified in this quadrant. The low rate of growth of the business implies that the cash demand for the business would be low. High market share leads to high generation of cash and profits which means they normally generate large cash surpluses due to high market shares. Thus, cows can be 'milked' for cash to help to provide cash required for running other diverse operations of the company. Cash Cows provide the financial base for the company. These businesses have superior market position and invariably low costs. But, in terms of their future potential, one must keep in mind that these are mature businesses with low growth rate.

For example: Panasonic's video cassette recorders (VCRs) moved to this category when sales declined, and DVD player/recorders replaced them.

2. Dogs

If the business growth rate is low and the company's relative market share is also low, the business is classified as DOG. The low market share normally also means poor profits. As the growth rate is also low, attempts to increase market share would demand prohibitive investments. Thus, the cash required to maintain a competitive position often exceeds the cash generated, and there is a net negative cash flow. Under such circumstances, the strategic solution is to either liquidate, or if possible, harvest or divest the dog business.

For example: DuPont, the inventor of nylon, sold its textiles unit in 2003 because the company wanted to eliminate its low-margin products and focus more on its growing biotech business. The same was true of IBM when it sold its PC business to China's Lenovo Group in order to emphasize its growing services business.

3. Question Marks

They are also called 'problem children' or 'wildcats'. Like Dogs, Question Marks are businesses with low market share, but the businesses have a high growth rate. They are new products with the potential for success, but they need a lot of cash for development. If such a product is to gain enough market share to become a market leader and thus a star, money must be taken from more mature products and spent on the question mark. Because of their high growth, the cash requirement is high, but due to their low market share, the cash generated is also low.

As the business growth rate is high, one strategic option is to invest more to gain market share, pushing from low share to high. The Question Mark business then moves to a Star (discussed next) quadrant, and subsequently has the potential to become cash low, when the business growth rate reduces to a lower level. Another strategic option is when the company cannot improve its low competitive position (represented by low market share). The management may then decide to divest the Question Mark business. These businesses are called Question Marks because they raise the question as to whether more money should be invested in them to improve their relative market share and profitability, or they should be divested and dropped from the portfolio.

For example, after years of fruitlessly experimenting with an electric car, General Motors finally decided in 2006 to take a chance on developing the Chevrolet Volt.

4. Stars

Businesses which have high growth rate and high market share, are called Stars. Stars are market leaders that are typically at the peak of their product life cycle and are able to generate enough cash to maintain their high share of the market and usually contribute to the company's profits. Such businesses generate as well as use large amounts of cash. The Stars generate high profits and represent the best investment opportunities for growth. The best strategy regarding Stars is to make the necessary investments and consolidate the company's high relative competitive position.

For example, HP's printer business has been called HP's 'crown jewel' because of its 41% market share in printers and its control of the replacement cartridge market. On its own, it accounted for more than half of HP's operating profit. When a star's market growth rate slows, it becomes a cash cow.

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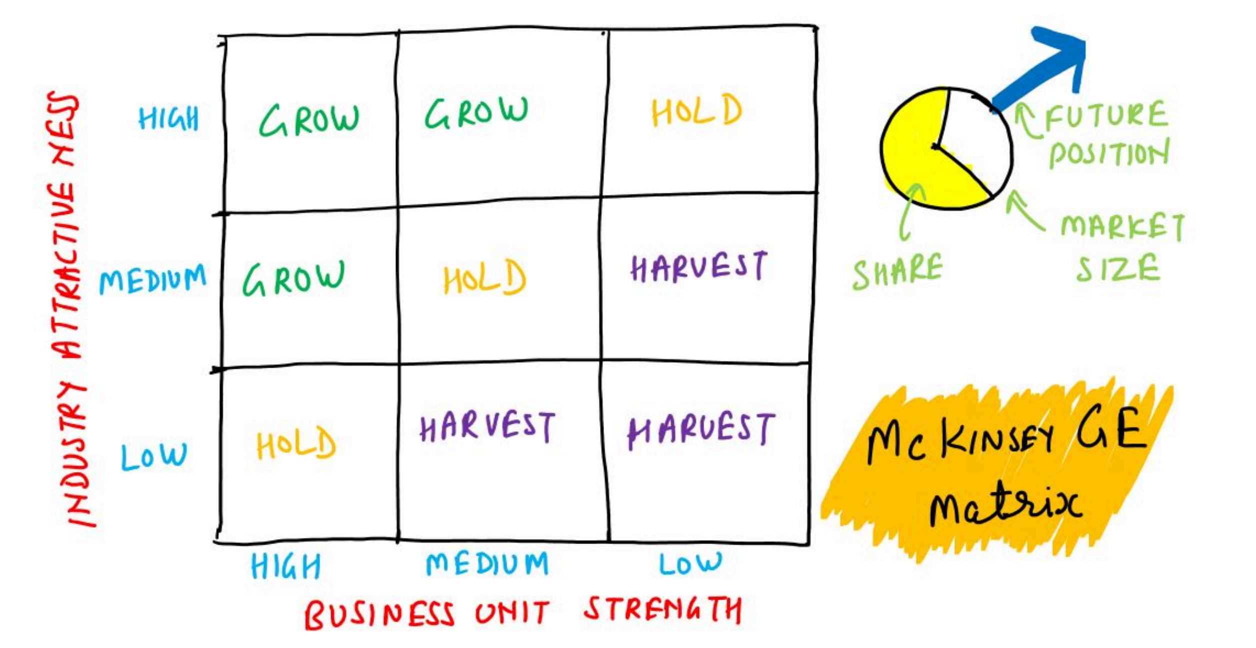
11. Business Portfolio Analysis



In consulting engagements with General Electric in the 1970's, McKinsey & Company developed a nine-cell portfolio matrix as a tool for screening GE's large portfolio of strategic business units (SBU).

The GE Business Screen includes nine cells based on long-term industry attractiveness and business strength competitive position.

The GE Business Screen, in contrast to the BCG Growth-Share Matrix, includes much more data in its two key factors than just business growth rate and comparable market share. For example, at GE, industry attractiveness includes market growth rate, industry profitability, size, and pricing practices, among other possible opportunities and threats. Business strength or competitive position includes market share as well as technological position, profitability, and size, among other possible strengths and weaknesses.

The GE/McKinsey matrix is similar to the BCG growth share matrix in that it maps strategic business units on a grid of the industry and the SBU's position in the industry. The GE matrix however, attempts to improve upon the BCG matrix in the following two ways:

1. The GE matrix generalizes the axes as "Industry Attractiveness" and "Business Unit Strength" whereas the BCG matrix uses the market growth rate as a proxy for “industry attractiveness” and relative market share as a proxy for the “strength of the business unit”.
2. The GE matrix has nine cells vs. four cells in the BCG matrix.

Industry attractiveness and business unit strength are calculated by first identifying criteria for each, determining the value of each parameter in the criteria, and multiplying that value by a weighting factor. The result is a quantitative measure of industry attractiveness and the business unit's relative performance in that industry.

Industry Attractiveness

The vertical axis of the GE/McKinsey matrix is industry attractiveness, which is determined by factors such as the following:

- Market growth rate
- Market size
- Demand variability
- Industry profitability
- Industry rivalry
- Global opportunities
- Macro-environmental factors

Business Unit Strength

The horizontal axis of the GE/McKinsey matrix is the strength of the business unit. Some factors that can be used to determine business unit strength include:

- Market share
- Growth in market share
- Brand equity
- Distribution channel access
- Production capacity
- Profit margins relative to competitors

Each business unit can be portrayed as a circle plotted on the matrix, with the information conveyed as follows:

1. Market size is represented by the size of the circle.
2. Market share is shown by using the circle as a pie chart.
3. The expected future position of the circle is portrayed by means of an arrow.

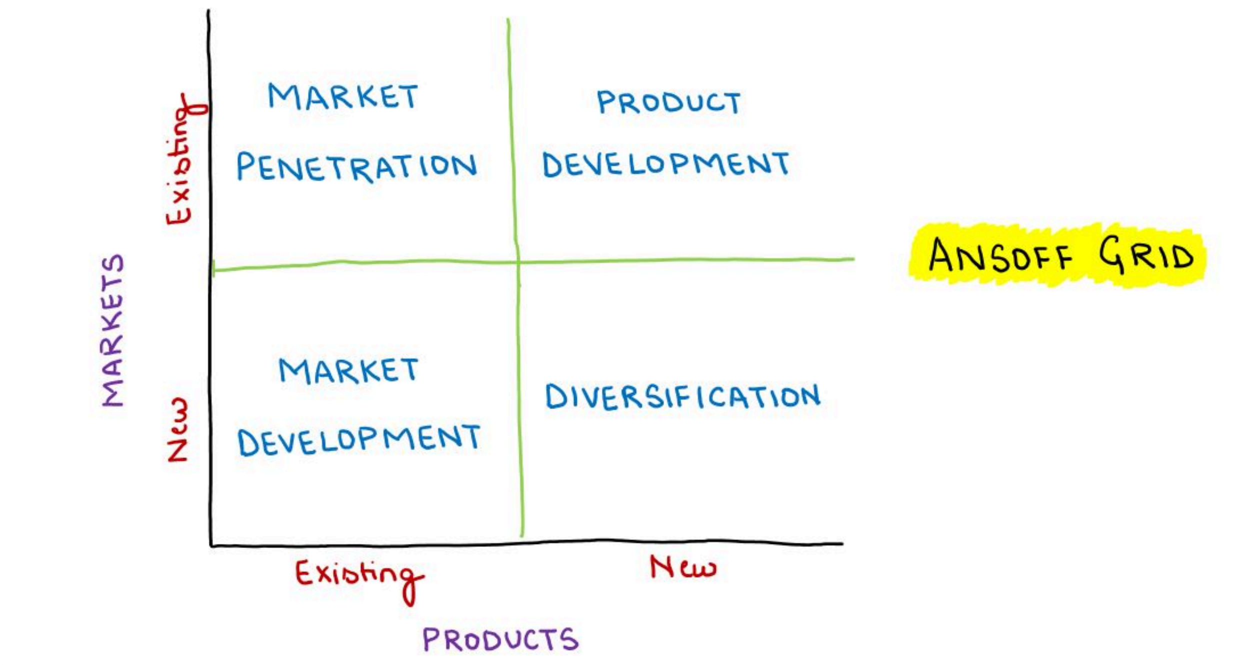
Resource allocation recommendations can be made to grow, hold, or harvest a strategic business unit based on its position on the matrix as follows:
1. Grow strong business units in attractive industries, average business units in attractive industries, and strong business units in average industries.
2. Hold average businesses in average industries, strong businesses in weak industries, and weak business in attractive industries.
3. Harvest weak business units in unattractive industries, average business units in unattractive industries, and weak business units in average industries.

There are strategy variations within these three groups. For example, within the harvest group the firm would be inclined to quickly divest itself of a weak business in an unattractive industry, whereas it might perform a phased harvest of an average business unit in the same industry.

While the GE business screen represents an improvement over the simpler BCG growth-share matrix, it still presents a somewhat limited view by not considering interactions among the business units and by neglecting to address the core competencies leading to value creation.

11. Business Portfolio Analysis

The product/market grid first presented by Igor Ansoff has proven to be very useful in discovering growth opportunities. This grid best illustrates the various intensification options available to a firm. The product/market grid has two dimensions, namely, products and markets. Combinations of these two dimensions result in four growth strategies.



According to Ansoff's Grid, four distinct strategies are possible for achieving growth through the intensification route.

1. Market Penetration

The firm seeks to achieve growth with existing products in their current market segments, aiming to increase its markets share. Often firms will rely on advertising to attract new customers within existing markets using loyalty program, coupons, and sales promotions. Nike, for example, features famous athletes in print and television ads designed to take market share within the athletic shoes business from Adidas and other rivals.

2. Market Development

The firm seeks growth by targeting its existing products to new market segments. One way to reach a new market is to enter a new retail channel. Starbucks has stepped beyond selling only coffee beans in its stores and now sells beans in grocery stores. This enables Starbucks to reach consumers that do not visit its coffee houses. Entering new geographic areas and adding new sales or distribution channels are other ways to pursue market development.

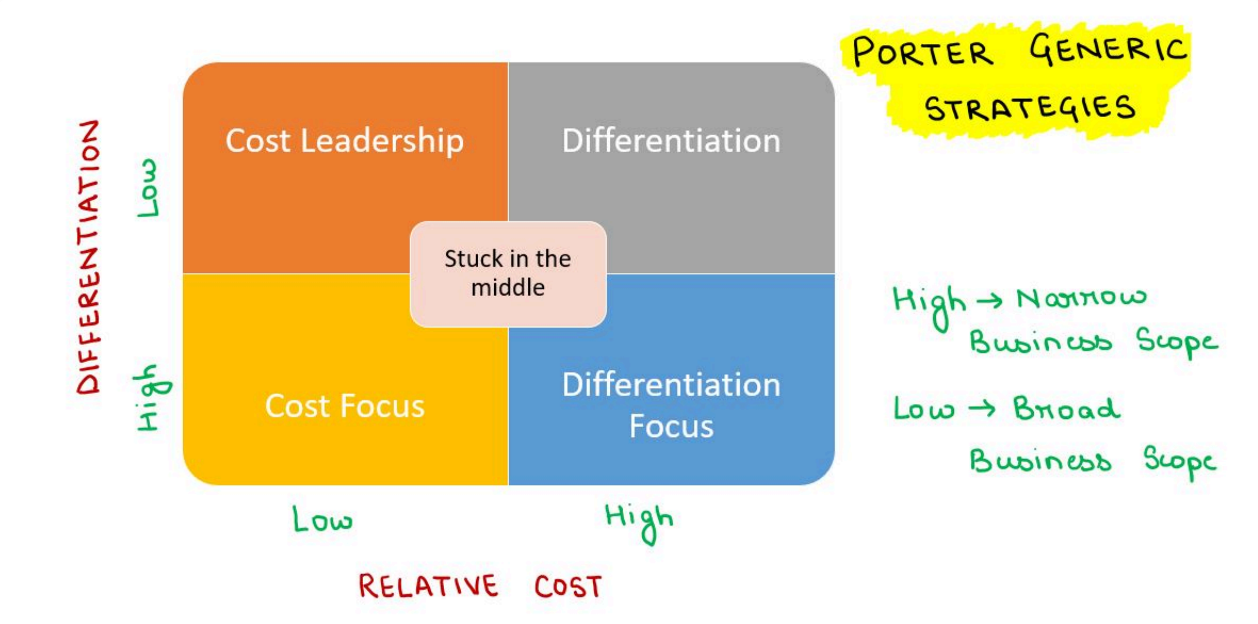
3. Product Development

The firm develops new products targeted to its existing market segments. In the 1940s, for example, Disney expanded its offerings within the film business by going beyond cartoons and creating movies featuring real actors. More recently, McDonald's has gradually moved more and more of its menu toward healthy items to appeal beyond its existing base and to attract customers who are concerned about nutrition.

4. Diversification

The firm grows by diversifying into new businesses by developing new products for new markets. For example, Tata Group, which was founded in 1868 and diversified from its humble beginnings as a hotel company into a global multinational encompassing 100 individual companies.

12. Porter Generic Strategies



Michael Porter proposes two “generic” competitive strategies for outperforming other corporations in a particular industry: lower cost and differentiation. These strategies are called generic because they can be pursued by any type or size of business firm, even by not-for-profit organizations. The strategies are:
1. *Lower cost strategy* is the ability of a company or a business unit to design, produce, and market a comparable product more efficiently than its competitors.
2. *Differentiation strategy* is the ability of a company to provide unique and superior value to the buyer in terms of product quality, special features, or after-sale service.

Porter further proposes that a firm’s competitive advantage in an industry is determined by its competitive scope, that is, the breadth of the company’s or business unit’s target market. A firm positions itself by leveraging its strengths. Michael Porter has argued that a firm's strengths ultimately fall into one of two headings: cost advantage and differentiation. By applying these strengths in either a broad or narrow scope, three generic strategies result: cost leadership, differentiation, and focus. The figure shows generic strategies against competitive scope and competitive advantage.

Cost Leadership Strategy

This generic strategy calls for being the low-cost producer in an industry for a given level of quality. Cost leadership is a lower-cost competitive strategy that aims at the broad mass market and requires “aggressive construction of efficient-scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimization in areas like R&D, service, sales force, advertising, and so on.” Because of its lower costs, the cost leader is able to charge a lower price for its products than its competitors and still make a satisfactory profit. Although it may not necessarily have the lowest costs in the industry, it has lower costs than its competitors. Some of the ways that firms acquire cost advantages are:

- by improving process efficiencies,
- gaining unique access to a large source of lower cost materials,
- making optimal outsourcing and vertical integration decisions,
- avoiding some costs altogether,
- high level of expertise in manufacturing process engineering,
- efficient distribution channels.

Examples of Cost Leadership Strategy: Redmi phones, Chinese spare parts.

Differentiation Strategy

A differentiation strategy calls for the development of a product or service that offers unique attributes that are valued by customers and that customers perceive to be better than or different from the products of the competitor. The value added by the uniqueness of the product may allow the firm to charge a premium price for it. The firm hopes that the higher price will more than cover the extra costs incurred in offering the unique product. This specialty can be associated with design or brand image, technology, features, a dealer network, or customer service. Firms that succeed in a differentiation strategy often have the following internal strengths:

- Access to leading scientific research.
- Highly skilled and creative product development team.
- Strong sales team with the ability to successfully communicate the perceived strengths of the product.
- Corporate reputation for quality and innovation.

Examples of Differentiation Strategy: Mercedes cars, iPhone

Focus Strategy

The generic focus strategy rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others.

The focus strategy has two variants:
1. **Cost Focus:** A firm seeks a cost advantage in its target segment, while in
2. **Differentiation Focus:** A firm seeks differentiation in its target segment.

Both variants of the focus strategy rest on differences between a focuser's target segment and other segments in the industry. The target segments must either have buyers with unusual needs or else the production and delivery system that best serves the target segment must differ from that of other industry segments. Cost focus exploits differences in cost behaviour in some segments, while differentiation focus exploits the special needs of buyers in certain segments.

Stuck in the Middle

These generic strategies are not necessarily compatible with one another. If a firm attempts to achieve an advantage on all fronts, in this attempt it may achieve no advantage at all. For example, if a firm differentiates itself by supplying very high-quality products, it risks undermining that quality if it seeks to become a cost leader. Even if the quality did not suffer, the firm would risk projecting a confusing image. For this reason, Michael Porter argued that to be successful over the long-term, a firm must select only one of these three generic strategies. Otherwise, with more than one single generic strategy the firm will be "stuck in the middle" and will not achieve a competitive advantage.

According to Porter, competing firms directing the same strategy to the same target market constitute a **strategic group.**

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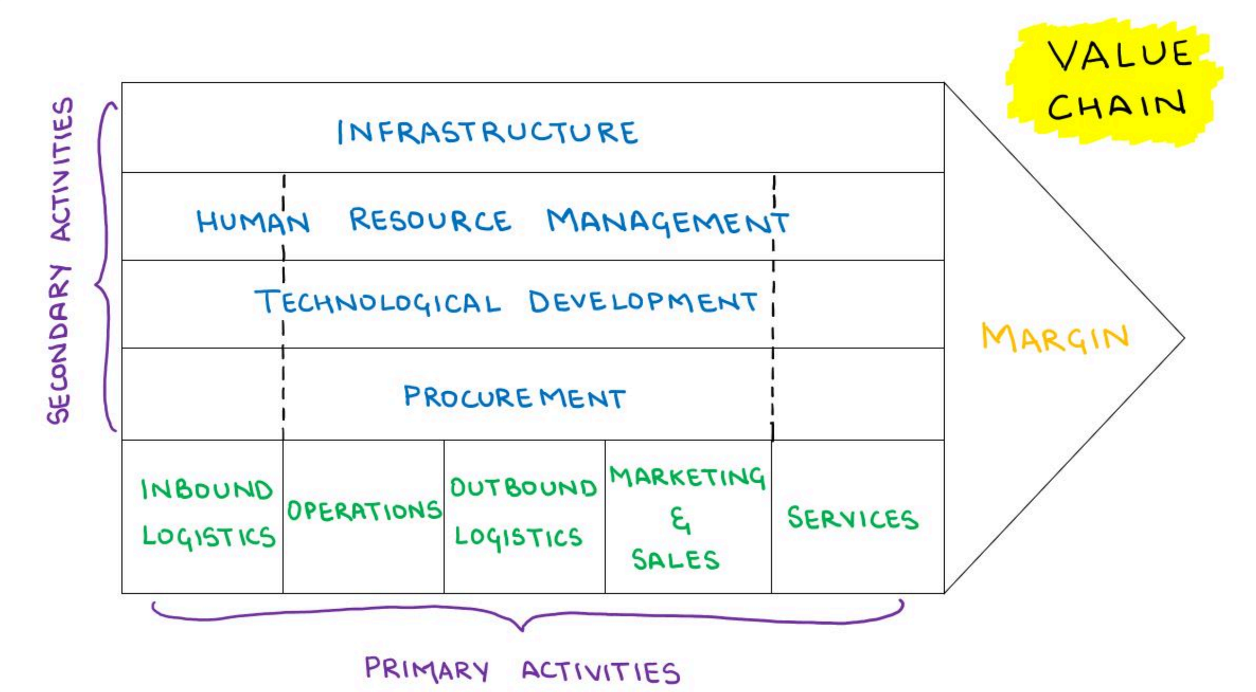
13. Value Chain analysis

A value chain is a linked set of value-creating activities that begin with basic raw materials coming from suppliers, moving on to a series of value-added activities involved in producing and marketing a product or service, and ending with distributors getting the final goods into the hands of the ultimate consumer.



Value Chain Analysis is a framework most commonly used to guide analysis of any firm's internal strengths and weaknesses. In this framework, any business is seen as a number of linked activities, each producing value for the customer. By creating additional value, the firm can charge more or is able to deliver same value at a lower cost, either of which leads to a higher profit margin. This ultimately adds to the organization's financial performance.

Value Chain Analysis describes the activities that take place in a business and relates them to an analysis of the competitive strength of the business. Influential work by Michael Porter suggested that the activities of a business could be grouped under 2 headings:
1. **Primary Activities** are those that are directly concerned with creating and delivering a product (e.g., component assembly).
2. **Secondary Activities** whilst they are not directly involved in production, may increase effectiveness or efficiency (e.g., human resource management). These are also called Support Activities.

Primary Activities are given in table below (also called Line functions).

Primary Activity	**Description**
Inbound logistics	All those activities concerned with receiving and storing externally sourced materials
Operations	The manufacturing of products and services - the way in which resource inputs (e.g., materials) are converted to outputs (e.g., products)
Outbound logistics	All those activities associated with getting finished goods and services to buyers
Marketing and sales	Essentially an information activity - informing buyers and consumers about products and services (benefits, use, price etc.)
Service	All those activities associated with maintaining product performance after the product has been sold

Support Activities are given in table below (also called Staff functions).

Secondary Activity	**Description**
Procurement	This concerns how resources are acquired for a business (e.g., sourcing and negotiating with materials suppliers)

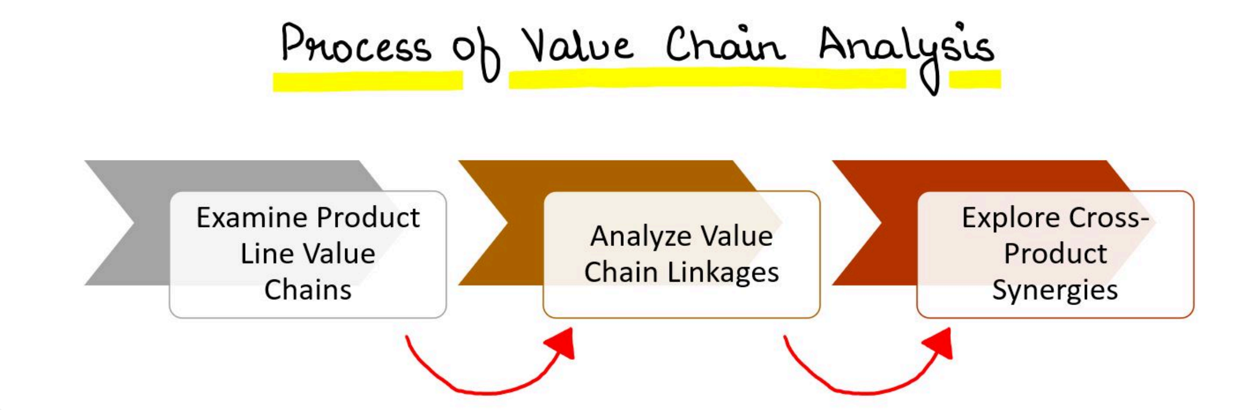
Human Resource Management	Those activities concerned with recruiting, developing, motivating and rewarding the workforce of a business
Technology Development	Activities concerned with managing information processing and the development and protection of "knowledge" in a business
Infrastructure	Concerned with a wide range of support systems and functions such as finance, planning, quality control, and general senior management

It is rare for a business to undertake all primary and support activities.

Each of a company's product lines has its own distinctive value chain. Because most corporations make several different products or services, an internal analysis of the firm involves analyzing a series of different value chains.

The systematic examination of individual value activities can lead to a better understanding of a corporation's strengths and weaknesses. According to Porter, "Differences among competitor value chains are a key source of competitive advantage."

Process of value chain analysis



Corporate value chain analysis involves the following three steps:

1. *Examine each product line's value chain in terms of the various activities involved in producing that product or service*: Which activities can be considered strengths (core competencies) or weaknesses (core deficiencies)? Do any of the strengths provide competitive advantage and can they thus be labeled distinctive competencies?

2. *Examine the "linkages" within each product line's value chain*: Linkages are the connections between the way one value activity (for example, marketing) is performed and the cost of performance of another activity (for example, quality control). In seeking ways for a corporation to gain competitive advantage in the marketplace, the same function can be performed in different ways with different results.

3. *Examine the potential synergies among the value chains of different product lines or business units*: Each value element, such as advertising or manufacturing, has an inherent economy of scale in which activities are conducted at their lowest possible cost per unit of output. If a particular product is not being produced at a high enough level to reach economies of scale in distribution, another product could be used to share the same distribution channel.

What activities a business undertakes is directly linked to achieving competitive advantage. For example, a business which wishes to outperform its competitors by differentiating itself through higher quality will have to perform its value chain activities better than the opposition. By contrast, a strategy based on seeking cost leadership will require a reduction in the costs associated with the value chain activities, or a reduction in the total amount of resources used.

14. Marketing Plan

A marketing strategy consists of specific strategies for target markets, positioning, the marketing mix, and marketing expenditure levels. It outlines how the company intends to engage target customers and create value in order to capture value in return.

Contents of a Marketing Plan

Section	Purpose
Executive summary	Presents a brief summary of the main goals and recommendations of the plan for management review, helping top management find the plan's major points quickly. A table of contents should follow the executive summary.
Current marketing situation	Describes the target market and company's position in it, including information about the market, product performance, competition, and distribution. This section includes the following: ■ A *market description* that defines the market and major segments, and then reviews customer needs and factors in the marketing environment that may affect customer purchasing. ■ A *product review* that shows sales, prices, and gross margins of the major products in the product line. ■ A review of *competition* that identifies major competitors and assesses their market positions and strategies for product quality, pricing, distribution, and promotion. ■ A review of *distribution* that evaluates recent sales trends and other developments in major distribution channels.
Threats and opportunities analysis	Assesses major threats and opportunities that the product might face, helping management anticipate important positive or negative developments that might have an impact on the firm and its strategies.
Objectives and issues	States the marketing objectives that the company would like to attain during the plan's term and discusses key issues that will affect their attainment. For example, if the goal is to achieve 15 percent market share, this section looks at how this goal might be achieved.
Marketing strategy	Outlines the broad marketing logic by which the business unit hopes to create customer value and relationships as well as the specifics of target markets, positioning, and marketing expenditure levels. How will the company create value for customers in order to capture value from customers in return? This section also outlines specific strategies for each marketing mix element and explains how each responds to the threats, opportunities, and critical issues spelled out earlier in the plan.
Action programs	Spells out how marketing strategies will be turned into specific action programs that answer the following questions: *What* will be done? *When* will it be done? *Who* will do it? *How* much will it cost?
Budgets	Details a supporting marketing budget that is essentially a projected profit-and-loss statement. It shows expected revenues (forecasted number of units sold and the average net price) and expected costs of production, distribution, and marketing. The difference is the projected profit. Once approved by higher management, the budget becomes the basis for materials buying, production scheduling, personnel planning, and marketing operations.
Controls	Outlines the control that will be used to monitor progress and allow higher management to review implementation results and spot products that are not meeting their goals. It includes measures of return on marketing investment.

In marketing plan. the marketers explains how each strategy responds to the threats, opportunities, and critical issues spelled out earlier in the plan. Additional sections of the marketing plan lay out an action program for implementing the marketing strategy along with the details of a supporting marketing budget.

More limited in scope than a business plan, the marketing plan documents how the organization will achieve its strategic objectives through specific marketing strategies and tactics, with the customer as the starting point. It is also linked to the plans of other departments. Suppose a marketing plan calls for selling 200,000 units annually. The production department must gear up to make that many units, finance must arrange funding to cover the expenses, human resources must be ready to hire and train staff, and so on.

As a marketer, you'll need a good marketing plan to provide direction and focus for your brand, product, or company. With a detailed plan, any business will be better prepared to launch a new product or build sales for existing products.

The marketing plan is the central instrument for directing and coordinating the marketing effort. It operates at two levels: strategic and tactical. The strategic marketing plan lays out the target markets and the firm's value proposition, based on an analysis of the best market opportunities. The tactical marketing plan specifies the marketing tactics, including product features, promotion, merchandising, pricing, sales channels, and service.

Each product level, whether product line or brand, must develop a marketing plan for achieving its goals. A marketing plan is a written document that summarizes what the marketer has learned about the marketplace and indicates how the firm plans to reach its marketing objectives. It contains tactical guidelines for the marketing programs and financial allocations over the planning period.

Marketing plans typically span one year and vary in length from 5 to 50 pages. While smaller businesses may opt for shorter and less formal plans, corporations often require more detailed and structured documents. Each aspect of the plan necessitates meticulous detailing. Some companies prefer to share their marketing plans on internal websites, allowing for easy consultation and collaboration.

A standard marketing plan comprises several key sections:

1. Executive Summary and Table of Contents

- A brief overview of the entire marketing plan.
- A table of contents for convenient navigation.

2. Situation Analysis

- Presentation of relevant background data on sales, costs, the market, competitors, and the macroenvironment.
- Exploration of market definition, size, growth rates, trends, and critical issues.
- Conducting a SWOT analysis based on gathered information.

3. Marketing Strategy

- Definition of the mission, marketing and financial objectives, and the market offering's intended satisfaction, along with competitive positioning.
- Collaboration with other departments such as purchasing, manufacturing, sales, finance, and human resources for comprehensive input.

4. Marketing Tactics

- Outline of marketing activities designed to execute the marketing strategy.

5. Product or Service Offering

- Description of key attributes and benefits appealing to target customers.

6. Pricing

- Specification of the general price range and its potential variation across different customer types or channels, including incentive or discount plans.

7. Channel

- Outlining different forms of distribution, whether direct or indirect.

8. Communications

- High-level guidance on the general message and media strategy, with the possibility of a separate communication plan for detailed collaboration with agencies and media partners.

9. Financial Projections

- Inclusion of sales forecast, expense forecast, and a break-even analysis.
- Detailed breakdown of forecasted sales volume, expected marketing costs, and a calculation of the break-even point.

10. Risk Analysis for Profit Estimation

- Obtaining three estimates (optimistic, pessimistic, and most likely) for each uncertain variable affecting profitability.
- Simulation of possible outcomes and computation of a distribution illustrating the range of potential rates of returns and their probabilities.

11. Implementation Controls

- Final section outlining controls for monitoring and adjusting the plan's implementation.
- Definition of goals and budget for each month or quarter, facilitating periodic review and corrective action by management.

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1. Introduction

Marketing control is the process of measuring and evaluating the results of marketing strategies and plans, and taking corrective action to ensure that marketing objectives are achieved. It ensures that a company is moving in the right direction and using its resources effectively. Just like financial audits monitor a company's fiscal health, marketing control monitors the health of the marketing function.

There are various types of marketing control — annual plan control being one of the most common — used to track whether the planned results for the year are being achieved. It involves a detailed review of performance using specific tools and metrics

2. Marketing Control

Marketing control is a critical process used to assess and correct the outcomes of marketing activities and efforts. It ensures that marketing strategies are aligned with the company's objectives and targets, while also identifying areas for improvement and corrective action.

The five sets of analyses used for annual plan control are discussed next.

1. Sales Analysis
2. Market Share Analysis
3. Marketing Expense-to-Sales Analysis
4. Financial analysis
5. Marketing Profitability Analysis

2. Marketing Control

Sales analysis is a crucial business process that involves the comprehensive evaluation of actual sales in comparison to predefined goals. This analytical approach provides insights into the effectiveness of sales strategies, helping businesses understand how well they are performing against their targets. By scrutinizing sales data, companies can identify trends, patterns, and areas of improvement, enabling informed decision-making to enhance future sales efforts. Sales analysis plays a pivotal role in assessing the overall health of a company's revenue-generating activities, facilitating strategic adjustments for sustainable growth.

There can be 2 approaches to carry out sales analysis:

- **Sales-Variance Analysis:** Sales-variance analysis is a tool employed to dissect the factors contributing to discrepancies between planned and actual sales performance. This method involves breaking down the overall variance into specific components, such as price changes or volume fluctuations. By quantifying the impact of individual factors, businesses can pinpoint the root causes of deviations and allocate responsibility accordingly. This analytical approach is instrumental in understanding the dynamics influencing sales outcomes, allowing organizations to address specific issues and optimize their sales strategies for improved performance.
- **Microsales Analysis:** Microsales analysis is a detailed examination that zooms in on specific products, territories, or market segments that deviate from expected sales patterns. Unlike broader sales analyses, microsales analysis focuses on granular details, providing insights into the performance of individual components within the larger sales framework. By scrutinizing specific areas of strength or weakness, businesses can tailor their strategies to address challenges at a more localized level. This approach is valuable for identifying underperforming elements and implementing targeted solutions to enhance overall sales effectiveness.

2. Marketing Control

Market share analysis is crucial for understanding how well a company is performing relative to its competitors. It can be tracked in three ways:

(i) *Overall Market Share:* This expresses the company's sales as a percentage of total market sales.

Overall Market Share = Customer Penetration × Customer Loyalty × Customer Selectivity × Price Selectivity

where:

- Customer penetration is the percentage of all customers who buy from the company.
- Customer loyalty is the purchases from the company by its customers expressed as a percentage of their total purchases from all suppliers of the same products.
- Customer selectivity is the size of the average customer purchase from the company expressed as a percentage of the size of the average customer purchase from an average company.
- Price selectivity is the average price charged by the company expressed as a percentage of the average price charged by all companies.

(ii) *Served Market Share:* This measures the company's sales as a percentage of the total sales to the market. Served market share is always larger than overall market share, as it includes all potential buyers. A company could capture 100% of its served market and yet have a relatively small share of the total market.

(iii) *Relative Market Share:* This compares the company's market share to that of its largest competitor. A relative market share of 100 percent means the company is tied for the lead, while more than 100 percent indicates market leadership. An increase in relative market share suggests the company is gaining ground on its leading competitor.

2. Marketing Control

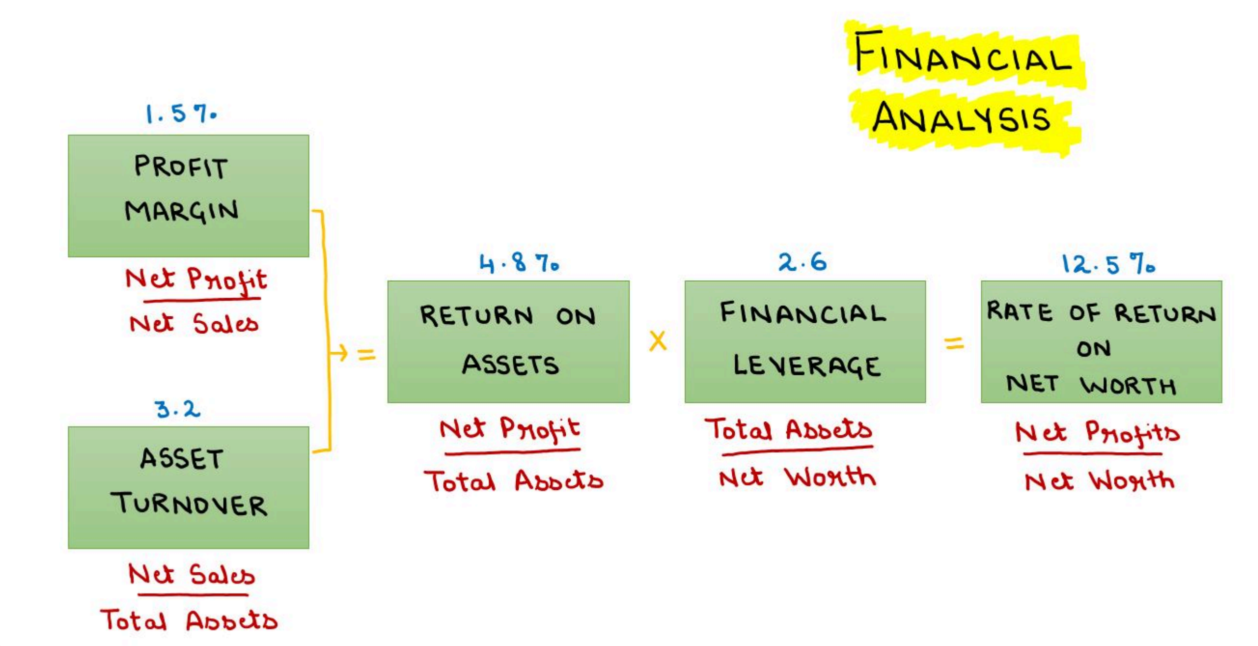
Marketing Expense-to-Sales Analysis is a crucial aspect of annual-plan control, aimed at ensuring that a company does not exceed its budgeted marketing expenses while striving to achieve its sales goals. The primary metric to monitor is the marketing expense-to-sales ratio, which indicates the percentage of sales revenue allocated to marketing expenses. For example, in one company, the overall ratio was 30 percent, comprising five component expense-to-sales ratios:

1. **Sales Force-to-Sales (15 percent):** The portion of expenses dedicated to the sales force.
2. **Advertising-to-Sales (5 percent):** The percentage of sales revenue spent on advertising.
3. **Sales Promotion-to-Sales (6 percent):** The ratio of sales promotion expenses to total sales.
4. **Marketing Research-to-Sales (1 percent):** The share of sales revenue allocated to marketing research.
5. **Sales Administration-to-Sales (3 percent):** The portion of sales revenue used for sales administration.

To identify potential issues, management closely monitors fluctuations in each ratio from period to period using a control chart. For instance, if the advertising expense-to-sales ratio typically fluctuates between 8 percent and 12 percent, any variation outside this range raises concerns. A control chart helps visualize the normal range of fluctuations and detect anomalies. In a scenario where, for instance, the advertising ratio exceeds the upper control limit, it may signal an unusual event requiring investigation.

A crucial aspect of effective control involves assessing successive observations even within the established control limits. For instance, if the expense-to-sales ratio consistently increases over multiple periods, as illustrated in a control chart, it suggests a pattern that merits investigation. Ignoring such trends poses a risk, as they might indicate a real change that, if unaddressed, could lead to a decline in the company's performance. Regular and thorough monitoring, coupled with timely investigations into unusual patterns, is essential to maintain effective expense control and ensure the company remains aligned with its financial objectives.

2. Marketing Control

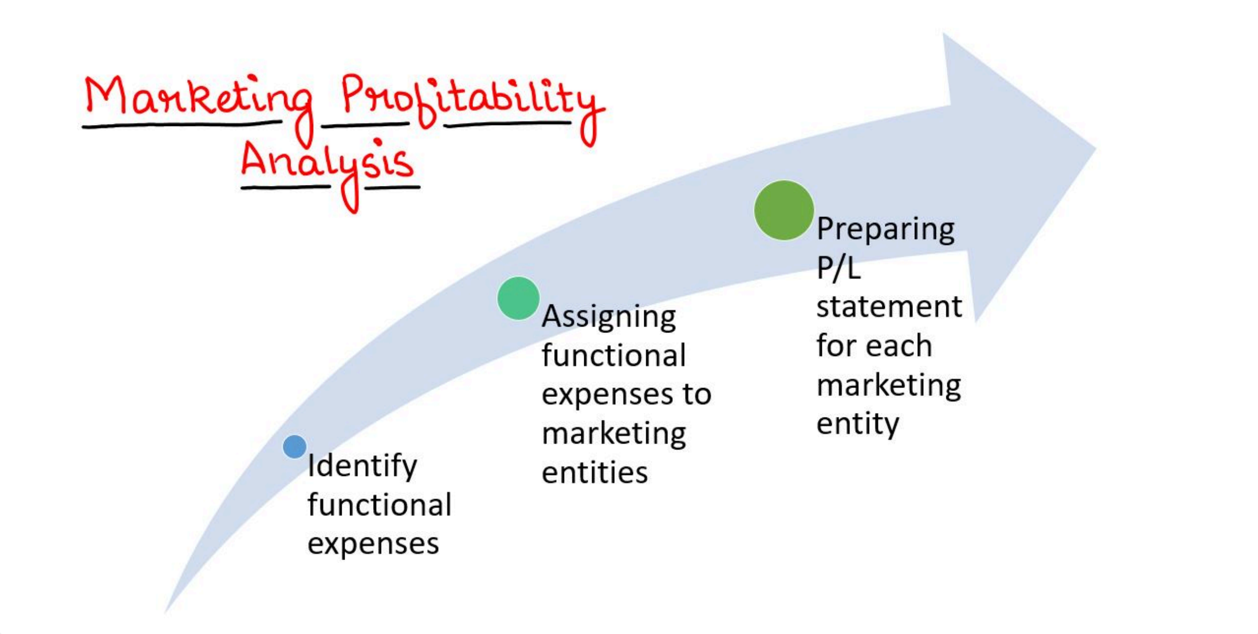


Financial analysis is essential for understanding how the company generates revenue and where it makes its money. Marketers analyze the expense-to-sales ratios within the overall financial framework.

They assess the company's rate of return on net worth, which is the product of two ratios: return on assets (ROA) and financial leverage. To improve return on net worth, the company can either increase net profits or assets relative to net worth. Additionally, the return on assets is the product of two ratios: profit margin and asset turnover.

The marketing executive can improve performance by increasing the profit margin (by increasing sales or reducing costs) or increasing the asset turnover (by increasing sales or reducing assets held against a given level of sales).

2. Marketing Control



Marketing profitability analysis is carried with following 3 steps:

1. Identifying Functional Expenses

Allocate various expenses across activities, such as salaries, rent, and supplies, to determine their association with specific functions.

2. Assigning Functional Expenses to Marketing Entities

Attribute functional expenses (e.g., selling, advertising, packing, and delivery) to different retail channels based on factors like sales calls, advertisement allocation, and order placements.

3. Preparing Profit-and-Loss Statements for Each Marketing Entity

Generate individual profit-and-loss statements for each retail channel by deducting the allocated functional expenses from the gross margin, providing insights into the profitability of each channel.

3. Marketing Audit

A Marketing Audit is a comprehensive, systematic, independent, and periodic examination of a company's or business unit's marketing environment, objectives, strategies, and activities, with a view to determining problem areas and opportunities and recommending a plan of action to improve the company's marketing performance.

Let us look at some of key characteristics of the Marketing Audit.

- *Comprehensive:* The marketing audit covers all the major marketing activities of a business, not just a few trouble spots as in a functional audit. It usually is more effective in locating the real source of problems.
- *Systematic:* The marketing audit is an orderly examination of the organization's macro- and micromarketing environments, marketing objectives and strategies, marketing systems, and specific activities. It identifies the most-needed improvements and incorporates them into a corrective-action plan with short- and long-run steps.
- *Independent:* Self-audits, in which managers rate their own operations, lack objectivity and independence. Usually, however, outside consultants bring the necessary objectivity, broad experience in a number of industries, familiarity with the industry being audited, and undivided time and attention.
  Periodic: Firms typically initiate marketing audits only after failing to review their marketing operations during good times, with resulting problems. A periodic marketing audit can benefit companies in good health as well as those in trouble.

A marketing audit starts with agreement between the company officer(s) and the marketing auditor(s) on the audit's objectives and time frame, and a detailed plan of who is to be asked what questions. The cardinal rule for marketing auditors is to don't rely solely on company managers for data and opinions but ask customers, dealers, and other outside groups too.

Components of Marketing Audit

The marketing audit examines 6 major components of the company's marketing situation.

1. Marketing Environment Audit

This component involves assessing the external factors that influence a company's marketing activities. It's divided into two categories:

- *Macro-environment:* Examines broad factors like economic, social, technological, political, and environmental trends.
- *Task environment:* Analyzes more specific factors such as markets, customers, competitors, distribution and dealers, suppliers, marketing firms, and publics.

2. Marketing Strategy Audit

This component focuses on evaluating the effectiveness of the marketing strategies employed by the company. It includes reviewing marketing objectives, goals, and the overall strategy that guides the company's marketing efforts.

3. Marketing Organization Audit

This component involves assessing the structure and efficiency of the marketing organization within the company. It looks at the formal structure, functional efficiency, and the effectiveness of interactions between different functions.

4. Marketing Systems Audit

This component examines the various systems that support the company's marketing activities:

- *Marketing Information System:* Evaluates how information is collected, processed, and used to make marketing decisions.
- *Marketing Planning System:* Assesses the process and effectiveness of developing marketing plans.
- *Marketing Control System:* Reviews the methods used to monitor and evaluate marketing performance.
- *New Product Development System:* Examines the processes involved in creating and launching new products.

5. Marketing Productivity Audit

This component focuses on measuring the efficiency and effectiveness of marketing activities:

- *Profitability Analysis:* Evaluates the profitability of different products, markets, and customer segments.
- *Cost-Effective Analysis:* Assesses the cost-effectiveness of marketing strategies and activities.

6. Marketing Function Audit

This component reviews the core marketing functions that drive the company's products and services to the market:

- *Products:* Evaluates the product portfolio, development, and performance.
- *Price:* Analyzes pricing strategies and their impact on profitability and market positioning.
- *Distribution:* Assesses the effectiveness of distribution channels and logistics.
- *Marketing Communications:* Reviews advertising, promotions, public relations, and other communication strategies.
- *Sales Force:* Evaluates the performance and effectiveness of the sales team.

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4. Marketing Dashboard

Businesses are implementing organizational procedures and systems to ensure the optimization of diverse metrics. One such approach involves the creation of a marketing dashboard, a consolidated collection of pertinent internal and external measures for synthesis and interpretation. Comparable to the instrument panel in a vehicle or aircraft, marketing dashboards visually display real-time indicators, guaranteeing smooth operations. These dashboards formally encompass "a concise set of interconnected performance drivers meant to be universally viewed within the organization."

For effective utilization, companies should incorporate two primary market-based scorecards as inputs to the marketing dashboard, reflecting performance metrics and serving as potential early warning systems.

(i) The **customer-performance scorecard** meticulously records the company's yearly performance on customer-centric measures. Management establishes target benchmarks for each metric and intervenes when results deviate beyond acceptable limits. Parameters for assessment may include:

- Percentage of new customers compared to the average number of customers
- Percentage of lost customers compared to the average number of customers
- Percentage of win-back customers compared to the average number of customers
- Customer satisfaction levels categorized as very dissatisfied, dissatisfied, neutral, satisfied, and very satisfied
- Customers' willingness to repurchase or recommend the product, among others.

(ii) The **stakeholder-performance scorecard** tracks the satisfaction levels of various groups significantly influencing the company's performance, such as employees, suppliers, banks, distributors, retailers, and stockholders. Management intervenes when any group shows heightened dissatisfaction levels, ensuring actions are taken promptly to address concerns.

1. Introduction

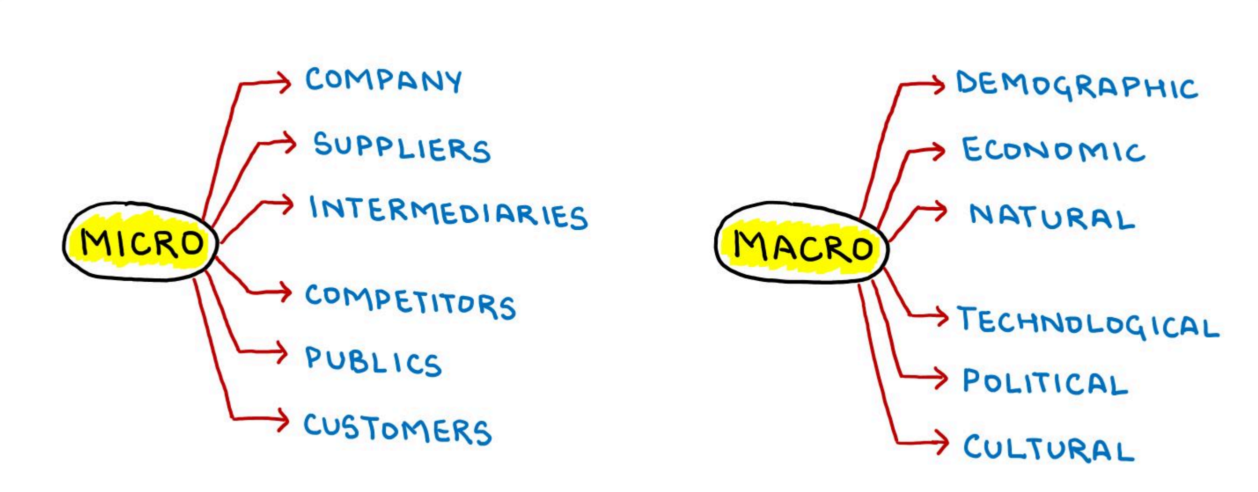
The marketing process starts with a complete understanding of the marketplace and consumer needs and wants. Thus, the company needs to turn sound consumer information into meaningful customer insights by which it can produce superior value for its customers. The company also requires information on competitors, resellers, and other actors and forces in the marketplace.

The **marketing environment** refers to the external and internal factors that influence an organization's ability to develop and maintain successful relationships with its customers. It includes all the elements that affect a company's marketing strategies, operations, and decision-making processes. The marketing environment can be divided into micro and macro environments, each of which plays a different role in shaping a company's marketing approach.

2. Analyzing Marketing Environment

A company's marketing environment comprises external actors and forces that influence marketing management's ability to establish and maintain successful relationships with target customers.

The marketing environment consists of two key components: the microenvironment and the macroenvironment.



2. Analyzing Marketing Environment

The micro environment includes following 6 components:

1. The Company

When designing marketing plans, marketing management takes into account other company groups, such as top management, finance, research and development (R&D), purchasing, operations, and accounting. These interrelated groups collectively form the internal environment.

2. Suppliers

Suppliers play a crucial role in the company's overall customer value delivery network. They provide the necessary resources for the company to produce its goods and services. Marketing managers must closely monitor supply availability and costs to ensure smooth operations.

3. Marketing Intermediaries

Marketing intermediaries play a crucial role in assisting the company with promoting, selling, and distributing its products to end customers. These intermediaries encompass resellers, physical distribution firms, marketing services agencies, and financial intermediaries.

Resellers are distribution channel firms that help the company find customers or make sales to them. These include wholesalers and retailers that buy and resell merchandise.

Physical distribution firms help the company stock and move goods from their points of origin to their destinations.

Marketing services agencies are the marketing research firms, advertising agencies, media firms, and marketing consulting firms that help the company target and promote its products to the right markets.

Financial intermediaries include banks, credit companies, insurance companies, and other businesses that help finance transactions or insure against the risks associated with the buying and selling of goods.

4. Competitors

According to the marketing concept, a company must surpass its competitors in delivering greater customer value and satisfaction to achieve success. Marketers should not only adapt to the needs of target consumers but also strategically position their offerings to stand out in consumers' minds compared to competitors.

5. Publics

The company's marketing environment encompasses diverse publics, which are groups with actual or potential interests and impacts on the organization's objectives. Seven types of publics can be identified:

(i) Financial publics: This group influences the company's ability to secure funds, including banks, investment analysts, and stockholders.

(ii) Media publics: This group disseminates news, features, editorial opinions, and content through various channels, such as television stations, newspapers, magazines, blogs, and social media.

(iii) Government publics: The company must consider government developments and often seek legal advice on matters like product safety and truth in advertising.

(iv) Citizen-action publics: Consumer organizations, environmental groups, minority groups, and others may question the company's marketing decisions. The public relations department helps maintain communication with consumer and citizen groups.

(v) Local publics: This group comprises neighborhood residents and community organizations. Large companies often establish departments and programs to address local community issues and provide support. For instance, Life is good, Inc. recognizes the significance of community publics in fulfilling the brand's "spread optimism" mission.

(vi) General public: The company should be concerned about the overall public's attitude toward its products and activities, as it can influence buying behavior.

(vii) Internal publics: This group includes workers, managers, volunteers, and the board of directors. Large companies use means like newsletters to inform and motivate their internal publics. A positive attitude among employees can extend to external publics.

6. Customers

Customers are the most vital actors in the company's microenvironment. The entire value delivery network aims to serve target customers and establish strong relationships with them. The company may target five types of customer markets:

(i) Consumer markets: Comprising individuals and households that buy goods and services for personal consumption.

(ii) Business markets: Purchasing goods and services for further processing or use in production processes.

(iii) Reseller markets: Buying goods and services to resell at a profit.

(vi) Government markets: Government agencies purchasing goods and services for public services or redistribution.

(v) International markets: Buyers in other countries, including consumers, producers, resellers, and governments.

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2. Analyzing Marketing Environment

Macro environment deals with the external factors outside of your company's direct control. The macro environment includes following 6 components:

1. Demographic Environment

Demographics is about studying human populations, like how many people there are, where they live, their ages, genders, jobs, and other facts. This is important for marketers because they are interested in people as they make up the markets for products and services.

2. Economic Environment

Markets depend on people having money to spend. The economic environment includes things that affect how much people can spend and what they spend it on. Marketers need to watch trends in spending habits and buying power across the world.

3. Natural Environment

The natural environment is about the physical world around us and the resources we use. Marketers must pay attention to things like weather and natural disasters, as these can really impact how companies do business.

4. Technological Environment

The technological environment is a dominant force shaping our future. Technological advancements have led to remarkable innovations like antibiotics, robotic surgery, miniaturized electronics, smartphones, and the Internet.

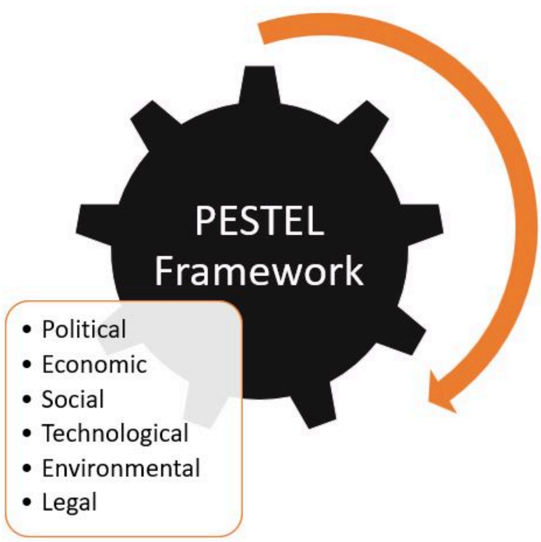
5. Political and Social Environment

Marketing decisions are profoundly influenced by the political environment, which comprises laws, government agencies, and pressure groups that impact organizations and individuals in a society.

6. Cultural Environment

Culture is about the beliefs and values that shape how a society thinks and acts. People grow up with these ideas, and they influence what they like and how they behave.

These factors help companies find chances for business growth and be ready for potential problems. Marketers can spot **trends** (direction or sequences of events that have some momentum and durability) and **megatrends** (major social, economic, political, and technological changes that have long lasting influence) to find opportunities. However, **fads** are short-lived and unpredictable, like the Pokémon Go craze.



To understand these big factors, managers can use a model called PESTEL (or PESTLE), which stands for Political, Economic, Social, Technological, Environmental, and Legal factors. This helps break down and analyze the larger environment that companies operate within.

Factor	Determinants
Political	Political structure, democracy, political views, pressure groups
Economic	Interest rates, exchange rates, national income, inflation, unemployment, stock market
Social	Ageing population, attitudes to work, income distribution
Technological	Innovation, new product development, rate of technological obsolescence
Environmental	Global warming, environmental issues, sustainability, waste management
Legal	Taxation, competition law, health and safety, employment law

3. Value Chain analysis

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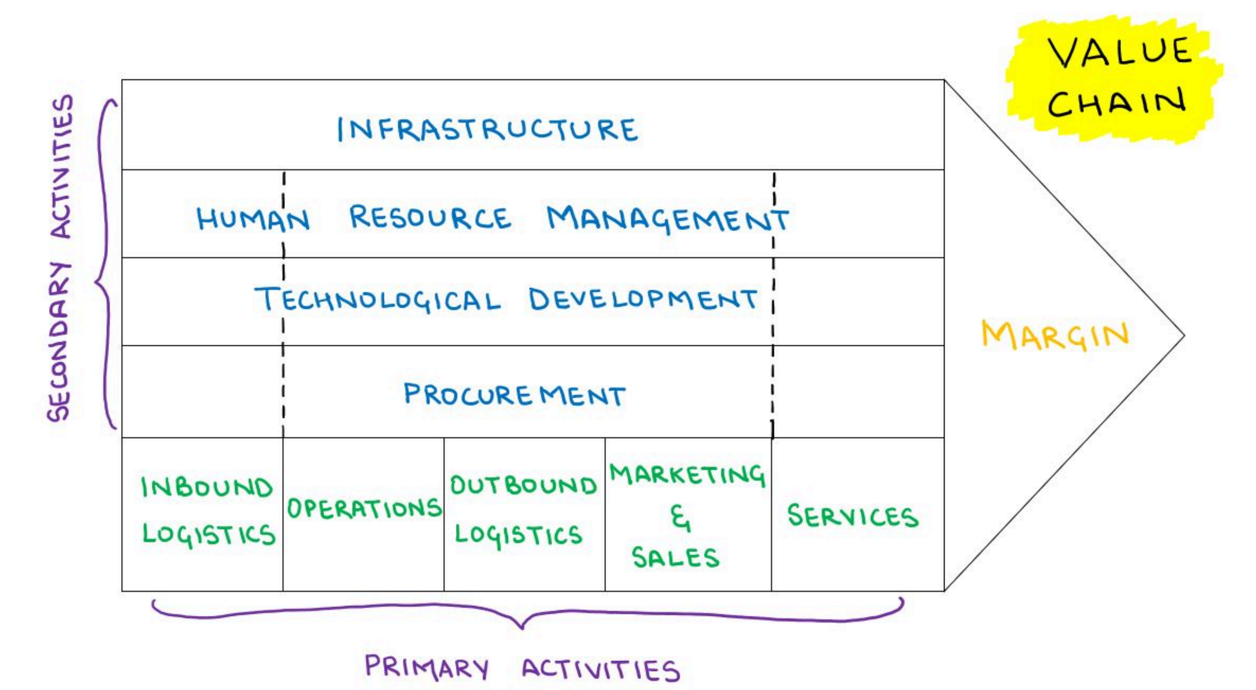


Value Chain Analysis is a framework most commonly used to guide analysis of any firm's internal strengths and weaknesses. In this framework, any business is seen as a number of linked activities, each producing value for the customer. By creating additional value, the firm can charge more or is able to deliver same value at a lower cost, either of which leads to a higher profit margin. This ultimately adds to the organization's financial performance.

Value Chain Analysis describes the activities that take place in a business and relates them to an analysis of the competitive strength of the business. Influential work by Michael Porter suggested that the activities of a business could be grouped under 2 headings:
1. **Primary Activities** are those that are directly concerned with creating and delivering a product (e.g., component assembly).
2. **Secondary Activities** whilst they are not directly involved in production, may increase effectiveness or efficiency (e.g., human resource management). These are also called Support Activities.

Primary Activities are given in table below (also called Line functions).

Primary Activity	Description
Inbound logistics	All those activities concerned with receiving and storing externally sourced materials
Operations	The manufacturing of products and services - the way in which resource inputs (e.g., materials) are converted to outputs (e.g., products)
Outbound logistics	All those activities associated with getting finished goods and services to buyers
Marketing and sales	Essentially an information activity - informing buyers and consumers about products and services (benefits, use, price etc.)
Service	All those activities associated with maintaining product performance after the product has been sold

Support Activities are given in table below (also called Staff functions).

Secondary Activity	Description
Procurement	This concerns how resources are acquired for a business (e.g., sourcing and negotiating with materials suppliers)

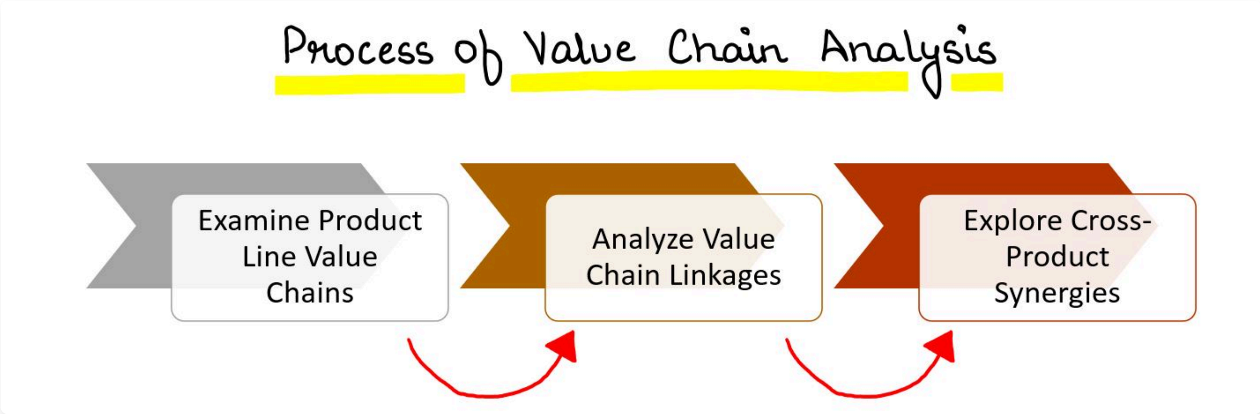
Human Resource Management	Those activities concerned with recruiting, developing, motivating and rewarding the workforce of a business
Technology Development	Activities concerned with managing information processing and the development and protection of "knowledge" in a business
Infrastructure	Concerned with a wide range of support systems and functions such as finance, planning, quality control, and general senior management

It is rare for a business to undertake all primary and support activities.

Each of a company's product lines has its own distinctive value chain. Because most corporations make several different products or services, an internal analysis of the firm involves analyzing a series of different value chains.

The systematic examination of individual value activities can lead to a better understanding of a corporation's strengths and weaknesses. According to Porter, "Differences among competitor value chains are a key source of competitive advantage."

Process of value chain analysis



Corporate value chain analysis involves the following three steps:

1. *Examine each product line's value chain in terms of the various activities involved in producing that product or service*: Which activities can be considered strengths (core competencies) or weaknesses (core deficiencies)? Do any of the strengths provide competitive advantage and can they thus be labeled distinctive competencies?

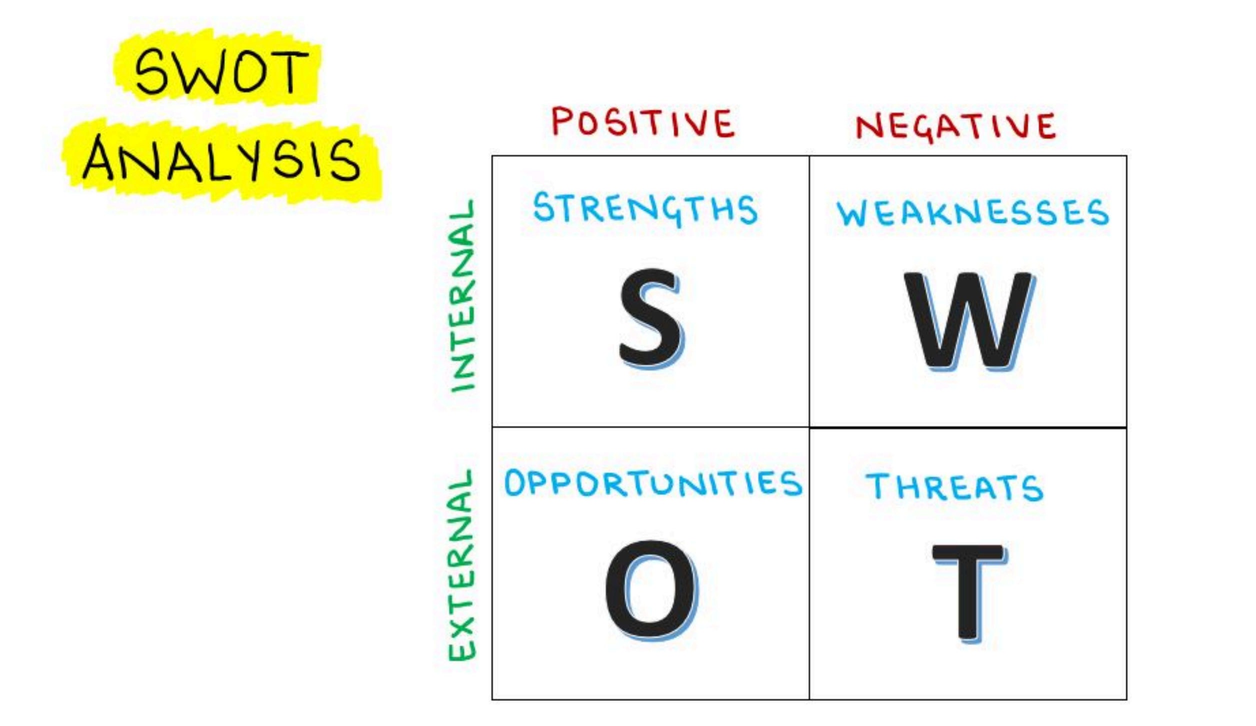
2. *Examine the "linkages" within each product line's value chain*: Linkages are the connections between the way one value activity (for example, marketing) is performed and the cost of performance of another activity (for example, quality control). In seeking ways for a corporation to gain competitive advantage in the marketplace, the same function can be performed in different ways with different results.

3. *Examine the potential synergies among the value chains of different product lines or business units*: Each value element, such as advertising or manufacturing, has an inherent economy of scale in which activities are conducted at their lowest possible cost per unit of output. If a particular product is not being produced at a high enough level to reach economies of scale in distribution, another product could be used to share the same distribution channel.

What activities a business undertakes is directly linked to achieving competitive advantage. For example, a business which wishes to outperform its competitors by differentiating itself through higher quality will have to perform its value chain activities better than the opposition. By contrast, a strategy based on seeking cost leadership will require a reduction in the costs associated with the value chain activities, or a reduction in the total amount of resources used.

4. SWOT analysis

A scan of the internal and external environment is an important part of the strategic planning process. Environmental factors internal to the firm usually can be classified as strengths (S) or weaknesses (W), and those external to the firm can be classified as opportunities (O) or threats (T). Such an analysis of the strategic environment is referred to as a SWOT analysis.



The SWOT analysis provides information that is helpful in matching the firm's resources and capabilities to the competitive environment in which it operates. As such, it is instrumental in strategy formulation and selection.

Strengths

A firm's strengths are its resources and capabilities that can be used as a basis for developing a competitive advantage. Examples of such strengths include:

- patents
- strong brand names
- good reputation among customers
- cost advantages from proprietary know-how
- exclusive access to high grade natural resources
- favorable access to distribution networks

Weaknesses

The absence of certain strengths may be viewed as a weakness. For example, each of the following may be considered weaknesses:

- lack of patent protection
- a weak brand name
- poor reputation among customers
- high-cost structure
- lack of access to the best natural resources
- lack of access to key distribution channels

In some cases, a weakness may be the flip side of a strength. For example, take the case in which a firm has a large amount of manufacturing capacity. While this capacity may be considered a strength that competitors do not share, it also may be considered a weakness if the large investment in manufacturing capacity prevents the firm from reacting quickly to changes in the strategic environment.

Opportunities

The external environmental analysis may reveal certain new opportunities for profit and growth. Some examples of such opportunities include:

- an unfulfilled customer need
- arrival of new technologies
- loosening of regulations
- removal of international trade barriers

Threats

Changes in the external environmental also may present threats to the firm. Some examples of such threats include:

- shifts in consumer tastes away from the firm's products
- emergence of substitute products
- new regulations
- increased trade barriers

TOWS Matrix

There is also a variant of SWOT analysis i.e., TOWS analysis which stands for Threats, Opportunities, Weaknesses and Strengths.

TOWS (is just another way of saying SWOT) illustrates how the external opportunities and threats facing a particular corporation can be matched with that company's internal strengths and weaknesses to result in four sets of possible strategic alternatives. This is a good way to use brainstorming to create alternative strategies that might not otherwise be considered. It forces strategic managers to create various kinds of growth as well as retrenchment strategies. It can be used to generate corporate as well as business strategies.

The TOWS Matrix is very useful for generating a series of alternatives that the decision makers of a company or business unit might not otherwise have considered. It can be used for the corporation as a whole, or it can be used for a specific business unit within a corporation. Nevertheless, using a TOWS Matrix is only one of many ways to generate alternative strategies. Another approach is to evaluate each business unit within a corporation in terms of possible competitive and cooperative strategies.

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1. Introduction

Marketing demand refers to the total quantity of a product or service that consumers are willing and able to purchase at various prices in a given market, over a certain period of time. It is an essential concept in marketing because it helps businesses understand how much of their product or service they can sell at different price points, and what factors influence consumer purchase decisions.

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2. Factors Affecting Marketing Demand

The factors affecting marketing demand are given below:

Price

As price is a key determinant of demand, there is typically an inverse relationship between price and demand (law of demand). When the price of a product decreases, demand tends to increase, and vice versa.
Example: If the price of a smartphone drops, consumers are likely to buy more units.

Income of Consumers

The income level of consumers significantly influences their purchasing power and thus affects demand. Higher income leads to greater demand for both essential and luxury goods.
Example: During economic booms, luxury car brands may see higher demand, while during recessions, demand for basic cars may remain stable or increase.

Consumer Preferences

Changes in consumer tastes, preferences, and trends can drive or reduce demand for certain products. Marketers focus on identifying these trends and catering to evolving consumer needs.
Example: The growing preference for organic foods has led to an increase in demand for organic produce.

External Factors

Factors such as economic conditions, government policies, cultural trends, and technological advancements can all influence demand.
Example: The demand for face masks and hand sanitizers surged during the COVID-19 pandemic due to increased health awareness.

Availability of Substitutes

If close substitutes for a product are available, the demand for the original product may decrease. Conversely, a lack of substitutes can lead to higher demand.
Example: The demand for traditional cable TV services decreased with the rise of streaming platforms like Netflix and Hulu.

Marketing Efforts

Effective marketing strategies can influence demand by increasing awareness, improving product perception, or persuading consumers to purchase.
Example: A successful advertising campaign for a new soft drink can increase demand, even if the product is new in the market.

3. Types of Demand

Understanding different types of demand is essential for marketing managers to forecast demand accurately and plan marketing strategies effectively. Here are the 8 key types of demand:

1. Negative Demand
Negative demand occurs when customers dislike or avoid a product, even though it might be beneficial for them. This type of demand is common for products related to health or safety that consumers tend to avoid despite knowing their necessity.

Example: Dental Work – People dislike dental treatments, even though they are essential for maintaining oral health. Many individuals avoid dental check-ups unless they face a serious problem.

2. Unwholesome Demand
Unwholesome demand refers to products that are harmful or unhealthy, yet consumers desire them. In these cases, demand exists despite the negative effects associated with the product.

Example: Cigarettes – Despite the well-known health risks, cigarettes continue to have high demand among smokers.

3. No Demand
No demand happens when there is little or no interest in a product. These are often niche products that fail to attract a substantial consumer base.

Example: Certain Educational Courses – Specialized or advanced courses that only appeal to a small group of people, such as specialized degree programs in niche areas like marine biology or ancient languages, may not generate significant demand.

4. Latent Demand
Latent demand refers to a situation where consumers are not yet aware of their need for a product or its features, but eventually, their needs evolve, leading to a desire for the product.

Example: Basic Phones vs. Smartphones – Initially, consumers may not feel the need for a smartphone, but once they experience advanced features (e.g., internet access, apps), the demand for smartphones increases.

5. Declining Demand
Declining demand occurs when consumers lose interest in a product or category, leading to a gradual drop in demand over time.

Example: CD Players – As digital music streaming became popular, demand for CD players decreased dramatically.

6. Irregular Demand
Irregular demand is marked by unpredictable fluctuations in demand. These patterns often occur seasonally or due to external

factors that make demand harder to forecast.

Example: Air Conditioners – High demand for air conditioners during summer months, followed by low demand in the winter, creates irregular demand patterns.

7. Full Demand

Full demand means that the market demand for a product aligns with the company’s ability to supply it. In this case, customers are satisfied with the product, and the business can meet all demand expectations.

Example: Apple’s iPhone – Apple often experiences full demand when its latest iPhone model hits the market. There is enough demand to match their production capacity, and customers are generally satisfied with the product.

8. Overfull Demand

Overfull demand occurs when the demand for a product exceeds the company's ability to supply it. This situation creates a challenge for companies, as they struggle to meet the demand without sacrificing product quality or brand reputation.

Example: Tesla Cars – Tesla has sometimes faced overfull demand when new models are launched. The demand for these vehicles can exceed production capacity, creating long waiting lists for customers.

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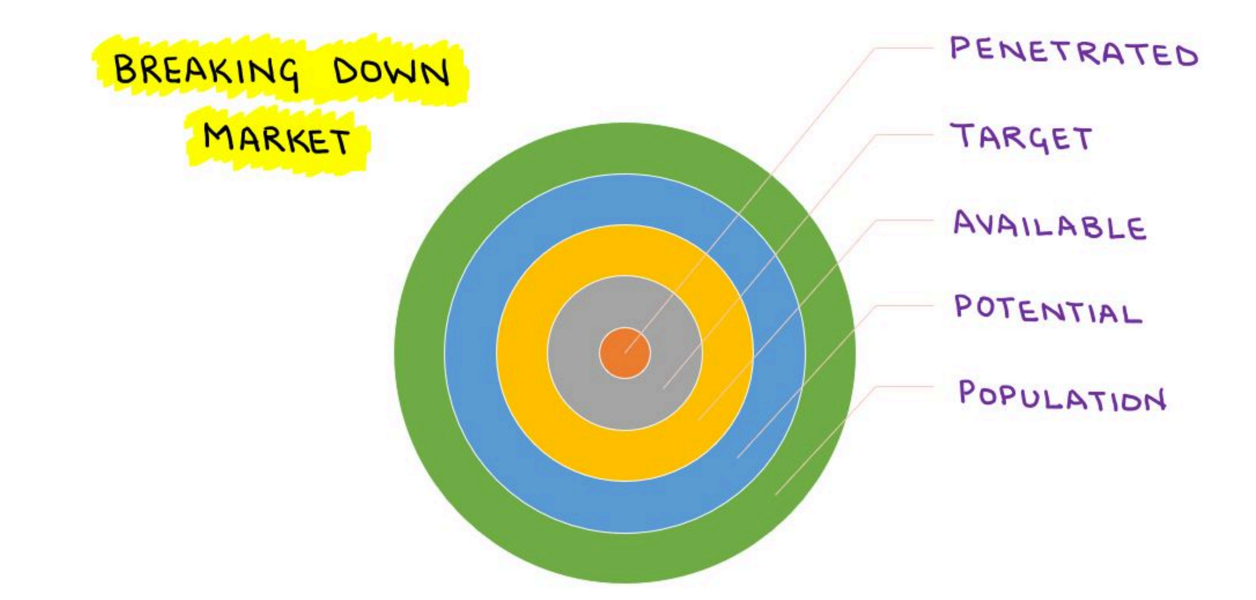
4. Breaking down Market

Breaking down the market can be done in various productive ways, which are helpful for market planning. If a company is not satisfied with its current sales, it can try to attract more buyers from its target market by lowering qualifications, expanding distribution, reducing prices, or repositioning its brand.



Population: Population refers to the total number of individuals residing in a specific geographical area or within a defined demographic segment. It serves as the foundation for various market analyses and plays a crucial role in understanding the potential customer base.

Potential Market: The potential market consists of consumers who exhibit a significant level of interest in a particular market offering. For a group of individuals to be considered a market, they must also possess the necessary income and access to the product or service.

Available Market: The available market encompasses consumers who not only express interest in the product but also possess the financial means and accessibility to purchase it. The qualified available market comprises eligible adults who meet the criteria of having interest, income, access, and qualifications for the market offer.

Target Market: The target market represents the specific segment of the qualified available market that the company chooses to focus its marketing and distribution efforts on. By identifying a target market, the company aims to concentrate its resources and strategies to effectively reach and engage this specific group of potential customers.

Penetrated Market: The penetrated market refers to the set of consumers who are actively purchasing and using the company's products or services. These individuals have been successfully reached and influenced by the company's marketing initiatives, leading them to become loyal customers.

5. Market Demand

Market demand is the total volume that would be bought by a defined customer group in a defined geographical area in a defined time period in a defined marketing environment under a defined marketing program.

- *Market penetration index:* This compares how much people are buying now (current level of market -demand) to how much they could potentially buy. If the index is high, it means more competition and lower profits.
- *Share penetration index:* This compares how much a company's product is being bought now compared to how much it could potentially be bought. A low index might mean not many people know about the brand or it is too expensive.
- *Market forecast:* This is the expected demand when a certain level of marketing is done. It is like predicting how much people will buy with the marketing that's planned.
- *Market potential:* This is the highest demand possible if a company did as much marketing as possible. To figure this out, companies might look at how many people are using their product already (product penetration percentage figures) and try to get more.

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6. Company Demand

Company demand is the company's estimated share of market demand at alternative levels of company marketing effort in a given time period.

- *Company sales forecast*: the expected level of company sales based on chosen marketing plan and an assumed marketing environment; results from an assumed marketing expenditure plan.
- *Sales quota:* the sales goal set for a product line, company division, or sales representative.
- *Sales budget:* a conservative estimate of the expected volume of sales. It is used primarily for making current purchasing, production, and cashflow decisions.
- *Company sales potential* – the sales limit approached by company demand as company marketing effort increases relative to that of competitors. It is often less than market potential.

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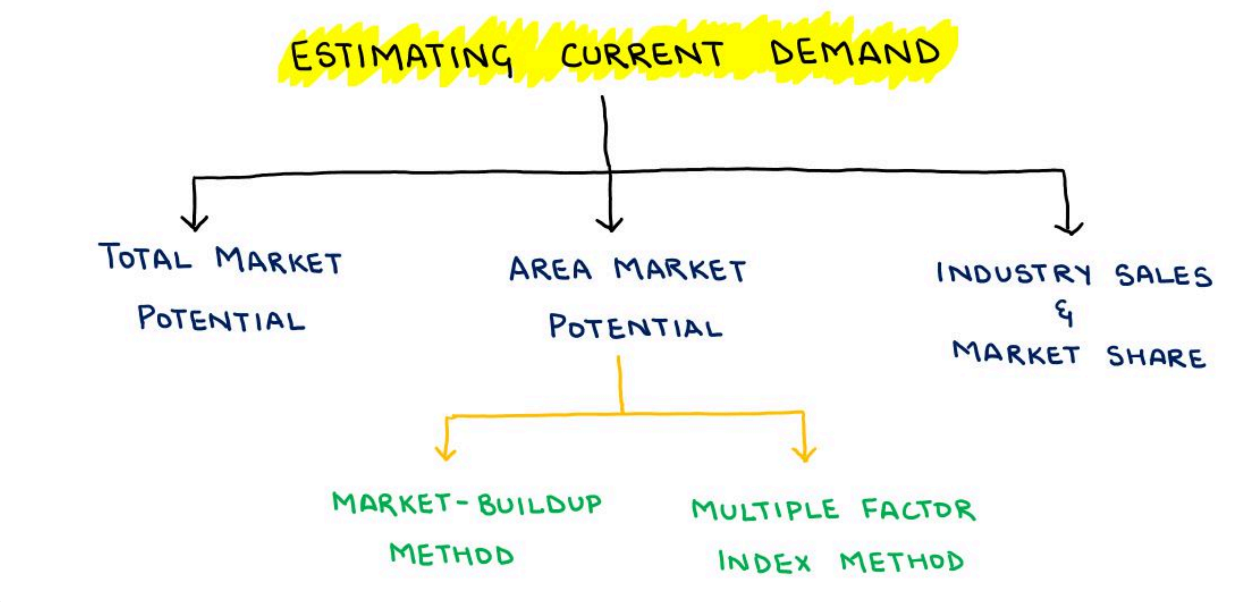
7. Estimating Current Demand



For estimating current demand, there are 3 approaches:

Total Market Potential

Total market potential refers to the maximum sales that all companies in an industry can achieve during a specific period under a given level of marketing effort and prevailing environmental conditions. For example, if 10 Crore people buy books each year, and the average book a buyer buys 3 books a year at an average price of Rs 200 each, then the total market potential for books is Rs 6000 Crores.

Total market potential = urban population over 12 years × personal income × % income spent on food × % amount spent on beverages × expected % of average spent on sweetened milk.

Area Market Potential

Companies operate in diverse markets, each with unique characteristics. As a result, firms are confronted with the challenge of selecting the most suitable territories for their products and allocating their marketing budgets accordingly. Both Business to Business (B2B) and Business to Consumer (B2C) markets exhibit distinct demand patterns. B2B markets often have concentrated players, while B2C markets experience lower and more scattered demand.

Two primary methods are commonly used to address this challenge:

> **(i) Market-Buildup Method:** The market-buildup method involves identifying potential buyers in each market and estimating their potential purchases. In this approach, the initial step is to identify the various business players in the market, which can be obtained from sources like government directories. The next step is to estimate the potential purchases for each player, either through direct contact or by analyzing past purchases and future purchase orders. Lastly, these figures are aggregated to determine the final market potential. This method is well-suited for B2B markets, where the number of players is relatively smaller.
>
> **(ii) Multiple-Factor Index Method:** Consumer companies, dealing with larger customer bases, often utilize the multiple-factor index method to estimate area market potentials. This method employs a straightforward index to assess market potential. The approach is based on a statistical index calculated from the number of potential buyers that constitute a specific market, and it is utilized as a relative measure. For example, a drug manufacturer aiming to assess the area potential for its new drug in New Delhi could create a multiple-factor index based on factors such as total population, disposable income, and retail sales. Each factor is assigned a weight based on its perceived importance to the company. For instance, disposable income might be assigned a weight of 50% (or 0.5), while retail sales and population could be assigned weights of 30% and 20%, respectively. This method is suitable for B2C markets.

Industry Sales and Market Shares

In addition to estimating total and area potential, companies need to understand the actual sales taking place in their market. This involves identifying competitors and estimating their sales to gain insights into the industry's current sales and market shares.

8. Estimating Future Demand

Forecasting methods are essential for businesses to anticipate future buyer behavior and sales outcomes. Several approaches can be used to develop sales forecasts which are mentioned below:

Survey of Buyers' Intentions

Sales forecasting involves predicting buyers' behavior under specific conditions. For major consumer durables like appliances, research organizations conduct periodic surveys to gauge consumer buying intentions. They ask questions such as "Do you intend to buy an automobile within the next six months?" and use a purchase probability scale to assess the responses. These surveys also inquire about consumers' present and future financial situations and their expectations regarding the economy. The collected information is used to create consumer confidence or sentiment measures, providing valuable insights for forecasting.

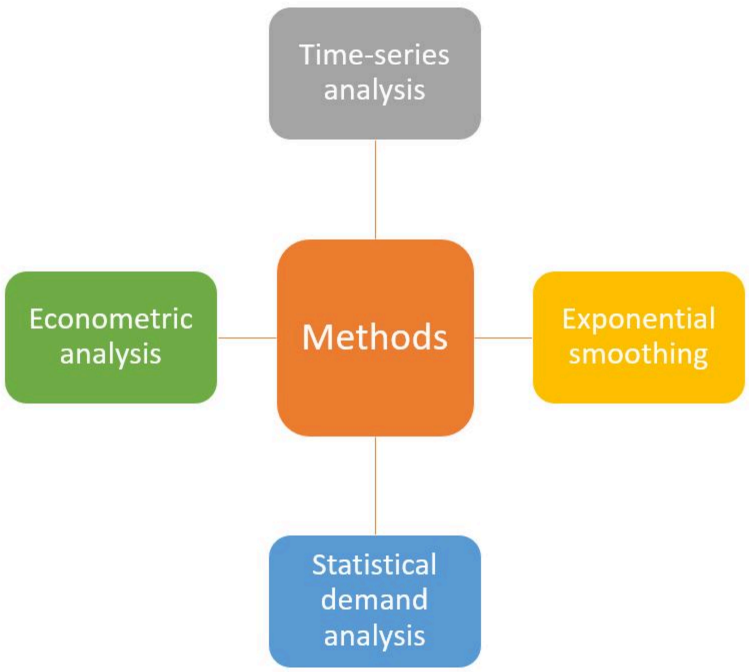
Composite of Sales Force Opinions

When direct buyer interviews are not feasible, companies may rely on their sales representatives to estimate future sales. However, these estimates are often adjusted since sales reps might be influenced by their personal biases, uncertainties about marketing plans' impact, or the desire to set a low sales quota. Sales force forecasts can offer valuable insights into developing trends, increase sales reps' confidence in meeting quotas, and provide detailed estimates by product, territory, customer, and sales representative.

Expert Opinion

Companies can seek forecasts from experts, including dealers, distributors, suppliers, marketing consultants, and trade associations. While dealer estimates share some similarities with sales force estimates, they may still provide valuable insights. Many companies purchase economic and industry forecasts from reputable economic-forecasting firms that possess extensive data and forecasting expertise. In some cases, a group of experts may collaborate to prepare a forecast, engaging in group-discussion or individual forecasting methods, which can later be pooled or refined using the Delphi method.

Past-Sales Analysis



Sales forecasts can be derived from analyzing past sales data using different methods.

- **Time-series analysis** breaks past time series into components such as trend, cycle, seasonal, and erratic factors, and projects them into the future.
- **Exponential smoothing** combines past sales averages with the most recent sales, giving more weight to the latter, to project the next period's sales.
- **Statistical demand analysis** measures the impact of various causal factors (e.g., income, marketing expenditures, and price) on sales levels.

- **Econometric analysis** uses sets of equations to describe a system and statistically derives different parameters that form the equations.

Market-Test Method

In cases where buyers do not plan purchases carefully or when expert opinions are unavailable or unreliable, conducting a direct-market test can help forecast new-product sales or established product sales in new distribution channels or territories. Market tests involve implementing small-scale trials of products or services in specific markets to gather data and insights into consumer behavior and preferences. This information can then be used to make informed sales forecasts for larger-scale market expansion.

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1. Introduction

Marketing Research is the systematic process of collecting, analyzing, and interpreting data related to marketing problems and opportunities. It helps businesses understand customer needs, market trends, competition, product performance, and more, so they can make informed marketing decisions.

Marketing research is like asking the right questions to the right people, and then using their answers to improve products, pricing, promotion, and sales.

A company wants to launch a new cold drink. Before doing so, it conducts marketing research to find out:

- What flavors customers like
- What price they are willing to pay
- What packaging attracts them
- What competitors are offering

Based on this data, the company shapes its product and marketing strategy.

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2. Process of Marketing Research

The Marketing Research Process is a structured approach used by businesses to gather and analyze data for making better marketing decisions. It helps in understanding customer preferences, market trends, and business challenges. This process ensures that decisions are based on facts rather than assumptions.

It involves the following key steps:

1. Define the Problem

2. Develop a Research Plan

3. Collect Information

4. Analyze the Information

5. Make the Final Decision

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2. Process of Marketing Research

The first and most important step in the marketing research process is to clearly define the problem or objective. If the problem is not correctly identified, the entire research may become irrelevant or misleading.

This step involves understanding what information is needed, why it is needed, and what decisions will be made based on it. The problem should be stated clearly, along with the scope and purpose of the research.

A company notices that its sales have been dropping for the past three months. The problem could be stated as:

“Why are sales of our flagship shampoo brand declining in North India despite no changes in pricing or advertising?”

Here, the research will aim to find out possible causes such as:

- Change in consumer preferences
- Competitor activity
- Poor distribution or stock availability
- Product quality issues

A well-defined problem sets the direction for the rest of the research process.

A marketing research project may have one of the following three types of objectives:

- **Exploratory Research** – The objective here is to gather preliminary information to better understand the problem and suggest possible solutions or hypotheses.
  Example: A new startup wants to explore why young consumers are not engaging with their social media ads. No clear problem is defined yet, so exploratory research (like focus group discussions) is needed.
- **Descriptive Research** – This type of research is used to describe characteristics such as customer demographics, preferences, or market potential.
  Example: A mobile phone company wants to find out what percentage of college students in Delhi use Android phones and their preferred price range.
- **Causal Research** – The goal here is to test cause-and-effect relationships, such as how a change in price or packaging affects sales.
  Example: A beverage brand wants to know if reducing the price by Rs 5 will actually increase the sales volume. An experiment is planned to test this.

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2. Process of Marketing Research

Once the problem is clearly defined, the next step is to develop a research plan that outlines how the required information will be collected, analyzed, and used. This step involves identifying the type of data needed, the data sources, the research methods, tools or instruments, sampling plan, and contact methods.

The research plan is like a blueprint—it guides the entire research process and ensures that the data collected will be accurate, relevant, and cost-effective.

Marketing research data is classified into two broad types:

(i) Primary Data

Primary data is data collected freshly and specifically for the research project at hand. It is original and tailored to the problem being studied. Marketers use the following key methods to collect primary data:

- Observational Research: Watching consumers in real-life settings, such as while shopping or using products.
  Example: A supermarket uses CCTV footage to observe how customers move through the store and which shelves they stop at most often.
- Ethnographic Research: In-depth study by immersing into the customer's environment and daily life.
  Example: A tech company sends a team to live with rural families to understand how they use mobile phones without internet.
- Focus Group Research: Bringing together a small group (6–10 people) to discuss a product, idea, or experience, moderated by a professional.
  Example: A food brand conducts focus groups to understand why consumers prefer spicy snacks over regular ones.
- Survey Research: Asking structured questions through questionnaires to collect quantifiable data.
  Example: An e-commerce platform sends email surveys to customers asking about satisfaction with delivery speed.
- Behavioral Research: Analyzing actual purchase and usage data from customer records.
  Example: A telecom company studies mobile data usage patterns from user databases.
- Experimental Research: Testing hypotheses in a controlled setting to establish cause-and-effect relationships.
  Example: A retail chain changes store lighting in one outlet to see if it increases average basket value.

(ii) Secondary Data

Secondary data refers to information already collected and published for another purpose but relevant to the current study. It is generally faster and cheaper to obtain.

Examples of secondary data sources:

- Government census reports
- Industry publications
- Internal company records
- Reports from consulting firms
- Online databases

Example: A clothing brand uses government demographic reports to identify regions with a high population of youth for targeting new stores.

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2. Process of Marketing Research

After defining the problem and preparing a research plan, the third step in the marketing research process is to collect the required information from the target audience. This step involves conducting surveys, interviews, experiments, observations, or extracting data from secondary sources.

Sampling Plan

Since it's usually not feasible to collect information from the entire population, researchers use sampling to gather data from a representative subset. A good sampling plan helps ensure that the data collected is reliable, unbiased, and applicable to the larger group.

The sampling plan involves three major decisions:

1. Sampling Unit –
Who should be surveyed?
Example: For a study on toothpaste preference, the sampling unit could be urban households or adults aged 18–45.

2. Sample Size –
How many people should be surveyed?
Larger samples generally give more accurate results but are costlier and time-consuming.
Example: A sample size of 1,000 respondents may be selected for a pan-India survey.

3. Sampling Procedure –
How should the respondents be selected?
This could be probability sampling (random selection) or non-probability sampling (judgmental, convenience).
Example: A researcher might use stratified random sampling to ensure equal representation from different regions.

Data Mining

Alongside traditional data collection, modern marketers also use data mining techniques.

Data mining is the process of analyzing large datasets to discover hidden patterns, correlations, and trends. It is commonly used in behavioral research and customer analytics.

Example: An e-commerce platform uses data mining to find that customers who buy smartphones frequently also purchase screen protectors within 3 days.

Data mining helps companies:

- Personalize marketing
- Predict future buying behavior
- Identify cross-selling opportunities
- Reduce customer churn

2. Process of Marketing Research

Once the data is collected, the next step is to analyze it carefully to extract useful insights. This involves converting raw data into meaningful patterns, trends, or relationships that help answer the original research questions.

Key Activities in this Step:

- Data cleaning: Removing errors, inconsistencies, or incomplete responses.
- Statistical analysis: Using tools like averages, cross-tabulations, correlation, regression, etc.
- Interpretation: Understanding what the numbers actually mean in a business context.

Example:
If a survey shows that 65% of respondents prefer online shopping due to discounts and convenience, marketers may conclude that price-sensitive behavior is driving the trend.

Analysis tools may include:

- Excel, SPSS, R, Python (for quantitative data)
- Thematic analysis (for qualitative responses)

A well-done analysis allows marketers to make evidence-based decisions rather than guessing.

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2. Process of Marketing Research

The final step in the marketing research process is to use the insights from the analysis to make informed marketing decisions. These decisions should directly address the problem defined in Step 1.

Key Aspects:

- Drawing conclusions from the data
- Presenting findings to decision-makers
- Formulating actionable strategies

Example:
If the research shows that a company is losing market share due to poor after-sales service, the decision might be to invest in a new customer support system and launch a loyalty program.

At this stage, the research results are translated into marketing actions—whether it's adjusting product features, changing pricing, revising ad campaigns, or entering new markets.

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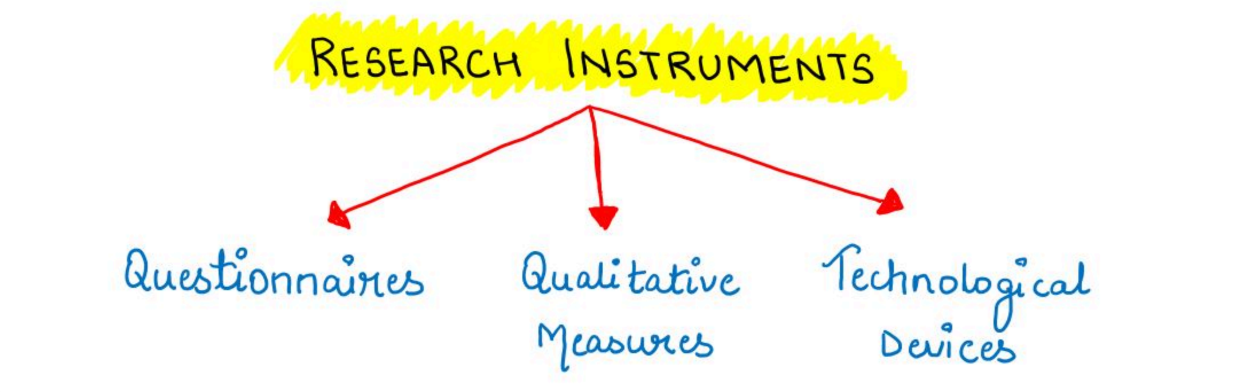
3. Research Instruments



Marketing researchers have a choice of three main research instruments in collecting primary data:

1. Questionnaires
2. Qualitative measures and
3. Technological devices.

3. Research Instruments

A questionnaire is a structured set of questions designed to gather information from respondents. It is a key tool in survey research, helping marketers collect data about consumer attitudes, preferences, behaviors, and opinions. A well-designed questionnaire ensures that the collected data is reliable, valid, and easy to analyze.

Questionnaires typically contain two types of questions:

1. Closed-End Questions
These questions offer specific, predefined answer choices, making it easy to quantify and analyze responses. They are ideal when the researcher knows the possible responses in advance.

Common types of closed-end questions:
Dichotomous Questions:
Two response options—usually "Yes" or "No".
Example: Do you own a smartphone? (Yes/No)

Multiple Choice Questions:
Respondents choose one or more options from a list.
Example: Which brand of detergent do you use? (Ariel, Surf Excel, Tide, Others)

Likert Scale:
Measures the degree of agreement or disagreement on a scale (usually 5 or 7 points).
Example: I am satisfied with the customer service. (Strongly Agree to Strongly Disagree)

Semantic Differential Scale:
Uses a scale between two opposite adjectives.
Example: Rate the product:
Expensive □□□□□ Inexpensive

Importance Scale:
Measures how important a certain feature or attribute is.
Example: How important is battery life in your phone selection? (Very Important to Not Important)

Rating Scale:
Respondents rate items on a numerical scale.
Example: Rate your satisfaction with the product on a scale of 1 to 10.

Intention to Buy Scale:
Assesses the likelihood of purchase.
Example: How likely are you to buy this product in the next 30 days?
(Definitely will buy to Definitely will not buy)

2. Open-End Questions
These questions allow respondents to express their thoughts in their own words. They are useful when the researcher wants to explore opinions, motivations, or uncover new ideas.

Common types of open-end questions:

Completely Unstructured Questions:
Respondent answers freely without any prompt.
Example: What do you like most about this product?

Word Association:
Respondents are asked to respond with the first word that comes to mind.
Example: What's the first word that comes to your mind when you hear "fast food"?

Sentence Completion:
Respondents complete an incomplete sentence.
Example: "I would never buy a phone that..."

Story Completion:
Respondents are given a partial story and asked to complete it.
Example: “A shopper enters a new electronics store and sees a huge crowd. He...”

Picture Interpretation:
Respondents interpret an image and explain what they think is happening.
Used in* projective techniques** to explore subconscious thoughts.*

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3. Research Instruments

Some marketers prefer qualitative methods as they feel consumer actions may differ from survey responses. Qualitative methods are indirect and unstructured, allowing various responses. They are useful for exploring perceptions but have limitations like small samples and varying interpretations.

1. **Word associations:** To identify the range of possible brand associations, ask subjects what words come to mind when they hear the brand’s name. “What does the Timex name mean to you? Tell me what comes to mind when you think of Timex watches.”

2. **Projective techniques:** Give people an incomplete or ambiguous stimulus and ask them to complete or explain it. In “bubble exercises” empty bubbles, like those in cartoons, appear in scenes of people buying or using certain products or services. Subjects fill in the bubble, indicating what they believe is happening or being said. In comparison tasks people compare brands to people, countries, animals, activities, cars, nationalities, or even
other brands.

3. **Visualization:** Visualization requires people to create a collage from magazine photos or drawings to depict their perceptions.

4. **Brand personification:** Ask “If the brand were to come alive as a person, what would it be like, what would it do, where would it live, what would it wear, who would it talk to if it went to a party (and what would it talk about)?” For example, the Eicher tractors brand might make someone think of a farmer who is hardworking.

5. **Laddering:** A series of increasingly specific “why” questions can reveal consumer motivation and deeper goals. Ask why someone wants to buy a Nokia cell phone. “They look well built” (attribute). “Why is it important that the phone be well built?” “It suggests Nokia is reliable” (a functional benefit). “Why is reliability important?” “Because my colleagues or family can be sure to reach me” (an emotional benefit). “Why must you be available to them at all times?” “I can help them if they’re in trouble” (a core value). The brand makes this person feel like a Good Samaritan, ready to help others.

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3. Research Instruments

Galvanometers can measure the interest or emotions aroused by exposure to a specific ad or picture.

The **tachistoscope** flashes an ad to a subject with an exposure interval that may range from less than one hundredth of a second to several seconds. After each exposure, the respondent describes everything he or she recalls.

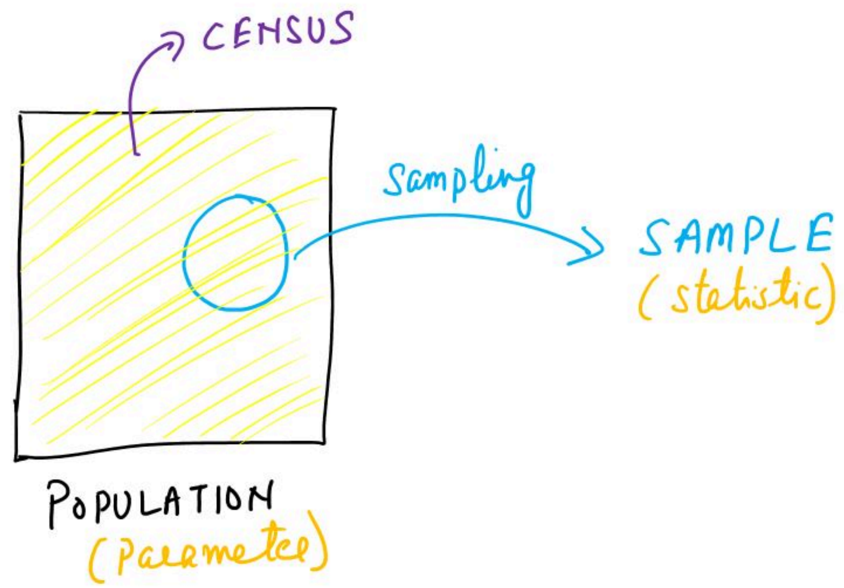
Many advances in **visual technology techniques** studying the eyes and face have benefited marketing researchers and managers alike.

Technology now lets marketers use skin sensors, brain wave scanners, and full-body scanners to get consumer responses. For example, **biometric-tracking wrist sensors** can measure electrodermal activity, or skin conductance, to note changes in sweat levels, body temperature and movement, and so on.

Technology has replaced the diaries that participants in media surveys used to keep. **Audiometers** attached to television sets in participating homes now record when the set is on and to which channel it is tuned. Electronic devices can record the number of radio programs a person is exposed to during the day or, using **Global Positioning System (GPS) technology**, how many billboards a person may walk or drive by during a day.

4. Sampling Plan

Sampling is a crucial technique in marketing research that involves selecting a subset of individuals, products, or areas from a larger population to gather data and draw inferences about the entire population. The goal of sampling is to obtain representative and reliable information without having to study every single element within the population, which can be time-consuming and costly.



The process of making inferences about a large group of elements by studying only a portion of it is known as **sampling.** We encounter sampling in our daily lives, such as when we buy groceries. For instance, we might select a few grains of rice or wheat to assess the overall quality of an entire bag.

Population encompasses all the elements for which we want to draw conclusions. For instance, if we're discussing fluorescent tubes, the population would consist of all the tubes manufactured by a company.

Sample is a subset of the population that we choose to analyze to make inferences about the entire population. To illustrate, if we're studying fluorescent tubes, our sample might include 15 randomly selected tubes.

A **parameter** is any characteristic or feature of a population. For instance, the average lifespan of all the fluorescent tubes manufactured by a company is a population parameter.

A **statistic**, on the other hand, is any characteristic of a sample. For example, the mean lifespan of the 15 tubes in our sample is a sample statistic.

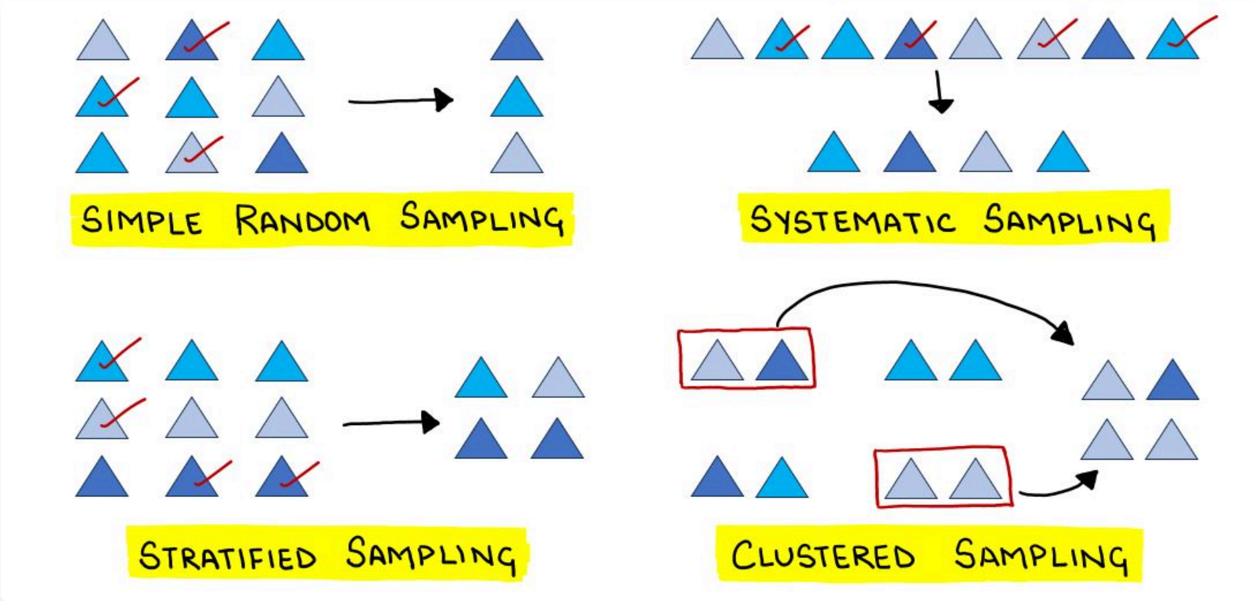
Traditionally, population parameters are represented using Greek or capital letters, while sample statistics are denoted using lowercase Roman letters.

The process of examining each individual in the population instead of making inferences from a sample is known as a **census.**

There are two methods of sampling depending on who or what is allowed to govern the selection of the sample. (a) Probability sampling and (b) Non-probability sampling.

4. Sampling Plan

Various types of probability sampling methods involve random selection, where each element in the population has a known and non-zero chance of being included in the sample. These methods aim to provide unbiased representations of the population.



Let's explain and provide an example for each type:

1. Simple Random Sampling

Simple random sampling is a method where every individual in the population has an equal probability of being chosen for the sample. This is achieved by selecting participants purely by chance, without any bias or specific criteria.

Example: A researcher interested in the opinions of college students about a new campus policy could assign each student in the college a unique number and use a random number generator to select a fixed number of students to participate in the survey.

2. Systematic Sampling

Systematic sampling involves selecting every kth element from the population, where k is a constant interval known as the sampling ratio. The starting point is randomly chosen, and then every kth element is included in the sample until the desired sample size is reached.

Example: In a population of 1000 students, a researcher wants a sample of 100. The sampling ratio is 1000/100 = 10. The researcher could randomly select a number between 1 and 10 as the starting point and then include every 10th student in the sample.

3. Stratified Sampling

Stratified sampling divides the population into distinct subgroups or strata based on certain characteristics. Then, a random sampling method, like simple random sampling, is applied independently within each stratum. This ensures representation from different strata in the final sample.

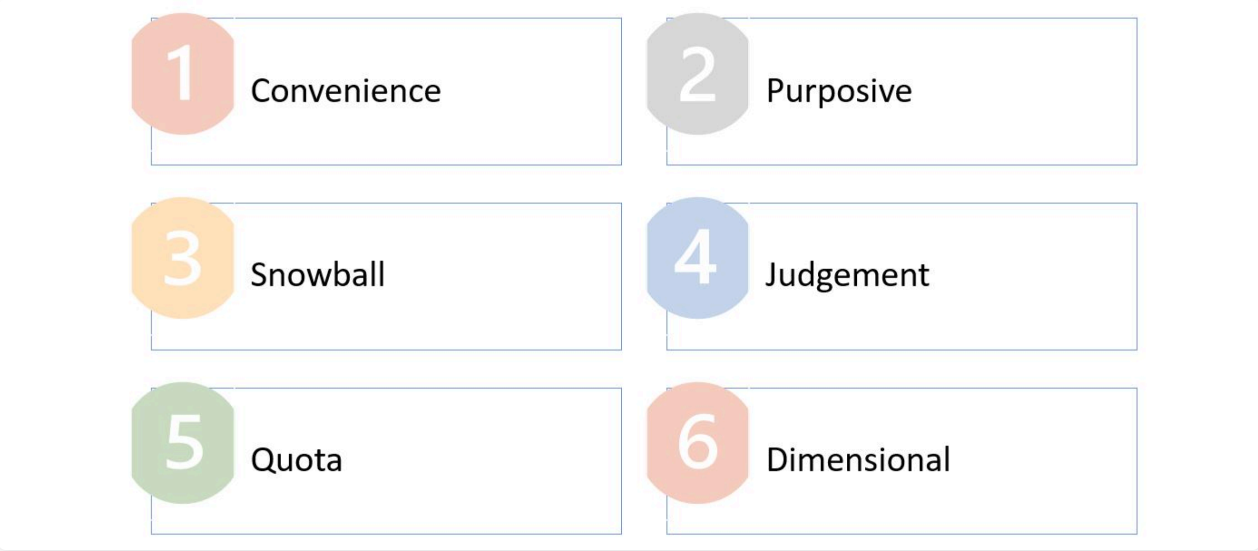
Example: A company wants to assess employee satisfaction in different departments (e.g., IT, HR, Marketing). They divide all employees into strata based on their department and then randomly select a sample from each department to ensure representation from all areas.

4. Cluster Sampling

Cluster sampling involves dividing the population into clusters or groups, and then randomly selecting entire clusters as the sampling units. Unlike stratified sampling, where individual members are selected, cluster sampling focuses on selecting entire groups. The Clusters from which, the sample is drawn randomly are heterogenous in nature.

Example: A health researcher wants to study the prevalence of a disease in a large city. They divide the city into several neighborhoods, randomly select a few neighborhoods, and then include all individuals within the selected neighborhoods in the study.

4. Sampling Plan



Various types of non-probability sampling methods are used when it is not feasible to ensure a non-zero probability of inclusion for each element in the population. These methods may introduce bias in the study as the samples are selected based on judgment, convenience, or specific needs.

Let's explain each type and provide an example for better understanding:

1. Convenience Sampling

Convenience sampling involves selecting the sample based on what is most convenient for the researcher or interviewer. The researcher might choose participants who are easily accessible or readily available. This method is quick and easy to implement but can lead to a biased sample.

Example: A researcher studying the demand for non-aerated beverages might conduct interviews with shoppers in a few retail shops located nearby for convenience.

2. Purposive Sampling

Purposive sampling is used when the researcher has a specific purpose or target group in mind. The selection of participants is done intentionally to serve that particular need. It is non-representative and focuses on a specialized subset of the population.

Example: A researcher interested in studying the behavior of high-level business executives might specifically target and interview CEOs and top-level managers from various companies.

3. Snowball (Opportunity) Sampling

Snowball sampling is a method used when it is difficult to identify and reach members of a certain population. The researcher starts with a small number of participants and then asks them to refer others who fit the criteria. This process continues, like a snowball accumulating more snow, until the desired sample size is achieved.

Example: A researcher investigating drug users in a community might identify one willing participant who can refer other drug users in the same community, forming a snowball sample.

4. Judgment Sampling

In judgment sampling, the sample is selected based on the judgment or opinion of experts or experienced individuals. These experts identify participants they believe are representative of the population or possess the desired characteristics.

Example: A TV researcher seeking quick opinions about a political announcement might approach a diverse group of people on the street, based on their judgment, to get a cross-section of views.

5. Quota Sampling

Quota sampling involves dividing the population into subgroups based on specific characteristics and then setting a quota for each subgroup. The researcher then selects participants from each subgroup until the quota is filled. This method ensures representation of different subgroups but may not be fully representative of the entire population.

Example: A researcher interested in studying attitudes towards the death penalty in a city might set a quota to include a specific percentage of people from different religious backgrounds.

6. Dimensional Sampling

Dimensional sampling is an extension of quota sampling, where the researcher considers multiple characteristics such as gender, age, income, residence, and education. The aim is to ensure representation from each category or dimension of interest.

Example: A researcher conducting a survey about consumer preferences might ensure that they interview a specific number of participants from different age groups, income levels, and educational backgrounds to capture a diverse perspective.

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5. Measuring Marketing Productivity

To assess the efficiency and effectiveness of marketing activities, marketing research can utilize two complementary approaches

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5. Measuring Marketing Productivity

Marketing metrics involve the use of specific measures to quantify, compare, and interpret marketing performance. These metrics help marketers assess the impact of their activities and understand how well their marketing efforts are driving desired outcomes.

Some key performance indicators (KPIs) for this approach are:

- *Market Awareness:* Measuring the level of brand recognition and familiarity among the target audience.
- *Consideration:* Evaluating the percentage of potential customers who are actively considering the brand.
- *Trial:* Determining the rate at which potential customers try out the product or service.
- *12-Month Beauty Consultant Productivity:* Assessing the productivity and performance of beauty consultants over a 12-month period for Mary Kay Cosmetics.
- *Ad Impressions:* Measuring the number of times an advertisement is displayed to users.
- *Web Site Traffic:* Tracking the number of visitors and their interactions with the website.
- *Purchase Conversion:* Calculating the percentage of website visitors who make a purchase.

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5. Measuring Marketing Productivity

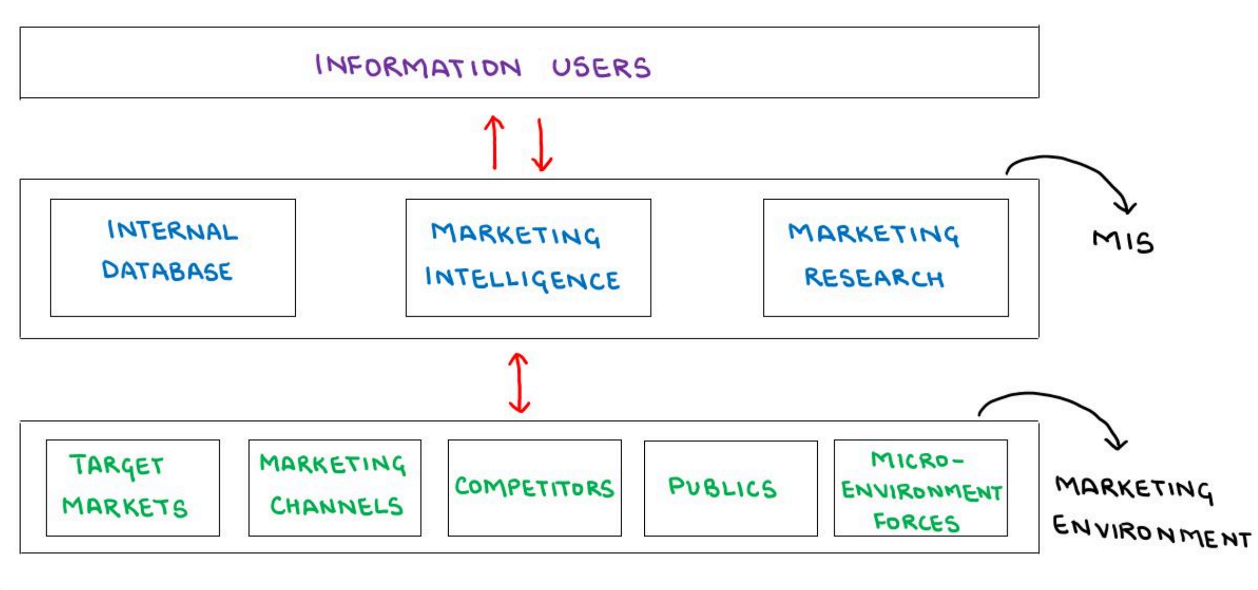
Marketing-mix modeling involves analyzing data from various sources, such as retailer scanner data, company shipment data, pricing, media, and promotion spending data, to estimate the causal relationships between marketing activities and outcomes. This approach allows marketers to more precisely understand the effects of specific marketing investments.

Some KPIs and examples for marketing-mix modeling are:

- *Cost Per Acquisition:* Determining the cost required to acquire one new customer.
- *Cost Per Click:* Evaluating the cost incurred for each click on an online ad or link.
- *Cost Per Thousand Page Impressions (CPM):* Measuring the cost for every one thousand ad impressions.
- *Total Dollars Driven by Natural and Paid Search:* Tracking the revenue generated through both organic search and paid search campaigns.
- *Optimal Spending Levels:* Identifying the ideal allocation of marketing budgets across different marketing elements for maximum impact.
- *Minimum Investment Levels:* Determining the minimum level of investment required to achieve a certain level of desired outcomes.
- *Regression Analysis:* Conducting multivariate analyses to understand how each marketing element influences outcomes such as brand sales or market share.

6. Marketing Information System

To create value for customers and build meaningful relationships with them, marketers must first gain fresh, deep insights into what customers need and want. Such customer Insights come from good marketing information. Companies use these customer insights to develop a competitive advantage. **Customer insights** is the fresh marketing information-based understandings of customers and the marketplace that become the basis for creating customer value, engagement, and relationships.



The **Marketing Information System (MIS)** is a dedicated set of people and procedures aimed at identifying information requirements, generating the necessary information, and assisting decision-makers in utilizing the data to derive actionable insights about customers and the market. MIS revolves around information users, including marketing managers, internal and external partners, and other individuals in need of marketing information.

To develop this ecosystem of managing information, following steps are undertaken:

- Initially, it engages with these users to understand their information needs.
- Subsequently, it interacts with the marketing environment to produce the required information, utilizing internal company databases, marketing intelligence activities, and marketing research.
- Finally, the MIS facilitates users in analyzing and applying the information to gain customer insights, make marketing decisions, and manage customer relationships.

Competitive marketing intelligence is the systematic monitoring, collection, and analysis of publicly available information about consumers, competitors, and developments in the marketplace. The goal is to improve strategic decision making by understanding the consumer environment, assessing, and tracking competitors' actions, and providing early warnings of opportunities and threats.

Marketing Decision Support System (MDSS) is a coordinated collection of data, systems, tools, and techniques with supporting software and hardware by which an organization gathers and interprets relevant information from business and environment and turns it into a basis for marketing action.

1. Introduction

Consumer behavior is the study of how individuals make decisions to purchase, use, and dispose of goods and services. It delves into the psychological, social, and economic factors that influence consumers' choices. Understanding consumer behavior involves examining the motivations behind buying decisions, the impact of marketing strategies, and the patterns of consumer preferences.

For instance, let's consider the purchase of smartphones. Consumer behavior analysis in this context would explore factors like brand loyalty, perceived value, social influences (such as peer recommendations or social media trends), pricing strategies, and personal preferences. Factors like a consumer's desire for the latest technology, specific features, or brand reputation heavily influence their decision-making process when selecting and buying a smartphone.

Marketers leverage this understanding to tailor advertising campaigns, product designs, and pricing strategies to align with consumer preferences and behaviors.

All of these final consumers combine to make up the consumer market. **Consumer market** encompasses individuals and households that purchase or obtain goods and services for their personal consumption.

2. Factors influencing Consumer Behaviour

Consumer purchasing patterns are shaped by four primary categories of buyer traits: cultural, social, personal, and psychological.

Cultural Factors	Social Factors	Personal Factors	Psychological Factors
• Culture • Subculture • Social Class	• Groups • Reference Groups • Family • Roles and Status	• Age and life-cycle stage • Occupation • Economic situation • Lifestyle • personality and Self-concept	• Motivation • Perception • Emotions • Memory

While marketers might not have direct control over these factors, they serve as valuable insights to identify potential customers and tailor products and marketing strategies to better meet consumer demands. Understanding these aspects aids in crafting offerings and messages that resonate with the needs and preferences of target audiences, facilitating better consumer engagement and satisfaction.

Let us understand them one by one.

3. Cultural Factors

To comprehend consumer behavior, marketers must grasp the influence wielded by the buyer’s cultural, subcultural, and social class factors.

Culture

Culture refers to the amalgamation of acquired beliefs, values, and customs shaping the consumer conduct within a society.

For example, the cultural significance of festivals like Diwali (the Festival of Lights) influences consumer behavior. During Diwali, there's a tradition of buying new clothes, home decorations, and exchanging gifts. Companies align their marketing strategies by offering special Diwali discounts and promotions, capitalizing on the cultural emphasis on gifting and celebration.

Subculture

Within cultures lie subcultures, smaller groups sharing common values stemming from shared experiences.

For example, the cultural nuances between North and South India reflect in food choices—where North Indians prefer wheat-based items like roti and paratha, South Indians favor rice-based dishes like dosa and idli. This diversity prompts companies to customize product offerings and marketing approaches to cater to these regional preferences.

Social Class

Societies exhibit structured social classes marked by shared values and behaviors. Marketers take interest in social class distinctions, which go beyond income to include factors like occupation, education, and wealth.

For example, luxury car brands strategically target the affluent upper class, leveraging the association of their vehicles with status symbols. Meanwhile, budget-friendly brands might focus on the middle-class segment, emphasizing affordability and value for money in their marketing campaigns.

Total market strategy

While marketers traditionally focused on targeting specific cultural or subcultural segments, a shift towards a total market strategy has emerged. This approach integrates diverse cultural perspectives within mainstream marketing, emphasizing similarities among consumers across subcultural segments rather than solely focusing on differences.

4. Social Factors

A consumer’s behavior is also influenced by social factors, such as the consumer’s groups, references, family, and social roles and status.

Groups

Following categories of groups are there which are important for the marketer to understand:

Primary and Secondary Groups: Primary groups, like family, close friends, and colleagues, hold substantial sway over an individual's decisions. In India, familial opinions significantly impact choices, such as buying traditional clothing for cultural events. In contrast, secondary groups, like occasional hobby clubs or online communities, exert lesser influence on decision-making.

Formal and Informal Groups: Formal groups, including labor unions and professional associations, possess defined structures and specific goals. For instance, being part of a trade union might influence decisions related to workplace preferences or solidarity in India's workforce. Conversely, informal groups, like neighborhood gatherings, although less structured, can influence choices, such as local community preferences affecting shopping decisions for festivities.

Membership and Symbolic Groups: Membership groups, such as professional bodies or religious organizations, directly impact behavior due to actual membership. For instance, being part of a cultural association might influence purchasing patterns for traditional goods during festivals. Symbolic groups, like aspiring to a higher social or professional status, might influence choices in adopting certain attitudes or styles. For example, imitating the lifestyle of a higher socio-economic group, despite not belonging to it, can influence consumer behavior, such as purchasing premium brands or lifestyle products.

Reference Groups

Reference groups play a pivotal role in shaping consumer behavior. Membership groups directly impact an individual, while reference groups affect attitudes and behaviors.

Within reference groups, there are aspirational and dissociative groups. An **aspirational group** is one individuals aspire to join, like a budding cricketer aiming to emulate the success and style of a renowned player such as Virat Kohli. Conversely, a **dissociative group** represents values or behaviors an individual rejects, like a health-conscious person avoiding a fast-food enthusiasts' group.

For marketers, understanding reference groups is pivotal. These groups introduce new lifestyles, shape attitudes, create conformity pressures, and impact product choices. In India, the influence of reference groups is evident during festivals, where individuals might purchase certain clothing or gifts to align with societal norms or group expectations.

Related influences include **word-of-mouth** impact, where recommendations from trusted sources influence buying decisions. For example, an individual may try a new restaurant based on a friend's recommendation.

Opinion leaders, influential figures within reference groups due to knowledge or charisma, significantly impact consumer choices. Consider an influential fashion blogger in India who influences thousands of followers' style preferences through their recommendations.

Buzz marketing utilizes opinion leaders as brand ambassadors. For instance, when a celebrity in India endorses a new skincare product on social media, their influence can generate widespread interest and sales among their followers.

Online social networks, including platforms like Facebook, Instagram, and brand-specific online communities, serve as spaces where individuals interact, exchange information, and seek opinions. These platforms are integral for marketers to engage with consumers and leverage influencers to amplify their brand messages and influence consumer behavior in the digital space.

Family

The family holds a central role in shaping consumer behavior, functioning as a critical unit in purchasing decisions. It consists of two primary units: the **family of orientation** (parents and siblings) instilling fundamental values and beliefs, and the **family of procreation** (spouse and children) significantly influencing day-to-day buying choices.

Traditionally, the wife served as the primary purchasing agent in households, particularly for essentials like food and clothing. However, evolving social dynamics are reshaping these traditional roles, prompting marketers to consider both genders as viable consumer targets.

Understanding the nuanced roles within families enables marketers to adapt strategies, acknowledging the evolving landscape of purchasing behaviors influenced by shifting familial structures and dynamics.

Roles and Status

An individual's membership in various groups, be it family, clubs, or online communities, determines their **roles** (expected behaviors) and **status** (social esteem). Roles represent expected activities within each group, carrying societal status perceptions.

Consumers often align product choices with their roles and status. For instance, a working mother embodies different roles—a brand manager at work, a wife and mother at home, and an avid fan at sporting events. Each role influences her clothing choices: professional attire reflecting her corporate role and team merchandise showcasing her sports enthusiast identity.

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5. Personal Factors

A buyer’s purchase decisions are also affected by personal characteristics such as the buyer’s occupation, age and life stage, economic situation, lifestyle and personality and self-concept.

Age and Life-Cycle Stage

Consumer preferences evolve with age and life stages. This transition is evident in wedding-related purchases. Younger individuals might prioritize trendy apparel and gadgets, while those in the marriage stage often focus on furniture and home appliances. For instance, marketers targeting newlyweds offer diverse home decor and kitchen appliances, recognizing their life-cycle stage.

Occupation

Different occupational groups exhibit distinct buying patterns. For instance, agricultural workers might prioritize farming equipment, while urban professionals opt for business attire. The marketers catering to IT professionals offer tech gadgets and work-centric accessories, aligning with their occupational needs.

Economic Situation

Economic shifts impact buying behavior. Post the Great Recession, the consumers sought value-oriented products. Retailers, adapting to frugal trends, emphasized affordability over exclusivity, aligning with changing economic situations and consumer preferences.

Lifestyle

Diverse lifestyles exist within similar social classes or occupations. For example, individuals from the same income bracket might have contrasting preferences—some prioritize adventure sports, while others focus on cultural events. The marketers targeting diverse lifestyles customize offerings; for instance, adventure travel companies cater to thrill-seekers' preferences.

Personality and Self-Concept

Each person’s distinct personality influences his or her buying behaviour. Personality refers to the unique psychological characteristics that distinguish a person or group. Personality is usually described in terms of traits such as self-confidence, dominance, sociability, autonomy, defensiveness, adaptability, and aggressiveness. Personality can be useful in analyzing consumer behaviour for certain product or brand choices.

Many marketers use a concept related to personality—a person’s **self-concep**t (also called self-image). The idea is that people’s possessions contribute to and reflect their identities—that is, “we are what we consume.” Thus, to understand consumer behaviour, marketers must first understand the relationship between consumer self-concept and possessions.

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6. Psychological Factors

Four key psychological factors play a crucial role in shaping an individual's buying decisions: motivation, perception, emotions, and memory.
Let us explore each of these factors in detail.

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6. Psychological Factors

Motivation refers to the internal drive that stimulates individuals to act in a certain way to satisfy their needs and desires. In the context of consumer behavior, motivation is what prompts a person to purchase a product or service.

Consumers have two broad categories of needs that trigger motivation:

- Biological (Physiological) Needs: These are basic survival needs such as food, water, clothing, and shelter.
- Psychological Needs: These include needs related to esteem, belongingness, recognition, safety, and self-actualization.

To better understand consumer motivation, marketers often rely on well-established motivational theories, including:

- Freud's Psychoanalytic Theory: Suggests that unconscious motives, rooted in childhood experiences and emotions, influence buying behavior. It emphasizes the role of deep psychological forces, such as desires and fears, in decision-making.
- Maslow's Hierarchy of Needs: Proposes that human needs are arranged in a hierarchical order—starting from physiological needs and progressing to safety, social, esteem, and self-actualization. Consumers tend to fulfill lower-level needs before moving to higher-level ones.
- Herzberg's Two-Factor Theory: Distinguishes between hygiene factors (which prevent dissatisfaction) and motivators (which encourage satisfaction and drive action). Marketers can use this framework to design products that both meet basic expectations and deliver added value.

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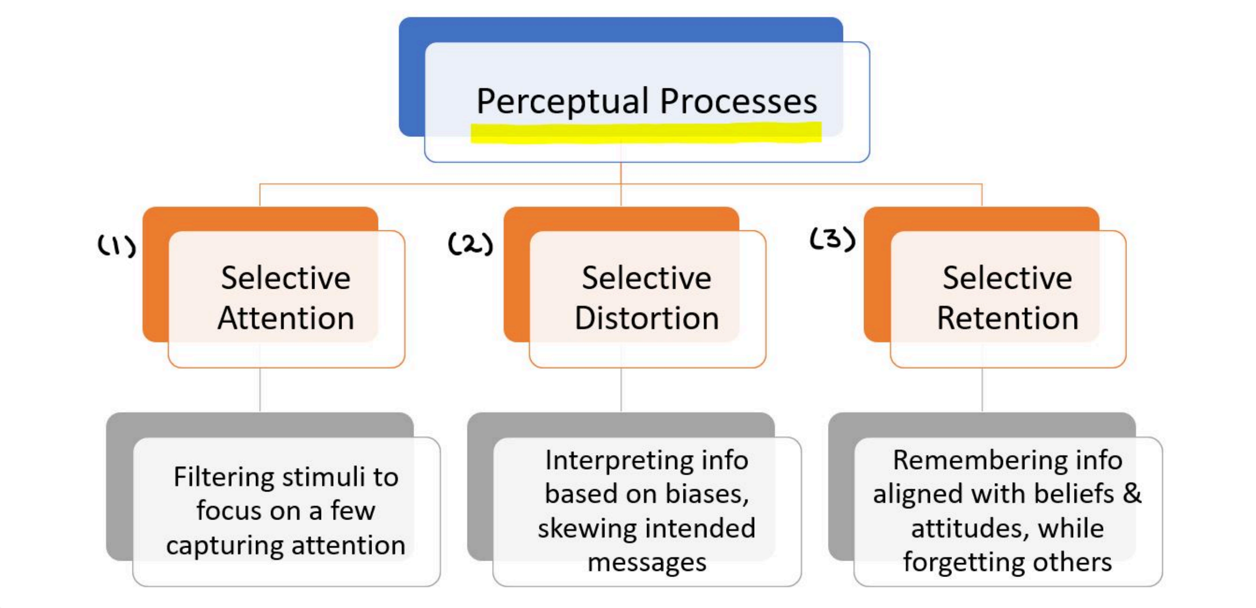
6. Psychological Factors



A person's motivation drives their readiness to take action, and how they act is influenced by their perception of the situation. Perception involves selecting, organizing, and interpreting information to create a coherent view of the world. In consumer behavior, marketers navigate 3 key perceptual processes:

1. **Selective Attention:** Consumers encounter numerous stimuli daily, like advertisements, but most are filtered out through selective attention. Marketers face the challenge of capturing consumer attention amid this noise. For instance, the companies invest in catchy jingles or vibrant visuals in ads to attract and retain consumer attention amidst a cluttered advertising landscape.

2. **Selective Distortion:** Even noticed stimuli don't always resonate as intended. Selective distortion occurs when individuals interpret information based on personal biases, skewing intended messages. For instance, a consumer might perceive a brand's message differently from its actual intent due to personal beliefs or biases. Marketers face limitations in controlling this aspect of perception.

3. **Selective Retention:** Consumers tend to remember information that aligns with their beliefs and attitudes, while forgetting other details. Marketers leverage selective retention by emphasizing product strengths repeatedly or through dramatic storytelling. The campaigns showcasing product benefits repeatedly, aligning with consumers' preferences, aim to be retained amidst competing messages.

In the perception process, several additional concepts influence consumer behavior:

- *Selective Exposure:* Consumers tend to seek messages that align with their preferences and beliefs while avoiding those that contradict their views. For instance, the individuals inclined towards eco-friendly products might actively seek out advertisements promoting sustainability, disregarding messages endorsing practices harmful to the environment.
- *Perceptual Defense:* At times, individuals encounter stimuli perceived as psychologically discomforting. They instinctively filter out such stimuli to avoid discomfort. For example, a consumer might subconsciously avoid advertisements highlighting negative health consequences associated with their favorite snacks or beverages, practicing perceptual defense to maintain comfort.
- *Perceptual Blocking:* When inundated with numerous stimuli simultaneously, individuals experience stress due to cognitive overload. In bustling marketplaces, consumers bombarded with advertisements and promotions might unconsciously block out stimuli to alleviate overwhelm and focus on essential information, resulting in perceptual blocking.

6. Psychological Factors

Emotions play a vital role in shaping consumer behavior. While traditional models of decision-making emphasized rational thinking, modern research confirms that emotions often drive or override logic in purchasing decisions. Consumers don’t just buy products; they buy experiences, feelings, and meanings attached to those products.

Emotions such as happiness, fear, excitement, love, pride, anger, or sadness can all influence what, when, and how people buy. These emotional triggers are especially powerful in impulse buying, brand loyalty, and word-of-mouth recommendations.

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6. Psychological Factors

Consumer memory plays a crucial role in influencing purchase decisions, brand recall, and post-purchase evaluations. It refers to how information related to products, brands, and experiences is stored and retrieved in the consumer’s mind. A consumer’s past interactions with a product or advertisement often shape future behavior and preferences.

Memory is typically divided into two main types:

- Short-Term Memory (STM): This is where information is temporarily held for a few seconds or minutes. It is used when a consumer is actively evaluating a few brand choices while shopping. However, unless reinforced, this information is often lost quickly.
- Long-Term Memory (LTM): This is where information is stored more permanently. Long-term memory itself is further categorized into:
  - Episodic Memory: Stores personal experiences and events, such as remembering a fun trip where a specific brand of chips was eaten.
  - Semantic Memory: Stores general knowledge and facts, such as associating "Colgate" with toothpaste or "Amul" with dairy products.
  - Procedural Memory: Involves memory of actions or skills, such as knowing how to use an app or place an online order without needing instructions.

Another important concept is **brand associations**, which are the mental connections consumers form with a brand. These associations could be functional (e.g., "Duracell = long-lasting batteries") or emotional (e.g., "Cadbury = celebrations and happiness"). Strong, positive brand associations help improve recall and influence purchase intent, especially in competitive markets.

The memory process involves two key steps:

1. Encoding: This is the process by which new information (e.g., an ad or product experience) is absorbed and stored in the brain. Marketers try to enhance encoding through repeated exposure, emotional storytelling, or visual branding.

2. Retrieval: This is the ability to recall stored information when needed—like remembering a brand at the point of purchase. Retrieval is stronger when encoding was emotionally rich or when cues (e.g., packaging, slogans) match what was stored in memory.

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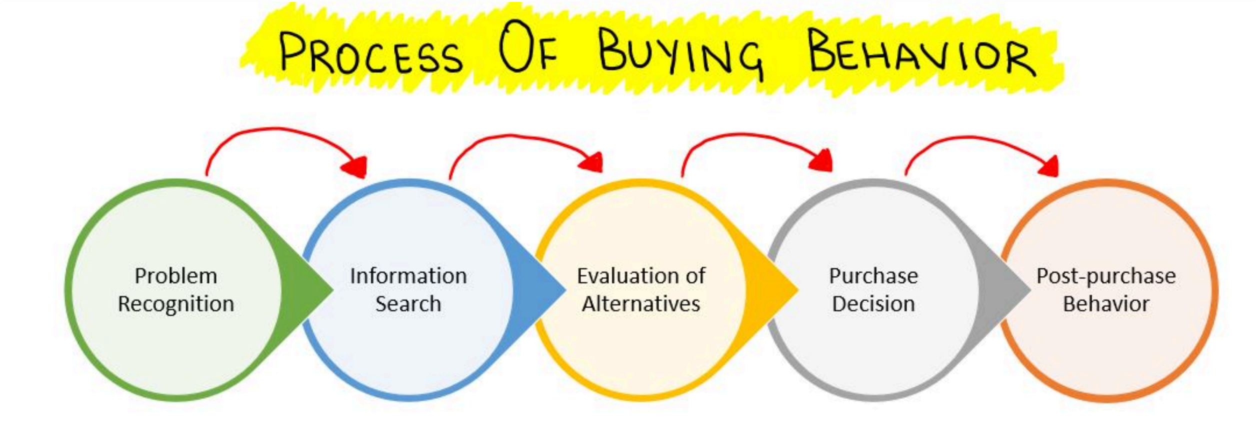
7. Process of Buying Decision

Consumer buying behavior is not random; it follows a systematic process, especially in the case of high-involvement or complex purchases. Marketers must understand this process to influence each stage effectively. The buying decision process consists of five key stages, through which a consumer moves before, during, and after making a purchase.



Stage 1: Problem Recognition
Stage 2: Information Search
Stage 3: Evaluation of Alternatives
Stage 4: Purchase Decision
Stage 5: Post-purchase Behavior

Let us discuss these stages one by one.

7. Process of Buying Decision

The buying decision process begins when a consumer recognizes a problem or need—a gap between their current state and desired state. This recognition creates a sense of urgency or motivation to resolve the issue, which initiates the search for a solution, often through a purchase.

Problem recognition can be triggered by a variety of underlying drivers:

- Natural Depletion: Many purchases arise from the simple exhaustion of a product. For example, running out of cooking oil or mobile data triggers an immediate need for replenishment.
- Dissatisfaction: A negative experience with a current product or service can motivate consumers to look for alternatives. A consumer dissatisfied with the battery life of their current smartphone may start considering new models.
- Lifestyle and Goal Changes: As consumers move through different life stages or set new goals, their needs evolve. Getting married, starting a new job, or deciding to pursue fitness can all lead to the recognition of new problems—such as the need for a new wardrobe, transportation, or gym membership.
- Social Influences: Peer pressure, social media trends, and advertisements often expose consumers to new products or highlight inadequacies in their current choices. For example, seeing friends post travel pictures online may make someone realize the need for a vacation or travel gear.

The buying process starts with need recognition—the buyer recognizes a problem or need. The need can be triggered by **internal stimuli** when one of the person’s normal needs—for example, hunger or thirst—rises to a level high enough to become a drive.

A need can also be triggered by **external stimuli**. For example, an advertisement or a discussion with a friend might get you thinking about buying a new car. At this stage, the marketer should research consumers to find out what kinds of needs or problems arise, what brought them about, and how they led the consumer to this particular product.

7. Process of Buying Decision

Once a consumer recognizes a need, the next step is to seek information about potential solutions. The extent of this search depends on factors like the complexity of the product, perceived risk, consumer involvement, and prior experience. For high-involvement or unfamiliar purchases, consumers tend to engage in a more detailed and systematic search process.

Search Sources

Consumers rely on a variety of sources to collect information, each differing in influence and reliability. These sources can be broadly categorized into:

- Personal Sources: These include family, friends, and neighbors—people the consumer trusts. Word-of-mouth and informal conversations can have a strong persuasive effect, especially in close-knit societies like India.
- Commercial Sources: These are controlled by the marketer and include advertisements, salespeople, official websites, product packaging, brochures, and sponsored content. While these provide detailed product information, consumers may view them with some skepticism due to their promotional nature.
- Public Sources: These include mass media, third-party consumer reviews, online forums, influencer content, and social media discussions. They are often seen as more objective and credible than commercial sources.
- Experiential Sources: Direct interaction with the product—such as trying a demo unit in a store, test-driving a car, or using a free trial—provides firsthand information and plays a critical role in shaping purchase intentions.

The relative influence of these sources depends on the type of product and the individual consumer's personality and preferences. For instance, a tech-savvy buyer may prioritize online reviews, while another may rely heavily on peer recommendations.

Search Dynamics

As the consumer gathers information, they begin to narrow down their choices through a filtering process. This progression can be illustrated through five key sets:

1. Total Set: The full range of brands available in the market.

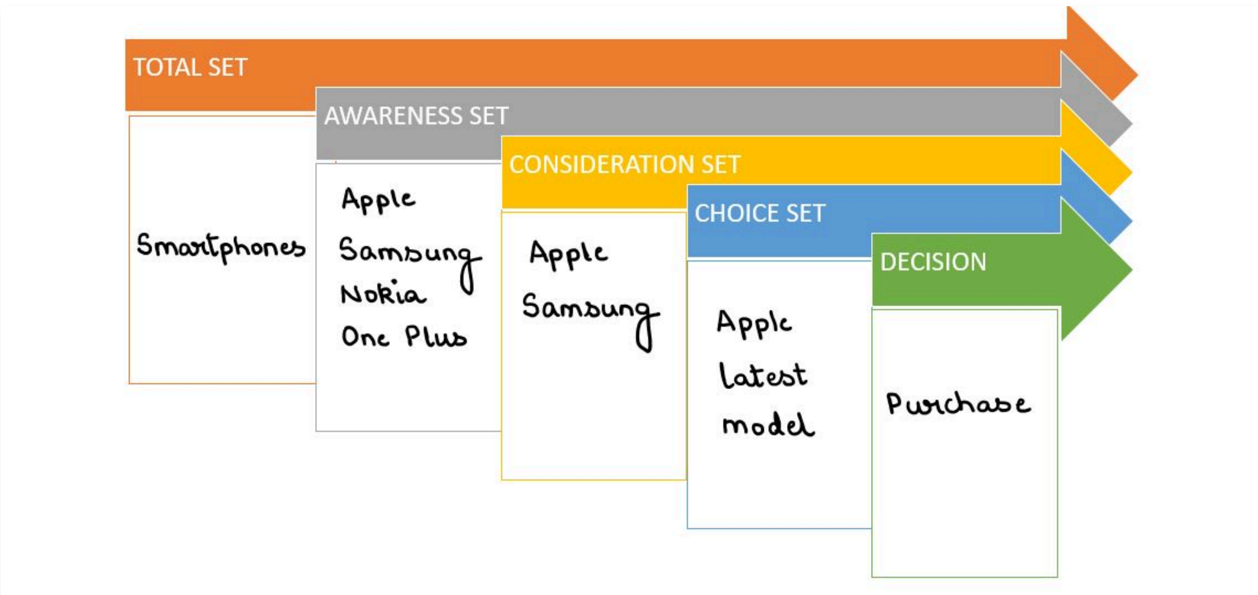
2. Awareness Set: The subset of brands the consumer becomes aware of through their information search.

3. Consideration Set: The brands that meet the consumer's initial criteria and are considered seriously.

4. Choice Set: A smaller group of brands the consumer closely compares before deciding.

5. Final Choice: The brand or product ultimately selected for purchase.

This structured filtering allows the consumer to manage information overload and focus on options most aligned with their needs and expectations. Marketers aim to ensure their brand enters and remains in the consumer's consideration and choice sets through effective communication and positioning.



Marketers need to identify the hierarchy of attributes that guide consumer decision making in order to understand different competitive forces and how these various sets get formed. This process of identifying the hierarchy is called **market partitioning.**

7. Process of Buying Decision

Once the consumer has conducted an information search, he or she uses information to evaluate alternative brands in the choice set. There are several evaluation processes that consumer can choose. The most current models view the process as being cognitively oriented, meaning that consumers form judgments largely on a conscious and rational basis.

There are 3 subsets of brands within the awareness set of alternatives:

> *i) Evoked Set:* This set comprises a few selected brands evaluated positively by the consumers for purchase and consumption. These are the brands that the consumers would be willing to consider further for purchase.
>
> *ii) Inert Set:* This set includes those brands that the consumers have failed to perceive any advantage in buying as they are evaluated neither positively nor negatively. This is because the consumers may have enough information for evaluation.
>
> *iii) Inept Set:* This set is made up of the brands that have been rejected by the consumers for purchase due to their unpleasant experience or negative feedback. The brands in this set are evaluated negatively by the consumers. Therefore, such brands will not be considered at all in their present form by the consumers.

Conjoint analysis

We measure consumer preferences alternative for product concepts with conjoint analysis, a method for delivering the utility values that consumers attach to varying levels of a products attributes. Conjoint analysis is a tool that allows a subset of the possible combinations of product features to be used to determine the relative importance of each feature in the purchasing decision. This analysis is based on the fact that the relative values of attributes considered jointly can better be measured than when considered in isolation.

In a conjoint analysis, the respondent may be asked to arrange a list of combinations of product attributes in decreasing order of preference. Once this ranking is obtained, a computer is used to find the utilities of different values of each attribute that would result in the respondent’s order of preference. This method is efficient in the sense that the survey does not need to be conducted using every possible combination of attributes.

7. Process of Buying Decision

At this stage, the consumer is ready to make a final decision and choose one option from the set of considered alternatives. While the evaluation phase is largely analytical, the actual purchase decision is often influenced by a mix of logic, emotions, external influence, and situational factors. Understanding these influences helps marketers design effective last-mile strategies to convert intention into action.

Decision Heuristics

Many consumers simplify complex decisions using decision heuristics—mental shortcuts or rules of thumb. These might include choosing the cheapest option, selecting the brand they recall most easily, or relying on packaging or endorsements. Heuristics help speed up the decision-making process but may sometimes lead to suboptimal choices.
Example: A buyer may simply choose the product labeled “bestseller” without comparing all features.

Level of Consumer Involvement

The level of consumer involvement significantly affects the nature of the purchase decision. For high-involvement products (e.g., cars, insurance, smartphones), consumers are more deliberate and require more justification before purchase. For low-involvement products (e.g., snacks, stationery), decisions are often quick and based on impulse or brand familiarity.
Example: Buying a luxury watch involves more research and emotional investment than buying a packet of chips.

Attitude of Others

The opinions and preferences of family members, peers, or influencers can also impact the final decision. This is especially true in collectivist cultures like India, where family plays a key role in purchases like electronics, real estate, or marriage-related items. A favorable or unfavorable opinion from someone close can reinforce or deter the purchase.
Example: A parent’s suggestion might sway a student’s decision on which laptop to buy.

Situational Considerations

Situational factors such as availability of the product, delivery timelines, promotions, or store ambiance can affect the final purchase choice. Even if a consumer has mentally selected a brand, they might switch at the last moment due to convenience, urgency, or better offers.

Perceived Risk

Additionally, perceived risk—whether financial, functional, social, or psychological—can delay or alter the purchase decision. Consumers often look for guarantees, return policies, and trusted brands to reduce this risk.
Example: A buyer may choose an extended warranty or prefer a brand with a strong after-sales service to mitigate risk.

7. Process of Buying Decision

Almost all major purchases, result in **cognitive dissonance**, or discomfort caused by postpurchase conflict. After the purchase, consumers are satisfied with the benefits of the chosen brand and are glad to avoid the drawbacks of the brands not bought. However, every purchase involves compromise. So consumers feel uneasy about acquiring the drawbacks of the chosen brand and about losing the benefits of the brands not purchased. Thus, consumers feel at least some postpurchase dissonance for every purchase.

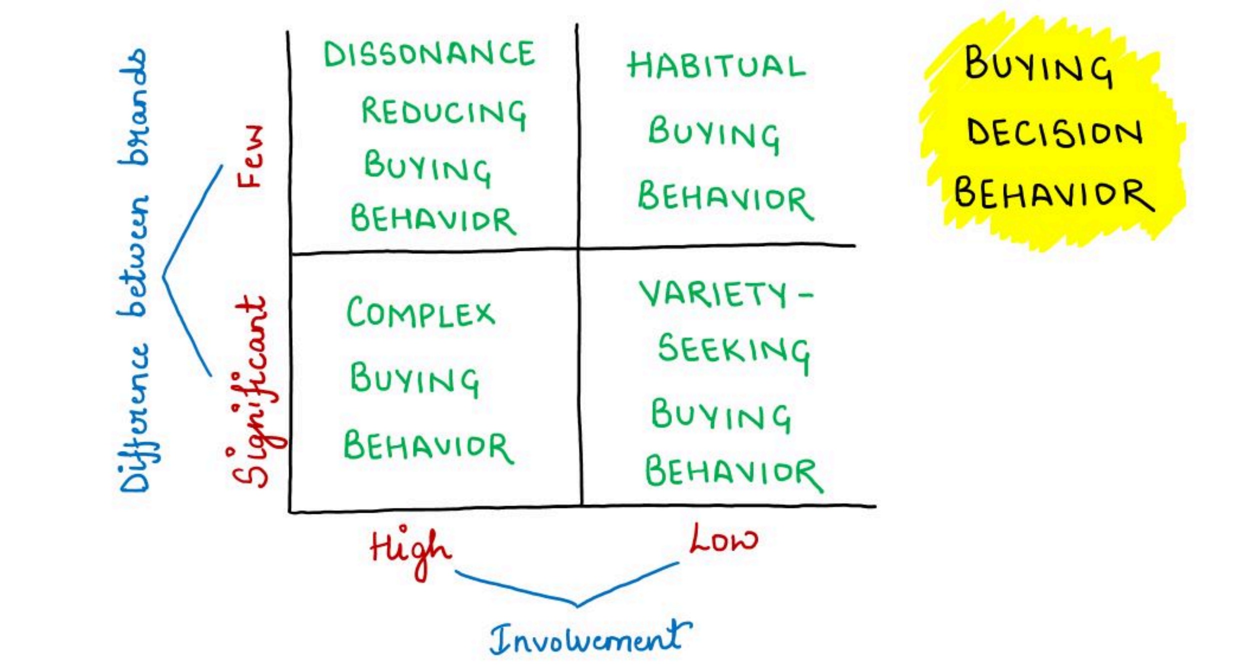
Marketing efforts post-purchase are crucial; they should reinforce beliefs and evaluations that affirm the consumer's choice, enhancing brand satisfaction. However, the marketer's role extends beyond the purchase phase.

1. Postpurchase Satisfaction: Satisfaction hinges on the alignment between expectations and the perceived performance of the product. If product performance falls short of expectations, consumers feel disappointed; meeting expectations leads to satisfaction, while surpassing them results in delight. The gap between expectation and performance influences satisfaction levels, varying based on consumer coping styles.

2. Postpurchase Actions: Satisfied consumers tend to repurchase and advocate for the brand, while dissatisfied ones might return or abandon the product. They may voice grievances through various channels, including online platforms or complaints to authorities, affecting the brand's reputation. Private actions include discontinuing product purchase or warning peers about the product's drawbacks.

3. Postpurchase Uses and Disposal: Monitoring how consumers utilize and dispose of the product is vital. The consumption rate impacts repurchase frequency; rapid consumption drives quicker re-entry into the market. Marketers can encourage timely replacement by linking it to occasions or providing clearer information on product lifespan or performance. Understanding usage patterns aids in promoting regular use for enhanced benefits. For environmentally impactful disposables, understanding disposal methods is essential.

8. Buying Decision Behaviour



Buying decision behavior varies from place to place, person to person and product to product. It can be classified into 4 different categories:

1. Complex Buying Behavior

Consumers undertake complex buying behavior when they are highly involved in a purchase and perceive significant differences among brands. Consumers may be highly involved when the product is expensive, risky, purchased infrequently, and highly self-expressive. For example, someone buying a new car might not know what models, attributes, and accessories to consider or what prices to expect.

2. Dissonance Reducing Buying Behavior

In dissonance reducing buying behavior consumer involvement is very high due to high price and infrequent purchase as there is less significance differences among brands. After the product purchase, consumers may face dissonance post purchase behavior (after-sale discomfort).

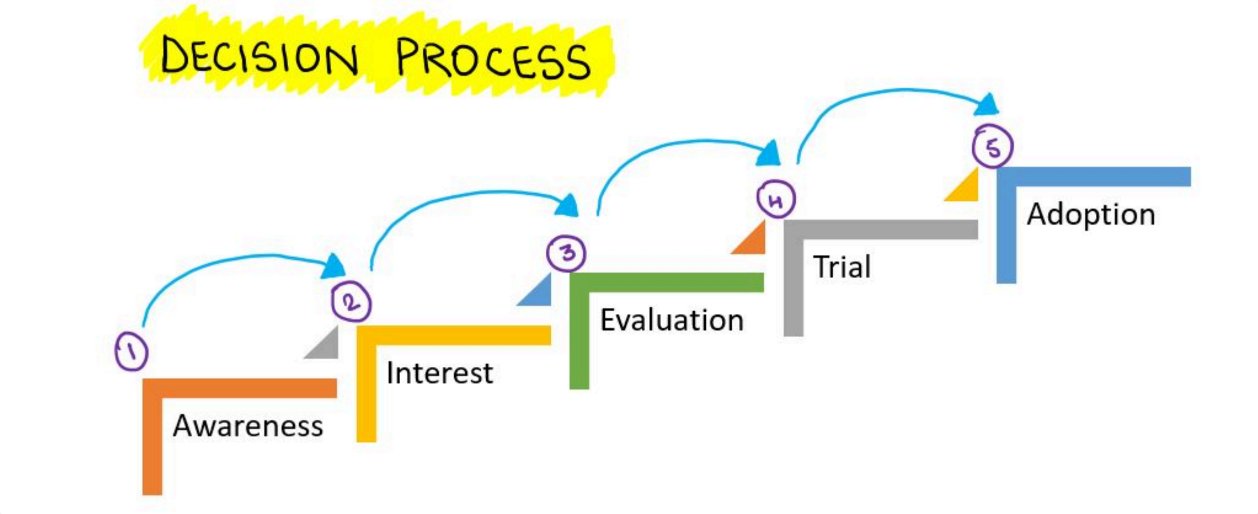
3. Habitual Buying Behavior

In Habitual buying behavior consumer involvement is low as well as low is no significance among brands names. The good example is a lighter or match box. They just go for it and purchase it, there is no brand loyalty. Consumers do not need information regarding brand purchase, characteristics.

4. Variety Seeking Buying Behavior

In variety seeking buying behavior situation consumer involvement is very low but there are significance differences among brands. In this situation consumers perceive brand switching. A good example of purchase is chips. In such case consumers purchase chips of one brand and next time they purchase another brand just to change the taste.

9. Decision Process in New Products



Consumers go through 5 stages in the process of adopting a new product:

1. Awareness: The consumer becomes aware of the new product but lacks information about it.

2. Interest: The consumer seeks information about the new product.

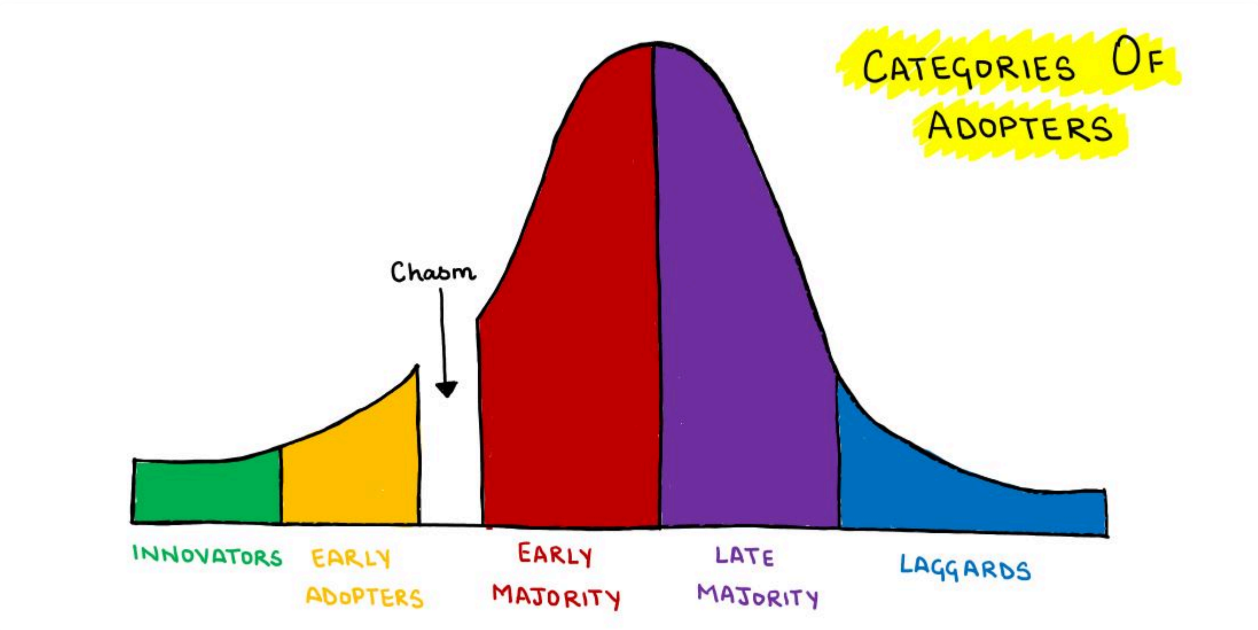
3. Evaluation: The consumer considers whether trying the new product makes sense.

4. Trial: The consumer tries the new product on a small scale to improve his or her estimate of its value.

5. Adoption: The consumer decides to make full and regular use of the new product

Categories of Adopters

People differ greatly in their readiness to try new products. In each product area, there are "consumption pioneers" and early adopters. Other individuals adopt new products much later. People can be classified according to the adopter categories:



1. Innovators: These individuals are willing to experiment with new offerings, even if there's an associated risk.

2. Early adopters: These are community leaders who cautiously embrace new ideas at an early stage.

3. Early mainstream adopters: Although not leaders, they adopt new ideas before the majority.

4. Late mainstream adopters: They embrace new things after the majority has already tried them.

5. Lagging adopters: These individuals are cautious of change and only accept new things once they've become familiar traditions.

The "chasm" in the decision process, according to Geoffrey Moore's "Crossing the Chasm," signifies a critical gap between early adopters and the early majority in the adoption of high-tech products. Early adopters are tech enthusiasts willing to embrace innovation, while the early majority consists of more cautious individuals who demand proven reliability before adoption.

Crossing this chasm is pivotal for a high-tech product's success. Many innovations fail as they struggle to transition from the enthusiastic early adopters to the more skeptical early majority.

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10. Heuristics in Consumer Decision Making

In the real world, consumers often make decisions under time pressure, limited information, or cognitive overload. Instead of analyzing every option in detail, they rely on heuristics—mental shortcuts or rules of thumb that simplify decision-making. While heuristics can be helpful, they can also lead to biases or irrational outcomes. Understanding these heuristics is crucial for marketers who want to influence consumer behavior at the point of decision.

One commonly used heuristic is the **availability heuristic.** Here, consumers judge the likelihood of an event based on how easily examples come to mind. For instance, after seeing frequent news reports about phone batteries catching fire, a consumer might avoid a particular smartphone brand—even if the actual probability of malfunction is very low. Marketers often exploit this by repeatedly showcasing positive outcomes in ads to make those outcomes seem more likely.

The **representativeness heuristic** occurs when consumers judge a product or situation based on how closely it matches a stereotype, rather than using actual statistical probability. For example, a consumer might assume that a highly packaged and glossy product is of higher quality, even when there’s no real evidence to support that belief. This is why packaging and design play such an important role in influencing consumer impressions.

A related bias is the **conjunction fallacy,** where consumers incorrectly believe that specific conditions are more probable than general ones. For instance, they may think a product labeled "natural and effective" is more likely to work than one simply labeled "effective", even though the addition of the word “natural” actually reduces the statistical probability under logical reasoning. Marketers use this fallacy by combining multiple appealing traits in product descriptions to enhance perceived value.

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11. Framing Effects

Closely related to heuristics is the concept of **framing effects,** which refers to how the presentation or "frame" of information influences consumer choices. People’s decisions are not only based on the information itself but also on how it is worded, structured, or sequenced.

One key form of framing is **mental accounting,** a concept developed by Richard Thaler. Consumers mentally divide money into categories—like “savings,” “luxury,” or “emergency funds”—and treat the same amount of money differently depending on which “account” it is perceived to come from. For example, a customer might feel guilty spending ₹500 from their savings but feel justified spending the same amount using a cashback offer or gift card.

Retailers and marketers use framing effects by presenting offers in a more psychologically appealing way. A “Rs 1,000 discount on MRP” may seem more attractive than “10% off”, even if the actual savings are the same. Similarly, presenting a price as “only ₹50 per day” instead of ₹1,500 per month makes the product feel more affordable.

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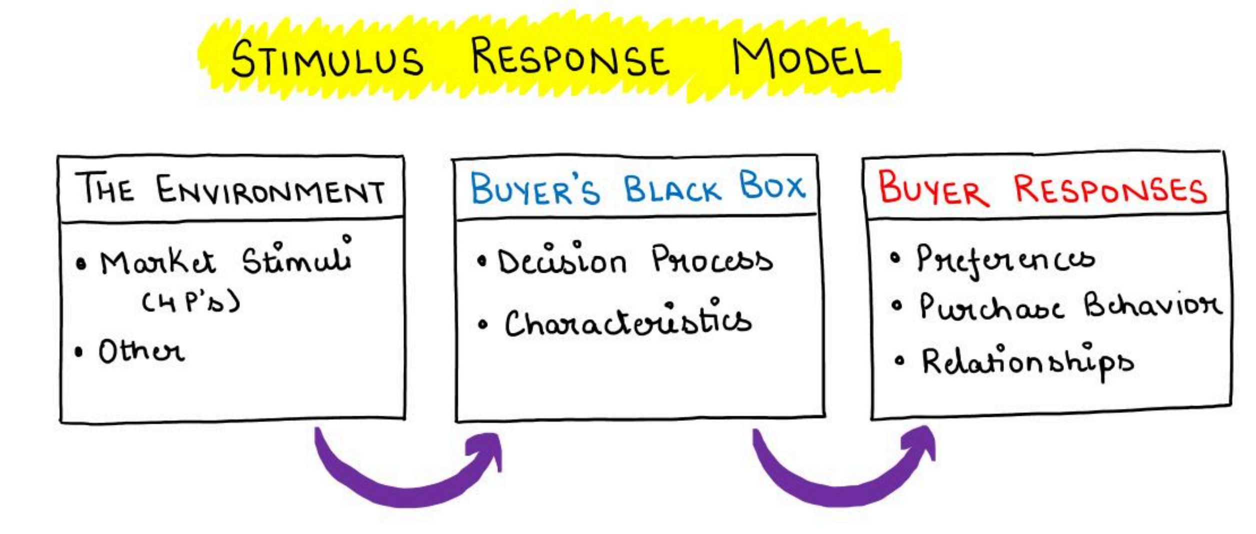
1. Introduction

Numerous theories explain consumer behavior, and we'll delve into each one individually to comprehend their distinct perspectives on how and why consumers make their choices.

2. Stimulus Response Model



The stimulus-response model offers a straightforward understanding of consumer behavior by illustrating how external factors and marketing stimuli impact consumer decision-making.

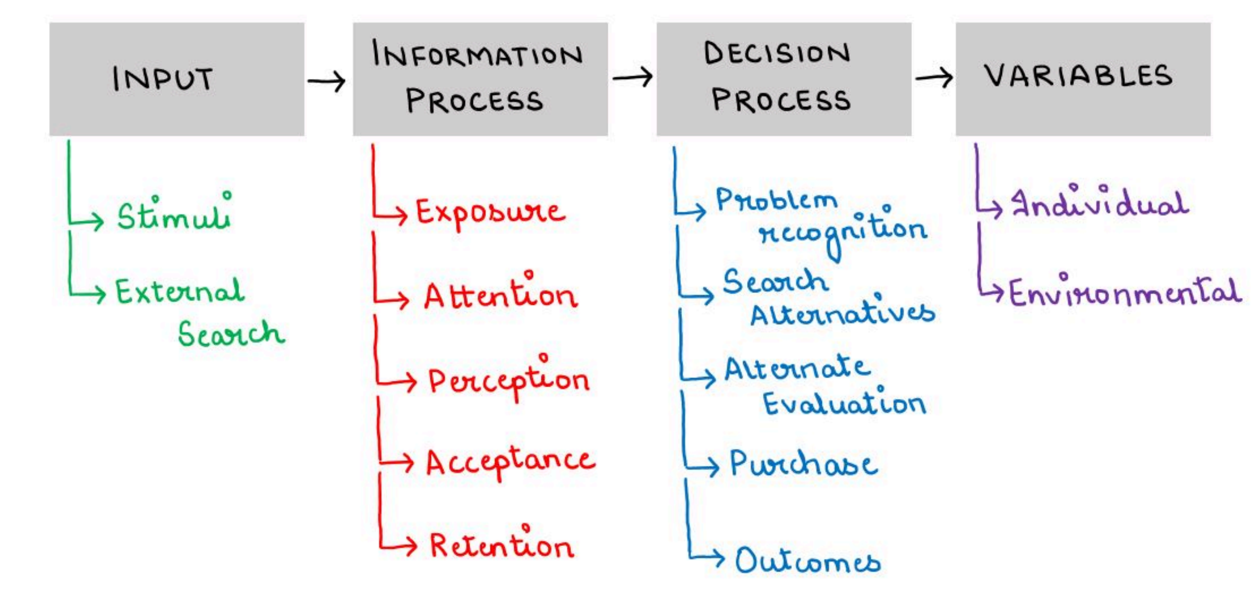
It begins with the introduction of various stimuli, including the classic marketing elements known as the 4 Ps (Product, Price, Place, and Promotion), as well as broader influential forces like economic conditions, technological advancements, political changes, and cultural trends.

These elements collectively penetrate what's referred to as the consumer's "black box," an abstract space representing the mind or decision-making process of the consumer.

Inside this black box, the stimuli and external inputs undergo a cognitive process, shaping the consumer's perceptions, attitudes, and preferences. These internal processes are not directly observable, hence termed the "black box." However, the outcomes of these processes manifest as observable buyer responses. These responses include distinct actions such as brand selection, choices related to when and where to make purchases, and the nature of engagement and relationships consumers establish with brands. Essentially, the model outlines how external influences interact with the consumer's internal processes to generate observable behaviors and decisions.

3. Engel Kollat Blackwell Model

The Engel Kollat Blackwell Model of Consumer Behavior was created to describe the increasing, fast-growing body of knowledge concerning consumer behavior.



The model consists of 4 distinct stages:

1. Information Input Stage

At this stage, the consumer gets information from marketing and non-marketing sources, which also influence the problem recognition stage of the decision-making process.

2. Information Processing Stage

This stage consists of the consumer's exposure, attention, perception, acceptance, and retention of incoming information. The consumer must first be exposed to the message, allocate space for this information, interpret the stimuli, and retain the message by transferring the input to long-term memory.

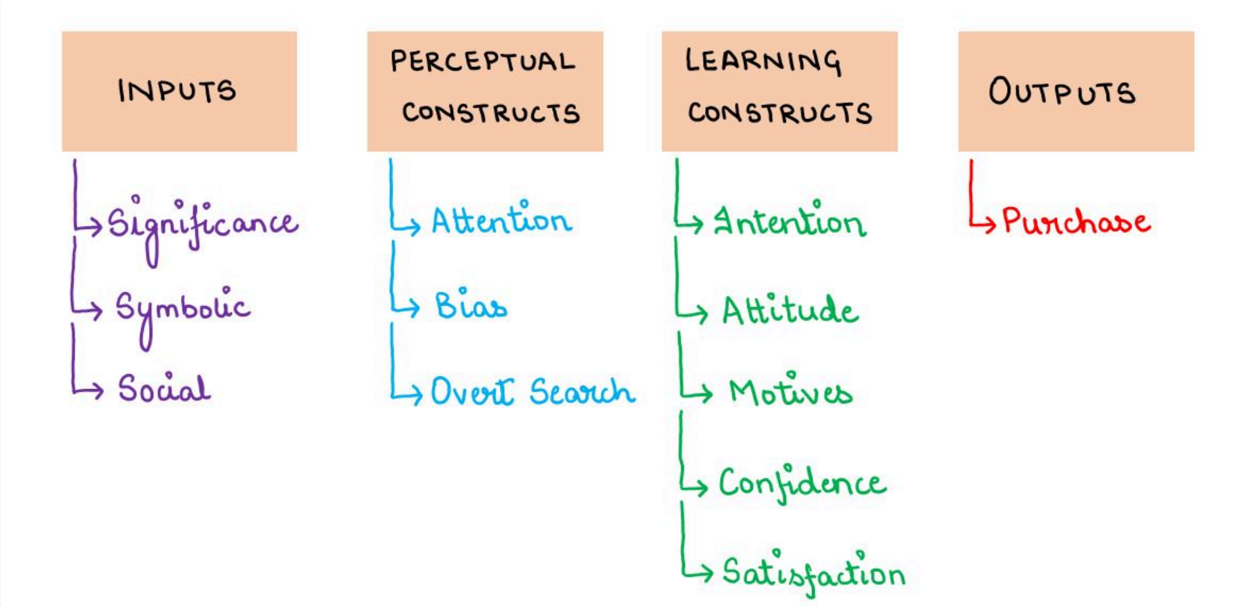
3. Decision Process Stage

The central focus of the model is on five basic decision-process stages: Problem recognition, search for alternatives, alternate evaluation (during which beliefs may lead to the formation of attitudes, which in turn may result in a purchase intention) purchase, and outcomes. But it is not necessary for every consumer to go through all these stages; it depends on whether it is an extended or a routine problem-solving behavior.

4. Variables Influencing the Decision Process

This stage consists of individual and environmental influences that affect all five stages of the decision process. Individual characteristics include motives, values, lifestyle, and personality; the social influences are culture, reference groups, and family. Situational influences, such as a consumer's financial condition, also influence the decision process.

4. Howard Sheth Model



Howard-Sheth model is a theoretical framework in consumer behavior developed by John Howard and Jagdish Sheth. It was first introduced in 1969 in their seminal work "The Theory of Buyer Behavior." This model presents a sophisticated integration of the psychological and various social and marketing influences on consumer choice, into a coherent sequence of information processing.

The Howard-Sheth model explicitly delineates three distinct stages or levels of decision-making, also known as levels of learning: extensive, limited, and routinized problem-solving.

- **Extensive problem-solving** implies that the consumer has very little or no knowledge and beliefs about brands. The consumer actively seeks information on a number of alternatives at this point due to the lack of a brand preference.
- **Limited problem-solving** occurs when the consumer cannot fully assess the brand differences to arrive at a preference, since knowledge and beliefs about the brands are only partially established.
- **Routinised response behaviour** implies that the consumer has well-established knowledge and beliefs regarding brands and that sufficient experience and information with the brands will avoid confusion between various brands. The consumer will therefore be predisposed to the purchase of one particular brand.

The Howard-Sheth model consists of four major sets of variables which are inputs, perceptual and learning constructs, outputs and exogenous (external) variables.

Inputs

It consists of three distinct types of information sources or stimuli in the consumers environment, namely significative stimuli, symbolic stimuli and social inputs.

- **Significative Stimuli:** Significative stimuli, encompassing physical brand characteristics, are integral components that directly impact a consumer's perception. These tangible attributes, including quality, price, service, distinctiveness, and availability, are actively provided by marketers through product and brand information. Consumers evaluate and form opinions based on these significant and observable features, shaping their decision-making process.
- **Symbolic Stimuli:** Symbolic stimuli, describing verbal or visual product characteristics, play a crucial role in influencing consumers indirectly by contributing to the overall brand image. Portrayed through mass media and by salespeople, these symbolic elements such as advertising messages, brand logos, and slogans shape emotional and psychological associations with the brand. Marketers strategically craft and disseminate symbolic stimuli to create a desired brand identity in the minds of consumers, impacting their perceptions beyond the tangible attributes.
- **Social Inputs:** Social inputs, the third type of stimuli, derive from the consumer's social environment, encompassing factors like social class, family dynamics, and reference groups. These inputs, while not directly controlled by marketers, significantly influence consumer preferences and choices. Understanding the societal context and interpersonal dynamics is crucial for marketers, as they aim to align their strategies with the cultural nuances, trends, and social influences that impact consumers' decision-making processes.

Perceptual and Learning constructs

At this stage of the model, psychological variables are assumed to operate when the consumer is contemplating a decision. Although forming the so-called heart of the model, these constructs are treated as abstractions that are not defined operationally or directly measured.

- **Perceptual Constructs:** Perceptual constructs in the Howard-Sheth model focus on how consumers interpret and process information from stimuli in their environment. This involves cognitive and sensory processes, exploring how individuals organize, filter, and attribute meaning to the presented stimuli, ultimately shaping their perceptions and evaluations of products or brands.
- **Learning Constructs:** On the other hand, learning constructs within the model delve into the accumulation and integration of knowledge by consumers. This encompasses their goals, preferences, criteria for evaluating alternatives, and intentions to purchase. Learning constructs emphasize the dynamic nature of consumer decision-making, highlighting the role of experience and acquired knowledge in shaping preferences and behaviors over time.

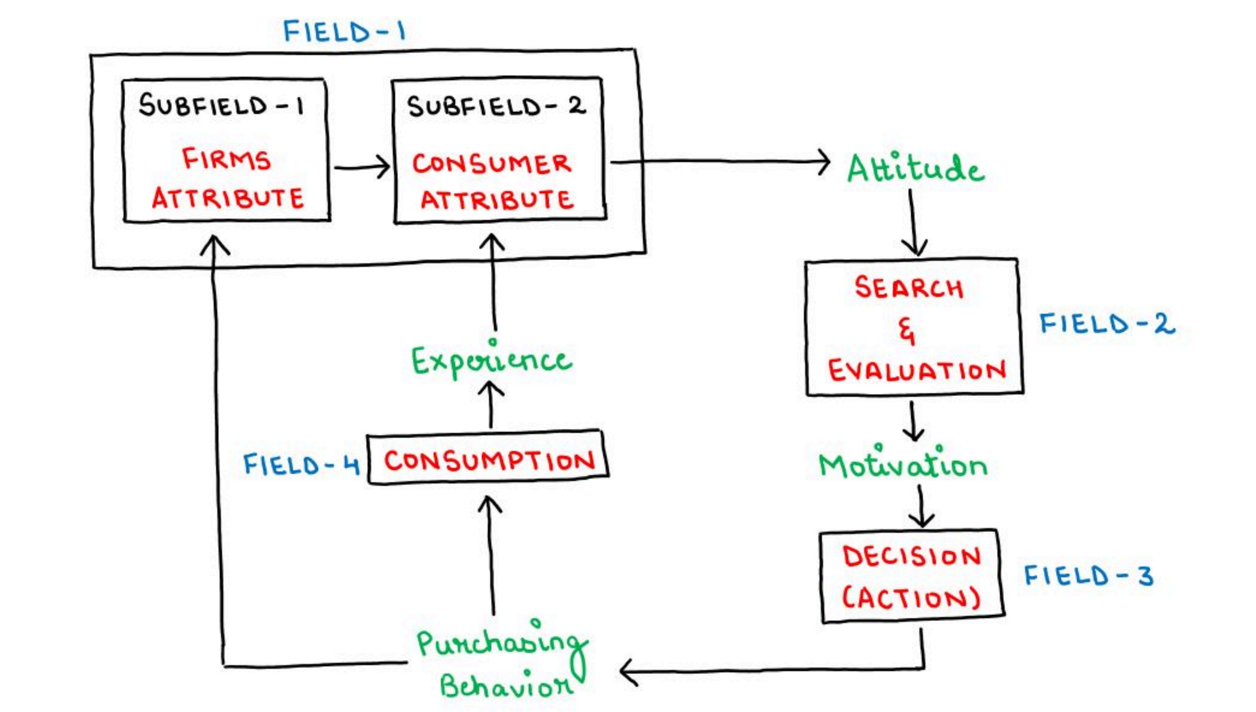
Outputs

It represents the possible response to stimuli by the consumer and includes five variables, namely attention, brand comprehension, attitude, intention, and purchase.

Exogenous variables

While not explicitly depicted, are acknowledged as external factors that impact consumer behavior but are not directly part of the decision-making process. These variables, such as time pressure, consumer personality traits, financial status, and the perceived importance of the purchase, are essential considerations for marketers in segmentation efforts.

5. Nicosia Model



Nicosia Model of Consumer Behaviour was developed in 1966, by *Professor Francesco M. Nicosia*, an expert in consumer motivation and behavior. This model focuses on the relationship between the firm and its potential consumers. The model suggests that messages from the firm (advertisements) first influences the predisposition of the consumer towards the product or service. Based on the situation, the consumer will have a certain attitude towards the product. This may result in a search for the product or an evaluation of the product attributes by the consumer. If the above step satisfies the consumer, it may result in a positive response, with a decision to buy the product otherwise the reverse may occur.

The model is divided into 4 major fields:

1. Field 1: The firm's attributes and the consumer's attributes

The first field is divided into two subfields. The first subfield deals with the firm's marketing environment and communication efforts that affect consumer attitudes, the competitive environment, and characteristics of target market. Subfield two specifies the consumer characteristics e.g., experience, personality, and how he perceives the promotional idea toward the product in this stage the consumer forms his attitude toward the firm's product based on his interpretation of the message.

2. Field 2: Search and evaluation

The consumer will start to search for other firm's brand and evaluate the firm's brand in comparison with alternate brands. In this case the firm motivates the consumer to purchase its brands.

3. Field 3: The act of the purchase

The result of motivation will arise by convincing the consumer to purchase the firm products from a specific retailer.

4. Field 4: Feedback of sales results

This model analyses the feedback of both the firm and the consumer after purchasing the product. The firm will benefit from its sales data as a feedback, and the consumer will use his experience with the product affects the individual's attitude and predisposition's concerning future messages from the firm.

1. Introduction

Business Markets refer to markets where businesses, organizations, or governments purchase goods and services not for personal consumption, but for:

- Resale
- Production of other goods and services
- Use in daily business operations

These are also called *Industrial Markets* or *B2B* (Business-to-Business) Markets.

Business buyer behavior refers to the buying behavior of organizations that buy goods and services for use in the production of other products and services that are sold, rented, or supplied to others. It also includes the behavior of retailing and wholesaling firms that acquire goods to resell or rent to others at a profit.

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2. Business Markets Vs Consumer Markets

Business marketers exhibit notable differences when compared to consumer markets in various aspects:

1. Fewer, Larger Buyers

Business marketers interact with a reduced number of significant buyers compared to consumer markets. Industries like aerospace or defense may rely heavily on a handful of major buyers, leading to a stronger reliance on building relationships with these key clients.

2. Close Supplier-Customer Relationships

Due to a more limited customer base, business marketers often develop closer relationships with their clients. They tailor their offerings to meet the specific needs of individual business customers, recognizing the importance and influence of these larger customers.

3. Professional Purchasing

Business goods are often acquired through trained purchasing agents who follow strict organizational purchasing policies, constraints, and requirements. Unlike consumer buying, which may be more informal, business purchases often involve formal procedures like requests for quotations, proposals, and purchase contracts.

4. Multiple Buying Influences

Business buying decisions often involve the input of multiple stakeholders. Buying committees comprised of technical experts and senior management are common for significant purchases. As a result, business marketers must navigate and engage with a variety of decision-makers.

5. Multiple Sales Calls

Business-to-business (B2B) sales processes can be more complex and lengthier than consumer sales. Business marketers may need to make multiple sales calls and engage in extensive discussions to secure a deal. Building trust and providing detailed information are crucial in this context.

6. Derived Demand

Business demand for goods and services is derived from consumer demand. In other words, the demand for business products is driven by the demand for the final products that these goods contribute to. Business marketers closely monitor end-users' buying patterns to anticipate demand fluctuations.

7. Inelastic Demand

The demand for certain business goods remains relatively stable even in the face of price changes. For instance, manufacturers might not significantly alter their purchases of crucial materials if prices fluctuate, as long as there are no suitable substitutes available.

8. Fluctuating Demand

Business demand can be more volatile than consumer demand. A slight change in consumer demand can lead to a much larger shift in business demand. This is especially true for items like capital equipment, where minor changes in consumer demand can trigger substantial changes in demand for related machinery.

9. Geographically Concentrated Buyers

A significant portion of business buyers may be concentrated in specific geographic areas. While this concentration can reduce selling costs, it also requires business marketers to adapt to regional shifts in industries and markets.

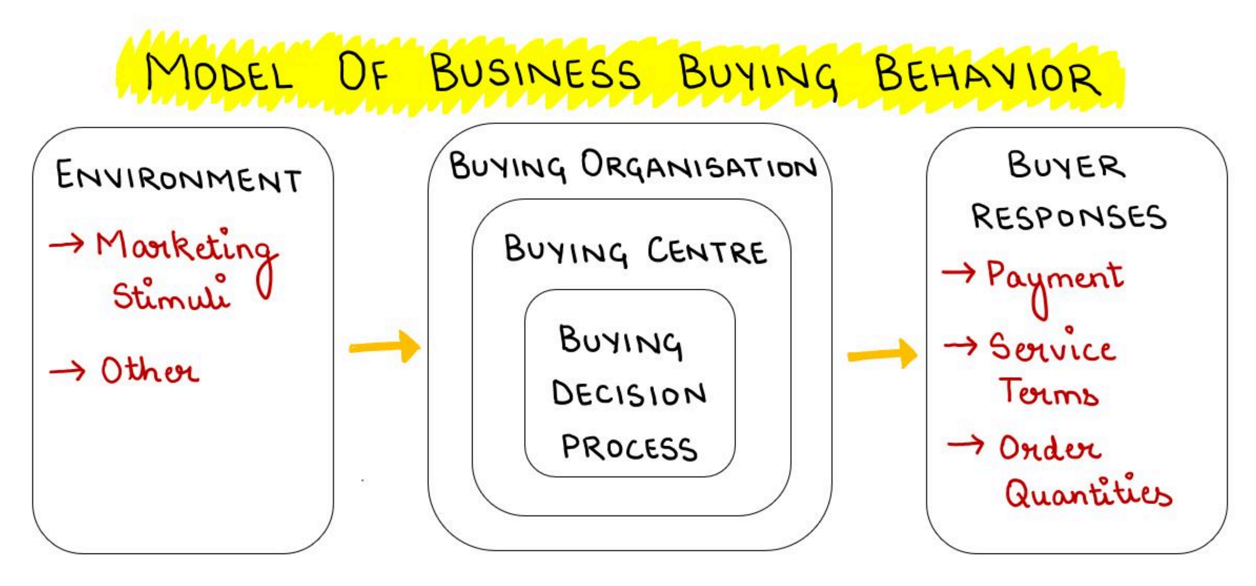
10. Direct Purchasing

Business buyers often prefer to directly purchase goods from manufacturers. This approach allows for direct communication and customization, particularly for technically complex or high-value items like industrial machinery.

3. Model of Business Buyer Behaviour

At the most basic level, marketers want to know how business buyers will respond to various marketing stimuli. The figure shows a model of business buyer behavior. In this model, marketing and other stimuli affect the buying organization and produce certain buyer responses.

Within the organization, buying activity consists of two major parts: the buying center, composed of all the people involved in the buying decision, and the buying decision process.

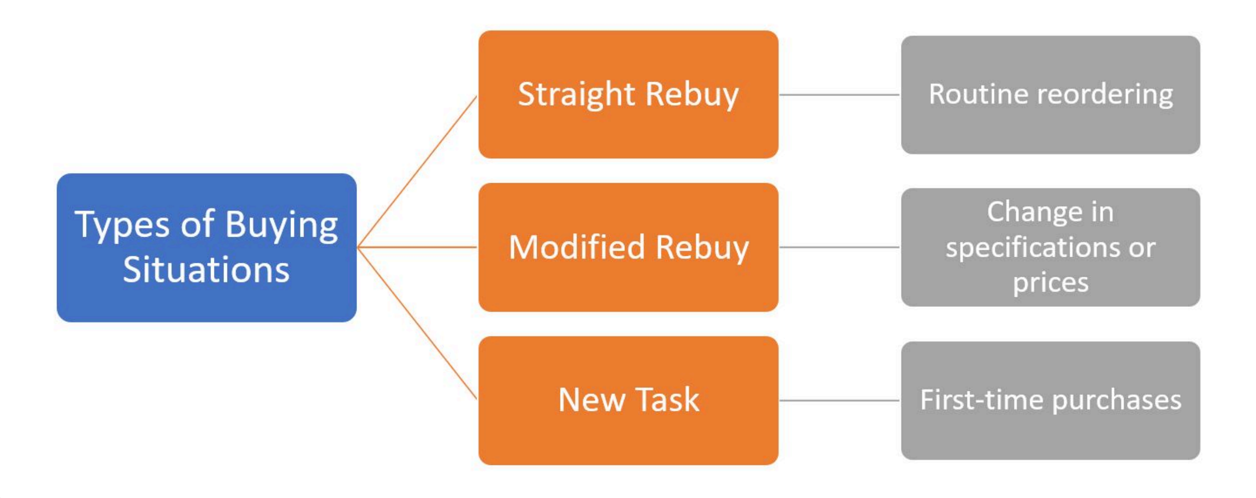


The model in the figure suggests four questions about business buyer behaviour, which are discussed further.

1. **Buying Decisions**: What buying decisions do business buyers make?
2. **Buying Centre**: Who participates in the business buying process?
3. **Influences**: What are the major influences on buyers?
4. **Decision Process**: How do business buyers make their buying decisions?

3. Model of Business Buyer Behaviour

The business buyer faces many decisions in making a purchase. How many depends on the complexity of the problem being solved, newness of the buying requirement, number of people involved, and time required.



Three types of buying situations are the straight rebuy, modified rebuy, and new task:

1. **Straight rebuy**: In a straight rebuy, the purchasing department reorders items like office supplies and bulk chemicals on a routine basis and chooses from suppliers on an approved list. The suppliers make an effort to maintain product and service quality and often propose automatic reordering systems to save time. "Out suppliers" attempt to offer something new or exploit dissatisfaction with a current supplier. Their goal is to get a small order and then enlarge their purchase share over time.
2. **Modified rebuy**: The buyer in a modified rebuy wants to change product specifications, prices, delivery requirements, or other terms. This usually requires additional participants on both sides. The in-suppliers become nervous and want to protect the account. The out-suppliers see an opportunity to propose a better offer to gain some business.
3. **New task:** A new-task purchaser buys a product or service for the first time (an office building, a new security system). The greater the cost or risk, the larger the number of participants, and the greater their information gathering—the longer the time to a decision.

Many business buyers prefer to buy a complete solution to a problem from a single seller rather than buying separate products and services from several suppliers and putting them together. **Systems selling** (or solutions selling) refers to buying a packaged solution to a problem from a single seller, thus avoiding all the separate decisions involved in a complex buying situation.

3. Model of Business Buyer Behaviour

The decision-making unit of a buying organization is called its buying centre. It consists of all the individuals and units that play a role in the business purchase decision-making process. The buying center is not a fixed and formally identified unit within the buying organization. It is a set of buying roles assumed by different people for different purchases.

The buying center includes all members of the organization who play any of 7 roles in the purchase decision process.

1. **Initiators**: Users or others in the organization who request that something be purchased.
2. **Users**: Those who will use the product or service. In many cases, the users initiate the buying proposal and help define the product requirements.
3. **Influencers**: People who influence the buying decision, often by helping define specifications and providing information for evaluating alternatives. Technical people are particularly important influencers.
4. **Deciders**: People who decide on product requirements or on suppliers.
5. **Approvers**: People who authorize the proposed actions of deciders or buyers.
6. **Buyers**: People who have formal authority to select the supplier and arrange the purchase terms. Buyers may help shape product specifications, but they play their major role in selecting vendors and negotiating. In more complex purchases, buyers might include high-level managers.
7. **Gatekeepers**: People who have the power to prevent sellers or information from reaching members of the buying center. For example, purchasing agents, receptionists, and telephone operators may prevent salespersons from contacting users or deciders.

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3. Model of Business Buyer Behaviour

The figure outlines distinct categories of influences on business buyers: environmental, organizational, interpersonal, and individual. Factors within the economic environment, like primary demand, economic outlook, and cost of money, significantly impact business buyers. Technological, political, and competitive developments also shape buyer behavior. Cultural and customs play a substantial role, especially in international marketing. Understanding and addressing these challenges can lead to opportunities.

Organizational factors are crucial too, considering each buying organization's unique objectives, strategies, structure, and procedures. The composition of the buying center influences decisions, and interpersonal dynamics play a role, although they're intricate to evaluate. Personal motives, perceptions, and preferences shape each participant's choices, influenced by characteristics like age, income, education, and attitudes. Buyers' diverse styles, ranging from thorough analysis to intuitive negotiation, further impact the buying process. Business marketers must grasp these multifaceted factors to tailor effective strategies.

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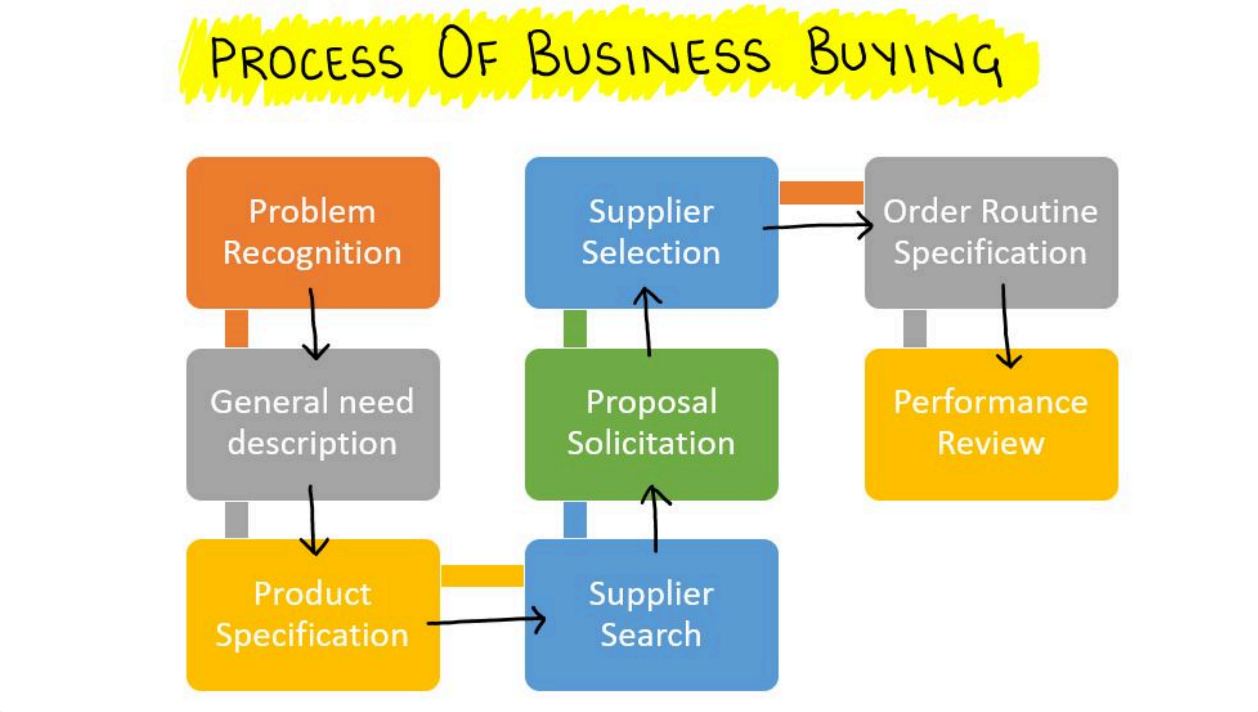
3. Model of Business Buyer Behaviour



We will use example of how L&T Constructions, a major construction company in India, might go through the stages of the business buyer decision process while procuring heavy construction equipment.

1. **Problem Recognition**: The buying process initiates when someone within an organization identifies a problem or requirement that can be resolved through the purchase of a product or service.

Example: L&T Constructions identifies a problem with their existing fleet of construction equipment. They notice increased downtime and maintenance issues, affecting project timelines and overall efficiency.

2. **General need description**: After recognizing the issue and acknowledging the need for a solution, the buyer engages in defining the specific characteristics and quantity of the required product.

Example: After discussions among project managers and engineers, L&T Constructions determines the need for new heavy construction equipment. They require machines that are more technologically advanced, with higher load capacities and improved fuel efficiency to handle larger-scale projects efficiently.

3. **Product specification**: The buying organization proceeds to outline the technical specifications of the item. The buyer performs a value analysis to assess the effectiveness of potential suppliers. Value analysis involves evaluating product specifications in relation to requirements, identifying unnecessary cost elements, and suggesting ways to eliminate them.

Example: The procurement team conducts a comprehensive analysis of available heavy construction equipment. They focus on specifications such as load-bearing capacity, fuel consumption, technological advancements like GPS integration for better project management, and the capability to work in diverse terrains and conditions.

4. **Supplier search**: The buyer undertakes the task of identifying suitable vendors. It is crucial for the buyer to ensure that selected suppliers meet the established standards of performance and quality as outlined in their operational plans. The assessment of vendor capabilities, especially in areas like technology, production, financial stability, and management, is a key aspect.

Example: L&T Constructions researches and evaluates various heavy equipment suppliers, both domestic and international. They consider factors like supplier reputation, equipment quality, technological advancements in the machines offered, service support, and cost-effectiveness.

The shift to online purchasing impacts suppliers and alters the landscape of procurement. Companies adopt various electronic marketplaces:

- *Catalog Sites*: Platforms like IndiaMART and Tradeindia offer extensive catalogs via e-procurement software for ordering diverse products.
- *Vertical Markets*: Websites such as Chemarc cater to industries like chemicals, aiding in sourcing and comparing prices from multiple sellers within the sector.
- *"Pure Play" Auction Company*: MSTC Limited conducts substantial online auctions for various industries, facilitating equipment and surplus asset sales.
- *Spot (or exchange) Markets*: Platforms like NCDEX (National Commodity & Derivatives Exchange Limited) enable real-time trading in commodities like agriculture, metals, and energy.
- *Private Exchanges*: Corporates such as Tata Group and Reliance Industries manage private platforms, connecting with selected partners and suppliers.
- *Barter Markets*: Platforms like BarterDaddy enable businesses to trade surplus inventory or services within a barter system.
- *Buying Alliances*: Consortia like India Procurement Alliance (IPA) unite companies for joint purchasing, securing better deals on various products and services.

5. **Proposal solicitation**: The next stage requires qualified suppliers to submit proposals. Generally, the supplier will furnish information in the form of a catalog or send their sales representative to the buyer with the necessary information.

Example: L&T Constructions requests detailed proposals from the shortlisted equipment suppliers. Suppliers respond with comprehensive information about their machinery, including technical specifications, pricing, warranty terms, and additional services like training and maintenance.

6. **Supplier selection**: At this point, the members of the buying center collectively review the submitted proposals and make a decision regarding the final selection of the supplier.

Example: The buying team at L&T Constructions, consisting of engineers, project managers, and procurement specialists, collectively reviews the proposals. They assess factors such as equipment quality, supplier reliability, service support, and cost competitiveness before choosing the most suitable supplier.

7. **Order routine specification**: The buyer specifies and documents the final order, including technical details, quantity, expected delivery time, terms for returns, warranties, and other relevant aspects.

Example: L&T Constructions finalizes the order with the chosen equipment supplier, detailing technical specifications, quantities required, delivery schedules, payment terms, and warranty agreements in a formal purchase order.

8. **Performance Review**: In this stage, the buyer evaluates the performance of the chosen supplier. This assessment can influence the buyer's decision to continue the existing arrangement, make modifications, or terminate the relationship.

Example: Once the new equipment is in operation, L&T Constructions regularly evaluates the supplier's performance. They monitor factors like equipment reliability, adherence to delivery schedules, service responsiveness, and overall satisfaction. This evaluation informs their decisions regarding future collaborations and equipment procurements.

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4. Business Marketing

Developing business marketing programs involves creating strategic plans to meet the unique needs of organizational buyers. These programs go beyond selling products—they focus on delivering integrated solutions, building relationships, and creating long-term value in B2B markets.

1. Transition from Products to Solutions
In business markets, the focus is shifting from selling standalone products to offering complete solutions. This involves system buying (where the buyer seeks a complete package—products, services, integration) and system selling (where the seller designs and sells such integrated offerings). For example, instead of just selling printers, a company might sell a complete document management system, including hardware, software, maintenance, and training.

2. Enhancing Services
Services play a crucial role in B2B marketing. Customers expect not just the product, but also timely delivery, installation, training, technical support, and maintenance. Enhanced services help build long-term trust and reduce customer churn. In competitive B2B markets, service quality can often be the key differentiator between vendors.

3. Managing Relationships
Relationship management is at the heart of B2B marketing. Organizations use CRM systems, key account management, and ongoing engagement strategies to develop trust and loyalty. Long-term contracts, dedicated relationship managers, and personalized support help maintain strong customer relationships and secure repeat business.

4. Customized Value Propositions
Unlike B2C, where messaging can be broad, B2B buyers demand personalized solutions. Marketing programs must offer customized value propositions that directly address the customer's business problems. This includes demonstrating ROI, reducing operational risk, or enhancing efficiency.

5. Sales Force Management
Salespeople play a central role in B2B. Marketing programs must include strategies for recruiting, training, motivating, and monitoring the sales team. Since B2B selling is often technical and involves negotiations, sales teams must be skilled in consultative selling and solution-based discussions.

6. Building B2B Brands
While branding is often associated with B2C, it is equally important in B2B. A strong B2B brand communicates trust, quality, consistency, and reliability—critical factors in high-involvement business purchases. A recognized brand can shorten the sales cycle, command premium pricing, and influence buying committees in large organizations.

7. Managing Communication
B2B communication goes beyond advertising. It includes personal selling, trade shows, email campaigns, webinars, case studies, and especially digital channels like LinkedIn. The focus is on providing detailed and relevant information, addressing technical concerns, and building credibility over time. Customized communication for different stakeholders in the buying process is often necessary.

8. Channel Management
Distribution in B2B may be direct (through the company's own sales force) or indirect (via dealers, agents, or online platforms). Managing these marketing channels includes selecting the right partners, training them, and monitoring their performance to ensure consistent service and brand image.

9. Pricing Strategy
B2B pricing is often customized, negotiated, and based on value delivered. Businesses may offer discounts based on volume, long-term contracts, or payment terms. Pricing strategy must reflect market competition, cost structure, and the perceived value by the buyer.

5. e-Procurement

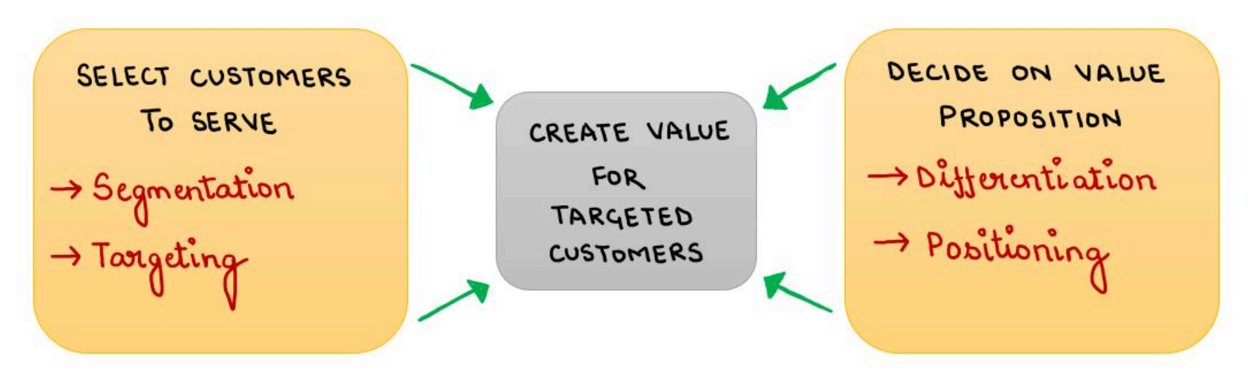
E-procurement, also known as online purchasing, has seen exponential growth in recent years, revolutionizing the way buyers and sellers interact. Once a novelty two decades ago, it's now a standard practice for most businesses. This method facilitates electronic connections between buyers and sellers, offering numerous advantages. Buyers gain access to a wider range of suppliers, reducing purchasing costs while expediting order processing and delivery. Simultaneously, businesses can leverage online platforms to connect with customers, sharing marketing information, selling products and services, providing customer support, and nurturing lasting customer relationships.

Companies engage in e-procurement through various avenues:
1. **Reverse Auctions**: Companies utilize reverse auctions, posting their purchasing needs online and inviting suppliers to competitively bid for the business.
2. **Online Trading Exchanges**: Through online trading exchanges, businesses collectively streamline the trading process, fostering smoother transactions among companies.
3. **Company Buying Sites**: Setting up dedicated company buying sites is another approach. For instance, GE operates a platform where it posts its buying requirements, invites bids, negotiates terms, and places orders.
4. **Extranet Links**: Establishing extranet links with key suppliers is also common. This enables direct procurement accounts with suppliers like Dell or Staples, allowing company buyers to directly purchase equipment, materials, and supplies.

1. Introduction

A market consists of large number of individual customers who differ in terms of their needs, preferences and buying capacity. Thus, most companies have moved away from mass marketing and toward target marketing: identifying market segments, selecting one or more of them, and developing products and marketing programs tailored to each.

A *customer-driven marketing strategy* begins with selecting which customers to serve and determining a value proposition that best serves the targeted customers. It consists of 4 steps – Segmentation, Targeting, Differentiation, Positioning.



In the first two steps, the company selects the customers that it will serve.

1. Market Segmentation: It involves dividing a market into distinct groups of buyers who have different needs, characteristics, or behaviors and who might require separate marketing strategies or mixes. The company identifies different ways to segment the market and develops profiles of the resulting market segments.

2. Market Targeting: It consists of evaluating each market segment's attractiveness and selecting one or more market segments to enter.

In the final two steps, the company decides on a value proposition—how it will create value for target customers.

3. Differentiation: It involves differentiating the firm's market offering to create superior customer value.

4. Positioning: It consists of arranging for a market offering to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers.

Example

Let's consider the Indian company Titan Company Limited, known for its diverse product lines, including watches, jewelry, and eyewear:

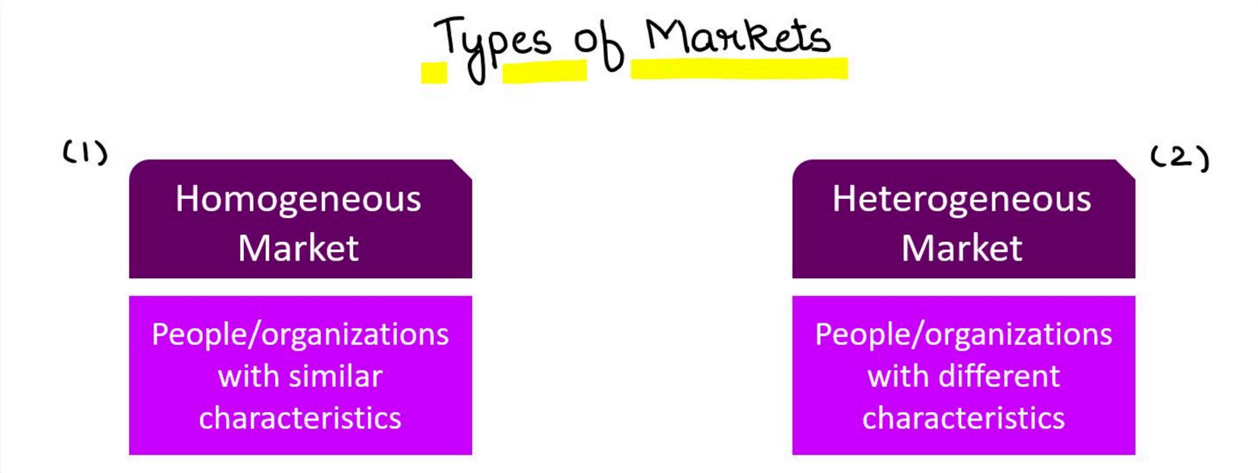
1. *Market Segmentation*: Titan analyzes the market for its watch segment, identifying distinct groups based on demographics (age, income), psychographics (lifestyle, preferences), and behavior (buying patterns). They identify segments like fashion-conscious millennials, luxury seekers, and practical everyday users, understanding their unique needs and desires.

2. *Market Targeting*: After assessing segment attractiveness, Titan zeroes in on the fashion-conscious millennials due to their size, trend-driven buying behavior, and alignment with Titan's design-focused approach. This segment shows growth potential and resonates with Titan's innovation-driven offerings.

3. *Differentiation*: Titan tailors its watch collections for millennials, emphasizing trendy designs, smart features, and customizable options. They enhance their products with technological advancements and style elements to create a unique value proposition catering specifically to this segment's tastes.

4. *Positioning*: Titan positions its watches as fashion-forward, technologically advanced timepieces for the young and trendsetting crowd. Their marketing campaigns, collaborations with influencers, and presence in fashion events solidify their image as the go-to brand for stylish, tech-savvy millennials seeking trendy yet functional timepieces.

2. Market Segmentation



Market segmentation enables the marketer to match his marketing efforts to the requirements of the target market. Instead of wasting his efforts in trying to sell to all types of customers, marketer can focus its efforts on the segment most appropriate to its business offering. Market segmentation divides a large market into smaller groupings of consumers each with common needs or behaviour.

In this context, there are 2 types of markets:

- *Homogenous Market* is a market in which people or organisation have similar characteristics.
- *Heterogeneous Market* is a market in which people or organisations have different characteristics.

Market segmentation allows a marketer to take a heterogeneous market and carve it up in to one or more homogenous markets which are made up of individuals or organisations with similar needs, wants and behavioural tendencies.

Let's consider an example in the context of the automobile industry:

Market segmentation in the automobile industry divides the larger consumer base into smaller, more specific groups. For instance, within a heterogeneous market of potential car buyers, segmentation might identify two distinct groups: one seeking fuel-efficient compact cars for city commuting (Homogenous Market A) and another interested in powerful SUVs for off-road adventures (Homogenous Market B).

By recognizing these differing needs and preferences, car manufacturers can tailor their marketing strategies and product offerings specifically to each group, efficiently matching their efforts to the requirements of these distinct target markets.

2. Market Segmentation

Market segmentation is the process of dividing a broad market into smaller, more manageable groups of consumers who have similar needs, characteristics, or behaviors. The goal is to identify and target the most valuable customer groups with tailored marketing strategies.

A market can be segmented using the following major variables:

1. Geographic Segmentation
In this method, the market is divided based on location-related factors such as:

- Country
- State
- Region
- City
- Climate
- Urban vs. Rural

2. Demographic Segmentation
This is one of the most commonly used methods. The market is segmented based on measurable population characteristics such as:

- Age (teenagers, adults, seniors)
- Gender (male, female, others)
- Income (low, middle, high income)
- Occupation (students, professionals, homemakers)
- Education level
- Religion and ethnicity
- Family size and life-cycle stage
- Generation (Gen Z, Millennials, Gen X)

3. Psychographic Segmentation
This segmentation focuses on the lifestyle, values, attitudes, interests, and personality traits of consumers. People in the same demographic segment may have very different psychographic profiles.

4. Behavioral Segmentation
This approach divides consumers based on their behavior and interaction with the product or brand, including:

- User Status: First-time users, regular users, non-users
- Usage Rate: Light, medium, or heavy users
- Buyer Readiness Stage: Awareness, interest, desire, action
- Loyalty Status: Loyal, switchers, brand indifferent
- Occasions: Regular vs. special occasions (like buying sweets during Diwali)

Buyers can also be grouped according to occasions when they get the idea to buy, actually make their purchases, or use the purchased items. **Occasion segmentation** refers to dividing the market into segments according to occasions when buyers get the idea to buy, actually make their purchase, or use the purchased item.

Another powerful form of segmentation is grouping buyers according to the different benefits that they seek from a product. **Benefit segmentation** refers to dividing the market into segments according to the different benefits that consumers seek from the product. It requires finding the major benefits people look for in a product class, the kinds of people who look for each benefit, and the major brands that deliver each benefit.

Marketers rarely limit their segmentation analysis to only one or a few variables. Rather, they often use **multiple segmentation** bases in an effort to identify smaller, better-defined target groups.

2. Market Segmentation

Just like consumer markets, industrial or business markets can also be segmented to target the right type of organizations more effectively. However, segmentation in industrial markets is more complex because the buying process is formal, involves multiple decision-makers, and is influenced by organizational goals rather than personal preferences.

Industrial markets can be segmented using the following major variables:

1. Demographic Segmentation

This refers to basic structural characteristics of the business customer.

- Industry Type: Manufacturing, education, healthcare, IT, etc.
- Company Size: Large enterprises, SMEs, start-ups
- Geographic Location: Urban vs. rural, domestic vs. international, specific regions

Example: A cloud services company may target IT firms with more than 500 employees in metro cities.

2. Operating Variables

These are based on how the customer operates or uses the product/service.

- Technology Used: Whether the company uses specific platforms (e.g., Linux vs. Windows systems)
- User Status: Whether they are regular users, first-time users, or non-users
- Customer Capabilities: Technical sophistication, financial strength, infrastructure

Example: A software vendor might target manufacturing firms that already use automated production systems.

3. Purchasing Approaches

This focuses on how the organization makes buying decisions.

- Purchasing-Function Organization: Centralized vs. decentralized procurement
- Power Structure: Who influences purchase—engineering, finance, or top management
- Nature of Existing Relationships: Long-term contract vs. one-time deals
- General Purchase Policies: Preference for leasing, tenders, vendor limits
- Purchasing Criteria: Emphasis on price, service, quality, warranty, or delivery speed

Example: A supplier may create different strategies for government buyers (who follow tendering) versus private corporations (who prefer relationship-based buying).

4. Situational Factors

These are temporary or short-term factors influencing buying behavior.

- Urgency of Need: Immediate requirement vs. routine purchase
- Specific Application: Customized solutions for unique uses
- Order Size: Small, medium, or bulk procurement

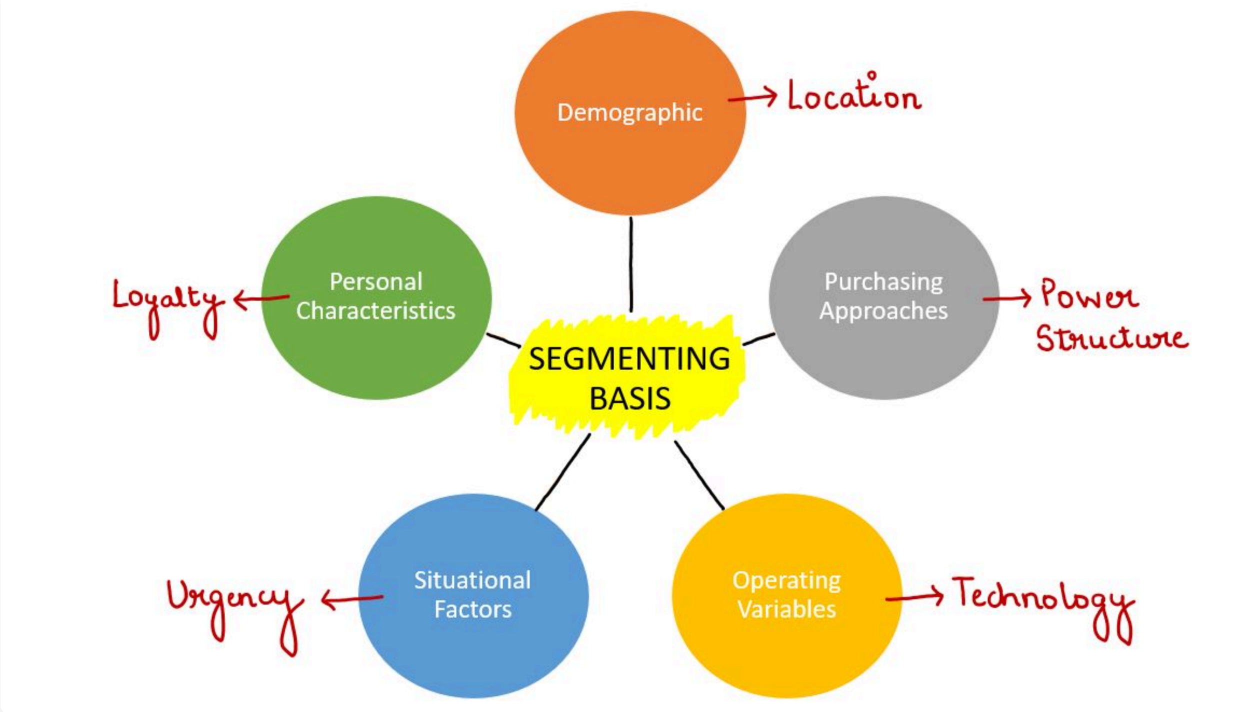
Example: An urgent machinery breakdown may lead a buyer to prefer fast delivery over low price.

5. Personal Characteristics

These refer to the traits and attitudes of the individuals involved in the purchase decision.

- Buyer–Seller Similarity: Shared values or business ethics
- Attitudes Toward Risk: Risk-averse vs. risk-taking buyers
- Loyalty: Preference for long-term suppliers vs. frequent switchers

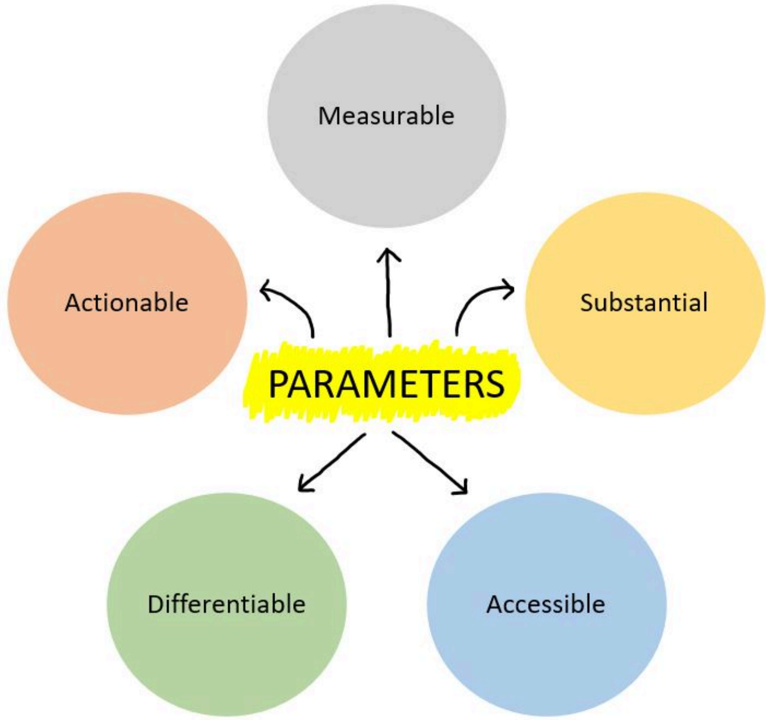
Example: A loyal buyer with a risk-averse mindset may prefer to stick with a trusted supplier even if cheaper options are available.



2. Market Segmentation

Intermarket segmentation, also known as **cross-market segmentation**, is a modern approach to segmenting international markets that goes beyond traditional geographical and demographic boundaries. It recognizes that consumers around the world can share common interests, preferences, and behaviors, allowing marketers to create segments based on these shared characteristics rather than just focusing on clusters of countries.

3. Parameters of Segmentation



Clearly, there are many ways to segment a market, but not all segmentations are effective. To be useful, market segments must be:

Measurable: We can measure the size, spending ability, and traits of the segments. For example, we can easily measure how many people are in a certain group and what they can afford.

Substantial: The segments are big and profitable enough to be worthwhile. A segment should be a big, similar group that is worth targeting with a special marketing plan. For instance, a car company would not make cars only for people who are short.

Accessible: We can easily reach and help the segments. If a group of people is hard to connect with or serve, it is not a good segment to focus on.

Differentiable: The segments are clearly different and react differently to marketing. If two groups react the same way to a sale, they are not separate segments.

Actionable: We can create effective plans to attract and serve the segments. If we cannot make good plans for a certain group, it is not a useful segment.

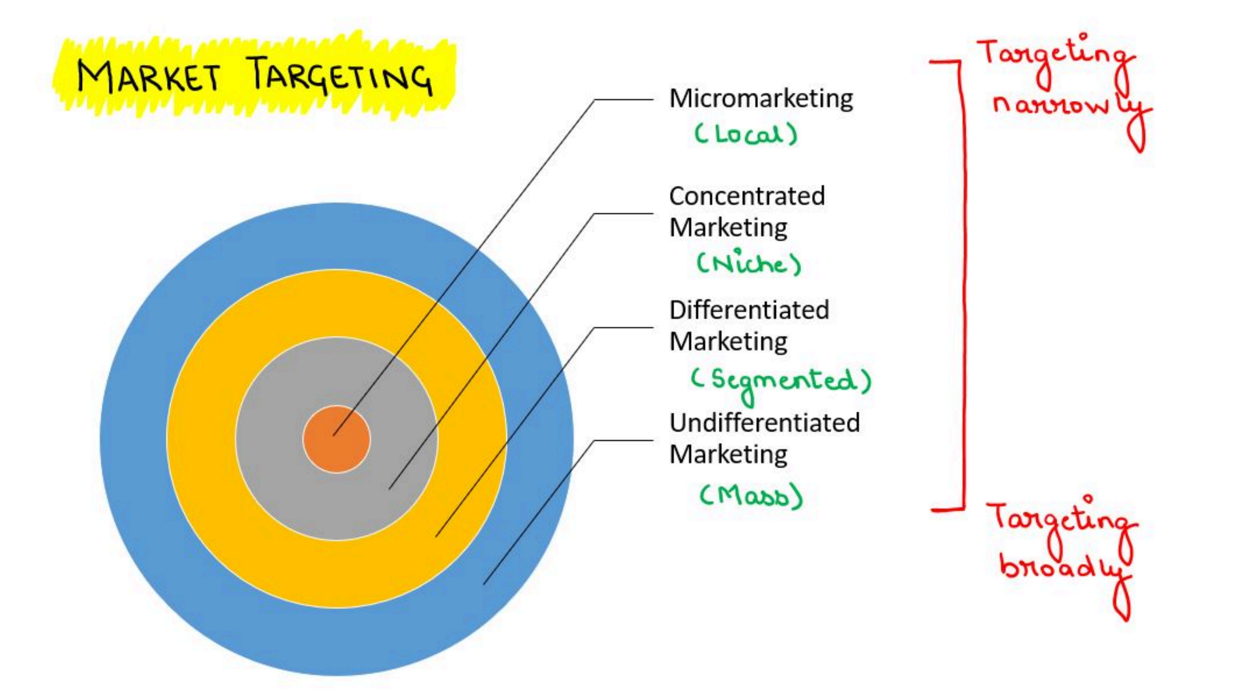
4. Market Targeting

Market Targeting is the process of selecting specific segments of the market to focus on, based on their potential to respond to your brand's offerings. It involves evaluating the different market segments and deciding which ones will be most beneficial for the brand to target, based on factors such as their needs, buying behaviors, and the company's resources and objectives.

During this process, marketers assess different segments based on three factors: (i) segment size and growth, (ii) the overall appeal of the segment, and (iii) the company's goals and available resources.

4. Market Targeting

Market targeting can take various forms.



The figure shows that companies can target very broadly (undifferentiated marketing), very narrowly (micromarketing), or somewhere in between (differentiated or concentrated marketing).

1. Undifferentiated Marketing (Mass Marketing): Using an undifferentiated marketing (or mass marketing) strategy, a firm might decide to ignore market segment differences and target the whole market with one offer. Such a strategy focuses on what is common in the needs of consumers rather than on what is different. For instance, a company might create a product and marketing strategy that appeals to a broad audience by focusing on shared needs.

2. Differentiated Marketing (Segmented Marketing): Using a differentiated marketing (or segmented marketing) strategy, a firm decides to target several market segments and designs separate offers for each. For instance, Toyota produces various car brands like Yaris and Lexus, each targeting a different group of consumers.

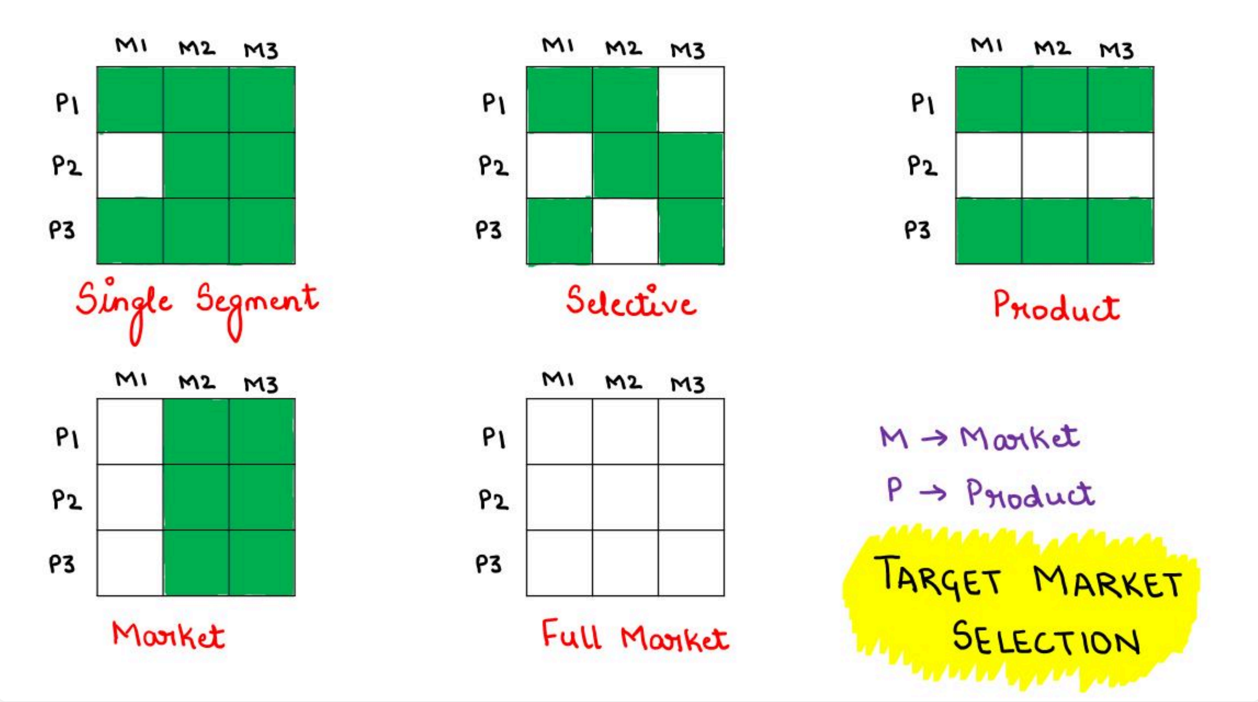
3. Concentrated Marketing (Niche Marketing): When using a concentrated marketing (or niche marketing) strategy, instead of going after a small share of a large market, a firm goes after a large share of one or a few smaller segments or niches.

4. Micromarketing: This is an extreme form of segmentation. It tailors' products and marketing efforts to the preferences of specific individuals or very small geographic areas. Rather than seeing a customer in every individual, micro-marketer see the individual in every customer. Micromarketing can be divided into two forms:

- *Local Marketing:* Tailoring products and marketing to a small group within the same city, neighborhood, or store.
- *Individual Marketing (Mass Customization):* Taking personalization to an extreme by tailoring products and marketing programs to the specific needs and preferences of individual customers. This is also known as mass customization.

4. Market Targeting

D. F. Abell has put forward 5 patterns of target market selection, which are given below:



1. Single-Segment Concentration

In single-segment concentration, a marketer chooses to focus exclusively on one specific market segment. This strategy, also known as "concentrated marketing," involves understanding the unique needs of that segment and tailoring all efforts towards serving it. The benefits include reduced costs in production, distribution, and promotion, as well as the opportunity to specialize in catering to that segment.

2. Selective Specialization or Multi-Segment

In this approach, a marketer targets two or a few distinct segments by offering different products and services with individualized marketing strategies for each segment. By serving multiple segments, the marketer can achieve economies of scale and synergies across various functions like production and marketing. For example, Maruti Suzuki cars offer different models for different types of customers, or Procter and Gamble provides various types of soaps and detergents to cater to diverse consumer preferences.

3. Product Specialization

Product specialization involves offering various versions of a product within the same product line to cater to different market segments. This allows the marketer to establish a reputation and expertise in that specific product category. For instance, a technology company might offer different versions of a software product tailored for different customer needs.

4. Market Specialization

In market specialization, the marketer serves the needs of a specific customer group comprehensively. This strategy works well in situations where the marketer has the potential to monopolize a particular market and serve its unique demands. For example, Ordinance Factories in India solely serve the defense forces, meeting their diverse needs.

5. Full Market Coverage

With full market coverage, the marketer targets the entire market. This can be done in two ways: differentiated and undifferentiated approaches.

- **Differentiated:** The marketer targets the entire market but tailors' different products for various segments. Each segment receives a product designed to meet its specific needs. For example, a cosmetics company might offer a range of skincare products for different skin types.

- **Undifferentiated (Mass Marketing):** The marketer treats the entire market as a single segment and offers a single product for all consumers. This approach focuses on commonalities rather than differences. An example of this is a company that produces a basic household cleaning product, targeting a broad consumer base.

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4. Market Targeting

Companies need to consider many factors when choosing a market-targeting strategy. Selection of the strategy depends on multiple factors as given below:

- **Firms' Resources:** When the firm's resources are limited, concentrated marketing makes the most sense.
- **Product variability:** The best strategy also depends on the degree of product variability. Undifferentiated marketing is more suited for uniform products, such as grapefruit or steel. Products that can vary in design, such as cameras and cars, are more suited to differentiation or concentration.
- **Product Life Cycle Stage:** The product's life-cycle stage also must be considered. When a firm introduces a new product, it may be practical to launch one version only, and undifferentiated marketing or concentrated marketing may make the most sense. In the mature stage of the product life cycle, however, differentiated marketing often makes more sense.
- **Market variability:** Another factor is market variability. If most buyers have the same tastes, buy the same amounts, and react the same way to marketing efforts, undifferentiated marketing is appropriate.
- **Competitors' Marketing Strategies:** Finally, competitors' marketing strategies should be considered. When competitors use differentiated or concentrated marketing, undifferentiated marketing can be suicidal. Conversely, when competitors use undifferentiated marketing, a firm can gain an advantage by using differentiated or concentrated marketing, focusing on the needs of buyers in specific segments.

Segment Invasion Plan (SIP)

The point of effective targeting is to attack a segment with maximum impact, while optimizing available resources. By developing a concerted plan to occupy specific niches according of strategic importance and optimum response both marketing and ROI objectives can be met. It is necessary to select those niches where the organization can sustain a competitive advantage.

Multi-Attribute Segmentation (Geo-clustering)

Marketers are increasingly combining several variables in an effort to identify smaller, better defined target groups. Thus, a bank may not only identify a group of wealthy retired adults, but within that group may distinguish several segments depending on current income, assets, savings, and risk preferences.

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4. Market Targeting

Understanding the target market is one of the most critical steps in marketing strategy. The 5 C's framework offers a comprehensive way to analyze the internal and external environment surrounding a company. These five dimensions—Customer, Company, Collaborators, Competitors, and Context—help marketers assess market opportunities and make informed decisions.

1. Customer

The customer is the central focus of all marketing activities. Analyzing the customer involves identifying the needs, preferences, behavior, and decision-making processes of the target audience. This includes understanding who the customers are (demographics), what they buy, why they buy, and how frequently. Tools such as market segmentation, customer personas, and buying journey mapping are commonly used here.
Example: In India, BigBasket segments customers based on urban working professionals who seek convenience in grocery shopping.

2. Company

This refers to an internal analysis of the company itself—its strengths, weaknesses, resources, brand image, and value proposition. The company must assess its ability to meet customer needs better than its competitors. Factors like product portfolio, core competencies, reputation, and marketing capabilities are considered under this dimension.
Example: Maruti Suzuki has strong brand equity and a wide service network, making it a preferred choice in the affordable car segment.

3. Collaborators

Collaborators are external parties who help the company deliver value to customers. These include suppliers, distributors, marketing agencies, logistic partners, and even joint venture partners. An effective collaboration strategy can enhance customer satisfaction and operational efficiency.
Example: Flipkart partners with sellers, delivery firms, and ad agencies to serve its massive online customer base.

4. Competitors

Understanding competitors helps a company identify market gaps and refine its positioning. Competitive analysis involves assessing direct and indirect competitors, their offerings, pricing, market share, brand positioning, and strategies. A well-defined USP (Unique Selling Proposition) helps the firm stand out.
Example: Ola and Uber constantly monitor each other's pricing and feature innovations in the ride-hailing market.

5. Context

The final "C" refers to the broader macro-environment in which the company operates. This includes Sociological, Technological, Regulatory, Physical, and Economic factors (often abbreviated as S-T-R-P-E). These factors are largely uncontrollable but can significantly affect market dynamics.

- Sociological: Cultural shifts, demographics (e.g., rising youth population in India)
- Technological: AI, automation, digital payments
- Regulatory: GST laws, advertising standards, data privacy laws
- Physical: Infrastructure, climate, geographical constraints
- Economic: Inflation, interest rates, disposable income

For instance, the rollout of UPI and mobile internet changed the context dramatically for digital payment companies like PhonePe and Paytm.
