Global Shiksha institute in Collaboration with Singhania University

BASIC OF MARKETING

COURSE: MBA/EMBA
FIRST SEMESTER

PAPER V

BASIC OF MARKETING

LESSON 1- Definition & Core concept, marketing tools, P's- product, price, place and promotion

LESSON 2- Market segmentation, targeting and positioning & analyzing the marketing environment

LESSON 3- Study consumer behavior, needs and motivation, group dynamics, social surroundings and consumer perception

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Course Code: **Paper-V**	Vetter: **Dr. B.S. Bodla**
Lesson: **1**	

Definition and Core Concept, Marketing Tools,

P's-Product, Price, Place and Promotion

Structure

1.1 Objective

This lesson deals with basics of the marketing process, marketing concept and marketing mix i.e. product, price, place and promotion

1.2 Introduction

'Marketing is so basic that it cannot be considered as separate function. It is the whole business seen from the point of view of its final result, that is, from the customer's point of view'. - Peter Drucker.

Marketing is indeed an ancient art; it has been practiced in one form or the other, since the days of Adam and Eve. Today, it has become the most vital function in the world of business. Marketing is the business function that identifies unfulfilled needs and wants, define and measures their magnitude, determines which target market the organization can best serve, decides on appropriate products, services and programmes to serve these markets, and calls upon everyone in the organization to think and serve the customer. Marketing is the force that harnesses a nation's industrial capacity to meet the society's material wants. It uplifts the standard of living of people in society.

Marketing must not be seen narrowly as the task of finding clever ways to sell the company's products. Many people confuse marketing with some of its sub functions, such as advertising and selling. Authentic marketing is not the art of selling what you make but knowing what to make. It is the art of identifying and understanding customer needs and creating solutions that deliver satisfaction to the customers, profit to the producers, and benefits for the stakeholders. Market leadership is gained by creating customer satisfaction through product innovation, product quality, and customer service. If these are absent, no amount of advertising, sales promotion, or salesmanship can compensate.

William Davidow observed: 'While great devices are invented in the laboratory, great products are invented in the marketing department'. Too many wonderful laboratory products are greeted with yawns or laughs. The job of marketers is to 'think customer' and to guide companies to develop offers that are meaningful and attractive to target customers. Already sea changes have been taking place in the global economy. Old business road maps cannot be trusted. Companies are learning that it is hard to build a reputation and easy to lose it. The companies that best satisfy their customers will be the winners. It is the special responsibility of marketers to understand the needs and wants of the market place and to help their companies to translate them into solutions that win customers approval. Today's smart companies are not merely looking for sales; they are investing in long term, mutually satisfying customer relationships based on delivering quality, service and value.

1.3 Definitions and terminology

There are as many definitions of marketing as many scholars or writers in this field. It has been defined in various ways by different writers.

There are varying perceptions and viewpoints on the meaning and content of marketing. Some important definitions are:

> Marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating, offering and exchanging products of value with others.
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> Marketing is the process by which an organization relates creatively, productively and profitably to the market place.
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> Marketing is the art of creating and satisfying customers at a profit.
>
> Marketing is getting the right goods and services to the right people at the right places at the right time at the right price with the right communication and promotion.
>
> Much of marketing is concerned with the problem of profitably disposing what is produced.
>
> Marketing is the phenomenon brought about by the pressures of mass production and increased spending power.
>
> Marketing is the performance of business activities that direct the flow of goods and services from the producer to the customer.

Marketing is the economic process by which goods and services are exchanged between the maker and the user and their values determined in terms of money prices.

Marketing is designed to bring about desired exchanges with target audiences for the purpose of mutual gain.

Marketing activities are concerned with the demand stimulating and demand fulfilling efforts of the enterprise.

Marketing is the function that adjusts an organization's offering to the changing needs of the market place.

Marketing is a total system of interacting business activities designed to plan, promote, and distribute need satisfying products and services to existing and potential customers.

Marketing origination with the recognition of a need on the part of a consumer and termination with the satisfaction of that need by the delivery of a usable product at the right time, at the right place, and at an acceptable price. The consumer is found both at the beginning and at the end of the marketing process.

Marketing is a view point, which looks at the entire business process as a highly integrated effort to discovery, arouse and satisfy consumer needs.

It is obvious from the above definitions of marketing that marketing has been viewed from different perspective. Now it is imperative to discuss the important terms on which definition of marketing rests: needs, wants, and demands; products; value, cost, and satisfaction; exchange, transactions and relationships; markets; and marketers. These terms are also known as the core concepts in marketing.

Needs, wants and demands

Marketing starts with the human needs and wants. People need food, air, water, clothing and shelter to survive. They also have a strong desire for recreation, health, education, and other services. They have strong performances for particular versions and brands of basic goods and services. A human need is a state of felt deprivation of some basic satisfaction. People require food, clothing, shelter, safety, belonging, esteem and a few other things for survival. These needs are not created by their society or by marketers; they exist in the very texture of human biology and the human condition.

Wants are desires for specific satisfiers of these deeper needs. For example, one needs food and wants a pizza, needs clothing and wants a Raymond shirt. These needs are satisfied in different manners in different societies. While people needs are few, their wants are unlimited. Human wants are continually shaped and reshaped by social forces and institutions.

Demands are wants for specific products that are backed up by an ability and willingness to buy them. For example, many people want to buy a luxury car but they lack in purchasing power. Companies must therefore measure not only how many people want their products, but, how many would actually be willing to buy and finally able to buy it.

Marketers do not create need, they simply influence wants. They suggest to consumers that a particular product or brand would satisfy a person's need for social status. They do not create the need for social status but try to point out that a particular product would satisfy that need. They try to influence demand by making the product attractive, affordable, and easily available.

Products

People satisfy their needs and wants with products. Product can be defined as anything that can be offered to someone to satisfy a need or want. The word product brings to mind a physical object, such as T.V., Car, and Camera etc. The expression products and services are used distinguish between physical objects and intangible ones. The importance of physical products does not lie in owning them rather using them to satisfy our wants. People do not buy beautiful cars to look at, but because it supply transportation service. Thus, physical products are really vehicles that deliver services to people.

Services are also supplied by other vehicles such as persons, places, activities, organizations and ideas. If people are bored, they can go to a musical concert (persons) for entertainment, travel to beautiful destination like Shimla (place), engage in physical exercise (activity) in health clubs, join a laughing club (organization) or adopt a different philosophy about life (idea). Services can be delivered through physical objects and other vehicles. The term product covers physical products, service products, and other vehicles that are capable of delivering satisfaction of a need or want. The other terms also used for products are offers, satisfiers, or resources.

Manufacturers pay more attention to their physical products than to the services produced by these products. They love their products but forget that customers buy them to satisfy their need. People do not buy physical object for their own sake. A tube of lipstick is bought to supply a service: helping the person to look better. A drill is bought to supply a service: producing holes. The marketers job is to sell the benefits or services built into physical products rather than just describe their physical features.

Value, cost, and satisfaction

How do consumers choose among the various products that may satisfy a given need is very interesting phenomenon. If a student needs to travel five kilometers to his college every day, he may choose a number of products that will satisfy this need: a bicycle, a motorcycle, automobile and a bus. These alternatives constitute product choice set. Assume that the student wants to satisfy different needs in traveling to his college, namely speed, safety, ease and economy. These are called the need set. Each product has a different capacity to satisfy different needs. For example, bicycle will be slower, less safe and more effortful than an automobile, but it would be more economical. Now, the student has to decide on which product delivers the most satisfaction.

Here comes the concept of value. The student will form an estimate of the value of each product in satisfying his needs. He might rank the products from the most need satisfying to the least need satisfying. Value is the consumer's estimate of the product's overall capacity to satisfy his or her needs. The student can imagine the characteristics of an ideal product that would take him to his college in a split second with absolute safety, no effort and zero cost. The value of each actual product would depend on how close it came to this ideal product.

Assume the student is primarily interested in the speed and case of getting to college. If the student was offered any of the above mentioned products at no cost, one can predict that he would choose an automobile. Here comes the concept of cost. Since each product involves a cost, the student will not necessarily buy automobile. The automobile costs substantially more than bicycle or motorcycle. Therefore, he will consider the product's value and price before making a choice. He will choose the product that will produce the most value per rupee.

Today's consumer behaviour theorists have gone beyond narrow economic assumptions of how consumers form value in this mind and make product choices. These modern theories on consumer behaviour are important to marketers because the whole marketing plan rests on assumptions about how customers make choices. Therefore the concept of value, cost and satisfaction are crucial to the discipline of marketing.

Exchange, transactions and relationships

The fact that people have needs and wants and can place value on products does not fully explain the concept of marketing. Marketing emerges when people decide to satisfy needs and wants through exchange. Exchange is one of the four ways people can obtain products they want. The first way is self production. People can relieve hunger through hunting, fishing, or fruit gathering. In this case there is no market or marketing. The second way is coercion. Hungry people can steal food from others. The third way is begging. Hungry people can approach others and beg for food. They have nothing tangible to offer except gratitude. The fourth way is exchange. Hungry people can approach others and offer some resource in exchange, such as money, another food, or service.

Marketing arises from this last approach to acquire products. Exchange is the act of obtaining a desired product from someone by offering something in return. For exchange to take place, five conditions must be satisfied:

There are at least two parties.

Each party has something that might be of value to the other party.

Each party is capable of communication and delivery.

Each party is free to accept or reject the offer.

Each party believes it is appropriate or desirable to deal with the other party.

If the above conditions exist, there is a potential for exchange. Exchange is described as a value creating process and normally leaves both the parties better off than before the exchange. Two parties are said to be engaged in exchange if they are negotiating and moving towards an agreement. The process of trying to arrive at naturally agreeable terms is called negotiation. If an agreement is reached, we say that a transaction takes place. Transactions are the basic unit of exchange. A transaction consists of a trade of values between two parties. A transaction involves several dimensions; at least two things of value, agreed upon conditions, a time of agreement, and a place of agreement. Usually a legal system arises to support and enforce compliance on the part of the transaction. A transaction differs from a transfer. In a transfer A gives X to B but does not receive anything tangible in return. When A gives B a gift, a subsidy, or a charitable contribution, we call this a transfer.

Transaction marketing is a part of longer idea, that of relationship marketing. Smart marketers try to build up long term, trusting, 'win-win' relationships with customers, distributors, dealers and suppliers. This is accomplished by promising and delivering high quality, good service and fair prices to the other party over time. It is accomplished by strengthening the economic, technical, and social ties between members of the two organizations. The two parties grow more trusting, more knowledgeable, and more interested in helping each other. Relationship marketing cuts down on transaction costs and time. The ultimate outcome of relationship marketing is the building of a unique company asset called a marketing network. A marketing network consists of the company and the firms with which it has built solid, dependable business relationships.

Markets

The concept of exchange leads to the concept of market. A market consists of all the potential customers sharing a particular need or want who might be willing and able to engage in exchange to satisfy that need or want. The size of market depends upon the number of persons who exhibit the need, have resources that interest others, and are willing to offer these resources in exchange for what they want.

Originally the term market stood for the place where buyers and sellers gathered to exchange their goods, such as a village square. Economists use the term market to refer to a collection of buyers and sellers who transact over a particular product or product class; i.e. the housing market, the grain market, and so on. Marketers, however, see the sellers as constituting the industry and the buyers as constituting the market. Business people use the term markets colloquially to cover various groupings of customers. They talk need markets (such as diet-seeking market); product markets (such as the shoe market); demographic markets (such as the youth market); and geographic markets (such as the Indian market). The concept is extended to cover non-customer groupings as well, such as voter markets, labour markets, and donor markets.

Marketing, marketers, and marketing management

The concept of markets bring the full circle to the concept of marketing. Marketing means human activities taking place in relation to markets. Marketing means working with markets to actualize potential exchanges for the purpose of satisfying human needs and wants. If one party is more actively seeking an exchange than the other party, we call the first party a marketer and the second party a prospect. A marketer is someone seeking a resource from someone else and willing to offer something of value in exchange. The marketer is seeking a response from the other party, either to sell something or to buy something. Marketer can be a seller or a buyer. Suppose several persons want to buy an attractive house that has just became available. Each would be buyer will try to market himself or herself to be the one the seller selects. These buyers are doing the marketing. In the event that both parties actively seek an exchange, we say that both of them are marketers and call the situation one of reciprocal marketing.

In the normal situation, the marketer is a company serving a market of end users in the face of competitors. The company and the competitors send their respective products and messages directly and/or through marketing intermediaries i.e. middlemen and facilitators to the end users.

Marketing management takes place when at least one party to a potential exchange gives thought to objectives and means of achieving desired responses from other parties. According to American Marketing Association, 'Marketing Management is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives'. This definition recognizes that marketing management is a process involving analysis, planning, implementation, and control; that it covers ideas, goods and services; that it rests on the notion of exchange; and that the goal is to produce satisfaction for the parties involved.

1.4 Marketing concepts

Firms vary in their perceptions about business, and their orientations to the market place. This has led to the emergence of many different concepts of marketing. Marketing activities should be carried out under some well-thought out philosophy of efficient, effective, and responsible marketing. There are six competing concepts under which organisations conduct their marketing activity.

1.4.1. Exchange concept

The exchange concept of marketing, as the very name indicates, holds that the exchange of a product between the seller and the buyer is the central idea of marketing. While exchange does form a significant part of marketing, to view marketing as more exchange will result in missing out the essence of marketing. Marketing is much broader than exchange. Exchange, at best, covers the distribution aspect and the price mechanism. The other important aspects of marketing, such as, concern for the customer, generation of value satisfactions, creative selling and integrated action for serving customer, are completely overshadowed in exchange concept.

1.4.2. Production concept

It is one of the oldest concepts guiding sellers. The production concept holds that customers will favour those products that are widely available and low in cost. Managers of production-oriented organisations concentrate on achieving high production efficiency and wide distribution coverage.

The assumption that consumers are primarily interested in product availability and low price holds in at least two types of situations. The first is where the demand for a product exceeds supply. Here consumers are more interested in obtaining the product than in its fine points. The suppliers will concentrate on finding ways to increase production. The second situation is where the product's cost is high and has to be brought down through increased productivity to expand the market.

1.4.3. The product concept

The product concept holds that consumers will favour those products that offer quality or performance. Managers in these product-oriented organisations focus their energy on making good products and improving them over time.

These managers assume that buyers admire well-made product and can appraise product quality and performance. These managers are caught up in a love affair with their product and fail to appreciate that the market may be less “turned on” and may even be moving in different direction.

The product concept leads to “marketing myopia”, an undue concentration on the product rather than the need. Railroad management thought that users wanted trains rather than transportation and overlooked the growing challenge of the airlines, buses, trucks, and automobiles. Slide-rule manufacturers thought that engineers wanted slide rules rather than the calculating capacity and overlooked the challenge of pocket calculators.

1.4.4. The selling concept

The selling concept holds that consumers, if left alone, will ordinarily not buy enough of the organization’s products. The organization must therefore an aggressive selling and promotion effort.

The concept assumes that consumers typically show buying inertia or resistance and have to be coaxed into buying more, and that the company has available a whole battery of effective selling and promotion tools to stimulate more buying.

The selling concept is practiced most aggressively with “sought goods”, those goods that buyers normally do not think of buying, such as insurance, encyclopedias, and funeral plots. These industries have perfected various sales techniques to locate prospects and hard-sell them on the benefits of their product. Hard selling also occurs with sought goods, such as automobiles. Most firms practice the selling concept when they have overcapacity. Their aim is to sell what they make rather than make what they can sell.

Thus selling, to be effective, must be preceded by several marketing activities such as needs assessment, marketing research, product development, pricing, and distribution. If the marketer does a good job of identifying consumer needs, developing appropriate products, and pricing, distributing, and promoting them effectively, these products will sell very easily. When Atari designed its first video game, and when Mazda introduced its RX-7 sports car, these manufacturers were swamped with orders because they had designed the “right” product based on careful marketing homework.

Indeed, marketing based on hard selling carries high risks. It assumes that customers who are coaxed into buying the product will like it; and if they don’t, they won’t bad-mouth it to friends or complain to consumer organizations. And they will possibly forget their disappointment and buy it again. These are indefensible assumptions to make about buyers. One study showed that disappointed customers bad-mouth the product to eleven acquaintances, while satisfied customers may good-mouth the product to only three.

1.4.5. The marketing concept

The marketing concept holds that the key to achieving organizational goals consists in determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors.

Theodore Levitt drew a perceptive contrast between the selling and marketing concepts. Selling focuses on the needs of the seller; marketing on the needs of the buyer. Selling is preoccupied with the seller's need to convert his product into cash; marketing with the idea of satisfying the needs of the customer by means of the product and the whole cluster of things associated with creating, delivering and finally consuming it.

Market focus: No company can operate in every market and satisfy every need. Nor can it even do a good job within one broad market: Even mighty IBM cannot offer the best customer solution for every computer need. Companies do best when they define their target markets carefully. They do best when they prepare a tailored marketing program for each target market.

Customer orientation: A company can define its market carefully and still fail at customer-oriented thinking. Customer-oriented thinking requires the company to define customer needs from the customer point of view, not from its own point of view. Every product involves tradeoffs, and management cannot know what these are without talking to and researching customers. Thus a car buyer would like a high-performance car that never breaks down, that is safe, attractively styled, and cheap. Since all of these virtues cannot be combined in one car, the car designers must make hard choices not on what pleases them but rather on what customers prefer or expect. The aim, after all, is to make a sale through meeting the customer's needs.

Why is it supremely important to satisfy the customer? Basically because a company's sales each period come from two groups: customers and repeat customers. It always costs more to attract new customers than to retain current customers. Therefore customer retention is more critical than customer attraction.

Coordinated marketing: Unfortunately, not all the employees in a company are trained or motivated to pull together for the customer. Coordinated marketing means two things. First, the various marketing functions-sales-force, advertising, product management, marketing research, and so on- must be coordinated among themselves. Too often the sales-force is mad at the product managers for setting "too high a price” or “too high a volume target”, or the advertising director and a brand manager cannot agree on the best advertising campaign for the brand. These marketing functions must be coordinated from the customer point of view. Second, marketing must be well coordinated with the other departments. Marketing does not work when it is merely a department; it only works when all employees appreciate the effect they have on customer satisfaction.

Profitability: The purpose of the marketing concept is to help organizations achieve their goals. In the case of private firms, the major goal is profit; in the case of non-profit and public organizations, it is surviving and attracting enough funds to perform their work. Now the key is not to aim for profits as such but to achieve them as a byproduct of doing the job well.

This is not to say that marketers are unconcerned with profits. Quite the contrary, they are highly involved in analyzing the profit potential of different marketing opportunities. Whereas salespeople focus on achieving sales-volume goals, marketing people focus on identifying profit-making opportunities.

1.4.6. The societal marketing concept

In recent years, some people have questioned whether the marketing concept is appropriate organizational philosophy in an age of environmental deterioration, resource shortages, explosive population growth, world hunger and poverty, and neglected social services. The question is whether companies that do an excellent job of sensing, serving, and satisfying individual consumer wants are necessarily acting in then best long-run interests of consumers and society.

The societal marketing concept holds that the organization's task is to determine the needs, wants, and interests of target markets and to deliver the desired satisfactions more effectively and efficiently than competitors in a way that preserves or enhances the consumer's and the society's well-being.

The societal marketing concept calls upon marketers to balance three considerations in setting their marketing policies, namely, company profits, consumer want satisfaction, and public interest. Originally, companies based their marketing decisions largely on immediate company profit calculations. Then they began to recognize the long-run importance of satisfying consumer wants, and this introduced the marketing concept. Now they are beginning to factor in society's interests in their decision-making. The societal marketing concept calls for balancing all three considerations. A number of companies have achieved notable sales and profit gains through adopting and practicing the societal marketing concept.

1.5 Marketing Mix

The marketers delivers value to the customer basically through his market offer. He takes care to see that the offer fulfils the needs of the customer. He also ensures that the customer perceives the terms and conditions of the offer as more attractive vis-à-vis other competing offers. Marketing Mix is the set of marketing tools that the firm uses to pursue its marketing objectives in the target market. It is the sole vehicle for creating and delivering customer value.

It was James Culliton, a noted marketing expert, who coined the expression marketing mix and described the marketing manager as a mixer of ingredients. To quote him, "The marketing man is a decider and an artist – a mixer of ingredients, who sometimes follow a recipe developed by others and sometimes prepares his own recipe. And, sometimes he adapts his recipe to the ingredients that are readily available and sometimes invents some new ingredients, or, experiments with ingredients as no one else has tried before'. The dynamics of the marketing process and the versatility of the marketing process and the versatility of the marketing mix tool cannot be described any better. Subsequently Niel H. Borden, another noted marketing expert, popularized the concept of marketing mix. It was Jerome McCarthy, the well known American Professor of marketing, who first described the marketing mix in terms of the four Ps. The classified the marketing mix variables under four heads, each beginning with the alphabet 'p'.

Product

Price

Place (referring to distribution)

Promotion

McCarthy has provided an easy to remember description of the marketing mix variables. Over the years, the terms-Marketing mix and four Ps of marketing-have come to be used synonymously.

Product: The most basic marketing mix tool is product, which stands for the firm's tangible offer to the market including the product quality, design, variety features, branding, packaging, services, warranties etc.

Price: A critical marketing mix tool is price, namely, the amount of money that customers have to pay for the product. It includes deciding on wholesale and retail prices, discounts, allowances, and credit terms. Price should be commensurate with the perceived value of the offer, or else buyer will turn to competitors in choosing their products.

Place: This marketing mix tool refers to distribution. It stands for various activities the company undertakes to make the product easily available and accessible to target customers. It includes deciding on identify, recruit, and link various middlemen and marketing facilitators so that products are efficiently supplied to the target market.

Promotion: The fourth marketing mix tool, stands for the various activities the company undertakes to communicate its products' merits and to persuade target customers to buy them. It includes deciding on hire, train, and motivate salespeople to promote its products to middlemen and other buyers. It also includes setting up communication and promotion programs consisting of advertising, personal selling, sales promotion, and public relations.

Marketing mix or 4 Ps of marketing is the combination of a product, its price, distribution and promotion. It must be designed by marketers in such a manner that these four elements together must satisfy the needs of the organisation's target market, and at the same time, achieve its marketing objectives.

1.6 Summary

Marketing starts with the customers and ends with customers. Meaning thereby, marketing starts with the identification of needs and wants of customers and ends with satisfying it with product or services. Marketing has its origin in the fact that humans are creatures of needs and wants. Need and wants create a state of discomfort, which is resolved through acquiring products that satisfy these needs and wants. Most modern societies work on the principle of exchange, which means that people specialize in producing particular products and trade them for the other things they need. They engage in transactions and relationship building. A market is a group of people who share a similar need. Marketing encompasses those activities involved in working with markets, that is, the trying to actualize potential exchanges. Marketing management is the conscious effort to achieve desired exchange outcomes with target markets. The marketer's basic skill lies in influencing the level, timing, and composition of demand for a product, service, organization, place, person or idea. Marketing can be vital to an organization's success. In recent years numerous service firms and nonprofit organisations have found marketing to be necessary and worthwhile.

1.7 Key words

Authentic: genuine

Perception: perceiving, giving meaning to particular information using senses

Occur: happen

Numerous: great in number

Magnitude: largeness, size, importance

1.8 Self Assessment Exercise

Define marketing and discuss in brief the various concepts of marketing.

"Marketing starts with consumers and ends with consumers." Explain.

Elaborate the concept of marketing mix or 4 P's of marketing.

Explain the following terms:

- Need, wants and demand
- Product
- Value, cost and satisfaction
- Exchange, transaction and relationships

Does the marketing concept imply that marketers should confine themselves only to those needs and wants that consumers say they want to satisfy?

1.9 Suggested Readings

Stanton, Etzel and Walker- Fundamentals of marketing (TMH)

Philip Kotler- Marketing Management (PHI)

Philip Kotler and Armstrong- Principles of marketing (PHI)

Ramaswamy and Namakumari- Marketing management (Macmillan)

Subject: **Basic principles of marketing And management**	Author: **Dr. M.R.P. Singh**
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Lesson: **2**	

Market segmentation, targeting and positioning and analyzing the marketing environment

Structure

2.1 Objectives

2.2 Introduction

2.3 Segmentation

2.4 Targeting

2.5 Positioning

2.6 Marketing environment

2.7 Summary

2.8 Key words

2.9 Self Assessment Exercise

2.10 Suggested Readings

2.1 Objective

The objective of this lesson is to make the students learn about the concept of segmentation, targeting and positioning along with the importance of studying marketing environment and its impact on marketing.

2.2 Introduction

A market consists of people or organizations with wants, money to spend, and the willingness to spend it. However, most markets the buyers' needs are not identical. Therefore, a single marketing program for the entire market is unlikely to be successful. A sound marketing program starts with identifying the differences that exist within a market, a process called, market segmentation, and deciding which segments will be treated as target markets. Market segmentation is customer oriented and consistent with the marketing concept. It enables a company to make more efficient use of its marketing resources. After evaluating the size and potential of each of the identified segments, it targets them with a unique marketing mix. The marketer must somehow persuade the members of each segment that its product will satisfy their needs better than competitive products. To do so, marketers attempt to develop a special image for their products in the consumer's mind relative to competitive products: that is, it positions its product as filling a special niche in the market place. The marketing environment is the set of conditions within which the company must start its search for opportunities and possible threats. It consists of all the actors and forces that affect the company's ability to transact effectively with its target market. The company's micro-environment consists of the actors in the company's immediate environment that affect its ability to serve its markets; specifically, the company itself, suppliers, market intermediaries, customers, competitors, and publics. The company's macro-environment consists of six major forces: demographic, economic, natural, political, technological, and cultural.

2.3 Segmentation

Market segmentation is defined as "the process of taking the total, heterogeneous market for a product and dividing it into several sub-markets or segments, each of which tends to be homogeneous in all significance. The markets could be segmented in different ways. For instance, instead of mentioning a single market for 'shoes', it may be segmented into several sub-markets, e.g., shoes for executives, doctors college students etc. Geographical segmentation on the very similar lines is also possible for certain products.

2.3.1 Requirements for markets segmentation

For market segmentation to become effective and result oriented, the following principles are to be observed: (1) Measurability of segments, (2) Accessibility of the segments, and (3) Represent ability of the segments.

The main purpose of market segmentation is to measure the changing behaviour patterns of consumers. It should also be remembered that variation in consumer behavior are both numerous and complex.

Therefore, the segments should be capable of giving accurate measurements. But this is often a difficult task and the segments are to be under constant review.

The second condition, accessibility, is comparatively easier because of distribution, advertising media, salesmen, etc. Newspaper and magazines also offer some help in this direction. For examples, there are magazines meant exclusively for the youth, for the professional people, etc.

The third condition in the represent ability of each segment. The segments should be large and profitable enough to be considered as separate markets. Such segments must have individuality of their own. The segment is usually small in case of industrial markets and comparatively larger in respect of consumer products.

2.3.2. Benefits of segmentation

The manufacturer is in a better position to find out and compare the marketing potentialities of his products. He is able to judge product acceptance or to assess the resistance to his product.

The result obtained from market segmentation is an indicator to adjust the production, using man, materials and other resources in the most profitable manner. In other words, the organization can allocate and appropriate its efforts in a most useful manner.

Change required may be studied and implemented without losing markets. As such, as product line could be diversified or even discontinued.

It helps in determining the kinds of promotional devices that are more effective and also their results.

Appropriate timing for the introduction of new products, advertising etc., could be easily determined.

2.3.4. Aggregation and segmentation

Market aggregation is just the opposite of segmentation. Aggregation implies the policy of lumping together into one mass all the markets for the products. Production oriented firms usually adopt the method of aggregation instead of segmentation. Under this concept, management having only one product considers the entire buyers as one group. Market aggregation enables an organization to maximize its economies of scale of production, pricing, physical distribution and promotion. However, the applicability of this concept in consumer oriented market is doubtful. The 'total market' concept as envisaged by market aggregation may not be realistic in the present-day marketing when consumers fall under heterogeneous groups.

2.3.5. Basis for segmenting markets

As explained above, market segmentation consists in identifying a sufficient number of common buyer characteristics to permit sub division of the total demand for a product into economically viable segments. These segments fall between two extremes of total homogeneity and total heterogeneity. The various segments that are in vogue are as follows:

Geographic segmentation: Chronologically this kind of segmentation appeared first, for planning and administrative purposes. The marketer often fined it convenient to sub-divide the country into areas in a systematic way. The great advantages of adopting this scheme are that standard regions are widely used by Government and it facilitates collection of statistics. Most of the national manufacturers split up their sales areas into sales territories either state-wise or district-wise.

Demographic segmentation: Under this method, the consumers are grouped into homogeneous groups in terms of demographic similarities such as age, sex, education, income level, etc. This is considered to be more purposeful since the emphasis ultimately rests on customers. The variables are easy to recognize and measure than in the case of the first type, as persons of the same group may exhibit more or less similar characteristics. For example, in the case of shoes, the needs and preferences of each group could be measured with maximum accuracy.

Age groups: Usually age groups are considered by manufacturers of certain special products. For example, toys. Even in the purchases made by parents, children exert a profound influence. The market segmented on the basis of the age groups is as follows: (I) children, (ii) teenagers, (iii) adults, (IV) grown-ups.

Family life-cycle: This is yet another method falling under demographic segmentation. The concept of a family life cycle refers to the important stages in the life of an ordinary family. These stages are called 'decision-making units' (Dumps). A widely accepted system distinguishes the following eight stages:

(I) Young, single, (ii) Young, married, no children, (iii) Young, married, youngest child under six, (iv) Young, married, youngest child over six, (v) Older, married with children, (vi) Older, married, no children under eighteen, (vii) Older single, (viii) Others. Although the distinction between the young and the old is not explicit the concept provides a useful basis for breaking down the total population into sub-group for a more detailed analysis.

Sex: Sex influences buying motives in consumer market, e.g. in the case of many products women demand special styles. Bicycle is an example. This kind of segmentation is useful in many respects. The recent studies, however, show that traditional differences are being fast broken down and this kind of segmentation doesn't hold much water. One reason for this is that women are going in for jobs. This is a blessing in disguise as a number of new products are now being demanded, e.g. frozen food, household appliances, etc. Successful attempts to remove barriers of discrimination against women have generated many market opportunities. Interestingly enough, however, it has not been so easy to get males to accept products traditionally considered feminine. A decade age driving motor vehicles by women was seldom seen but today it has become a common sight. The distinction in dress traditionally maintained by girls and boys has also been considerably reduced. These changes have tremendous marketing implications.

Socio-psychological segmentation: The segmentation here is done on the basis of social class, viz., working class, middle income groups, etc. Since marketing potentially is intimately connected with the "ability to buy", this segmentation is meaningful in deciding buying patterns of a particular class.

Product segmentation: When the segmentation of markets is done on the basis of product characteristics that are capable of satisfying certain special needs of customers, such a method is known as product segmentation. The products, on this basis, are classified into:

Prestige products, e.g. automobiles, clothing.

Maturity products, e.g. cigarettes, blades.

Status products, e.g. most luxuries.

Anxiety products, e.g. medicines, soaps.

Functional products, e.g. fruits, vegetables.

The argument in favor of this type of product segmentation is that it is directed towards differences among the products which comprise markets. Where the products involved show great differences, this method is called a rational approach.

Benefit segmentation: Russell Hally introduced the concept of benefit segmentation. Under this method, the buyers form the basis of segmentation but not on the demographic principles mentioned above. Here consumers are interviewed to learn the importance of different benefits they may be expecting from a product. These benefits or utilities may be classified into generic or primary utilities and secondary or evolved utilities. The following table would explain this aspect.

Product category	Generic or primary utilities	Secondary or evolved utilities
Tooth-paste	Cleaning	Good taste, breath freshening, brightness
Shampoo	Cleaning	Shiny hair, thickening hair
Aspirin	Pain control	Speed of action, taste
Automobiles type	Convenience	Economy seeking, status, quality, i.e., speed

But choosing the benefit as emphasized is not any easy job, for the various utilities may shift from time to time.

Volume segmentation: Another way of segmenting the market is on the basis of volume of purchases. Under this method the buyers are purchasers, and single unit purchasers. This analysis is also capable of showing the buying behavior of different groups.

Marketing-factor segmentation: The responsiveness of buyers to different marketing activities is the basis for these types of segmentation. The price, quality, advertising, promotional devices, etc., are some of the activities involved under this method. This is explained by R.S. Frank as follows:

"If a manufacturer knew that one identifiable group of his customers was more responsive to changes in advertising expenditures than others, he might find it advantageous to increase the amount of advertising aimed at them. The same sort of tailoring would also be appropriate if it was found that customers reacted differently to changes in pricing, packaging, product, quality etc.

It is pertinent here to ask how these consideration influence marketing. The answer is simple as the present day marketing is consumer-oriented and consumers' psychology, their social and economic characteristic form the corner stone of marketing decisions. It is this recognition accorded to consumers that has given rise to the concept of market segmentation.

2.3.6. Markets on the basis of segmentation

It is now certain that any market could be segmented to a considerable extent because buyers' characteristics are never similar. This, however, does not mean that manufacturers may always try to segment their market. On the basis of the intensity of segmentation, marketing strategies to be adopted may be classified into:

Undifferentiated marketing: When the economies of organization do not permit the division of market into segments, they conceive of the total market concept. In the case of fully standardized products and where substitutes are not available, differentiation need not be undertaken. Under such circumstances firms may adopt mass advertising and other mass methods in marketing, e.g., Coca Cola.

Differentiated marketing: A firm may decide to operate in several or all segments of the market and devise separate product-marketing programmes. This also helps in developing intimacy between the producer and the consumer. In recent years most firms have preferred a strategy of differentiated marketing, mainly because consumer demand is quite diversified. For example, cigarettes are now manufactured in a variety of lengths and filter types. This provides the customer an opportunity to select his or her choice from filtered, unfiltered, long or short cigarettes. Each kind offers a basis for segmentation also. Though the differentiated marketing is sales-oriented, it should also be borne in mind that it is a costly affair for the organization.

Concentrated marketing: Both the concepts explained above imply the approach of total market either with segmentation or without it. Yet another option is to have concentrated efforts in a few markets capable of affording opportunities. Put in another way, 'instead of spreading itself thin in many parts of the market, it concentrates its forces to gain a good market position in a few areas. Then new products are introduced and test marketing is conducted, and this method is adopted. For a consumer product 'Boost' produced by the manufacturers of Horlicks, this method was adopted. The principle involved here is 'specialization' in markets which have real potential. Another notable feature of this method is the advantage of one segment is never offset by the other. But in the case of the first two types, good and poor segments are averaged.

2.4 Targeting

Market segmentation reveals the market-segment opportunities facing the firm. The firm now has to evaluate the various segments and decide how many and which ones to serve.

2.4.1. Evaluating the market segments

In evaluation different market segments, the firm must look at three factors, namely segment size and growth, segment structural attractiveness and company objectives and resources.

Segment size and growth: The first question that a company should ask is whether a potential segment has the right size and growth characteristics. Large companies prefer segments with large sales volumes and overlook small segments. Small companies in turn avoid large segments because they would require too many resources. Segment growth is a desirable characteristic since companies generally want growing sales and profits.

Segment structural attractiveness: A segment might have desirable size and growth and still not be attractive from a profitability point of view. The five threats that a company might face are:

Threat from industry competitors: A segment is unattractive if it already contains numerous and aggressive competitors. This condition may lead to frequent price wars.

Threats from potential entrants: i.e. from new competitors who, if enter the segment at a later stage, bring in new capacity, substantial resources and would soon steal a part of the market share.

Threat of substitute products: A segment is unattractive if there exists too many substitutive products because it would result in brand switching, price wars, low profits etc.

Threat of growing bargaining power of buyers: A segment is unattractive if the buyers possess strong bargaining power. Buyers will try to force price down, demand more quality or services, all at the expense of the seller's profitability.

Threat of growing bargaining power of suppliers: A segment is unattractive if the company's suppliers of raw materials, equipment, finance etc., are able to raise prices or reduce the quality or quantity of ordered goods.

Company objectives and resources: Even if a segment has positive size and growth and is structurally attractive, the company needs to consider its own objectives and resources in relation to that segment. Some attractive segments could be dismissed because they do not match with the company's long-run objectives. Even if the segment fits the company's objectives, the company has to consider whether it possesses the requisite skills and resources to succeed in that segment. The segment should be dismissed if the company lacks one or more necessary competences needed to develop superior competitive advantages.

2.4.2. Selecting the market segments

As a result of evaluating different segments, the company hopes to find one or more market segments worth entering. The company must decide which and how many segments to serve. This is the problem of target market selection. A target market consists of a set of buyers sharing common needs or characteristics that the company decides to serve. The company can consider five patterns of target market selection.

Single segment concentration: In the simplest case, the company selects a single segment. This company may have limited funds and may want to operate only in one segment, it might be a segment with no competitor, and it might be a segment that is a logical launching pad for further segment expansion.

Selective specialization: Here a firm selects a number of segments, each of which is attractive and matches the firm's objectives and resources. This strategy of 'multi-segment coverage' has the advantage over 'single-segment coverage' in terms of diversifying the firm's risk i.e. even if one segment becomes unattractive, the firm can continue to earn money in other segments.

Product specialization: Here the firm concentrates on marketing a certain product that it sells to several segments. Through this strategy, the firm builds a strong reputation in the specific product area.

Market specialization: Here the firm concentrates on serving many needs of a particular customer group. The firm gains a strong reputation for specializing in serving this customer group and becomes a channel agent for all new products that this customer group could feasibly use.

Full market coverage: Here the firm attempts to serve all customer groups with all the products that they might need. Only large firms can undertake a full market coverage strategy. e.g. Philips (Electronics), HLL (Consumer non-durables).

Large firms going in for whole market can do so in two broad ways—through undifferentiated marketing or differentiated marketing.

2.5 Positioning

Suppose a company has researched and selected its target market. If it is the only company serving the target market, it will have no problem in selling the product at a price that will yield reasonable profit. However, if several firms pursue this target market and their products are undifferentiated, most buyers will buy from the lowest priced brand. Either, all the firms will have to lower their price or the only alternative is to differentiate its product or service from that of the competitors, thereby securing a competitive advantage and better price and profit. The company must carefully select the ways in which it will distinguish itself from competitors.

Suppose a scooter manufacturer, say Bajaj, gets worried that scooter buyers see most scooter brands as similar and, therefore, choose their brand mainly on the basis of price. Realizing this, Bajaj may decide to differentiate their scooters physical characteristics.

"Differentiation is the act of designing a set of meaningful differences to distinguish the company's offer from competitors' offers.

May be Bajaj claims its scooter to be different from others because of its highest fuel efficiency and economy, LML claims-maximum durability and added physical features, whereas Vijay Super may have claimed highest mileage. Thus, all scooters appeal differently to different buyers. If it wishes, any scooter manufacturer can show this comparison chart to potential buyers. Not all buyers will notice or be interested in all the ways one brand differs from another. Such firm will want to promote those few differences that will appeal most strongly to its target market.

Positioning is the act of designing the company's offer so that is occupies a distinct and valued place in the target customer's minds. Positioning calls for the company to decide how many differences and which differences to promote to the target customers.

How many differences to promote: Many marketers advocate aggressively promoting only one benefit to the target market. Rosser Reeves, e.g. said a company should develop a unique selling proposition (USP) for each brand and stick to it. Thus, Godrej refrigerators claim, automatic defrost, while Rin claims to have dirt-blasters. Each brand should pick an attribute and claim itself to be "number one" on it.

What are some of the "number one" positions to promote? The major ones are "best quality", "best service", "best value", “most advanced technology” etc. If a company hammers at any one of these positioning points and delivers it properly, it will probably be best known and recalled for this strength.

Besides single benefit positioning, the company can try for double benefit positioning- e.g. Forhans toothpaste claims that it cleans teeth and protects the enamel. There are even cases of successful triple benefit positioning e.g. Videocon Washing machines claims that the machine "washes, rinses and even dries the clothes". Many people want all three benefits, and the challenge is to convince them that the brand delivers all three.

What differences to promote: A company should promote its major strengths provided that the target market values these strengths. The company should also recognize that differentiation is a continuous process. It would seem that the company should go after cost or service to improve its market appeal relative to competitors. However, many other considerations arise.

How important are improvements in each of these attributes to the target customers?

Can the company afford to make the improvements, and how fast can it complete them?

Would the competitors also be able to improve service if the company started to do so, and in that case, how would the company react?

This type of reasoning can help the company choose or add genuine competitive advantages.

Communicating the Company's positioning: The Company must not only develop a clear positioning strategy, it must also communicate it effectively. Suppose a company chooses the "best in quality" positioning strategy. It must then make sure that it can communicate this claim convincingly. Quality is communicated by choosing those physical signs and cuts that people normally use to judge quality.

Quality is often communicated through other marketing elements.

A high price usually signals a premium-quality product to buyers. The product's quality image is also affected by the packaging, distribution, advertising and promotion. The manufacturer's reputation also contributes to the perception of quality. To make a quality claim credible, the surest way is to offer "satisfaction or your money back". Smart companies try to communicate their quality to buyers and guarantee that this quality will be delivered or their money will be refunded.

2.6 Marketing environment

A company's marketing environment consists of the factors and forces that affect the company's ability to develop and maintain successful transactions and relationships with its target customers. Every business enterprise is confronted with a set of internal factors and a set of external factor.

The internal factors are generally regarded as controllable factors because the company has a fair amount of control over these factors, it can alter or modify such factors as its personnel, physical facilities, marketing-mix etc. to suit the environment.

The external factors are by and large, beyond the control of a company. The external environmental factors such as the economic factors, socio-cultural factors, government and legal factors, demographic factors, geo-physical factors etc.

As the environmental factors are beyond the control of a firm, its success will depend to a very large extent on its adaptability to the environment, i.e. its ability to properly design and adjust internal variables to take advantages of the opportunities and to combat the threats in the environment.

2.6.1 The micro environment

The micro environment consists of the actors in the company's immediate environment that affects the ability of the marketers to serve their customers. These include the suppliers, marketing intermediaries, competitors, customers and publics.

Suppliers: Suppliers are those who supply the inputs like raw materials and components etc. to the company. Uncertainty regarding the supply or other supply constraints often compels companies to maintain high inventories causing cost increases. It has been pointed out that factories in India maintain indigenous stocks of 3-4 months and imported stocks of 9 months as against on average of a few hours to two weeks in Japan.

It is very risky to depend on a single supplier because a strike, lock out or any other production problem with that supplier may seriously affect the company. Hence, multiple sources of supply often help reduce such risks.

Customers: The major task of a business is to create and sustain customers. A business exists only because of its customers and hence monitoring the customer sensitivity is a prerequisite for the business to succeed.

A company may have different categories of consumers like individuals, households, industries, commercial establishments, governmental and other institutions etc. Depending on a single customer is often too risky because it may place the company in a poor bargaining position. Thus, the choice of the customer segments should be made by considering a number of factors like relative profitability, dependability, growth prospects, demand stability, degree of competition etc.

Competitors: A firm's competitors include not only the other firms which market the same or similar products but also all those who compete for the discretionary income of the consumers. For example, the competition for a company making televisions may come not only from other TV manufacturers but also from refrigerators, stereo sets, two-wheelers, etc. This competition among these products may be described as desire competition as the primary task here is to influence the basic desire of the consumer.

If the consumer decides to spend his disposable income on recreation, he will still be confronted with a number of alternatives to choose from like T.V., stereo, radio, C.D. player etc. the competition among such alternatives which satisfy a particular category of desire is called generic competition.

If the consumer decides to go in for a T.V. the next question is which form of T.V. - black and white, color, with remote or without etc. this is called 'product form competition'. Finally, the consumer encounters brand competition, i.e. competition between different brands like Philips, B.P.L., Onida, Videocon, Coldstar etc.

An implication of these different brands is that a marketer should strive to create primary and selective demand for his products.

Marketing intermediaries: The immediate environment of a company may consist of a number of marketing intermediaries which are "firms that aid the company in promoting, selling and distributing its goods to final buyers.

The marketing intermediaries include middlemen such as agents and merchants, who help the company find customers or close sales with them; physical distribution firms which assist the company in stocking and moving goods from their origin to their destination such as warehouses and transportation firms; marketing service agencies which assist the company in targeting and promoting its products to the right markets such as advertising agencies; consulting firms, and finally financial intermediaries which finance marketing activities and insure business risks.

Marketing intermediaries are vital link between the company and final consumers. A dislocation or disturbance of this link, or a wrong choice of the link, may cost the company very heavily.

Public: A company may encounter certain publics in its environment. "A public is any group that has actual or potential interest in or impact on an organisation's ability to achieve its interests". Media, citizens, action publics and local publics are some examples.

Some companies are seriously affected by such publics, e.g. one of the leading daily that was allegedly bent on bringing down the share price of the company by tarnishing its image. Many companies are also affected by local publics. Environmental pollution is an issue often taken up by a number of local publics. Action by local publics on this issue has caused some companies to suspend operations and/or take pollution control measures.

However, it is wrong to think that all publics are threats to business. Some publics are opportunity for business. Some businessmen e.g. regard consumerism as an opportunity for their business. The media public may be used to disseminate useful information. Similarly, fruitful symbiotic cooperation between a company and the local publics may be established for the benefit of the company and the local community.

2.6.2. Macro environment

A company and the forces in its micro environment operate in larger macro environment of forces that shape opportunities and pose threats to the company. The macro forces are, generally, more uncontrollable than the micro forces. The macro environmental forces are given below:

Economic environment: Economic conditions, economic policies and the economic system are the important external factors that constitute the economic environment of a business.

The economic conditions of a country e.g., the nature of the economy, the stage of development of the economy, economic resources, the level of income, the distribution of income and assets etc. are among the very important determinants of business strategies.

In a developing economy, the low income may be the reason for the very low demand for a product. In countries where investment and income are steadily and rapidly rising, business prospects are generally bright, and further investments are encouraged.

The economic policy of the government, needless to say, has a very strong impact on business. Some types of businesses are favorably affected by government policy, some adversely affected, while it is neutral in respect of others, e.g. in case of India, the priority sector and the small-scale sector get a number of incentives and positive support from the government, whereas those industries which are regarded as inessential may find the odds against them.

The monetary and fiscal policies by way of incentives and disincentives they offer and by their neutrality, also affect the business in different ways. The scope of private business depends, to a large extent, on the economic system. At one end, there are the free market economies, or capitalist economies, and at the other are the centrally planned economies or communist economies. In between these two extremes are the mixed economies.

A completely free economy is an abstract rather than a real system because some amount of government regulations always exist.

Countries like the United States, Japan, Canada, Australia etc. are regarded as free market economies.

The communist countries have, by and large, a centrally planned economic system. The State, under this system, owns all the means of production, determines the goals of production and controls the economy. China, Hungary, Poland etc. had centrally planned economies. However, recently, several of these countries have discarded communist system and have moved towards the market economy.

In a mixed economy, both public and private sectors co-exist, as in India. The extent of state participation varies widely across different mixed economies. However, in many mixed economies, the strategic and other nationally very important industries are fully owned or dominated by the state.

The economic system, thus, is a very important determinant of the scope of business.

Political and Government environment: Political and government environment has a close relationship with the economic system and economic policy. In most countries, there are a number of laws that regulate the conduct of the business. These laws cover such matters as standards of product, packaging, promotion etc. In many countries, with a view to protecting consumer interests, regulations have become stronger. Regulations to protect the purity of the environment and preserve the ecological balance have assumed great importance in many countries.

In most nations, promotional activities are subject to various types of controls. Media advertising is not permitted in Libya. In India too, till recently advertisements of liquor, cigarettes, gold, silver etc. were prohibited. There is a host of statutory control on business in India. MRTP commission, industrial licensing, FEMA regulations etc. kept a strict check on the expansion of private enterprises till recently. Recent changes in the statutes and policies have had a profound and positive impact on business.

Thus, marketing policies are definitely influenced by government policies and controls throughout the world.

Socio-cultural environment: The socio-cultural environment includes the customs, traditions, taboos, tastes, preferences etc. of the members of the society, which cannot be ignored at any cost by any business unit. For a business to be successful, its strategy should be the one that is appropriate in the socio-cultural environment. The marketing-mix will have to be so designed as to suit the environmental characteristics of the market. Nestle, a

Swiss multinational company, today brews more than forty varieties of instant coffee to satisfy different national tastes.

Even when people of different cultures use the same basic product, the mode of consumption, conditions of use, purpose of use or the perceptions of the product attributes may vary so much so that the product attributes, method of presentation, or promotion etc. may have to be varied to suit the characteristics of different markets.

The differences in language sometimes pose a serious challenge and even necessitate a change in the brand name. The values and beliefs associated with color vary significantly across different cultures e.g. white is a color which indicates death and mourning in countries like China, Korea and India but in many countries it is a color expressing happiness and often used as a wedding dress color.

While dealing with the social environment, it is important to remember that the social environment of business also encompasses its social responsibility, alertness or vigilance of the consumers and the society's interests and well-being at large.

Demographic environment: Demographic factors like the size, growth rate, age composition, sex composition, family size, economic stratification of the population, educational levels, language, caste, religion etc. are all factors relevant to business. All these demographic variables affect the demand for goods and services. Markets with growing population and income are growth markets. But the decline in birth rates in countries like United States, etc. has affected the demand for baby products. Johnson and Johnson had to overcome this problem by repositioning their products like baby shampoo and baby soaps, and promoting them to the adult segment particularly females.

A rapidly increasing population indicates a growing demand for many products. High population growth rates also indicate an enormous increase in labor supply. Cheap labor and a growing market have encouraged many multinational corporations to invest in developing countries like India.

Natural environment: Geographical and ecological factors such as natural resources endowments, weather and climate conditions, topographical factors, location aspects in the global context, port facilities etc. are all relevant to business.

Geographical and ecological factors also influence the location of certain industries, e.g. industries with high material index tend to be located near the raw material sources. Climate and weather conditions affect the location of certain industries like the cotton textile industry. Topographical factors may affect the demand pattern, e.g. in hilly areas with a difficult terrain, jeeps may be in greater demand than cars.

Ecological factors have recently assumed greater importance. The depletion of natural resources, environmental pollution and the disturbance of the ecological balance has caused great concern. Government policies aimed at the preservation of environmental purity and ecological balance, conservation of non-replenishable resources etc. have resulted in additional responsibilities and problems for business, and some of these have the effect of increasing the cost of production and marketing.

Physical facilities and technological environment: Business prospects depend on the availability of certain physical facilities. The sale of television sets e.g. is limited by the extent of coverage of telecasting. Similarly, the demand for refrigerators and other electrical appliances is affected by the extent of electrification and the reliability of power supply.

Technological factors sometimes pose problems. A firm which is unable to cope with the technological changes may not survive. Further, the different technological environment of different markets or countries may call for product modifications, e.g. many appliances and instruments in the U.S.A. are designed for 110 volts but this needs to be converted into 240 volts in countries which have that power system.

International environment: The international environment is very important from the point of view of certain categories of business. It is particularly important for industries directly depending on exports or imports. E.g. a recession in foreign markets or the adoption of protectionist policies may help the export-oriented industries. Similarly, liberalization of imports may help some industries which use imported items, but may adversely affect import-competing industries.

Similarly, international bodies like WTO, IMF, WHO, ILO etc. have had a major impact on influencing the policies and trade of many countries, especially India.

2.7 Summary

Market segmentation is process of dividing the total market into several sub-markets, or segments, each of which tends to be homogeneous. There are three important principles applied for market segmentation: measurability of segments, accessibility of the segments, and represent ability of the segments. In market targeting, we evaluate each market segment and finally select the appropriate segment company finds worth entering. After targeting, marketers attempt to develop a special image for its products in consumer mind relative to competitive products; this is known as market positioning. A business enterprise operates within the framework of environment factors. These environment factors must be duly considered in planning a marketing strategy. The company's marketing environment consists of micro and macro environmental factors. Micro-environmental factors include suppliers, company, customers, intermediaries, competitors and publics. Macro environmental factors consisting of factors: demographic, economic, political, technological, natural, cultural, and international.

2.8 Key words

Aggregation: a whole combining several elements, formed by combination or addition

Pertinent: relevant

Homogeneous: of the same kind, uniform

2.9 Self Assessment Exercise

Discuss the significance of segmentation. Also write in brief different bases of segmentation.

What do you mean by market targeting? Write in brief the process of evaluating and selecting the market segment for targeting.

Write a detailed note on market positioning with suitable examples.

Discuss in brief the micro and macro environmental factors. Also write its impact on marketing.

2.10 Suggested Readings

Stanton, Etzel and Walker- Fundamentals of marketing (TMH)

Philip Kotler- Marketing Management (PHI)

Philip Kotler and Armstrong- Principles of marketing (PHI)

Ramaswamy and Namakumari- Marketing management (Macmillan)

Subject: **Basic Principles of marketing and management**

Course Code: **Paper-V**	Author: **Dr. M.R.P. Singh**
Lesson: **3**	Vetter: **Dr. B.S. Bodla**

Study consumer behavior, Needs and motivation, group dynamics, social surroundings and consumer perception

Structure

3.1 Objective

The objective of this lesson is to make the students aware about the basic concepts of consumer behavior and its impact on marketing.

3.2 Introduction

Behavior is a mirror in which everyone displays his own image. The term consumer behavior can be defined as the behavior that consumers display in searching for, purchasing, using, evaluating, and disposing of products and services that they expect will satisfy their needs. The study of consumer behavior is the study of how individuals make decision to spend their available resources (money, time, and effort) on consumption-related items. It includes the study of what they buy, why they buy it, how they buy it, when they buy it, where they buy it, and how often they buy it.

The term consumer is often used to describe two different kinds of consuming entities: the personal consumer and organizational consumer. The personal consumer buys goods and services for his or her own use (e.g. shaving cream or lipstick), for the use of the household, or as a gift for a friend. In all of these contexts, the goods are bought for final use by individuals, who are referred to as 'end users' or 'ultimate consumers'. The second category of consumer, the organizational consumer, encompasses profit and non-profit making businesses, government agencies, and institutions, all of which must buy products, equipments, and services in order to run their organizations. Manufacturing companies must buy the raw materials and other components to manufacture and sell their own products; service companies must buy the equipments necessary to render the services they sell; government agencies must buy the office products needed to operate agencies; and institutions must buy the materials they need to maintain themselves and their population.

The person who purchases a product is not always the user, or the only user, of the product in question. Nor is the purchaser necessarily the person who makes the product decision. A mother may buy toys for her children (who are the users); she may buy food for dinner (and be one of the users); she may buy a handbag (and be the only user). She may buy a magazine that one of her teenagers requested, or rent a video that her husband requested, or she and her husband together may buy a car that they both selected. Clearly, buyers are not always the users or the only users, of the products they buy, nor are they necessarily the persons who make the product selection decisions. Marketers must decide at whom to direct their marketing efforts: the buyer or the user. They must identify the person who is most likely to influence the purchase decision. Some marketers believe that the buyer of the product is the best prospect, others believe it is the users of the product, which still others play it safe by directing all their marketing efforts to both buyers and users.

The study of consumer behavior holds great interest for us as consumers, as students, and as marketers. As consumers, we benefit from insights into our own consumption-related decisions: what we buy, why we buy, and how we buy. The study of consumer behavior makes us aware of the subtle influences that persuade us to make the product or service choices we do. As students of human behavior, it is important for us to understand the internal and external influences that impel individuals to act in certain consumption related ways. Consumer behavior is simply a subset of the larger field of human behavior. As marketers or future marketers, it is important for us to recognize why and how individuals make their consumption related decisions so that we can make better strategic marketing decisions. Without doubt, marketers who understand consumer behavior have a great competitive advantage in the market place.

There are a number of reasons why the study of consumer behavior developed as a separate marketing discipline. Marketing scientists had long noted that consumers did not always act or react as economic theory would suggest. The size of the consumer market was vast and constantly expanding. Consumer preferences were changing and becoming highly diversified. Even in industrial markets, where needs for goods and services were always more homogeneous than in consumer markets, buyers were exhibiting diversified preferences and less predictable purchase behavior. The technological explosion that started after World War II resulted in the rapid introduction of new products at an ever-increasing rate. Many of these products— some experts estimate over 80 per cent – proved to be marketing disasters. To counter this problem marketers have made a determined effort to learn more about consumers (their needs, preferences, changing life styles) to guide the development of new products to fulfill unsatisfied needs. In addition to the fast pace of new product introduction, other factors that contributed to the development of consumer behavior as a marketing discipline include shorter product life cycles, environmental concerns, increased interest in consumer protection, the growth of service marketing, the growth of international markets, and the development of computers and sophisticated methods of statistical analysis.

Consumer behavior is interdisciplinary; that is, it is based on concepts and theories about people that have been developed by social scientists in such diverse disciplines as psychology, sociology, social psychology, cultural anthropology, and economics.

3.3 Consumer needs and motivation

Every individual has needs; some are innate, others are acquired. Innate needs are physiological (i.e., biogenic); they include the needs for food, for water, for air, for clothing, for shelter, and for sex. Because they are needed to sustain biological life, the biogenic needs are considered primary needs or motives.

Acquired needs are needs that we learn in response to our culture or environment. These may include needs for esteem, for prestige, for affection, for power, and for learning. Because acquired needs are generally psychological (i.e., psychogenic), they are considered secondary needs or motives. They result from the individual's subjective psychological state and from relationships with others. For example, all individuals need shelter from the elements; thus, finding a place to live fulfills an important primary need for a newly transferred executive. However, the kind of house she buys may be the result of secondary needs. She may seek a house in which she can entertain large groups of people (and fulfill her social needs); she may also want to buy a house in an exclusive community in order to impress her friends and family (and fulfill her ego needs). The house an individual ultimately purchases thus may serve to fulfill both primary and secondary needs.

Motivation can be described as the driving force within individuals that impels them to action. This driving force is produced by a state of tension, which exists as the result of an unfilled need. Individuals strive— both consciously and subconsciously— to reduce this tension through behavior that they anticipate will fulfill their needs and thus relieve them of the stress they feel. The specific goals they select and the patterns of action they undertake to achieve their goals are the results of individual thinking and learning. Figure 3.1 presents a model of the motivational process. It portrays motivation as a state of need-induced tension, which exerts a "push" on the individual to engage in behavior that he or she expects will gratify needs and thus reduce tension.

The specific course of action that consumers pursue and their specific goals are selected on the basis of their thinking processes (i.e., cognition) and previous learning. For that reason, marketers who understand motivational theory attempt to influence the consumer's cognitive processes.

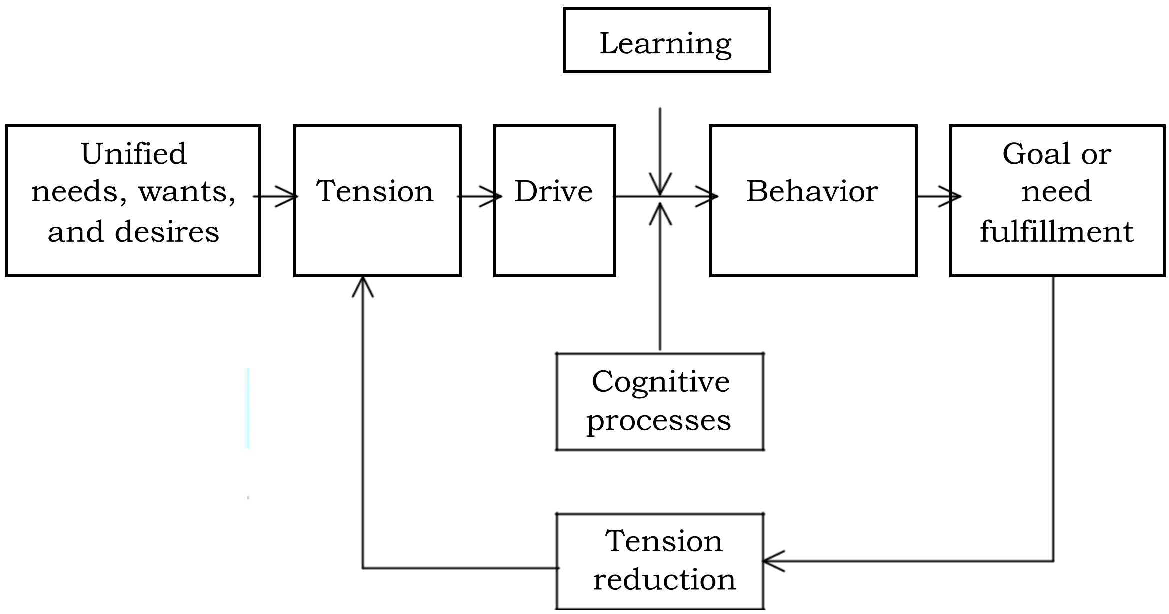

Figure 3.1 Model of the motivational process

Positive and negative motivation— Motivation can be positive or negative in direction. We may feel a driving force toward some object or condition, or a driving force away from some object or condition. For example, a person may be impelled toward a restaurant to fulfill a hunger need and away from motorcycle transportation to fulfill a safety need. Some psychologists refer to positive drives as needs, wants, or desires, and to negative drives as fears or aversions. However, though negative and positive motivational forces seem to differ dramatically in terms of physical (and sometimes emotional) activity, they are basically similar in that both serve to initiate and sustain human behavior. For this reason, researchers often refer to both kinds of drives or motives as needs, wants, and desires.

Rational versus emotional motives— Some consumer behaviorists distinguish between so-called rational motives and emotional (or non-rational) motives. They use the term rationality in the traditional economic sense, which assumes that consumers behave rationally when they carefully consider all alternatives and choose those that give them the greatest utility (i.e., satisfaction). In a marketing context, the term rationality implies that consumers select goals based on totally objective criteria, such as size, weight, price, or miles per gallon. Emotional motives imply the selection of goals according to personal or subjective criteria (e.g., the desire for individuality, pride, fear, affection, status).

The assumption underlying this distinction is that subjective or emotional criteria do not maximize utility or satisfaction. However, it is reasonable to assume that consumers always attempt to select alternatives that, in their view, serve to maximize satisfaction. Obviously, the assessment of satisfaction is a very personal process, based on the individual's own need structure as well as on past behavioral, and social or learned experiences. What may appear irrational to an outside observer may be perfectly rational in the context of the consumer's own psychological field. For example, a product purchased to enhance self-image (such as a fragrance) is a perfectly rational form of consumer behavior.

3.4 Consumer Perception

Perception can be described as "how we see the world around us". Two individuals may be subject to the same stimuli under apparently the same conditions, but how they recognize them, select them, organize them, and interpret them is a highly individual process based on each person's own needs, values, expectations, and the like.

Perception is defined as the process by which an individual selects, organizes, and interprets stimuli into a meaningful and coherent picture of the world. A stimulus is any unit of input to any of the senses. Examples of stimuli (i.e., sensory inputs) include products, packages, brand names, advertisements, and commercials. Sensory receptors are the human organs (the eyes, ears, mouth, and skin) that receive sensory inputs. These sensory functions are to see, hear, smell, taste, and feel. All of these functions are called into play— either singly or in combination— in the evaluation and use of most consumer products.

The study of perception is largely the study of what we subconsciously add to or subtract from raw sensory inputs to produce a private picture of the world.

Sensation— Sensation is the immediate and direct response of the sensory organs to simple stimuli (an advertisement, a package, a brand name). Human sensitivity refers to the experience of sensation. Sensitivity to stimuli varies with the quality of an individual's sensory receptors (e.g., eyesight or hearing) and the amount of intensity of the stimuli to which he or she is exposed. For example, a blind person may have a more highly developed sense of hearing than the average sighted person and may be able to hear sounds that the average person cannot.

Sensation itself depends on energy change or differentiation of input. A perfectly bland or unchanging environment- regardless of the strength of the sensory input- provides little or no sensation at all. Thus, a person who lives on a busy street in midtown Manhattan would probably receive little or no sensation from the inputs of such noisy stimuli as horns honking, tires screeching, and fire engines clanging, since such sounds are so common in New York City. One honking horn more or less would never be noticed. In situations where there is a great deal of sensory input, the senses do not detect small intensities or differences in input.

As sensory input decreases, however, our ability to detect changes in input or intensity increases, to the point that we attain maximum sensitivity under conditions of minimal stimulation. This accounts for the statement, "It was so quiet I could hear a pin drop". It also accounts for the increased attention given to a commercial that appears alone during a program break, or to a black-and-white advertisement in a magazine full of four-color advertisements. This ability of the human organism to accommodate itself to varying levels of sensitivity as external conditions vary not only provides more sensitivity when it is needed, but also serves to protect us from damaging, disruptive, or irrelevant bombardment when the input level is high.

Perceptual Selection

Consumers subconsciously exercise a great deal of selectivity as to which aspects of the environment—which stimuli—they perceive. An individual may look at some things, ignore others, and turn away from still others. In total, people actually receive- or perceive-only a small fraction of the stimuli to which they are exposed. Consider, for example, a woman in a super-market. She is exposed to literally thousands of products of different colors, sizes, and shapes; to perhaps a hundred people (looking, walking, searching, talking); to smells (from fruit, from meat, from disinfectant, from people); to sounds within the store (cash registers ringing, shopping carts rolling, air conditioners humming, and clerks sweeping, stocking shelves); and to sounds from outside the store (planes passing, cars honking, tires screeching, children shouting, car doors slamming). Yet she manages on a regular basis to visit her local supermarket, select the items she needs, pay for them, and leaves, all within a relatively brief time, without losing her sanity or her personal orientation to the world around her. This is because she exercises selectivity in perception.

Which stimuli get selected depends on two major factors in addition to the nature of the stimuli itself: the consumer's previous experience as it affects her expectations (what she is prepared, or "set", to see) and her motives at the time (her needs, desires, interests, and so on). Each of these factors can serve to increase or decrease the probability that the stimulus will be perceived, and each can affect the consumer's selective exposure to and selective awareness of the stimulus itself.

Nature of the Stimulus— Marketing stimuli include an enormous number of variables that affect the consumer's perception, such as the nature of the product, its physical attributes, the package design, the brand name, the advertisements and commercials (including copy claims, choice and sex of model, positioning of model, size of ad, and typography), the position of the ad or time of the commercial, and the editorial environment.

Expectations— People usually see what they expect to see, and what they expect to see is usually based on familiarity, previous experience, or preconditioned" set".

In a marketing context, people tend to perceive products and product attributes according to their own expectations. A man who has been told by his friends that a new brand of Scotch has a bitter taste will probably perceive the taste to be bitter; a teenager who attends a horror movie that has been billed as terrifying will probably find it so.

Motives— People tend to perceive things they need or want; the stronger the need, the greater the tendency to ignore unrelated stimuli in the environment. A businessman concerned with fitness and health is more likely to notice and to read carefully an ad for a health club than one who is without such concerns. In general, there is a heightened awareness of stimuli that are relevant to one's needs and interests, and a decreased awareness of stimuli that are irrelevant to those needs.

Related Concepts— As the preceding discussion illustrates, the consumer's "selection" of stimuli from the environment is based on the interaction of expectations and motives with the stimulus itself. These factors give rise to a number of important concepts concerning perception.

Selective Exposure— Consumers actively seek out messages they find pleasant or with which they are sympathetic, and actively avoid painful or threatening ones. Thus, heavy smokers avoid articles that link cigarette smoking to cancer and note (and quote) the relatively few that deny the relationship. Consumers also selectively expose themselves to advertisements that reassure them of the wisdom of their purchase decisions.

Selective Attention— Consumers have a heightened awareness of the stimuli that meet their needs or interests and a lesser awareness of stimuli irrelevant to their needs. Thus, they are likely to note ads for products that meet their needs or for stores with which they are familiar and disregard those in which they have no interest.

People also vary in terms of the kind of information in which they are interested and the form of message and type of medium they prefer. Some people are more interested in price, some in appearance, and some in social acceptability. Some people like complex, sophisticated messages; others like simple graphics. Consumers therefore exercise a great deal of selectivity in terms of the attention they give to commercial stimuli.

Perceptual Defense— Consumers subconsciously screen out stimuli that are important for them not to see, even though exposure has already taken place. Thus, threatening or otherwise damaging stimuli are less likely to be perceived than are neutral stimuli at the same level of exposure. Further more, individuals may distort information that is not consistent with their needs, values, and beliefs.

Perceptual Blocking— Consumers protect themselves from being bombarded with stimuli by simply "tuning out"— blocking such stimuli from conscious awareness. Research shows that enormous amounts of advertising are screened out by consumers; this may be more common for television than for print. To explain why television advertising recall scores are falling, various hypotheses have been offered, such as the greater amount of time allotted for commercials, the use of shorter commercials (and thus more advertising messages within the same period of time), the number of commercials that are strung together back to back, the increased number of advertisers, and the greater number of products being advertised.

Perceptual Organization

People do not experience the numerous stimuli they select from the environment as separate and discrete sensations; rather, they tend to organize them into groups and perceive them as unified wholes. Thus, the perceived characteristics of even the simplest stimulus are viewed as a function of the whole to which the stimulus appears to belong. This method of organization simplifies life considerably for the individual.

The specific principles underlying perceptual organization are often referred to by the name given the school of psychology that first developed and stressed it- Gestalt psychology. (Gestalt in German means "Pattern" or "Configuration")). Three of the most basic principles of perceptual organization center on figure and ground relationships, grouping, and closure.

Figure and Ground— Stimuli must contrast with their environment in order to be noticed. A sound must be louder or softer, a color brighter or paler. The simplest visual illustration consists of a figure on a ground (i.e., background). The figure is usually perceived clearly because, in contrast to its ground, it appears to be well defined, solid, and in the forefront.

Grouping— Individuals tend to group stimuli automatically so that they form a unified picture or impression. The perception of stimuli as groups or "chunks" of information, rather than as discrete bits of information, facilitates their memory and recall.

Grouping can be used advantageously by marketers to imply certain desired meanings in connection with their products. For example, an advertisement for tea may show a young man and woman sipping tea in beautifully appointed room before a blazing hearth. The grouping of stimuli by proximity leads the consumer to associate the drinking of tea with romance, fine living, and winter warmth.

Most of us can remember and repeat our social security numbers because we automatically group them into three chunks rather than nine separate numbers. When the telephone company introduced the idea of all-digit telephone numbers, consumers objected strenuously on the grounds that they would not be able to recall or repeat so many numbers. However, because we automatically group telephone numbers into two chunks (or three, with the area code), the problems that were anticipated never occurred.

Closure— Individuals have a need for closure. They express this need by organizing their perceptions so that they form a complete picture. If the pattern of stimuli to which they are exposed is incomplete, they tend to perceive it nevertheless as complete; that is, they consciously or subconsciously fill in the missing pieces. Thus, a circle with a section of its periphery missing will invariably be perceived as a circle and not as an arc. The need for closure is also seen in the tension and individual experiences when a task is incomplete, and the satisfaction and relief that come with its completion.

Perceptual Interpretation

The preceding discussion has emphasized that perception is a personal phenomenon. People exercise selectivity as to which stimuli they perceive, and organize these stimuli on the basis of certain psychological principles. The interpretation of stimuli is also uniquely individual, since it is based on what individuals expect to see in light of their previous experience, on the number of plausible explanations they can envision, and on their motives and interests at the time of perception.

Stimuli are often highly ambiguous. Some stimuli are weak because of such factors as poor visibility, brief exposure, high noise level, and constant fluctuation. Even stimuli that are strong tend to fluctuate dramatically because of such factors as different angles of viewing, varying distances, and changing levels of illumination.

Consumers usually attribute the sensory input they receive to sources they consider most likely to have caused the specific pattern of stimuli. Past experience and social interactions may help to form certain expectations that provide categories or alternatives that individuals use in interpreting stimuli. The narrower the individual's experience, the more limited the access to alternative categories.

When stimuli are highly ambiguous, an individual will usually interpret them in such a way that they serve to fulfill personal needs, wishes, interests, and so on. How a person describes a vague illustration, what meaning the individual ascribes to an inkblot, is a reflection not of the stimulus itself, but of the subject's own needs, wants, and desires. Through the interpretation of ambiguous stimuli, respondents reveal a great deal about themselves.

How close a person's interpretations are to reality, then, depends on the clarity of the stimulus, the past experiences of the perceiver, and his or her motives and interests at the time of perception.

3.5 Group Dynamics

A group may be defined as two or more people who interact to accomplish either individual or mutual goals. The broad scope of this definition includes an intimate “group” of two neighbors who shop together and a larger, more formal group, such as a neighborhood watch association, whose members are mutually concerned with reducing crime in their neighborhood. Included in this definition, too, are more remote, one-sided, social relationships where an individual consumer looks to others for direction as to which products or services to buy, even though these others are largely unaware that they are serving as consumption-related models.

Types of Groups

There are many ways to classify groups, such as by regularity of contact, by structure and hierarchy, by membership, even by size. For example, it is often desirable to distinguish between groups in terms of their size or complexity. However, it is difficult to offer a precise point as to when a group is considered large or small. A large group might be thought of as one in which a single member is not likely to know more than a few of the group’s members personally or be fully aware of the specific roles or activities of more than a limited number of other group members. In contrast, members of a small group are likely to know each member personally and to be aware of every member’s specific role or activities in the group. For example, each staff member of a college newspaper is likely to know all the other members and be aware of their duties and interests within the group.

In the realm of consumer behavior, we are principally concerned with the study of small groups, since such groups are more likely to influence the consumption behavior of group members.

Primary versus Secondary Groups— If a person interacts on a regular basis with other individuals (with members of his or her family, with neighbors, or with co-workers whose opinions are valued), then these individuals can be considered a primary group for that person. On the other hand, if a person interacts only occasionally with such others, or does not consider their opinions to be particularly important, then these others constitute a secondary group for that person. From this definition, it can be seen that the critical distinctions between primary and secondary groups are the perceived importance of the groups to the individual and the frequency or consistency with which the individual interacts with them.

Formal versus Informal Groups— Another useful way to classify groups is by their formality; that is, the extent to which the group structure, the members' roles, and the group's purpose are clearly defined. If a group has a highly defined structure (for example, a formal membership list), specific roles and authority levels (a president, treasurer, and secretary), and specific goals (to support a political candidate, assist the homeless, increase the knowledge or skills of members), then it would be classified as a formal group. The local chapter of the American Red Cross, with elected officers and members who meet regularly to discuss topics of civic interest, would be classified as a formal group. On the other hand, if a group is more loosely defined- if it consists, say, of four women who were in the same college sorority and who meet for dinner once a month, or three co-workers who, with their spouses, see each other frequently-then it is considered an informal group.

From the standpoint of consumer behavior, informal social or friendship groups are generally more important to the marketer, since their less clearly defined structures provide a more conducive environment for the exchange of information and influence about consumption-related topics.

Consumer-Relevant Groups

To more fully comprehend the kind of impact that specific groups have on individuals, we will examine six basic consumer-relevant groups: the family, friendship groups, formal social groups, shopping groups, consumer action groups, and work groups.

The Family— An individual's family is often in the best position to influence his or her consumer decisions. The family's importance in this regard is based upon the frequency of contact that the individual has with other family members and the extent of influence that family has on the establishment of a wide range of values, attitudes, and behavior.

Friendship Groups— Friendship groups are typically classified as informal groups because they are usually unstructured and lack specific authority levels. In terms of relative influence, after an individual's family, his or her friends are most likely to influence the individual's purchase decisions.

Formal Social Groups— In contrast to the relative intimacy of friendship groups, formal social groups are more remote and serve a different function for the individual. A person joins a formal social group to fulfill such specific goals as making new friends, meeting "important" people (e.g., for career advancement), broadening perspectives, pursuing a special interest, or promoting a specific cause. Because members of a formal social group often consume certain products together, such groups are of interest to marketers.

Membership in a formal social group may influence a consumer's behavior in several ways. For example, members of such groups have frequent opportunity to informally discuss products, services, or stores. Some members may copy the consumption behavior of other members whom they admire.

Shopping Groups— Two or more people who shop together- whether for food, for clothing, or simply to pas the time- can be called a shopping group. Such groups are often offshoots of family or friendship groups. People like to shop with others who are pleasant company or who they feel have more experience with, or knowledge about, a desired product or service. Shopping with others also provides an element of social fun. In addition, it reduces the risk that a purchase decision will be socially unacceptable. In instances where none of the members have knowledge about the product under consideration, a shopping group may form for defensive reasons; members may feel more confident with a collective decision.

Consumer Action Groups— A particular kind of consumer group- a consumer action group- has emerged in response to the consumerist movement. Consumer action groups can be divided into two broad categories: those that organize to correct a specific consumer abuse and then disband, and those that organize to address broader, more pervasive, problem areas and operate over an extended or indefinite period of time. a group of tenants who band together to dramatize their dissatisfaction with the service provided by their landlord, or a group of irate neighbors who unite to block the establishment of a drug treatment clinic in a middle-class neighborhood, are examples of temporary, cause-specific consumer action groups.

Work Groups— The sheer amount of time that people spend at their jobs— frequently more than thirty-five hours per week—provides ample opportunity for work groups to serve as a major influence on the consumption behavior of members.

Both the formal work group and the informal friendship/work group have the potential for influencing consumer behavior. The formal work group consists of those individuals who work together as a team. Their direct and sustained work relationship offers substantial opportunity for one or more members to influence the consumption-related attitudes and activities of other team members. Informal friendship/work groups consist of people who have become friends as a result of working for the same firm, whether or not they work together as a team. Members of informal work groups may influence the consumption behavior of other members during coffee or lunch breaks or after-hours meetings.

3.6 Social Surroundings

While social class can be thought of as a continuum- a range of social positions- on which each member of society can be placed, researchers have preferred to divide the continuum into a small number of specific social classes, or strata. Within this framework, the concept of social class is used to assign individuals or families to a social class category. Consistent with this practice, social class is defined as the division of members of a society into a hierarchy of distinct status classes, so that members of each class have relatively the same status and members of all other classes have either more or less status.

To appreciate more fully the complexity of social class, we will briefly consider several underlying concepts pertinent to our definition.

Social Class and Social Status

Researchers often measure social class in terms of social status; that is, they define each social class by the amount of status the members of that class have in comparison with members of other social classes. In the behavioral sciences, status is frequently conceptualized as the relative rankings of members of each social class in terms of specific status factors. For example, relative wealth (amount of economic assets), power (the degree of personal choice or influence over others), and prestige (the degree of recognition received from others) are three popular factors frequently employed in the estimation of social class. When it comes to consumer behavior and marketing research, status is most often defined in terms of one or more of the following convenient demographic (socioeconomic) variables: family income, occupational status, and educational attainment. These socioeconomic variables, as expressions of status, are used by marketing practitioners on a daily basis to measure social class.

Social Class is Hierarchical— Social-class categories are usually ranked in a hierarchy ranging from low to high status. Thus members of a specific social class perceive members of other social classes as having either more or less status than they do. Too many people, therefore, social-class categories suggest that others are either equal to them (about the same social class), superior to them (higher social class), or inferior to them (lower social class).

This hierarchical aspect of social class is important to marketers. Consumers may purchase certain products because they are favored by members of their own or a higher social class and they may avoid other products because they perceive them to be "lower-class" products.

Social Class and Market Segmentation— The various social class strata provide a natural basis for market segmentation for many products and services. In many instances, consumer researchers have been able to relate product usage to social-class membership. Thus marketers can effectively tailor products or services, channels of distribution, and promotional messages to the needs and the interests of a specific social stratum.

Social Class and Behavioral Factors— The classification of society's members into a small number of social classes has enabled researchers to note the existence of shared values, attitudes, and behavioral patterns among members within each social class, and differing values, attitudes, and behavior between social classes. Consumer researchers have been able to relate social-class standing to consumer attitudes concerning specific products, and to examine social-class influences on the actual consumption of products.

Social Class as a Frame of Reference— Social-class membership serves consumers as a frame of reference (i.e., a reference group) for the development of their attitudes and behavior. In the context of reference groups, we might expect members of a specific social class to turn most often to other members of the same class for cues (or clues) as to appropriate behavior.

Social-class Categories— There is little agreement among sociologists on how many distinct class divisions are necessary to describe adequately the class structure of the United States. Most early studies divided the social-class organizations of specific communities into five-class or six-class social structures. However, other researchers have found nine-class, four-class, three-class, and even two-class schemes to be suitable for their purposes. The choice of how many separate classes to use depend on the amount of detail the researcher believes is necessary to explain adequately the attitudes or behavior under study. Marketers are interested in the social-class structures of communities that offer potential markets for their products, and in the specific social-class level of their potential customers. Table 3.1 illustrates the number and diversity of social-class schemes, and shows the distribution of the United States population in terms of several different sub-divisions (five category, six category and seven category subdivisions).

Table 3.1 Number and Diversity of Social-class Schemes

Two-category social-class schemes

Blue-collar, white-collar

Lower, upper

Lower, middle

Three-category social-class schemes

Blue-collar, gray-collar, white-collar

Lower, middle, upper

Four-category social-class scheme

Lower, lower-middle, upper-middle, upper

Five-category social-class schemes

Lower, working-class, lower-middle, upper-middle, upper

Lower, lower-middle, middle, upper-middle, upper

Six-category social-class scheme

Lower-lower, upper-lower, lower-middle, upper-middle, lower-upper, upper-upper

Seven-category social-class scheme

Real lower-lower, a lower group of people but not the lowest, working class, middle class, upper-middle, lower-upper, upper-upper

Nine-category social-class scheme

Lower-lower, middle-lower, upper-lower, lower-middle, middle-middle, upper-middle, lower-upper, middle-upper, upper-upper.

In Indian context, six category social-class schemes are used more frequently.

3.7 Summary

Consumer behavior can be defined as the behavior that consumers display in searching for, purchasing, using, evaluating, and disposing of products, services and ideas that they expect will satisfy their needs. Motivation is the deriving force within individuals that impels them to action. This driving force is produced by a state of uncomfortable tension, which exists as the result of an unfilled need. All individuals have needs, wants and desires. Perception is the process by which individuals select, organize, and interpret stimuli into a meaningful and coherent picture of the world. It has strategy implications for marketers because consumers make decisions based on what they perceive, rather than on the basis of objective reality. Almost all individuals regularly interact with other people who directly or indirectly influence their purchase decisions. Thus the study of groups and their impact on the individual is of great importance to marketers concerned with influencing consumer behavior. Social stratification- the division of members of a society into hierarchy of distinct social classes-exists in all societies and cultures. Social class is usually defined by the amount of status that members of a specific class posses in relation to members of other classes. Social class membership after serves as a frame of reference for the development of consumer attitudes and behavior. So, the study of social classes is of utmost importance for marketers.

3.8 Key words

Honking: the harsh sound of a car horn, make this noise

Screech: a harsh high-pitched scream or sound

Stimuli: something that rouses a person or thing to activity or energy

Hierarchial: a system which grades ranking one above another

3.9 Self Assessment Exercise

What is consumer behavior? Discuss in brief its importance and application in marketing with illustrations.

Discuss the concept of need and motivation and its impact on marketing.

What is group dynamics? Write in brief different types of groups.

Define perception and sensation. Discuss in brief selection, organization and interpretation of stimuli.

Write a detailed note on social surroundings and its impact on marketing.

3.10 Suggested Reading

Stanton, Etzel and Walker- Fundamentals of marketing (TMH)

Philip Kotler- Marketing Management (PHI)

Philip Kotler and Armstrong- Principles of marketing (PHI)

Ramaswamy and Namakumari- Marketing management (Macmillan)

Subject: **Basic principles of marketing And management**	Author: **Dr. M.R.P. Singh**
Course Code: **Paper V**	Vetter: **Prof. H. Bansal**
Lesson: **4**	

Promotion Mix: Direct selling, Advertising, Sales Promotion and Public Relations

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Structure

4.1 Objective

The objective of this lesson is to make the students aware about the importance of promotion, its meaning, objective and types

4.2 Introduction

Broadly speaking, promotion means to push forward or to advance an idea to gain its acceptance and approval. Promotion is any communicative activity whose main object is to move forward a product, service or idea in a chain of distribution. It is an effort by a marketer to inform and persuade buyers to accept, use, recommend, and repurchase the idea, good or service which is being promoted. Thus, promotion is a form of communication with an additional element of persuasion. The promotional activities always attempt to affect knowledge, attitudes, preferences, and behavior of recipients i.e. buyers.

In any exchange activity, communication is absolutely necessary. The company may have the best product, package etc. but still people may not buy the product if they haven't heard of it. The marketer must communicate to his prospective buyers and provide them with adequate information in a persuasive language. People must know that the right product is available at the right place and at the right price. This is the job of promotion in marketing.

Thus promotion is the process of marketing communication involving information, persuasion and influence. Promotion has three specific purposes.

It communicates marketing information to consumers, users, and prospects.

Besides just communication, promotion persuades and convinces the buyers.

Promotional efforts act as powerful tools of communication. Providing the cutting edge to its entire marketing programmed. Thus promotion is a form of non-price competition.

Promotion is thus responsible for awakening and stimulating demand, capture demand from rivals and maintaining demand for products even against keen competition.

Every company can choose from the following tools of promotion, popularly known as the promotion-mix variables:

Advertising,

Sales Promotion,

Personal Selling,

Public Relations

4.3 Advertising

Advertising is perhaps the most important tool of promotion that companies use to direct persuasive communications to target buyers and publics. Advertising is defined by the American Management Association as “any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor". Advertising through various media like magazines, newspapers, radio, television, outdoor displays etc., has many purposes: "long-term build-up the organization's corporate image (institutional advertising), or long-term build-up of a particular brand (brand advertising), information dissemination about a sale, service or event (classified advertising), announcement of a special sale (sale or promotional advertising) and advocacy of a particular cause (advocacy advertising".

Organizations obtain their advertising in different ways. In small companies, advertising is handled by someone in the sales or marketing department who works with an advertising agency.

Large companies on the other hand, set up their own advertising departments, whose job is to develop the total budget, approve advertising agency ads and campaigns, dealer displays etc.

In developing an advertising programmed, marketing managers must always start with the identification of the target market and buyer motives then proceed to make the five major decisions in developing advertising programmed, known as the five Ms:

What are the advertising objectives (Mission)

How much can be spent (Money)

What message should be sent (Message)

What media should be used (Media)

How should the results be evaluated (Measurement)

4.3.1. Setting the advertising objectives

The first step in developing an advertising programme is to set the advertising objectives. These objectives must flow from prior decisions on the target market, market positioning and marketing mix. The objectives can be classified on the basis of the aim which can be either to (a) inform the target about the product features, performance, service available, a price change or new uses etc. (called informative advertising) or (b) to persuade the prospect to may be remain brand loyal, or switch brands, or to purchase now etc. (called persuasive advertising) or (c) to remind the buyer or the prospect about the product or its features, price where to buy it from etc. (called reminder advertising).

The choice of the advertising objectives should be based on a thorough analysis of the current marketing situation, e.g. if the product has reached its maturity stage in its product-life cycle, and the company is the market leader, and if the brand usage is low, the proper objective should be to stimulate more brand usage (as in the case of colgate toothpaste or surf). On the other hand, if the product is new and at the introduction stage of the PLC and the company is not a market leader, but its brand is superior to the leader, (as in the case of captain cook salt) then the proper objective may be to convince the prospects about the brands superiority.

4.3.2. Deciding on the advertising budget

After determining the objectives, the company can proceed to establish its advertising budget for each product. Every company would like to spend the amount required to achieve the sales goal. But how should it decide how much to spend on advertising. There are several methods from which a company can choose from while deciding on how much to spend:

What-all-you-can-afford method: Many companies set the promotion budget at what they think the company can afford. However, this method completely ignores the role of promotion as an investment and the immediate impact of promotion on sales volume. It leads to an uncertain annual promotion budget.

Percentage of sales method: Many companies set their promotion expenditure at a specified percentage of sales (either current or anticipated). A number of advantages are claimed for the percentage of sales method. First, it means that promotion expenditures would vary with what the company can "afford". Second, it encourages management to think in terms of the relationship between promotion cost, selling price and profit per unit. Third, it encourages competitive stability to the extent that competing firms spend approximately the same percentage of their sales on promotion.

Competitive parity method: Some companies set their promotion budget to achieve parity with their competitors. Two arguments have been advanced for this method. One is that the competitors' expenditures represents the collective wisdom of the industry and second is that maintaining a competitive parity helps prevent promotion wars.

Objective-task method: This method calls upon marketers to develop their promotion budgets by defining their specific communication objectives, determining the tasks that must be performed to achieve these objectives, and estimating the costs of performing these tasks. The sum of these costs is the proposed promotion budget. This method has the advantage of requiring management to spell out its assumptions about the relationship between the amount spent, exposure levels, trial rates and regular usage.

4.3.3. Deciding on the massage

Many studies on 'sales effect of advertising expenditures' neglects the message creativity. One study found that the effect of the creativity factor in a campaign is more important than the amount of money spent. Only after gaining attention can a commercial help to increase the brand's sales.

Advertisers go through the following steps to develop a creative strategy- message generation, message evaluation and selection and message execution.

Message Generation: In principle, the product's message (theme, appeal) should be decided as part of developing the product concept; it expresses the major benefit that the brand offers. Creative people use several methods to generate possible advertising appeals. Many creative people proceed inductively by talking to consumers, dealers, experts and competitors. Consumers are the major source of good ideas. Their feelings about the strength and shortcomings of existing brands provide important clues to creative strategy.

How many alternative ad themes should the advertiser create before making a choice? The more the advertisements created, the higher the probability that the agency will develop a first-rate appeal. Yet, the more time it spends on creating ads, the higher the costs. Thus, there must be some optimal number of alternative ads that an agency should create and test for the client.

Message Evaluation and Selection: The advertiser needs to evaluate the alternative messages. A good ad normally focuses on one central selling proposition without trying to give too much product information, which dilutes the ad's impact. Messages should be rated on desirability, exclusiveness and believability. The message must first say something desirable or interesting about the product. The message must also say something exclusive or distinctive that does not apply to every brand in the product category. Finally, the message must be believable.

Message Execution: The impact of the message' depends not only upon 'what is said' but also on 'how it is said'. Some ads aim for rational positioning (designed to appeal to the rational mind) e.g. Surf-washes clothes whitest, whereas other advertisements aim for emotional positioning, which appeal to the emotions of love, tenderness, care etc.

The choice of headlines, copy and so on, can make a difference to the ad's impact. The advertiser usually prepares a copy strategy statement describing the objective, content, support and tone of the desired ad. Creative people must find a style, tone, words, and format for executing the message. All of these elements must deliver a cohesive image and message. Since few people read the body copy, the picture and headline must summarize the selling proposition.

A number of researchers of print advertisements report that the picture, headline, and copy are important in this order. The reader first notices the picture and hence it must be strong enough to draw attention. Then the headline must be effective in propelling the person to read the copy which itself must be well composed. Even then, a really outstanding ad will be noted by less than 50% of the exposed audience, about 30% of the exposed audience might recall the headline's main point, about 25% might remember the advertiser's name and less than 10% will have read most of the body copy.

4.3.4. Deciding on the media

The advertiser's next task is to choose advertising media to carry the advertising message. The steps are deciding on desired reach, frequency and impact, choosing among major media types, selecting specific media vehicles, and deciding on media timing.

Deciding on reach frequency and impact: Media selection is the problem of finding the most cost-effective media to deliver the desired number of exposures to the target audience. But what do we mean by the desired number of exposures? Presumably, the advertiser is seeking a certain response from the target audience-e.g. a certain level of product trial. The impact of exposures on audience awareness depends on the exposure's reach, frequency and impact.

Reach (R): The number of different person or households exposed to a particular media schedule at least once during a specified time period.

Frequency (F): The number of times within the specific time period that an average person or household is exposed to the message.

Impact (I): The qualitative value of an exposure through a given medium e.g. a woman's product in Femina would have a higher impact than in the Dalal Street).

Choosing among Major Media Types: The media planner has to know the capacity of the major media types to deliver, reach, frequency and impact. The major media types are newspapers, television, direct mail radio, magazines, and outdoor.

Media planners make their choice among these media categories by considering several variables, the most important ones being the following:

Target-Audience Media Habits: e.g. television and radio are the most effective media for reaching teenagers.

Product: Women's dressers are best shown in colored magazines.

Massage: A message announcing a major sale tomorrow will require radio or newspapers.

Cost: Television is very expensive, whereas newspaper advertising is comparatively much cheaper. What counts are the cost per thousand exposures and not the total cost?

Selecting specific media vehicles: Now the media planner searches for the most cost-effective media vehicle. There are hundred of magazines and newspapers specially targeted at special audience which a planner chooses from. Similarly on the television media, there are several channels and programmes from which a choice can be made. However, every media vehicle entails a certain cost and has certain customer coverage. How to select the most cost-effective media is done using the "Cost-Per-Thousand Criterion" e.g. if a full page, four color advertisement in India Today costs Rs. 80,000/- and has a readership of 20 lac people, the cost of reaching each one thousand persons is approximately Rs. 40/-The same advertisement in Business Today may cost Rs. 25,000 but reach only 50,000 people, the cost per thousand people would be approximately Rs. 500/. Similarly, the media planner would rank reach magazine by cost per thousand and favor those magazines with the lowest cost per thousand for reaching the target consumers.

Media planners are increasingly using more sophisticated measures of media effectiveness and employing them in mathematical models for arriving at the best media-mix. Many advertising agencies use computer programmes to select the initial media and then make further improvements based on subjective factors cited in the model.

Deciding on media timing: The advertiser faces a macro scheduling problem and a micro scheduling problem.

Macro-scheduling Problem: The advertiser has to decide how to schedule the advertising in relation to seasonal & business cyclic trends. Suppose 70% of a product's sales occur between June & September, the firm has three options-either it could follow the seasonal pattern, to oppose the seasonal pattern or to be constant throughout the year.

Micro-scheduling Problem: The micro scheduling problem calls for allocating advertising expenditures within a short period to obtain the maximum impact.

4.3.5. Evaluating advertising effectiveness

Good planning and control of advertising depends critically on measures of advertising effectiveness. Most advertisers try to measure the communication effect of an ad that is its potential effect on awareness, knowledge or preference. They would like to measure the sales-effect but often find it is too difficult to measure. Yet both can be researched.

Communication-Effect Research: Communication-effect research seeks to determine whether an ad has been able to communicate effectively i.e. copy testing. It can be done before an ad is put into media and after it is printed or broadcast.

There are three major methods of advertising pre-testing:

Direct-rating method: Which asks consumers to rate alternative ads?

Portfolio tests: entail a group of consumes to view and/or listen to a portfolio of advertisements and then they are asked to recall all the ads and their content, aided/unaided by the interviews.

Laboratory tests: use equipment to measure consumer's physiological reactions-heartbeat, blood pressure, pupil dilation etc. which measures the ad's attention-getting power.

Sales Effect Research: Communication-effect advertising research helps advertisers assess advertising's communication effects but reveals little about its sales impact.

Advertising's sales effect is generally harder to measure than communication effect. Sales are influenced by many factors besides advertising, such as the product's features, price, availability & competitors' actions. Researchers try to measure sales impact through analyzing either historical or experimental data. The historical approach involves correlating past sales to past advertising expenditures on a current basis using advanced statistical techniques. Other researchers use experimental design to measure the sales impact of advertising. Instead of spending the normal percentage of advertising to sales in all territories, the company spends more in some territories and less in others. These are called high-spending and low-spending tests. If the high-spending tests produce substantial sales increases, it appears that the company has been under spending. If they fail to produce more sales and if low-spending tests do not lead to sales decreases, then the company has been overspending. These tests, of course, must be accompanied by good experimental controls.

4.3.6. Advertising agencies and profile of advertising in India

Today, the advertising job has become so complex and large, that normally no business firm chooses to handle the function directly. They employ the services of advertising agencies. These agencies carry forward the task of planning, execution and evaluation of the promotional campaigns of companies.

Stanton has defined an advertising agency as “an independent company rendering specialized services in advertising in particular and marketing in general.” They are independent concerns working as a specialist, an agent or consultant of the advertiser. They perform all activities right from preparation and development of advertising copy to the evaluation of the effectiveness of the advertising programme.

Advertising agencies render a lot of services to advertisers like

Copy writing,

Photographing,

Media planning,

Buying of space,

Marketing research,

Public relations,

Merchandising,

Sales promotion,

Forwarding the advertising material etc.

All these specialized services help the advertisers in raising the effectiveness of advertising.

Advertising in the Indian perspective

In a country like India, where we find diverse languages, low-income levels, large-scale illiteracy, the growth in advertising has also been slow as a natural consequence. An experienced marketing man in India feels that the greatest difficulty in India is to find a common link of communication for the entire country. The advertising campaigns are usually not conceived in Indian languages and are often translations of the original advertisement in English. The advertising themes lack Indian images, associations and expressions. India being a country of villages, the ultimate task before the advertising men is to make the advertising appeal simple. No doubt to reach and influence the rural market is a challenge.

However, in the yester decades, we find multifaceted changes in our socio-economic set-up, an increase in the pace of industrialization & an increase in the level of income of the general masses. We also find satisfactory developments in the field of education and all these developments have paved wider avenues for advertisements. The technological sophistication in the field of mass communication has also been instrumental in making the advertising come of age.

Indian advertising practices are under-going a see-saw change and the credibility would probably be to the rising tempo of industrialization in all the sectors of the Indian economy. Of late, the Indian businessmen have learnt to appreciate and visualize the social responsibility of business. Hence, it is pertinent that advertising is given new orientation. With these developments, advertising has become a communication device as well as an indispensable weapon in the armory of today's business. Even the area of advertising research needs special attention. Advertising thus is a sensitive tool of promotion-mix with a very wide coverage and now that the level of consumerism and competition is reaching its peak in India too, business houses have understood that they need the effective tool of advertising to promote the special selling proposition of product to their prospects.

4.4 Sales Promotion

"Sales Promotion is a direct and immediate inducement that adds an extra value to the product so that it prompts the dealers, distributors or the ultimate consumers to buy the product."

According to the American Marketing Association, "Sales promotion means to give short term incentives to encourage purchase or sale of a product or service. Sales promotion includes those activities that supplement both personal selling and advertising, and co-ordinate them and help to make them effective, such as display, shows and expositions, demonstrations and other non-recurrent selling efforts not in the ordinary routine".

Sales promotion helps in solving the short-term problems of the marketing manager, the impact of these methods is not very lasting or durable and the results of these efforts are not as lasting as those of advertising and personal selling. Sales promotion is more of a catalyst and a supporting communication effort to advertising and personal selling.

4.4.1. Objectives of sales promotion

Sales promotions, as a tool of communication and promotion, fulfils the following objectives:

Sales promotion helps in introducing new products.

It also helps in overcoming any unique competitive situation.

It is useful for unloading the accumulated inventory or stock of the goods in the market.

It can be used for overcoming the seasonal slumps in sales.

Sales promotion helps in getting new accounts i.e. clients or customers.

It helps in retrieving the lost accounts.

It acts as a support and supplement to the advertising effort.

It also acts as a support and supplement to the salesmen's efforts.

It aims at persuading salesmen to sell the full line of the products and not just concentrate on a few products.

It helps in persuading the dealer to buy more stock from the company i.e. to increase the size of the order.

Its objective is to create a stronger and quicker response from the consumers.

It also helps to boost dropping sales of any product of the company.

4.4.2. Sales promotion techniques

The sales promotion techniques or tools have three distinctive features:

Communication- Sales promotion attracts the attention of the consumer and gives him such information that he is led to the product or service.

Incentive: they give some incentive, concession, inducement or contribution that gives added value to the consumer.

Invitation: They give a distinct invitation to the consumer to enter into a transaction with the dealer or the company.

The various tools or techniques of sales promotion can be described below:

Sales promotional letters: Several companies utilize the medium of letters for sales promotion. These letters serve different purposes. Some times they are used to give information about the company's products, at other times; they are used as reminders for the customers to continue to buy a particular brand. Some letters seek information from the customers regarding various aspects of their purchases.

Point of purchase (POP) displays: This is the most widely used sales promotional tool. Various kinds of display materials like posters, danglers, stickers, mobile wobblers and streamers are used at the retailer's outlet to induce customers to purchases. POP displays are generally useful in the case of products like liquors for which advertising is prohibited. At times, to enhance the display effect, manufacturers use different approaches such as illuminated designs and motion displays etc. companies use the technique of mass display within the limited space available in the retail store. The stocks are artistically arranged to gain maximum attention. Displays of various types such as window displays, wall display, counter displays or floor displays are also used. The retailer's role is very important from the point of view of displays.

Customer service programmes: At times, the company organizes and conducts customer service programmes or camps with the aim of providing service to the customers at different points of purchase.

Demonstrations: Companies do product demonstrations for sales promotion, especially when they are introducing a new product in the market. Demonstrations are usually used for low unit price products like washing powder or high unit price products like washing machines and vacuum cleaners. Demonstrations may be organized at the retail stores by the company salesmen for the benefit of retailers as well as consumers. Door to door demonstrations and institutional demonstrations are also considered to be highly specialized form of sales promotion. Sometimes demonstrations are organized for influential people such as journalists, mediamen, opinion leaders, etc, who are invited to see the demonstration of the product. Demonstration is a good sales promotion technique which involves the cooperation of the sales representatives and the prospective customers.

Free samples: Free samples of the product are offered to persuade the consumers to try them out. By offering free samples to a large section of the new market, a company seeks to gain an entry into that market. For using this tool, the product should be of low cost and subject to frequent purchases. e.g., soaps, detergents, toothpastes, tea, etc.

Contests: Contests of various kinds are also commonly used as sales promotion tool. There are dealer contests which are exclusively for the dealers of the company and consumer contests for the general public. Companies spend a large amount of money on these contests because they have to be publicized widely and the expenditure on the attractive prizes is also to be covered.

Consumer contests may be in the form of quiz contests, beauty contests, scooter and car rallies, lucky draws, suggesting a brand name, writing a slogan, suggesting a logo, etc. The consumer has to be induced to get interested in the contest and purchase the product associated with it.

Premiums and free offers, price-off schemes and installment offers: In the Indian markets today, these tools are being used extensively by different companies. A premium offer is given for a particular product and alongwith it is a free offer of another product to be given free to anybody buying the product, for e.g., an Arial bar free with a pack of Arial washing powder.

Price-off schemes are also introduced by different companies from time to time. e.g. Kelvinator and Allwyn refrigerators, Hawkins pressure cooker, etc. Other companies give the installment offer to the consumer for buying their product which is usually high priced and give the consumers the facility of paying a certain amount of money as down payment and pay the balance amount in a specified number of equal installments. This sales promotion measure has been found to be very effective.

Coupons: These are certificates which promise price reduction to consumer on specified items. Coupons generally perform specific functions for the company. Firstly, they encourage the consumers to make use of the bargain offered and secondly they also serve as an inducement to the channel members for stocking the items of that company. Coupons may be distributed through newspaper and magazine advertisements or by direct mail or along with the package consisting the product. Coupons are generally used while introducing a new product or for strengthening the image of the product.

Catalogues: Catalogues carry essential information on the products offered by the company. A well-designed catalogue carries complete information relating to the products, their pictures, size specifications, colours, packing, uses and prices. The products are listed and indexed properly in order to facilitate order booking and processing.

Trade fairs and exhibitions: These tools are based on the premise that 'seeing is believing' and are extensively used. These fairs and exhibitions provide the companies with the opportunity of introducing and displaying their products. This brings the company's products and consumers in direct contact with each other. Trade fairs and exhibitions are very effective in international marketing and a lot of trade orders and enquiries are generated at the international level also.

Gifts: Companies also distribute gifts to people like customers, dealers and other influential people. These gifts may include pens, pencils, calendars, diaries, decoration pieces, etc. The gifts generally carry the company's name and logo. These gifts are intended to create goodwill amongst the various people towards the company and indirectly help in furthering the sales of the company.

Sponsoring major national and international events: Companies associate themselves with the major national and international events such as sports like cricket, hockey, tennis, golf, etc. The business houses generally sponsor the event as a whole or may associate themselves with specific aspects of the events. e.g., companies of soft drinks, cigarette manufacturers, etc. The purpose behind sponsoring is to remain a part of the news and got the best of sales promotional efforts in the form of benefits.

4.5. Personal selling

It is essential to communicate, persuade and motivate the target customers in order to make the product and price known and acceptable to the target consumers. For this, personal selling is adopted as an effective tool. The company's sales persons who may be referred to as the salesmen or sales representatives or sales executives, who are on its payroll, communicate with the target consumers, so as to make an order of sale and motivate them to positively respond to it and finally to clinch the deal. According to the American Marketing Association, “Personal selling can be defined as an oral presentation, in conversation with one or more prospective purchasers, for the purpose of making sales". According to F.E. Webster, Jr. "Personal selling is a highly distinctive form of promotion. Like other forms of promotion, personal selling is basically a method of communication, but unlike others it is a two-way, rather than unidirectional communication. It involves not only the individual but social behaviour. Each of the persons in face-to-face contact, salesman and prospect influences the other. The outcome of each sales situation depends heavily upon the success that both the parties experience in communicating with each other and reaching a common understanding of needs and goals. The main task involved in personal selling is to match specific products with specific consumers so as to secure transfer of ownership".

According to K.B. Hass- "Personal selling basically consists of the interpretation of product and service features in terms of benefits and advantages to the buyer and of persuading the buyers to buy the right kind and quantity of the product."

Objectives of personal selling

Personal selling helps in the following major areas:

To improve the sales volume of the company's different products.

To ensure the proper mix of products in the total sales volume.

To increase the market share of the company.

To increase the profits of the company.

To reduce the overall selling expenses.

To gain new accounts and improve business growth.

It helps in the appointment of dealers and expansion of the distribution channel.

To secure channel members co-operation in stocking as well as selling the products of the company.

To achieve the desired proportion of cash and credit sales.

To provide pre-sale and after-sale services.

To train the dealers and customers.

To assist and support other promotional measures.

To help in collecting the amounts due from the market.

To help in gathering and reporting marketing intelligence.

4.6. Public relations

Public relations is a very important and resourceful tool of the promotion mix.

According to Kotler, “Public relations induces a variety of programmes designed to improve, maintain or protect a company of product image. e.g., through press conferences, seminars, speeches, annual reports, charitable donations, etc.”

The major tools in public relations are (i) publications: annual reports, brochures, articles, company magazines and news letters. (ii) events: special events like news conference, anniversary celebration of the company, sponsoring sports and cultural events. (iii) News: the companies find and create favorable news (iv) speeches: by company executives at trade associations, sales meetings, etc. (v) identity media: companies also use such devices as company logos, stationery, business cards, uniforms, etc., which help in identifying the company.

Public relations (PR) is another important marketing tool, which until recently, was treated as a marketing step-child. The PR department is typically located at corporate headquarters; and its staff is so busy dealing with various publics- stockholders, employees, legislators, community leaders- that PR support for product marketing objective tends to be neglected.

Objectives of public relations

Social awareness can be created through the PR promotion plan, regarding a product, service, person, organizer, etc.

It helps to build credibility by communicating the message for example, in editorials of newspapers, etc.

It assists in the launch of new products.

It assists in repositioning of a product.

It helps in building up consumer interest in a particular product category.

It also helps in influencing the specific target groups.

Public relations help to define products that have faced problems or complaints from the public.

It helps to build the corporate image in such a way that it projects favorably on its products.

PR department perform following activities:

Press relations- The aim of press relations is to place newsworthy information into the news media to attract attention to a person, product or service.

Corporate communication- This activity covers internal and external communications and promotes understanding of the organization.

Lobbying- It involves dealing with legislators and government officials to promote or defeat legislation and regulation.

Counseling- Counseling involves advising management about public issues and company position and image.

4.7 Summary

Promotion is one of the most important components of company's overall marketing mix. The methods of promotion are— advertising, sales promotion, personal selling and public relations. The purpose of promotion is to inform, persuade, and remind customers. It must be integrated into firm's strategic planning because effective execution requires that all elements of marketing mix-product, price, place and promotion- be coordinated. While deciding on the promotional mix (combination of advertising, sales promotion, personal selling and public relations), management should consider – the nature of the market and product, the stage of the product's life cycle and funds available for promotion. The key to a successful promotional campaign is to carefully plan and coordinate all the components of promotion.

4.8 Key words

Presumably: it may be presumed (suppose to be true)

Retrieving: regain possession of, bring back

4.9 Self Assessment Exercise

Discuss in brief the role of promotion in marketing effort of a company. Also write a short note on public relations.

What is advertising? How advertising budget is decided? What are different advertising media?

Define personal selling and discuss its objectives.

What is sales promotion? Discuss in brief some important tools of sales promotion.

4.10 Suggested Readings

Stanton, Etzel and Walker- Fundamentals of marketing (TMH)

Philip Kotler- Marketing Management (PHI)

Philip Kotler and Armstrong- Principles of marketing (PHI)

Ramaswamy and Namakumari- Marketing management (Macmillan)

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Lesson: 05

BRAND EVALUATION AND NEW TRENDS IN MARKETING

Structure

5.0 Objective – This lesson is intended to elicit information regarding brand valuation. As the brand lies in the center of marketing activities. Consumers no longer want just a product or service but a relationship on trust and familiarity. The focus is also on the steps to develop new brands. Brand equity developed by brand awareness, familiarity and unique brand association. The changing economic environment leads to contribute certain new trends in marketing viz. experiential marketing, permission marketing and integrated marketing. The aim of this lesson is to make aware students about these new concepts of marketing in very easy and interesting way.

5.1 Introduction-BRAND EVALUATION –THE CONCEPT AND APPLICATION OF BRAND EVALUATION

5.1.1 BRAND

A brand is a name or a symbol - and its associated tangible and emotional attributes - that is intended to identify the goods or services of one seller in order to differentiate them from those of competitors. At the heart of a brand are trademark rights.

5.1.2 BRAND EVALUATION

A brand designates a product or service as being different from competitors' products and services by signaling certain key values specific to a particular brand. It is the associations which consumers make with the brand that establish an emotional and a rational 'pact' between the supplier and the consumer. This pact is an ongoing relationship between the supplier and consumer, and because of this, brands provide a security of demand that the supplier would not enjoy if they did not own the brand. This security of demand means a security of future brand earnings, and this is what defined as brand evaluation.

5.1.3 ORIGIN OF BRAND EVALUATION

Ten years ago *Interbrand* conducted the first ever brand valuation for *Rank Hovis McDougal(RHM).* This exercise succeeded in putting the worth of the company's brands as a figure on the balance sheet. RHM's management wanted this information to fight a hostile takeover bid. With the brand value information, the RHM board was able to go back to investors and argue that the bid was too low, and eventually repel it.

It was the wave of brand acquisitions in the late 1980's that exposed the hidden value in highly branded companies and brought brand valuation to the fore. Some of these acquisitions included Nestlé buying Rowntree, United Biscuits buying and later selling Keebler, Grand Metropolitan buying Pillsbury and Danone buying Nabisco's European businesses. All these acquisitions were at high multiple price tags.

The amount being paid for the acquisition of a strongly branded company was increasingly higher than the value of the company's net tangible assets. This resulted in huge levels of 'goodwill' arising on acquisition. This 'goodwill' actually disguised a mix of intangible assets - brands, copyrights, patents, customer loyalty, distribution contracts, staff knowledge, etc.
An Interbrand study of acquisitions in the 1980s showed that, while in 1981 net tangible assets represented 82% (on average) of the amount bid for companies, by 1988 this had fallen to just 56%. It became clear that

companies were being acquired less for their tangible assets and more for their intangible assets.

5.1.4 NEED FOR BRAND EVALUATION

Although public perceptions of brand valuation are often focused on balance sheet valuations, the reality is that the majority of valuations are now actually carried out to assist with brand management and strategy. Companies are increasingly recognizing the importance of brand guardianship and management as key to the successful running of any business.

The values associated with the product or service is communicated through the brand to the consumer. Consumers no longer want just a service or product but a relationship based on trust and familiarity. In return businesses will enjoy an earnings stream secured by loyalty of customers who have 'bought into' the brand.

5.1.5 METHODS OF BRAND EVALUATION

Today, a widely accepted method of valuing a company or business is to discount the profit or cash flows it produces to a net present value. A similar approach can be used for brands. The profit streams produced by the brand are discounted to their net present value using a discount rate which reflects the riskiness of those income streams being realized i.e. which reflects the strength of the brand - the drivers of those profit streams.

Interbrand, the original pioneers of Brand Valuation employ an economic use method, which is the most widely accepted and has made Interbrand a worldwide authority in this field. It is based on the premise that brands, when well managed, affect the way that consumers behave in the market and the brand owner derives an economic benefit as a result.

Interbrand bases its valuation method on this concept of economic use and the fundamental question: how much more valuable is the business because it owns certain brands? It is thus a marketing measure that reflects the security and growth prospects of the brand and a financial measure that reflects the earnings potential of the brand.

Given this concept of economic worth, the value of a brand reflects not only what earnings it is capable of generating in the future, but also the likelihood of those earnings actually being realized. Broadly speaking Interbrand's brand valuation methodology comprises four elements:

Financial Analysis - To identify business earnings and 'Earnings from Intangibles' for each of the distinct segments being assessed.

Market Analysis - To measure the role that a brand plays in driving demand for services in the markets in which it operates and hence to determine what proportion of Earnings from Intangibles are attributable to the brand (this is measured by an indicator referred to as the 'Role of Branding Index').

Brand Analysis - To assess competitive strengths and weaknesses of the brand and hence the security of future earnings expected from that brand (this is measured by an indicator referred to as the 'Brand Strength Score').

Legal Analysis - To establish that the brand is a true piece of 'property' Brand valuation techniques originally developed in response to mergers and acquisitions activity: valuing the brands owned by a company to help calculate the true value of the business.

5.1.6 APPLICATIONS OF BRAND EVALUATION

External investor relations

Mergers and acquisitions were the original driving force for brand valuation. Now many successful companies use brand valuation as an ongoing business performance indicator: to help ensure that brand strength is reflected in share value. (And in many markets the relevant accounting standards allow brands to be shown as assets on the balance sheet).

Internal marketing management

Brand valuation is increasingly being used as a management tool in leading organizations. For example: brand valuation figures can be used to evaluate new product and market development opportunities, to set business objectives, allocate budgets and to help measure performance and reward staff.

Internal royalty rates

Across a large organization there may be many affiliates, subsidiaries or divisions that make use of any particular brand. As the profit potential of brands becomes more clearly understood more companies are charging royalties, across their business operations, for the use of these brand assets.

Licensing and franchising

Where companies allow outside organizations to use their brand, on a licensing or franchising basis, a brand valuation can lay the foundation for appropriate charges.

Tax planning

As the management of brands as financial assets becomes more sophisticated, so tax authorities around the world have started to take an interest in how these assets are managed. The result is that more and more international organizations are planning the most cost-effective domicile for their brand portfolios and are organizing their tax affairs with their brands in mind.

Securitized borrowing

Even in the conservative world of banking, the asset value of brands has been recognized. As a result brands have been used to secure loans, especially in the US, where companies such as Disney have borrowed significant amounts of money against their brand name.

Litigation support

Brand valuations have been used to support litigation against the illegal use of a brand name (as a basis for calculating damages, for example) and also in cases of receivership, to prevent the assets of the business being undervalued.

5.1.7 BENEFITS OF BRAND EVALUATION

Valuation has various intangible and tangible benefits.

Intangible benefits of brand valuation

Enhances Confidence: Brand credibility shows the faith & confidence of public at large in the product, Valuation if reflected in the books of accounts further enhances the public loyalty to the product and hence becomes a force multiplier.

Indicator of effective utilization: The value in the brand building is generated in the reverse direction when compared to the capital expenditure. We invest in capital expense today and utilize the proportionate investment every year, which we write off in the form of depreciation or amortization, whereas the expenditure in brand building is incurred in installments and is converted into valuable asset over a period of time. The expenditure is considered as revenue expense due to accounting and taxation provision which really is not so, hence valuation gives us the real effective worth, which we have created over the years through brand building and hence becomes an indicator as to how effectively we have utilized the expenditure.

Credibility to the real worth: If you valuate your brand only at the time of disposal it has a lesser influence and will always leave a doubt of its real worth, in the mind of both the buyer as well as the seller where as if the brand is continuously valued has a different impact and gives much more creditability to the real worth.

4. *Strategy development:* Companies are applying brand valuation

techniques in order to understand and manage their brands better. Brand valuation involves a detailed examination of a brand from marketing point, a financial and legal prospective. It also examines the brand performance, prospective, market opportunity, and competition. It thus provides an excellent tool for strategy development.

Tangible benefits of brand valuation

Merger & Acquisition: It is of critical importance for an acquirer, as well as for the vender to understand and evaluate their real worth for negotiating the correct price.

Disposal: The current focus on brands has led many companies to recognize that they cannot support properly all their brands or certain brands could be worth more to a third party than to their current owner. Brand evaluation technique can be used to judge which brand to dispose of and their possible economic worth to a third party.

Licensing: Brand licensing, either to third parties or internally to its own subsidiary, is am increasingly common practice. Brand valuation assists in formulating this strategy.

Fund Raising: Brand valuation are playing an increasing prominent role in the area of fund raising, particularly from the public as brand represent robust asset against which to seek funds is much easier.

Discount Rate: Robust strength also assists in arranging the large funds at lower cost.

5.2 DEVELOPING NEW BRANDS

Customer based brand equity occurs when the consumer has a high level of awareness and familiarity with the brand and holds some strong, favourable and unique brand associations in memory. In some cases, brand awareness alone is sufficient to get a favourable response from consumer. But in most cases, the brand strength, favorability and uniqueness of the brand associations play a critical role.

5.2.1 SOURCES OF BRAND EQUITY

Brand Awareness: It consists of brand recognition and brand recall performance. Brand recognition is capability of consumer to identify brand among a variety of brand. And brand recall is the capability of consumer to collect information about brand from memory when a product category is given to him.

Brand Image: It is the impression about the brand before any consumer. It can be either positive or negative. A positive brand image can be created by marketing programs that link strong, favourable and unique association to brand in memory. Consumer beliefs about brand attributes and benefits can be formed in different ways. Brand attributes are those descriptive features are the personal value and meaning that consumers attach to the product or service. Brand benefits are the personal value and meaning that consumers attach to the product or service attributes. These two factors are the strength of the brand association. Then comes, favorability of brand association. This is created by convincing consumer that the brand possesses relevant attributes and benefits that satisfy their needs and wants. Lastly, uniqueness of brand associations. The essence of brand positioning is that the brand has a sustainable competitive advantage or "unique selling proposition" that induces consumer to buy a particular brand.

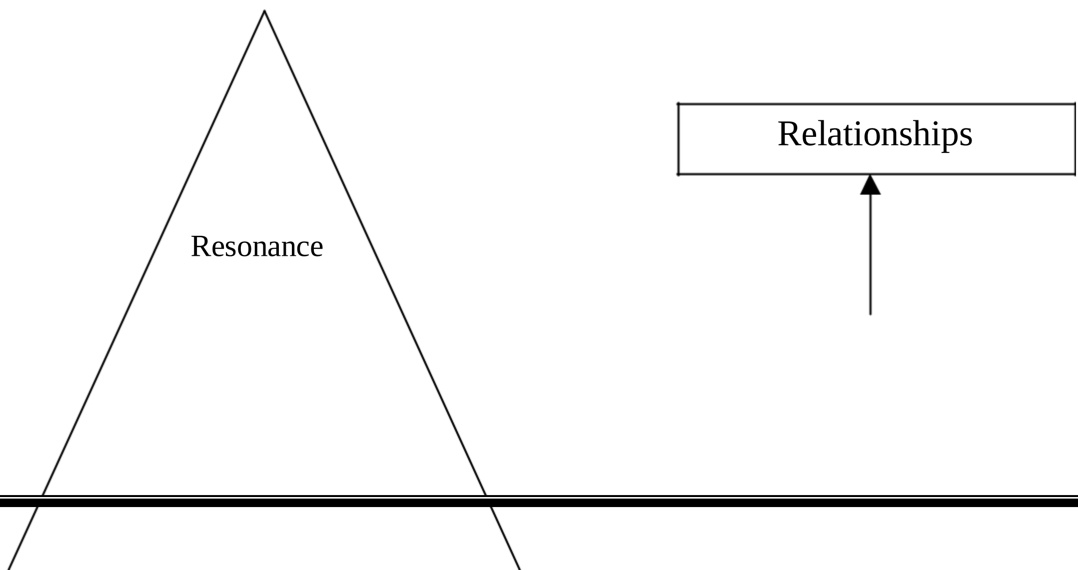
5.2.2 BUILDING A STRONG BRAND- THE FOUR STEPS

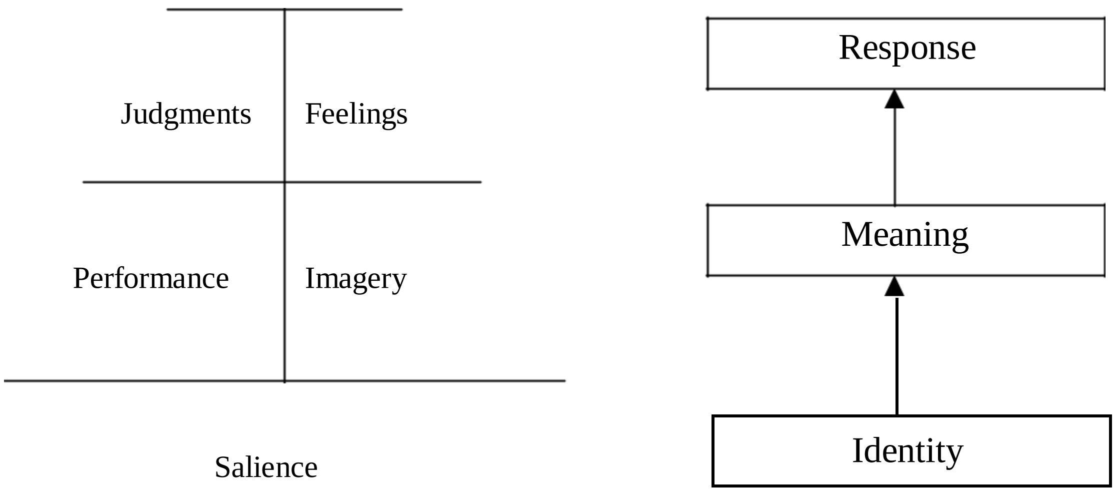
The steps are as follows:

- Ensure identification of the brand with consumers and an association of the brand in customers mind with a specific product class or consumer need.
- Firmly establish the totality of brand meaning in the mind of consumers by strategically linking a host of tangible and intangible brand associations with certain properties.
- Elicit the proper customer responses to this brand identification and brand meaning.
- Convert brand response to create an intense, active loyalty relationship between customers and the brand.

5.2.3 BRAND BUILDING BLOCKS

Performing the four steps as mentioned in fig. 5.2.3 is a complicated and difficult process. To provide some structure, it is useful to think of sequentially establishing six "brand building blocks" with customers. These blocks can be assembled in terms of a brand pyramid.





Source**Brand**:Strategic**Salience**BrandManagement by Revin Lane Kellar

Figure 5.2.3: Brand Pyramid

It relates to aspects of brand awareness, for example, how often and easily the brand is recalled under various situations. Brand awareness links the brand with brand name, logo, and symbol and with certain associations in memory. So achieving the right brand identity involves creating brand salience with customers. It helps consumer to identify product category and making sure that customers know which of their “need” the brands – through these products – is designed to satisfy.

Brand Performance

The product itself is at the heart of brand equity, because it has the primary consideration of the consumers experience with brands. What they think and expect from a product? To create brand loyalty and resonance, the expectations of consumers must meet favourably. The performance has the five essential elements to meet the expectations of consumer.

Primary characteristics and secondary features

Product reliability, durability and serviceability

Service effectiveness, efficiency and empathy

Style and design

Price

But these attributes vary by product or service category. Some categories have few features like bread. But some categories have numerous features; examples are TV, audio system, computer system etc.

Brand Imagery

It deals with the extrinsic properties of the product or service. It is the way in which the brand attempts to meet consumer's psychological and social needs. The basic consideration is on user's profile, their purchase and usage situation. Their personality and values. Lastly, history, heritage and experiences of consumer about brand.

Band Judgment

It focuses on consumer's personal opinion and evaluation with regard to the brand. It means how consumers perceive the brand particular from different brands. They make their judgment by considering 'brand quality', which are defined in terms of over all evaluation of brand calculated by consumers. The second factor is 'brand credibility'. This is explained by three important elements viz perceived expertise, trustworthiness and liability. It must be competitive and innovative. It must consider the interest of consumer and finally, the image of manufacturer or company must associated with brand is good. The other factors are 'brand consideration' and brand superiority.' consideration is more important than awareness. It must induce or motivate them to think about brand superiority means a brand must different itself as unique as and better than other available brands.

Brand feeling

It is defined as the consumer's emotional responses and reaction with respect to brand. Brand feelings also relate to the social currency evoked by brand. The main elements are: (soothing type feeling), Fun (upbeat type of feelings), Excitement (energetic feelings), security (feeling of safety and comport), social approval (positive feelings) and lastly self-respect (feeling of pride and accomplishment).

Brand Resonance

This is the last step of model refers to the extent of intensity, or depth of psychological bond that customer with brand as well as the level of activity engendered by this loyalty. Specially, brand resonance can be broken down into four categories.

Behavioural loyalty – repeat purchases

Attitudinal attachment – favourable perception

Sense of community – a sense of affiliation with other users of brand

Active engagement – strongest affirmation with brand.

5.2.4 CRITERIA FOR CHOOSING BRAND ELEMENTS

In general, there are six criteria in choosing brand elements

Memorability

The brand must have a high level of brand awareness. It must be easily recognizable and easily recalled by consumer.

Meaningfulness

Beside brand awareness, a brand must convey the message in terms of valuable information it must convey general information about the nature of product category on one side. On other side, it must provide information regarding specific attribute and benefit of the brand.

Liability

Brand element can be chosen that are rich in visual and verbal imagery and inherently fun and interesting.

Transferability

Up to what extent can the brand element add to the product category and geographic sense? upto what extent does not element add to brand equity across geographic boundaries and market segment?

Adaptability

The brand should be changed with the change in consumer values and opinions as well as taste and preferences for example, logos and characters can be given a new look or a new design to make them appear more modern and relevant.

Protectability

This is last consideration regarding legal and competitive sense. The brand elements can be legally protected on an international basis. The brand formally registers them with appropriate legal bodies.

5.2.5 TYPES OF BRANDS

Brands are of six types explained as:

Descriptive: It explains the functions or provides detailed information to consumes. Example, Singapore Air lines using descriptive brands.

Suggestive: There are certain brands, which is suggestive of a benefit or a function. Example, Agilent Technologies.

Compound Brand **:** When brand combines two or more, often unexpected words, like – red hat

Classical: Meritor is an example using Latin, Greek or Sanskrit language for a brand.

Arbitrary: When a real word is used as a brand, but the word does not have association with company. Example is apple.

Fanciful: It is coined word with no obvious meaning. Example – avanade is a fanciful name with out any proper meaning.

5.2.6 NAMING PROCEDURE

A number of different procedure or systems have been suggested for naming new products.

The first step is to select a brand name for a new product. The brand selected should have certain objective, ideal meaning and recognize the role of brand with in the corporate branding hierarchy.

The second step is to generate as many names and concepts as possible. The names and concepts can be explored by company management and employees, existing and potential consumers, ad agencies, professional name consultants or specialized computer based naming companies.

The next step is the screening of names on the basis of objectives and marketing consideration identified in step-1.

The fourth step involves the collection of more extensive information on each of the final 5 to 10 names.

Consumer research is conducted to confirm management expectations regarding memorability and meaningfulness of the names through consumer testing.

Finally, based on all of the information collected from the previous step, management can choose the name that maximizes the firms branding and marketing objectives and then formally register the name.

Logos and symbols

Although the brand name typically is the central element of the brand, visual brand elements often play a critical role in building brand equity, especially in terms of brand awareness. Logos are defined as a means to indicate origin, ownership. Or association. There are many types of logos, ranging from corporate names or trademarks written in a distinctive form. Examples of brands with strong word mark or trademarks include Coca-Cola, Kit-Kat, where no accompanying logo separate from the name. Examples of abstract logos include the Mercedes star, Rolex crown and Olympic rings. The non-word mark logos are often called as symbols.

Characters

Characters represent a special type of brand symbol. Brand symbol. Brand characters typically are introduced through advertising and can play a central role in these and subsequent ad. Campaigns and package designs some brand characters are animated (e.g., Pillsbury's Poppin Fresh Doughboy), where as some are live-action characters like the Marlboro cowboy.

Slogans

Slogans are short phrases that communicate descriptive or persuasive information about the brand. Slogans often appear in advertising but can play an important role on packaging and in other aspects of the marketing program.

Jingles

Jingles are musical messages written around the brand. Professional songwriters typically compose jingles. They often have enough catchy hooks and choruses to become almost permanently registered in the minds of listeners. Jingles can be thought of as extended musical slogans and in that sense can be classified as a brand element. It can communicate brand benefits and convey product meaning in a musical way.

Packaging

Packaging involves the activities of designing and producing containers or wrappers for a product. Early humans covered them selves with leaves and animal skin. Packaging is used to identify the brand and convey descriptive and persuasive message to consumers. It facilitates transportation and protection to product. It can be reused home storage. Today, Packaging has been elevated in its importance and has now become an integral part of product development and launch.

5.3 NEW TRENDS IN MARKETING

The strategy and tactics behind marketing programs have changed dramatically in recent years as firms have dealt with the enormous shift of the "new economy" in their external marketing environment. Changes in economic, technological, political – legal, sociocultural, and competitive environments have compelled marketers to develop new approaches and philosophies. Kotler identifies five major forces of this new economy.

Digitalization and connectivity through Internet, Intranet and mobile services.

Disintermediation and reintermediation via new middlemen of various sorts.

Customization and customization through tailored products and by providing customers ingredients to make products themselves.

Industry convergence through the blurring of industry boundaries.

New customers and company capabilities.

In the face of tighter budgets and the general demand for greater effectiveness in marketing many marketers are starting to employ more creative and innovative ways to reach out to their target customers. Many have started marketing cooperatively in order to share costs among two or more marketers who are trying to reach the same consumers.

5.3.1 HOW BUSINESS PRACTICES ARE CHANGING

The change in technology and economy are eliciting a new set of beliefs and practices on the part of business firms.

From organizing by product units to organizing by customer segments.

From focusing on Profitable transactions to focusing on customer lifetime value.

From focusing on Just the financial scorecard to focusing also on the marketing scorecard.

From focusing on shareholders to focusing on stakeholders.

From marketing does the marketing to everyone does the marketing. Every employee has an impact on the customer and must see the customer as the source of company's prosperity.

From building brands through advertising to building brands through performance.

From focusing on customer acquisition to focusing on customer retention.

From no customer satisfaction measurement to in-depth customer satisfaction measurements.

From over-promise, under-deliver to under promise, over-deliver.

5.3.2 HOW MARKETING PRACTICES ARE CHANGING

E-business describes the use of electronic means and platform to conduct a company's business. The advent of Internet has greatly increased the ability of companies to conduct their business faster, more accurately, more timely with reduced cost, and with the ability to customize and personalize customer offerings. **E-commerce** and **E-marketing** are new strategies to meet the demand of consumers in new economy.

E-commerce is more specific than e-business, it means that in addition to providing information to visitors about the company, its history, philosophy, product and job opportunities, the company or site offers to facilitate the selling of product and services online.

E-purchasing means companies decide to purchase goods, services and information from various online suppliers.

E-marketing describes company efforts to inform, communicate, promote and sell its products and services over the internet.

There are four major internet domains through which E-business take place.

Business to consumer (B2C)

Business to Business (B2B)

Consumer to Consumer (C2C)

Consumer to Business (C2B)

5.3.3 SETTING UP WEB SITES

A key challenge is designing a site that is attractive on first viewing and interesting enough to encourage repeat visit. Early test-based web sites have increasingly been replaced by sophisticated sites that provide text, sound and animation.

7 Cs as essential elements of effective web site

Context-layout and design

Content – Text, picture, sound, and video

Community – How the site enables user-to-user communication

Customization – site's ability to tailor itself to different users or to allow users to personalize the site.

Communication – site to user, user to site communication

Connection – degree to site is linked to other site

Commerce – capability to enable commercial transactions.

5.3.4 CUSTOMER RELATIONSHIP MARKETING (CRM)

In addition to e-marketing, CRM is used to improve quality of service and to meet the requirement of consumer successfully. CRM enables company to provide excellent real-time customer service by developing a relationship with each valued customer through the effective use of individual account information.

Customer relationship marketing holds that a major driver of company profitability is the aggregate value of the company's customer base winning companies are more productive in acquiring, keeping and growing customers through various strategies as:

reducing the rate of customer defection

increasing the longevity of the customer relationship

enhancing the growth potential of each customer through share-of-wallet, cross-selling and up-selling.

Making low profit customers more profitable

focusing disproportionate effort on high value customers.

5.3.5 ONE-TO-ONE MARKETING

Don Peppers and Martha Rogers have popularized the concept of one-to-one marketing. In rationalizing their approach, they cite a number of trends in the marketing environment such as shift from transaction based marketing to relationship marketing, advances in communication technologies and a continued fragmentation of mass media.

One-to-One marketing is based on several fundamental concepts.

Focus on individual consumers through consumer data base

Response to consumer dialogue via interactivity

Customize products and services

5.3.6 PERMISSION MARKETING

The practice of marketing to consumers only after gaining their express permission, is gaining popularity as a tool with which company can break through the clutter and build customer loyalty. Today consumers are bombarded with large number of marketing communications every day, kif marketers wants to get a attention of consumer, they first need to get his/her permission with some kind of inducement like a free sample, sales promotion or discount, a contest, and so on. By eliciting consumer cooperation in this manner, marketers can potentially develop stronger relationships with consumers so as they will wish to receive further communication in future.

These various new approaches help to reinforce a number of important marketing concept and techniques. From a brand point of view, they are particularly useful means of thinking how to both elicit positive brand responses and create brand resonance to built customer based brand equity. One-to-One, permission and experiential marketing are all potentially effective means of getting consumers more actively involved with a brand.

5.4 EXPERIANTIAL MARKETING

After economic reforms, marketing has changed the entire consumer behavior; it has intensified more competition in brands. Now we are in net revolution. We have left behind traditional marketing concepts. Earlier we were using product, feature based brands to induce consumers. Now we have new differentiator in marketing. This is called EXPERIENTIAL MARKETING. This new marketing mix is trying to bring brands to life through experience. Experiential marketing is to stimulate in active manner, to engage consumer in a personal life experience, to allow them to be receptive with the brand in a personalized environment. Experiential marketing is to create and add the value of life; they are to be involved in the product development process. We have seen lots of marketers are doing this experience like Indica, Pepsodent, NIIT, Pepsi, and Dish net. Experiential marketing is also about choosing customers, selling your dreams. Here dreams are not a product it is about experience. Take the case of PEPSI they are in business of creating experiences for consumers through events, placement of visicoolers, everything.

Experience marketing is having mind shift approach in its delivery system it has creative rules and frame work. It has to be viewed as scientifically. It has the following objectives, these objectives; these objectives can be used as new marketing mix strategy.

The company's core business activity

Marketing communication strategy

Consumer research

Promotional strategy

Integrated marketing strategy

All marketing tools, Advertising, Media interactive, Promotion, On site promotion, direct response from consumers.

Experiential marketing focuses on customer experiences. Traditional marketing fails to gauge sensory, motional, Cognitive behavioral of relationship needs. But in the case experiential marketing it has and philosophy neurobiology, psychology sociological theory of the consumer.

Indian Experiences we have Indian experiences in this context.

The launching of SHELL brand of two wheeler oil-SHELL 21. The objectives were to provide certain experience which ad could not provide or deliver. The USP was purity, colorless, odourless. They carried out these experiences in 25-30 cities with the oil. Two wheeler driver could see, smell through experiences, this was done in petrol pumps. Over 16 lakh consumers went through this experience. It was measured as parameter of trials and repeat purchase rate.

Hindustan Lever is one of the best examples of the mind shift that explains experiential marketing. They targeted children for PEPSODENT in 96. They decided to take the pepsodent experience through a positive dentist interaction. They targeted schools allover the country. They did in the following manner:

They hired dentists who gave personal and audio visual interaction

taught about brushing, good oral habits.

check ups, given colorful edutainment booklets.

Given Dental Forms to Kids

setting up kiosks with touch screen were a kid can have all queries, experiences. HLL did these experiences in 25 cities targeted 2.5 million kids. These exercises forged a new personalized relationship with kids where pepsodent is being seen as high brand recall product & identified itself with coral care. HLL is also doing this experience with VIM dishwasher brand..

Experiential marketing invites change in bindset. It has all sense, feel, think act & relate. All the strategic marketing, tools are to be synchronized in a consistent, holistic, enriching experience.

5.4.1 KEY ELEMENTS OF EXPERIENTIAL MARKETING

The sensory area of experiential marketing is made up of styles and visual and verbal symbols that create an overall impression. If you want to create a strong sense of impact or create something appealing, whether an advertisement, packaging or a website, you need to first choose the right colors. They have to be in line with the image of your company; they have to be attractive; they have to gain the customer's attention.

For example, colors like yellow or red are often better than blue and gray. Even though blue and gray are very common on the corporate arena because they're "safe" colors, they're not very good at attracting attention. So you have to choose your color scheme appropriately, with multiple criteria in mind. It's not just a matter of getting consumers' attention; it also has to be in line with what sort of company you are. If you're in the banking industry, you don't want to use pink. You need to understand which colors and shapes to use.

Act

"Act" is about behaviors and lifestyles. It's about getting people to do something and express a lifestyle. There's an "Act”. On aspect to the Volkswagen Beetle. Market research showed that a lot of people buy the Volkswagen Beetle as a second car. I think that is because people want to live in a certain lifestyle, they want to drive a car that is more fun to drive than their normal, professional Lexus or BMW. So the notion of "Act" is always about actual behaviors or broader lifestyles.

There are different ways of communicating "Act." On the Web you can do it through Flash animations, for example. On television, you can do it through some very fast-paced advertisement. In an environment, you can do it by having a lot of different sensory stimuli coming together--very bright, fast, changing images. The point is that you need to choose a medium carefully so that it produces the right sort of experience. The print medium would not be good for "Act."

Relate

"Relate" is about relating to cultures, relating to other people and relating to your reference groups. It's about creating a sense of social identity. Ort. I should say the marketer helps you to create a sense of social identity. We're talking about products that you can relate to a generation, a nationality or an ethnicity. In "Relate," you use the right sort of cultural symbolism in your advertising campaigns and Web designs and in everything you're doing, which then helps the consumer to identify with that particular group.

One good example of a "Relate" campaign is Harley-Davidson, the icon of

American free spiritedness, which draws thousands of motorcycle enthusiasts to weekend rallies staged across the country. Harley-Davidson evokes such strong relations that owners tattoo the logo on their arms or their entire bodies. If you own a Harley-Davidson, you are part of something.

A Holistic Approach

The key is to integrate many of these approaches. One good example of this is the Volkswagen Beetle. With the Beetle, it all starts with the product. Now, this is not your typical car. It's not just about the features and benefits of this car, which are probably not much better than a Hyundai, maybe a little bit better, but not enough to justify the price premium.

What is so unique about the product? It's the shape--very unusual in the entire car industry. It's the colors; it's the flower vase that they have in the front. These individual symbols come together in a theme. Maybe the theme is professionalism. You go to McKinsey & Co. and they're a professional company. Why are they a professional company? Because of all the symbols that they have--that includes the cars that their consultants drive, or the briefcases they have, or the suits they wear, or the icons that they use for a PowerPoint presentation; all speak to thus notion of professionalism These stylish themes create the overall sense or impression of the company.

Feel

Feelings are quite different from sensory impressions, because they suggest the whole realm of moods and emotions. It's not just a matter of beauty and appeal but a matter of getting people, in the extreme, to feel joyful, to feel happy or maybe even to cry.

Take a company like Hallmark, which understands how to do that. They have these "Feel" advertisements that they show during the Hallmark Hall of Fame at Christmastime. first of all, these advertisements are not short ads. You cannot create a strong "Feel" impact in a 10- or 15-second commercial.

Think

With "Think" we are getting into something that stimulates people's intellect or their creativity. The "Think Different" campaign by Apple tried to do that. They wanted people to think differently about Apple. Apple had been in big trouble a few years back, and then Steve Jobs came in as CEO and said, "Well, we want people to think differently about the company again" So they've done a very unusual advertising campaign for a computer company. You don't see a computer; you see these heroes of the twentieth century, from Einstein to John Lennon--a very unusual approach in terms of getting people to think more broadly about the company and its products.

5.5 INTEGRATED MARKETING

When all the company’s departments work together to serve the customer’s interests, the result is “integrated marketing.” Integrated marketing works on two levels.

- The various marketing functions like sales force, advertising, customer service, product management, marketing research must work together.
- Marketing must be embraced by the other departments, they must also “think customer”. According to David Packard of Hewlett-

Packard, “Marketing is far too important to be left only to the marketing department!” To foster teamwork among all departments, the company carries out internal marketing as well as external marketing. Internal marketing is marketing of the task of hiring, training and motivating able employees who want to serve consumers well. External marketing. Internal marketing is marketing directed at people outside the company. Infect, internal marketing must precede external marketing.

5.5.1 INTEGRATED MARKET COMMUNICATION

The wide range of communication tools, message and audiences makes it imperative that companies move towards integrated marketing communication (IMC)”.

As defined by American Association of Advertising Agencies, IMC is a concept of marketing communications planning that recognizes the added value of a comprehensive plan. Such a plan evaluates the strategic role of a variety of communications disciplines- for example, general advertising, direct response, sales promotion and public relations and combines these disciplines to provide clarity, consistency and maximum impact. Today however a few large agencies have substantially improved their integrated offerings. Many international clients have opted to put a substantial portion of their communications work through one agency. Example is IBM turning all of its advertising over to ogilvy to attain uniform branding. IMC does produce stronger massage consistency and greater sales impact. It forces management to think about the every way the customer comes in contact with the company, how the company communicates its positioning. It will improve the company's ability to reach the right customer with the right message at right time and in the right place.

5.5.2 INTEGRATED DIRECT MARKETING

However, companies are increasingly recognizing the importance of integrating their marketing communications. To get a right mix of communication tools, to establish a right overall communication budget and right allocation of fund to each communication tool, integrated marketing communication, integrated direct marketing, and maxi marketing has been variously used.

5.5.3 DEVELOPING INTEGRATED MARKETING COMMUNICAT-ION PROGRAMS

The main theme is that the marketer should "mix and match" communication options to build brand equity.

Mixing communication options

From the perspective of customer-based brand equity, marketers should evaluate all possible communication options available to create knowledge structure according to effectiveness criteria as well as cost consideration. This strategy is used to improve brand awareness brand awareness is closely related to brand familiarity and can be viewed as a function of brand related exposure and experience.

Matching communication option

There are many ways to create IMC programs. A number of considerations come into play while evaluating IMC program these are discussed below:

Coverage: It relates to the proportion of the audience that is reached by each communication option employed, as well as how much overlap exists among communication options.

Contribution: It relates to the inherent ability of a marketing communication to create the desired response and communication effects from consumers in the absence of any other communication options.

Commonality: It relates to the extent to which common associations are reinforced across communication conveyed by different communication options sharing meanings.

Complementarily: These options are often more effective when used in tandem. It relates to the extent to which different associations and linkages are emphasized across communication options.

Versatility: Versatility relates to the extent that marketing communication option is robust and effective for different groups of consumers. It is of two types namely communication and consumers. The reality of any IMC program is that when consumers are exposed to a particular marketing communication, some consumer will have already been exposed to other marketing communication for the brand; where as the other consumers will not have had any prior exposure.

5.6 SUMMARY

A brand is a trademark or combination of trademarks that, is intended to identify goods and services of one seller in order to differentiate them from those of competitors. The value of the brand is the amount another party is prepared to pay for it. Sometimes this is easily ascertainable when one company purchases a brand but no other asset of another company.

There are several applications of brand valuation such as brand management and development, enhancing management communication, benchmarking of competitors, monitoring value year on year, merger and acquisition, joint venture negotiations.

Customer based brand equity occurs when the consumer has a high level of awareness and familiarity with the brand. The brand equity has some strong, favourable and unique association to get a memorable status in the mind of consumers. Various sources of brand equity contribute to get a strong brand. There are six brand building brocks to create right brand identity, brand meaning and brand responses.

5.7 Key words

Elicit: draw out (a response)

Holistic: treating the whole thing rather than just particular isolated symptoms

In tandem: arranged one behind another, together, alongside each other

Inherent: existing in a thing as natural or permanent quality

5.8 Self Assessment Questions

What do brands mean to you? What are your favorite brands and why?

What do you mean by brand valuation? How brand valuation can be done? What are the variables responsible for brand valuation? What are the benefits of brand valuation?

Can you think of yourself as a brand? What do you do to "brand" yourself?

Can you list the procedure of building of new brand? What are the sources of brand equity?

Which brands do you have the most resonance with? Why?

Enlist the various types of brand. What are the essential elements of a strong brand?

Write a brief not on new trends in marketing with special reference to various forces responsible for such changes.

Explain briefly latest trends in marketing practices?

What do you mean by experiential marketing? Have you had any experience with a brand that has done a great job with relationship marketing, permission marketing, experiential marketing, or one-to-one marketing? What did the brand do? Why was it effective? Could others learn from that?

How effectively has the brand mixed and matched marketing communications? How explicitly has it integrated its communication program?

What do you see as the role of Internet for building brands?

5.9 Suggested Readings

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Amar Raj Lal and Vinod Khurana, Brand Valuation.

Note : 3 to 12 references are downloaded by internet through google search

COURSE: BASIC PRINCIPLES OF MARKETING AND MANAGEMENT

Course Code: 05 **Author:** Surinder Singh Kundu
Lesson: 06 **Vetter:** Dr. B. S. Bodla

COMMUNICATION

STRUCTURE:

6.1 OBJECTIVE: The present chapter explains the meaning, process and essentials of communication.

6.2 INTRODUCTION

Communication transmits information .not only about tangible facts and determinable ideas and opinions but about emotions. When a communicator passes on or transmits some information, he may also, either intentionally or unconsciously, be communicating his attitude or the frame of his mind. And sometimes the latter may be more relevant to the reality that is being communicated. Often we may have come across words of high praise spoken in a scoffing tone. In this case, the words signify nothing and the tone is the real thing. Similarly, high-sounding expressions of bravery may be only a mask to conceal a person's timidity and weakness, which may be betrayed by his facial expressions. Hence, facial expressions are an important part of communication.

6.3 MEANING AND DEFINITION OF COMMUNICATION

Communication is something so simple and difficult that we can never put it in simple words, says T. S. Matthews. Peter Little defines communication as follows:

Communication is the process by which information is transmitted between individuals and/or organisations so that an understanding response results. Another very simple definition of 'communication' has been provided by W. H. Newman and C. F. Summer Jr.: “Communication is an exchange of facts, ideas, opinions, or emotions by two or more persons”. William Scott defined communication in his Organisation Theory: “Administrative communication is a process which involves the transmission and accurate replication of insured by feedback for the purpose of eliciting actions which will accomplish organizational goals”.

These definitions emphasize four important points:

The process of communication involves the communication of ideas.

The ideas should be accurately replicated (reproduced) in the receiver's mind, i.e., the receiver should get exactly the same ideas as were transmitted. If the process of communication is perfect, there will be no dilution, exaggeration or distortion of the ideas.

The transmitter is assured of the accurate replication of the ideas by feedback, i.e., by the receiver's response which is communicated back to the transmitter. Here it is suggested that communication is a two way process including transmission of feedback.

The purpose of all communication is to elicit action.

6.4 THE COMMUNICATION SITUATION AND CYCLE

The communication situation is said to exist when

there is a person (sender or transmitter) desirous of passing on some information;

there is another person (receiver) to whom the information is to be passed on;

the receiver partly or wholly understands the message passed on to him;

the receiver responds to the message, i.e., there is some kind of feedback.

The communication situation cannot exist in the absence of any of these four components. Two gentlemen greeting each other with folded hands constitute a communication situation, for (a) there is a person desirous of sending a message (greeting); (b) there is another person to receive this message; (c) when the first person folds his hands, the second one understands that he is being greeted; and (d) the second person immediately responds back by folding his own hands.

But, if a Hindi-speaking person addresses a Tamil-speaking person in Hindi, the communication situation does not exist, for though there is a person desirous of sending a message, the message is not understood and consequently there is no feedback.

In the communication cycle, the transmission of the sender's ideas to the receiver and the receiver's feedback or reaction to the sender is done. The main steps of this cycle are as follows:

1. Input : the information or ideas the sender wants to give the receiver;
2. Channel : letter, fax, phone call, electronic mail, etc;
3. Message : the-actual massage that is sent;
4. Output : the information the receiver gets;
5. Feedback : the receiver's response (or non-response) to the massage;
6. Brain drain: the possibility of misunderstanding at any step.

If the action desired in the message is satisfactorily performed or the information is faithfully received (ensured by the feedback), we say the communication loop has been closed. But breakdowns in the communication cycle are quite frequent. The breakdown may be due to one or more of the following:

Improper formulation of the message in the mind of the sender;

Improper statement of the information in the message;

Improper statement of the message by the receiver.

6.5 IMPORTANCE OF EFFECTIVE COMMUNICATION IN BUSINESS

Communication is the life blood of business. No business can develop in the absence of effective internal and external communication. Besides, communication skills of the employees are given high weight age at the time of their appointment as well as promotion. The effective communication can be understood into following ways:

6.5.1 Internal communication

Effective internal communication is considered important for the following reasons:

Business has grown in size: Large business houses have a number of branches within the country and even abroad. Some of the multinational corporations are no smaller than huge empires. The central organisation of a large business house is its nerve centre. For its healthy and even growth, it is extremely important that the central organisation maintains a thorough and up-to-date knowledge of the various activities at the branch offices, keeps the branch offices well acquainted with the activities at the centre, and some kind of link is maintained among the various branches. This calls for an effective and efficient network of communication.

Business activity has become extremely complex: This being an age of specialisation, planning, production, sales, stores, advertising, financing, accounts, welfare, etc., are handled by different departments. If these departments do not communicate with one another as well as with the management, there will be no coordination among them. This may give rise to some awkward and embarrassing situations for the management. When production is fully geared up the stores department may report shortage or non-availability of raw- materials. The planners, having spent one full month to work out the details of a new project, may suddenly discover that there are no finances available to execute the project.

Effective communication promotes a spirit of understanding and coop-eration: If the effective communication exists between the management and the employees, it helps to bring about an atmosphere of mutual trust and confidence. The employees know exactly what is expected of them; the management is aware of the potentialities and limitations of the employees and knows how to exploit the first and make up for the latter. This mutual understanding is extremely beneficial to both the parties. The management gets better returns; the employees get job satisfaction. They also develop a sense of belonging and loyalty to .the enterprise.

6.5.2 External communication

External communication includes communication with the government agencies and departments on the one hand and distributors, retailers, individual customers and general public on the other.

Government agencies and departments: Business organisations are required to deal with licensing authorities, foreign trade offices, customs authorities, banks and other financial institutions, income-tax and sales tax offices, post offices, transporters, etc. Quite frequently they find themselves in formidable and tricky situations that can be handled only through tactful negotiation and negotiation is nothing but communication.

Distributors, retailers, individual customers, etc: Modern business is a highly competitive phenomenon. Each product of common consumption is available in myriads of brands, not all of which sell equally well. Marketing research has revealed that the organisations that can communicate better can also sell better. Sales are promoted through persuasion and persuasion is another aspect of communication.

Communication skill a job requirement: Some areas like personnel, public relations, marketing, sales, and labour relations call for exceptional communication skills. Editors, writers, teachers, advocates, researchers also need a highly developed ability to communicate. Executives are also expected to make speeches, prepare pamphlets, brochures, souvenirs, and give interviews to the media in order to project a favourable image of their organisation. Thus the ability to communicate effectively has become an important job requirement.

Important factor for promotion: The ability to communicate as the most essential requisite for promotion of the executives. It is higher than essential attributes as the capacity for hard work, the ability for making sound decisions, academic qualifications and ambition-drive. Generally, we can say that possessing communication skill is an important qualification at the time of both appointment and promotion.

6.6 MEDIA OF COMMUNICATION

These days communication is possible through a vast variety of media. The Managing Director desirous of communicating with the sales manager can summon him to his room, talk to him over the telephone, or send him a memo. If he wants to consult all the departmental heads, he would most probably convene a meeting. If information is to be transmitted to all the employees, a notice may be put on the notice board or a peon may circulate it among them, a senior officer may announce it over the public address system, or it may be printed in the office bulletin. Posters may be used to issue warnings. Communication with Government departments and other agencies is mostly conducted through written letters. General public can be reached through advertisements on the radio, the television, the cinema screen, or in the newspapers and popular journals. For communication to be effective, the communicator has to be very careful and judicious in the choice of media, which will depend on various factors like the urgency of the message, the time available, the expenditure involved and the intel-lectual and emotional level of the receivers. All the media available can be broadly classified into five groups:

Written communication: It includes letters, circulars, memos, telegrams, reports, minutes, forms and questionnaires, manuals, etc. Everything that has to be written and transmitted in the written form falls in the area of written communication.

Oral communication: It includes face-to-face conversation, conversation over the telephone, radio broadcasts, interviews, group discussions, meet-ings, conferences and seminars, announcements over the public address system, speeches, etc.

Visual communication: It encompasses gestures and facial expressions, tables and charts, graphs, diagrams, posters, slides, film strips, etc.

Audio-visual communication encompasses television and cinema films that combine the visual impact with narration.

Computer-based communication includes E-mail, voice mail, cellular phones, fax, etc.

Most often more than one medium may have to be simultaneously employed to make the communication effective. Face-to-face communication combines the oral form with the visual. Graphs and posters often combine the visual with the written form. A manager giving written instructions may also take pains to explain them to a subordinate: he is simultaneously using the oral and the written form of communication. And a great deal can be communicated by the absence of communication, that is, by maintaining total silence.

6.7 BARRIERS TO COMMUNICATION

In the earlier paragraph, we have discussed the various media of communication available to us - oral, written visual, audio-visual, computer-based, etc. While a properly chosen medium can add to the effectiveness of communication, an unsuitable medium may act as a barrier to it. Each communication must be transmitted through an appropriate medium. An unsuitable medium is one of the biggest barriers to communication. In addition, some of the barriers of communications are as follows:

6.7.1 PHYSICAL BARRIERS

Noise: Noise is quite often a barrier to communication. In factories, oral communication is rendered difficult by the loud noise of machines. Electronic noise like blaring often interferes in communication by telephone or loudspeaker system. The word noise is also use to refer to all kids of physical interference like illegible handwriting, smudged typescript, poor telephone connections, etc.

Time and Distance: Time and distance also act as barriers to the smooth flow of communication. The use of telephone along with computer technology has made communication very fast and has; to a large extent overcome the space barrier. However, sometimes mechanical breakdowns render these facilities ineffective. In such cases, the distance between the transmitter and the receiver becomes a mighty barrier. Some factories run in shifts. There is a kind of communication gap between persons working in different shifts. Faulty seating arrangement in the room can also become a barrier to effective communication, for whichever seats the employees may be occupying; they definitely want an eye contact with one another.

6.7.2 SEMANTIC BARRIERS

Interpretation of words: Most of the communication is carried on through words, whether spoken or written. But words are capable of communicating a variety of meanings. It is quite possible that the receiver of a message does not assign the same meaning to a word as the transmitter had intended. This may lead to miscommunication.

Bypassed instruction: Bypassing is said to have occurred if the sender and the receiver of the message attribute different meanings to the same word or use different words for the same meaning. Murphy and Pack have given a classic example of how bypassed instructions can play havoc with the communication process: An office manager handed to a new assistant one letter with the instruction. “Take it to our stockroom and burn it”. In the office manager's mind (and in the firm's jargon) the word "burn" meant to make a copy on a company machine which operated by a heat process. As the letter was extremely important, she wanted an extra copy. However, the puzzled new employee, afraid to ask questions, burned the letter with a lighted match and thus destroyed the only existing copy.

6.7.3 SOCIO-PSYCHOLOGICAL BARRIERS

Attitudes and opinions: Personal attitudes and opinions often act as barriers to effective communication. If information agrees with our opinions and attitudes, we tend to receive it favourably. It fits comfortably in the filter of our mind. But if information disagrees with-our views or tends to run contrary to our accepted beliefs, we do not react favourably. If a change in the policy of an organisation proves advantageous to an employee, he welcomes it as good; if it affects him adversely, he rejects it as the whim of the Director.

Emotions: Emotional states of mind play an important role in the act of communication. If the sender is perplexed, worried, excited, afraid, nervous, his thinking will be blurred and he will not be able to organise his message properly. The state of his mind is sure to be reflected in his message. It is a matter of common observation that people caught in a moment of fury succeed only in violent gesticulation. If they try to speak, they falter and keep on repeating the same words. In the same way, the emotions of the receiver also affect the communication process. If he is angry, he will not take the message in proper light. It is extremely important that emotions are not allowed impede the smooth flow of communication. The communicator should not try to communicate while in a state of emotional excitement. He should first cool down. In the same way, the receiver should not react to the message if his mind is perturbed.

Closed mind: A person with a closed mind is very difficult to communicate with. He is a man with deeply ingrained prejudices. And he is not prepared' to reconsider his opinions. If closed-minded people can be encouraged to state their reasons for rejecting a message or a proposal, they may reveal deep-rooted, prejudices, opinions and emotions. Perhaps, one can make an attempt to counteract those prejudices, opinions, etc. But if they react only with anger and give a sharp rebuff to anyone who tries to argue with them, they preclude all possibility of communication.

Status-consciousness: Status consciousness exists in every organisation and is one of the major barriers to effective communication. Subordinates are afraid of communicating upward any unpleasant information. They are either too conscious of their inferior status or too afraid of being snubbed. Status-conscious superiors think that consulting their juniors would be compromising their dignity. Status-consciousness proves to be a very serious barrier to face-to-face communication. The subordinate feels jittery and nervous, fidgets about where he is standing, falters in his speech and fails in communicating what exactly he wanted to say. The officer, on the other hand, reveals impatience and starts giving comments or advice before he has fully heard his subordinate. Consequently, there is a total failure of communication; the subordinate returns to his seat dissatisfied and simmering inside, while the officer resumes his work with the feeling that his employees have no consideration for the value of his time and keep on pestering him for nothing.

Such communication failures can be averted if the managers and other persons in authority rise above the consciousness of their status and encourage their employees to talk freely.

The source of communication: If the receiver has a suspicion about or prejudice against the source of communication, there is likely to be a barrier of communication. People often tend to react more according to their attitude to the source of facts than to the facts themselves. Think of an executive in the habit of finding fault with his employees. If once in a while he begins with a compliment, the employees immediately become suspicious and start attributing motives to the compliment. If a statement emanates from the grapevine, the manager will not give credence to it, but the same state coming from a trusted supervisor will immediately be believed.

Inattentiveness: People often become inattentive while receiving a message, in particular, if the message contains a new idea. The adult human mind usually resists change, for change makes things uncertain. It also threatens security and stability. So the moment a new idea is presented to them, they unconsciously become inattentive. Sometimes a person becomes inattentive because of some distraction. It is possible that an employee does not listen to the supervisor's instructions attentively because he is being distracted by the lady typist who has chosen exactly this moment to repair her make-up, or because he is feeling amused at the supervisor's artificial accent and finds it difficult to concentrate on his words. Sometimes when the listener has received a part of the message, his .mind gets busy in framing a reply to it, or in guessing the next part of the message. It is quite likely that in thinking of what has been said or that might be said later, the listener misses a part of what is actually being said at the present moment.

Faulty transmission: A message is never communicated from one person to another in its entirety. This is true in particular of oral messages. If a decision has been taken by the Board of Directors, it must be in the form of a lengthy resolution. This resolution cannot be passed on to the factory workers in the same form. It has to be translated in simple language so that they may easily understand it. But translation can never be perfect. In the process of interpretation, simplification and translation, a part of the message gets lost or distorted. A scientific study of the communication process has revealed that successive transmissions of the same message are decreasingly accurate. In oral communications, something in the order of 30 per cent of the information is lost in each transmission.

Poor retention: Poor retention of communication also acts as a barrier. Studies show that employees retain only about 50 per cent of the information communicated to them. The rest is lost. Thus if information is communicated through three or four stages, very little reaches the destination, and of that very little also only a fraction is likely to be retained poor retention may lead to imperfect responses, which may further hamper the communication process.

Unsolicited communication: Unsolicited communication has to face stronger barriers than solicited communication. If I seek advice, it should be presumed that I will listen to it. But if a sales letter comes to me unsolicited, it is not very sure that I will pay much attention to it.

6.8 MARKETNG COMMUNICATION AND THE TARGET AUDIENCE

The marketing communication process really begins with identifying the audience that will be the focus of the firm's advertising and promotional efforts. The target audience may consist of individuals, groups, niche markets, market segments, or a general public or mass audience. Marketers approach each of these audiences differently. The target market may consist of individuals who have specific needs and for whom the communication must be specifically tailored. This often requires person-to-person communication and is generally accomplished through personal selling. Other forms of communication, such as advertising, may be used to attract the audience's attention to the firm, but the detailed message is carried by a salesperson that can respond to the specific needs of the individual customer. Life insurance, financial services, and real estate are examples of products and services promoted this way.

The group represents a second level of audience aggregation. Marketers often must communicate with a group of people who make or influence the purchase decision. For example, organizational purchasing often involves buying centers or committees that vary in size and composition. Companies marketing their products and services to other businesses or organizations must understand who are on the purchase committee, what aspect of the decision each individual influence, and the criteria each member uses to evaluate a product. Advertising may be directed at each member of the buying center, and multilevel personal selling may be necessary to reach those individuals who influence or actually make decisions.

Marketers look for customers who have similar needs and wants and thus represent some type of market segment that can be reached with the same basic communication strategy. Very small, well-defined groups of customers are often referred to as market niches. They can usually be reached through personal selling efforts or highly targeted media such as direct mail. The next level of audience aggregation is market segments, broader classes of buyers who have similar needs and can be reached with similar messages. There are various ways of segmenting markets and reaching the customers in these segments. As market segments get larger, marketers usually turn to broader-based media such as newspapers, magazines, and TV to reach them. Marketers of most consumer products attempt to attract the attention of large numbers of present or potential customers (mass markets) through mass communication, such as advertising or publicity. Mass communication is a one-way flow of information from the marketer to the consumer. Feedback on the audience's reactions to the message is generally indirect and difficult to measure.

6.9 THE RESPONSE PROCESS IN MARKETING COMMUNICATION

Perhaps the most important aspect of developing effective communication programs involves understand the response process the receiver may go through in moving toward a specific behavior (like purchasing a product) and how the promotional efforts of the marketer influence consumer responses. In many instances, the marketer's only objective may be to create awareness of the company or brand name, which may trigger interest in the product. In other situations, the marketer may want to convey detailed information to change consumers' knowledge of and attitudes toward the brand and ultimately change their behavior.

The function of all elements of the promotional mix is to communicate; so promotional planners must understand the communication process. This process can be very complex; successful marketing communications depend on a number of factors, including the nature of the message, the audience's interpretation of it, and the environment in which it is received. For effective communication to occur, the sender must encode a message in such a way that the receiver will decode it in the intended manner. Feedback from the receiver helps the sender determine whether proper decoding has occurred or whether noise has interfered with the communication process. Promotional planning begins with the receiver or target audience, as marketers must understand how the audience is likely to respond to various sources of communication or types of messages. For promo-tional planning, the receiver can be analyzed with respect to both its composition (i.e., individual, group, or mass audiences) and the response process it goes through. Different orderings of the traditional response hierarchy include the stan-dard learning, dissonance/attribution, and low-involvement models. The information response model integrates concepts from both the high- and low-involvement response hierarchy perspectives and recognizes the effects of direct experience with a product.

6.10 SUMMARY

The main purpose of all communication in an organisation is the general welfare of the organisation. Effective communication is needed at all stages in order to ensure this welfare. At the planning stage, information is needed on various aspects of the enterprise, the feasibility of the project being undertaken, finances involved, man-power required, marketing conditions, publicity campaigns, etc. At the execution stage, orders are issued to the employees to start work, the workers associated with the project are constantly motivated and kept involved, a sense of discipline is cultivated among them and their morale is kept high. All this requires constant two way communication between the managers and the employees. Then at the assessment stage, the manager is again required to communicate with various sources, both internal and external, to assess the success of the project, and if a need is felt, to envisage modifications in the future plans. In case of marketing it is very crucial part, because of we can attract the potential customers through it.

6.11 Key words

Embarrassing: cause to feel awkward or ashamed

Envisage: imagine, foresee

6.12 SELF-TEST QUESTIONS

1. What do you mean by communication? What is its importance in marketing?

Discuss the various elements of communication process. Find an example of an advertising campaign being used by a company and analyse the campaign in terms of these elements of the communication model.

What are the main barriers to marketing communication?

"Communication is the base of marketing life". Comment.

How can you attract the customers towards your products in marketing environment?

6.13 SUGGESTED READINGS

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COURSE: BASIC PRINCIPLES OF MARKETING AND MANAGEMENT

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Lesson: 07 **Relationship** **Vetter:** **Marketing** Dr.B.S.Bodla

RELATIONSHIP MARKETING

STRUCTURE:

7.1 OBJECTIVE: The present chapter would enable the students to understand the basics of relationship marketing. It gives the detail of the process, benefits, principles, and tips for successful relationship marketing.

7.2 INTRODUCTION

These stories are indicative of the changing nature of marketing. Marketing is no longer simply about developing, selling and delivering products. It is progressively more concerned with the development and maintenance of mutually satisfying long-term relationships with customer. If the 1950s was the era of mass-marketing, and the 1970s the era of market segmentation, then the 1990s represent the genesis of personalized marketing, in which knowledge about individual customers is used to guide highly focused marketing strategies. This change is driven by several conditions: more intense, often global, competition; more fragmentation of markets; a generally high level of product quality which is forcing companies to seek competitive advantage in other ways; more demanding customers; and rapidly changing customer buying patterns. Enduring relationships with customers cannot be duplicated by competitors, and therefore provide for a unique and sustained competitive advantage. The expression most widely used to describe this new form of marketing is relationship marketing (RM). Other terms have been used, either as substitutes for RM or to describe some close parallel-micro marketing, database marketing, one-to-one marketing, loyalty marketing, wrap-around marketing, customer partnering, symbiotic marketing and interactive marketing. Although the shift to RM is widespread, it is occurring more rapidly in some sectors and industries than others, facilitated by fundamental cultural shifts within organizations, powerful databases and new forms of organizational structure.

In the current era of intense competition and demanding customers, relationship marketing has attracted the expanded attention of marketers. They are studying the nature and scope of relationship marketing and developing conceptualizations regarding the relationships between different marketing actors, including suppliers, competitors, distributors, and internal functions in creating and delivering customer value and taking interests in various sub-disciplines of marketing, such as channels, services marketing, business-to- business marketing, and advertising. They are actively engaged in studying and exploring the practical foundations of relationship marketing. However, the conceptual and practical foundations of relationship marketing are not fully developed as yet. The current growth in the field of relationship marketing is somewhat similar to what was experienced in the early stages of the development of the discipline of consumer behavior. This is how consumer behavior grew to become a discipline that now enjoys a central position in marketing knowledge. We expect relationship marketing to undergo a similar growth pattern and soon to become a discipline unto itself.

7.3 MEANING AND DEFINITION OF RELATIONSHIP MARKETING

Before we begin to examine the theoretical foundations of relationship marketing, it will be useful to define what the term relationship marketing means. This term has been used to reflect a variety of themes and perspectives. Some of these take a narrow functional marketing perspective, whereas others employ a view that is broad and somewhat paradigmatic in approach and orientation. One example of a narrow perspective on relationship marketing is database marketing that emphasizes the promotional aspects of marketing linked to database efforts. Another narrow, yet relevant, viewpoint considers relationship marketing only as customer retention, in which a variety of after marketing tactics are used for customer bonding or staying in touch after the sale is made. A more popular approach with recent application of information technology is to focus on individual or one-to-one relationships with customers that integrate database knowledge with a long-term customer retention and growth strategy. Shani and Chalasani define

relationship marketing as "an integrated effort to identify, maintain, and build up a network with individual consumers and to continuously strengthen the network for the mutual benefit of both sides, through interactive, individualized and value-added contacts over a long period of time". Jackson defines relationship marketing as "marketing oriented toward strong, lasting relationships with individual accounts". McKenna offers a more strategic view of relationship marketing by putting the customer first and shifting the role of marketing from manipulating the customer (telling and selling) to genuine customer involvement (communicating and sharing the knowledge). Berry takes a service sector perspective: RM is attracting, maintaining and - in multi-service organizations - enhancing customer relationship.' Jackson writes from an industrial marketing perspective: RM concerns attracting, developing and retaining customer relationships.' Christopher, Payne and Ballantyne see RM as a synthesis of marketing, customer service and quality management. Sheth describes RM as 'the understanding, explanation and management of the ongoing collaborative business relationship between suppliers and customers'. Evans and Laskin suggest: 'RM is a customer centered approach whereby a firm seeks long-term business relations with prospective and existing customers.' Morgan and Hunt offer the broadest definition of RM, taking neither a sectoral perspective nor specifying the need for there to be a 'customer'. Rather, 'RM refers to all marketing activities directed toward establishing, developing and maintaining successful relational exchanges'. Czepiel retorts that a relationship possesses 'mutual recognition of some special status between exchange partners' (emphasis added), to which Barnes adds: 'a succession of interactions does not necessarily lead to a relationship any more than repeat purchasing constitutes loyalty.' Finally, as Gummesson has rightly observed: ‘RM is currently seeking its identity. Gradually, a more general approach to marketing management, based on relationships, is gaining ground.’ It may be that RM will not be firmly entrenched as standard business practice until the millennium.

7.4RELATIONSHIP MARKETING VERSUS MARKETING RELATIONSHIPS

It is an interesting question as to what the difference is between "marketing relationships" and "relationship marketing." Certainly marketing relationships have existed and have been a topic of discussion for a long time. But what distinguishes marketing relationships from relationship marketing are their nature and specificity. Marketing relationships could take any form, including adversarial relationships, rivalry relationships, affiliation relationships, and independent or dependent relationships. However, relationship marketing is not concerned with all aspects of marketing relationships. The core theme of all relationship marketing perspectives and definitions is a focus on cooperative and collaborative relationships between the firm and its customers and/or other marketing actors. It is characterized such cooperative relationships as being interdependent and long-term oriented rather than concerned with short-term discrete transactions. The long-term orientation is often emphasized because it is believed that marketing actors will not engage in opportunistic behavior if they have a long-term orientation and that such relationships will be anchored in mutual gains and cooperation. Thus the terms relationship marketing and marketing relationships are not synonymous. Relationship marketing describes a specific marketing approach that is a subset or a specific focus of marketing. In fact, the emphasis on relationships as opposed to transaction-based exchanges is very likely to redefine the domain of marketing.

7.5 THE CHARACTERISTICS OF RELATIONSHIP MARKETING

RM is about healthy relationships which are characterized by concern, trust, commitment and service.

Concern: Relationship marketers are concerned for the welfare of their customers. They want to meet or, preferably exceed customer expectations, producing satisfaction or delight. Marketers can to some degree mould expectations through mediated and interpersonal communications with customers, but only in very rare circumstances is it likely that they will be able to determine expectations.

Trust and commitment: Commitment and trust are 'key' because they encourage marketers to (i) work at preserving relationship investments by cooperating with exchange partners, (ii) resist attractive short-term alternatives in favour of the expected long-term benefits of staying with existing partners, and (iii) view potentially high risk actions as being prudent because of the belief that their partners will not act opportunistically. When commitment and trust – not just one or the other - are present they produce outcomes that promote efficiency, productivity and effectiveness. The challenge for RM managers is to demonstrate their commitment to the relationship and to inculcate trust in their partner. In a service marketing context this can be particularly challenging because of the relative absence of tangible clues, and because services cannot be examined before they are produced or consumed.

Service: The outcome of this concern for customers, in an environment of relationship commitment and trust, is a desire to provide excellent service. RM requires an organization-wide commitment to providing high-quality service which is reliable, empathic and responsive. Since RM is a means to a profitable end, relationship marketers must believe that excellent service produces improved profitability. Further, the basic sequence: 'service quality leads to customer satisfaction which leads to relationship strength, which leads to relationship longevity, which leads to customer relationship profitability.'

7.6 A PROCESS MODEL OF RELATIONSHIP MARKETING

Relationship Marketing is a process of engaging in cooperative and collaborative relationships with customers. The broad model (a four-stage relationship marketing process model) suggests that the relationship marketing process comprises four sub-processes: formation process, management and governance process, performance evaluation process, and relationship evolution or enhancement process. These are discussed as follows:

Formation: The formation process of relationship marketing involves the decisions that must be made regarding initiation of relationship marketing activities for a firm with respect to a specific group of customers or an individual customer with whom the company wishes to engage in a cooperative and collaborative relationship. In the formation process, three important decision areas relate to defining the purpose (or objectives) of engaging in relationship marketing, selecting parties (or customer partners) for relationship marketing, and developing programs (or relational activity schemes) for relationship marketing engagement.

Management and governance: Once a relationship marketing program is developed and rolled out, the program as well as the individual relationship within it must be managed and governed.

Performance evaluation: Companies need to undertake periodic assessment of the results of relationship marketing in order to evaluate whether or not they are sustainable in the long run. Performance evaluation is also useful because it allows firms to take corrective action in areas of relationship governance or to modify relationship marketing objectives and program features as needed. Without a proper performance metric against which to evaluate relationship marketing efforts, it is hard to make objective decisions regarding continuous, modification, or termination of relationship marketing program.

Evolution: Individual relationship and relationship marketing program are likely to undergo evolution as they mature. Some evolution paths may be planned, whereas others will evolve naturally. In any case, the partners involved have to make several decisions about the evolution of their relationship marketing programs. These include decisions regarding the continuous, modification, or termination of relationship marketing engagement. Several factors could cause the precipitation of the relationship decisions. Among these factors, relationship performance and relationship satisfaction (including relationship process satisfaction) are likely to have the greatest impact on the evolution of the relationship marketing program. When performance is satisfactory, partners would be motivated to continue or enhance their relationship programs. When the performance does not meet expectations, partners may consider terminating or modifying their relationship programs.

Now, in the ensuing paragraph, we will define the contents which are related to the process of relationship marketing.

7.6.1 Relationship Marketing Purpose: The overall purpose of relationship marketing is to improve marketing productivity and enhance mutual value for the parties involved in the relationship. Relationship marketing has the potential to improve marketing productivity and to create mutual values by increasing marketing effectiveness and/or improving marketing efficiencies. By seeking and achieving strategic marketing goals-such as entering new markets, developing new products or technologies, serving new or expanded needs of customers, and redefining the competitive playing field-firms can enhance their marketing effectiveness. Similarly, by seeking and achieving operational goals-such as the reduction of distribution costs, streamlining of order processing and inventory management, and reduction of the burden of excessive customer acquisition costs-firms can achieve greater marketing efficiencies. Thus stating objectives and defining the purpose of relationship marketing can help firms to clarify the nature of relationship marketing programs and activities that ought to be performed by the partners. Defining the purpose also helps firms to identify suitable relationship partners who have the necessary expectations and capabilities to fulfill mutual goals. It can further help firms to evaluate relationship marketing performance by comparing results achieved against objectives. These objectives could be specified as financial goals, marketing goals, strategic goals, operational goals, and general goals.

Similarly, in the mass-market context, consumers expect to fulfill their goals related to efficiencies and effectiveness in their purchase and consumption behavior. As we have noted previously, consumers are motivated to engage in relational behavior because of the psychological and sociological benefits associated with a reduction in choice decisions. In addition to their natural inclination to reduce choices, consumers are motivated to seek the rewards and associated benefits offered by companies' relationship marketing programs.

7.6.2 Relational Parties: The selection of customer partners (or parties with whom to engage in cooperative and collaborative relationships) represents another important decision to be made in the process of relationship marketing program. Even though a company may serve all customer types, few have the necessary resources and commitment to establish relationship marketing programs for all. Therefore, in the initial phase, a company has to decide which customer types and specific customers or customer groups will be the focus of its relationship marketing efforts. Subsequently, when the company has gained experience and achieved successful results, it can expand the scope of relationship marketing activities to include other customers in the program, or it can engage in additional programs.

Although the selection of partners is an important decision for firms to make in achieving their relationship marketing goals, not all companies have formalized processes of selecting customers. Some follow the intuitive judgmental approach of senior managers in selecting customer partners; others partner with those customers who demand so. Yet other companies have formalized processes for selecting relational partners that involve extensive research and evaluation against particular criteria. The criteria for partner selection vary according to different companies' goals and policies. These range from a single criterion, such as revenue potential of the customer, to multiple criteria that may include several variables, such as customer commitment, resourcefulness, and management values.

7.6.3 Relationship Marketing Programs: there are three types of relationship marketing programs: continuity marketing, one-to-one marketing, and partnering programs. These take different forms depending on whether they are meant for end consumers, distributor customers, or business-to-business customers.

Continuity marketing programs: Given the growing concern for retaining customers as well as the emerging knowledge about customer retention economics, many companies have developed continuity marketing programs that are aimed at both retaining customers and increasing their loyalty. For consumers in mass markets, these programs usually take the shape of membership and loyalty card programs in which consumers are often rewarded for their member and loyalty relationships with the marketers. These rewards may range from privileged services to points for upgrades, discounts, and cross-purchased items. For distributor customers, continuity marketing programs take the form of continuous replenishment programs ranging from Just-in-Time (JIT) inventory management programs to efficient consumer response initiatives that include electronic order processing and Material Requirements Planning (MRP). In business-to-business markets, these may be in the form of preferred customer programs or special sourcing arrangements, including single sourcing, dual sourcing, network sourcing, and JIT sourcing arrangements. The basic aim of continuity marketing programs is to retain customers and increase loyalty through long-term special services that have the potential to increase mutual value as the partners learn about each other.] **One-to-one marketing:** The one-to-one or individual marketing approach is grounded in account-based marketing. Such programs are aimed at meeting and satisfying each customer's needs uniquely and individually. What was once a concept prevalent only in business-to-business marketing is now implemented in mass-market and distributor-customer contexts? In the mass market, the dissemination of individualized information on customers is now possible at low cost due to the rapid development in information technology and the availability of scalable data warehouses and data-mining products. By using on-line information and databases on individual customer interactions, marketers aim to fulfill the unique needs of each mass-market customer. Information on individual customers is utilized to develop frequency marketing, interactive marketing, and after marketing programs in order to develop relationships with high-yielding customers. For distributor customers, these individual marketing programs take the form of customer business development. For example, Procter & Gamble has established a customer team to analyze and propose ways in which Wal-Mart's business could be developed. Thus, by bringing to bear its domain-specific knowledge from across many markets, Procter & Gamble is able to offer expert advice and resources to help build the business of its distributor customer. Such a relationship requires cooperative action and an interest in mutual value creation. In the context of business-to-business markets, individual marketing has been in place for quite some time. In what are known as key account management programs, marketers appoint customer teams to husband company resources according to individual customer needs. Often such programs require extensive resource allocation and joint planning with customers. Key account programs implemented for multi-location domestic customers usually take the form of national account management programs; for customers with global operations, these programs become global account management programs.

Partnering programs: The third type of relationship marketing programs involves partnering relationships between customers and marketers to serve end-user needs. In the mass markets, two types of partnering programs are most common: co-branding and affinity partnering. In co-branding, two marketers combine their resources and skills to offer advanced products and services to mass-market customers. Affinity partnering programs are similar to co-branding except that the marketers do not create new brands; rather, they use endorsement strategies. Usually, affinity partnering programs try to take advantage of customer memberships in one group to cross-sell other products and services. In the case of distributor customers, partnering programs are implemented through logistics partnering and cooperative marketing efforts. In such partnerships, the marketer and the distributor customers cooperate and collaborate to manage inventory and supply logistics and sometimes to engage in joint marketing efforts. For business-to-business customers, partnering programs involving codesign, codevelopment, and comarketing activities are not uncommon today.

7.7 IMPORTANCE OF RELATIONSHIP MARKETING

Although 'relationship marketing' has entered the management lexicon only recently but the practice of RM has a long history. The merchants in the Middle Ages recognized that some customers were worth courting more seriously than others. Richer customers would be offered credit terms; the poor paid cash.

Industrial marketers, particularly those selling high-priced 'capital goods, have long known that they must take a long-term view to make a sale. Team selling, with multiple levels of contact between seller and customer organizations, is commonplace. Sales are only closed after protracted periods involving many people, and after-sale follow-up is the norm. Manufacturers of fast-moving consumer goods (FMCG) have also attempted to climb on the RM bandwagon. Businesses which are dependent on large numbers of customers, high sales volumes and low margins tend to have more difficulty adopting RM. Frequently, their customer databases are inadequately disaggregated; they know little about their customers at a personal level. Until the costs of communicating with customers fall, it is likely that FMCG manufacturers will be slow to move to RM. It is, however, in the services marketing area that RM is practiced most widely. Services provided by banks, hotels and healthcare organizations are particularly suitable for RM initiatives because they supply multiple services deliverable over several contacts, in person. Because of their participation in the production of services, customers come face to face with employees and are able to form an interpersonal relationship with the service provider. Relationships between members of the marketing channel exist on a continuum, ranging from discrete to relational. Channel members whose relationships take the relational form have expectations that the relationship will persist over time, exhibit mutual trust and make plans for the future. In an industrial marketing context, switching costs associated with changing supplier may be immense; manufacturing technology and processes represent long-term commitments for most producers. Hence, suppliers of critical inputs are rarely changed. Often, relationships are made more secure through joint product development programmes. Long-term relationships are composed of encounters in series and, can be developed in a number of stages:

the accumulation of satisfactory encounters; ii) active participation based on mutual disclosure and trust; ii) creation of a double bond (personal and economic); and iv) psychological loyalty to the partner.

7.8 PRINCIPLES OF RELATIONSHIP MARKETING

There appear to be a number of requirements for the successful implementation of RM programmes. First, a supportive culture is necessary for RM to flourish. Several commentators have noted that RM represents a paradigm shift from the older, transactional way of doing business. Paradigm shifts inevitably pose threats to, and demand changes of existing corporate culture. RM is typified by mutual co-operation and interdependence between customer and supplier. Under a transactional regime, the relationship is better characterized as 'manipulation of customers, exploiting their ignorance'. Under RM, salespeople are likely to be replaced by relationship managers; customer retention is likely to be rewarded more highly than customer acquisition; customer satisfaction data will receive billing equal to that of financial data in management meetings; and the CEO will spend as much time with customers as with department heads. These are not the priorities in exploitative marketing settings.

Internal marketing is a second prerequisite for successful RM. The goal of internal marketing is to convert employees to the new vision of RM, to promote the development of the new culture, to persuade them that it is sensible to buy into the new vision, and to motivate them to develop and implement RM strategies. The internal market's expectations and needs must be satisfied. 'Unless this is done properly, the success of the organization's operations on its ultimate, external markets will be jeopardized'. If the organization is unable to meet its employees' needs, it is likely that they will defect to other jobs before being able to build long-lasting relationships with customers.

It is also clear that the firm must understand customer expectations. This means that there must be a continuous flow of information into the business; continuity is required because expectations change over time. The managers do not always have a clear understanding of customer expectations. This is a product of an inadequate marketing information system, too many levels of management between the front line and management, and communication difficulties.

A fourth requirement for successful RM is a sophisticated customer database which provides information in actionable format for the development and monitoring of RM strategy and tactics. The database technology is fundamental to allowing companies to get to know their customers as individuals. The company uses these data to communicate highly focused offers to customers, and to monitor the impacts of any RM initiatives. Relationship managers are increasingly able to use databases to track retention rates longitudinally, conduct root-cause investigations of defections, segment their markets and establish retention objectives.

Finally, new organizational structures and reward schemes may be required. The traditional marketing and sales function is organized around products or geographic markets. Under the influence of RM, organization around customers becomes more sensible. Customer, or account, managers are better placed to build long-term relationships with clients, more deeply understanding their expectations and constructing financial, social and structural links to the firm. The logic of RM would suggest that the people allocated to customer acquisition should differ from those dedicated to customer retention. Different knowledge, skills and attitudes are deployed. Through their combined efforts these account managers should be able to acquire, migrate (from light-user to heavy-user status) and retain customers. Companies will also need to reconsider how they reward employees. At present, sales and marketing management is widely rewarded with a mix of basic salary and performance-related bonus or commission. Common performance criteria include sales volume and customer acquisition. Under the RM regime, customer managers are more likely to be rewarded by customer profitability, account penetration and customer retention.

7.9 IMPORTANT TIPS FOR SUCCESSFUL RELATIONSHIP MARKETING

For successful relationship marketing following steps may be considered.

Listen to customers. They'll tell you what they need from you if you'll just take the time to listen and make them feel comfortable. If they don't volunteer information, ask questions to uncover their problems and needs. Then, focus on solving problems or meeting needs rather than selling them another product. They'll appreciate your interest and you will, most likely, make a sale in the long run. And, even if you don't make an additional sale, customers may refer you to someone else based on the excellent service you've provided them.

Be honest. Don't try to sell something that's not needed. Likewise, if you can't fulfill particular customer needs, tell them, and try to help them find someone who will. Your helpfulness will be long remembered and those customers are more likely to come back to you when they need your type of product or service again.

One relationship-building tactic is to "get in front of your customers" through the mail.

You might want to send the following:

Thank you notes for orders, referrals or continued business.

Short notes about positive meetings or phone calls.

A newspaper or magazine article about a customer's business.

Articles or information about a customer's competition.

An announcement of your new product or service. (Don't forget to focus on its benefits.)

A notice of a special sale or offer. Include coupons for customer discounts or invite customers to special "pre-sale" days.

A newsletter from your company. Include beneficial tips and information for your customers.

A hot lead. (Your customers are in business to make sales, too!).

A notice of a meeting or seminar of interest.

A reminder of a pending order or reorder. (You just might help them avoid a costly lack of inventory.)

Get to the point in the first sentence and limit letters to one page in correspondence.

Use personal, hand-written notes when possible.

Spell correctly.

In thank-you notes, don't thank more than once. You could close with, "Thank you again for your business".

7.10 SUMMARY

Relationship Marketing is a term which has yet to acquire uncontested status and meaning. For some, RM is simply transactional marketing dressed up in new clothes; for others, it represents a significant change in the practice of marketing. For some, RM refers to all types of internal and external organizational relationships; for others, RM is focused clearly on external customer relationships. Companies, particularly in the service sector, are increasingly finding ways of building close, long-term relationships with external customers. These companies know that winning new customers is significantly more costly than retaining existing customers, and that when customers defect they take with them all future income stream. Their reason for practising RM is customer retention. However, the more advanced relationship marketers also know that not all customers are worth retaining. Not all contribute positively and equally to company performance. The voice of the customer is absent from much RM. Indeed, it is not known whether customers want, in significant numbers, to enter

into relationships with their suppliers. Companies routinely communicate more frequently and make special offers to their more valued customers. Whether this is seen by customers as adding value is a moot point. At its best, RM is characterized by a genuine concern to meet or exceed the expectations of customers and to provide excellent service in an environment of trust and commitment to the relationship. To be successful relationship marketers, companies must develop a supportive organizational culture, market the RM idea internally, intimately understand customers' expectations, create and maintain a detailed customer database, and organize and reward employees in such a way that the objective of RM, customer retention, is achieved.

7.11 Key words

Emerging: come up or out into view, become known

Affinity: a close resemblance or attraction

7.12 SELF-TEST QUESTIONS

What do you mean by relationship marketing? How it can be operated in the digital age?

Explain the process of Relationship Marketing with a suitable example?

How can you maintain the relations with the customers and would-be sellers?

Discuss the steps to be implemented in the process of Relationship Marketing and its principles.

How can you distinguish the concept of Relationship Marketing in different sectors of the economy like industry and service?

How can you differentiate relationship marketing and marketing relationships?

7.

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COURSE: BASIC PRINCIPLES OF MARKETING AND MANAGEMENT

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NETWORK AND CYBER MARKETING

STRUCTURE:

8.1 Objective
8.2 Introduction
8.3 Network Marketing
8.4 Cyber-Marketing
8.5 Cyber Marketing Plan and Techniques
8.6 Cyber Marketing Pitfalls
8.7 Cyber Marketing and role for Government
8.8 Steps to make better Cyber Marketing
8.9 Summary
8.10 Key words
8.11 Self Test Questions
8.12 Suggested Readings

8.1 OBJECTIVE: The motive of this chapter is facilitating the students to understand the basics of network marketing and cyber marketing. The techniques, plan and pitfalls of cyber marketing are also discussed here in.

8.2 INTRODUCTION

Through out our life, the school systems have taught each of us to be a good employee. Our college system has taught us to be a good manager. There are many different opportunities that in reality are a network marketing company or multi level marketing (MLM) company, but they refuse to call themselves that.

Each of these companies is best described as a non-traditional form of business, so what's the difference. In a traditional business you have lots of overhead, employees, health insurance for your employees. Office rent so on. Non-traditional businesses are generally worked form a home office. It eliminates the high overhead of the traditional business and does the work efficiently and effectively. In today's high fuel prices one can save up to several hundred dollars per month in just fuel costs by not having to commute to a job. In addition email-marketing techniques from e-rm (e-relationship marketing) give you a cost effective solution for promoting your products or services on a personal basis directly to the customer via electronic media. Email broadcasts have a high response rate and e-rm is experts in their field of electronic marketing systems and solutions. Direct marketing by email is the sole solution which delivers straight to the desired recipient snail mail rarely reaches the intended person as it is often opened by secretaries, but even directors open their own e-mail therefore if you have the name and email address you are much more likely to get our message across, e-rm have opt in email lists, managed effectively and efficiently to ensure your email, broadcast which is called successful internet marketing.

8.3 NETWORK MARKETING

It is a business about helping people often called a people' franchise. It is the unseen business, it does not have giant signs or large offices but yet millions of people are working in this industry each and everyday. In the 1950's when the Franchise emerged it was labelled a seam, illegal etc. Fortunately a franchise is not labelled as such anymore or you would not be enjoying your favourite hamburger today. A network marketing business in reality is a business school; you are or should be in a training program from day one. This truly is a ‘Learn which you earn’ program. If the training is qualitative time, it can change the life style of human being. The producer/service providers usually offer reasonably priced products and services, which may be consumed by people in short time. Network marketing also called direct selling; multi level marketing is about sales and distribution, but a different kind of sales. It is more of a soft sale or recommendation then the hard closing type that you are accustomed to with the typical salesman or sales woman in the direct sales. In the **network marketing**, a sales person goes to the home of a host who has invited friends, sales person demonstrates the products and take orders. The multilevel or network marketing sale system consists of recruiting independent business people who act as distributors. The distributor’s compensation includes a percentage of sales of those the distributor recruits as well as earnings on direct sales to customers. These direct selling firms, now finding fewer consumers at home, are developing multi distribution strategies. Generally the commission structure is less up-front than the direct sales companies, but it has a benefit that most direct sales companies do not have and that is residual income.

8.4 CYBER-MARKETING

Direct marketing has roots in direct mail and catalog marketing. It includes tele marketing, television direct response marketing and electronic shopping. Of these, electronic shopping/internet marketing experience a major takeoff in the late 1990’s as consumers flocked to dot com sites to buy books, music, toys, electronics, and other products. The **Internet/computer-generated system/cyber** is not only a new communication medium; it is an exciting and promising marketing tool. Some companies have made the Internet their front line of communication and marketing and had a lot of success in doing so. The Internet lets you make transactions and reduces the sales cycle. It can also reduce the costs of the presale effort and helps you provide efficient post-sale service. The Internet lets you attack major markets around the world as well as allowing you to penetrate any household that has a computer and an Internet link. It has become a privileged means of communication between you and your customers. The companies that manage to leverage the power of this tool will gain a close tie to their customers. Those who fail to take advantage of they left behind.

8.5 CYBER-MARKETING PLAN AND TECHNIQUES

While designing the cyber-marketing plan, you have to consider the following steps. :

Determine the need of marketing information: Brainstorm all information you have available for your customers/clients. Consider the value a customer may find in the information you plan to provide and determine the information's worthiness. Not all information is really worthy of passing on to the customer/client. The "rule of thumb" here is to provide the top three to five most important pieces of information. Providing more than that would either overwhelm the customer or drive the customer away.

Prepare your information in Internet-ready format: Build an inventory of electronic and physical art ready for publishing on the Internet. By doing this you will be able to keep costs down and integrate your corporate image into your web promotional material. All these information must be user friendly you will be able to keep costs down and integrate your corporate image into your web promotional material. All these information must be user friendly.

Organize the information into logical units: The biggest difference between the Internet and traditional marketing methods is space considerations. Consider the information that can be placed into a 30-second radio advertisement, then consider the 30-second television advertisement, and finally consider the amount of information that can be placed on the Internet. You will find that the hardest place to advertise is on the radio because you have people that for the most part, are in a position where they are unable to record vital information or remember your product. Television commercials have more to work with - visual art being the strongest position that media has. Finally, with the Internet you are able to get the message across in print, audio and art. Therefore, you should strongly consider the best way to group your information into logical units so that you do not detract from other areas of importance.

Plan your target market: After determining what you want your cyber marketing to achieve, you will need to determine which areas of the Internet will enable you to reach your objectives. There is one thing of vital importance that requires mentioning: You may know you want to sale to a particular age group or some other demographic, but you do not know what makes up that demographic. A case in point, while blind people can riot drive that does not mean they-do not own cars. However, unlikely this may seem that the point is your target market will always consist of individuals whose abilities or disabilities of which you may not be aware or even consider. Therefore, an accessible website is your best choice in internet marketing.

The Aspect of Traditional Marketing: Any marketer, when attempting to establish a marketing plan, is always faced with how to classify and sort ideas. The market segmentation in traditional marketing that can be impacted by cyberspace. You must, determine the appropriateness of basis of market segmentation i.e. demographic, psychographics, geographic, etc.

Build Brand Awareness and Loyalty: Build a community of customers who are loyal to you and your product. If the customers are loyal to your product/brand than advocacy of the product will go on automatically.

Educate your Market: Give customer and prospects an in-depth understanding of your product or service, your company, or your industry. So that, they tend to purchase products which they find a value in time of quality and quantity.

Demonstrate and Distribute: Distribution works hand-in-hand with demonstration. Door-to-door salesmen demonstrate their wares in hopes of gaining avenues of distribution or customers. Demonstrating the value of your product online properly will motivate people into impulse purchasing.

Public Relations: There are many journalists that hang out in the newsgroups, get e-zines, and surf the Internet in search of up and coming business. Search out these journalists and work with them to get coverage for your business. Further, you have to create relationship via electronic media and thanks for purchase and give the reminders to the customers.

Feedback: Probably the most important thing you will ever receive as a business owner working in cyberspace is feedback. The feedback you receive can come from a customer, the market in general, others in your industry, and even your competitors. The amount of information you receive can be overwhelming at times. However, you want to use this information to formulate responses with adjustments in your marketing tactics or ensuring you continue with a marketing strategy that is working for your business.

Promote your Web Site: By developing an ongoing promotional program, you must be able to keep your web pages in front of potential customers, and therefore helping generate inquiries and orders. If you don't promote your site then you will fade away like so many other Internet businesses, which are notable to grasping the money from the pocket of customers.

8.6 CYBER-MARKETING PITFALLS

The following mistakes not to be done in the field of cyber-marketing:

No E-mail Responsiveness: There are many web sites that have no means of allowing the customers to send their e-mail to their business. If wish to succeed; you should always have a means of allowing your customers to contact you. On every page there should be at least one address-the Webmaster's address. On every page there should be a link to some form of contact information. Your contact page should include phone numbers (unless you work out of your home and you share the same phone number for your business-definitely not advisable). Yet, most importantly your contact page should include e-mail addresses so that the visitor can get information being sought. You never know, you may even be blessed with a customer that asks for a specific product you don't carry and thereby creating a new product line just from one letter.

Failure to Maintain Consistency between Marketing Efforts: There are many businesses that fail to remain between their traditional marketing plans and their cyber-marketing plans. This behavior could result in lost business.

Lost in Cyberspace: All too often, web sites fail to provide adequate navigational tools to move around on their sites. Further, lost in cyberspace is to fail to get your web site listed in the various search engines and directories. It is always recommend that the clients to purchase Web Position Gold. They have clicked on the graphic to the left us. We have to optimize their site the search engines.

No Sign of Humans: There are sites out there that seem as if they have been created by some form of computer intelligence. What one should do is ensure there is some evidence that people do exist in the business. This could come in the form of employee names, humor, tidbits of local information, and other sundry items. Probably the most important is to write in conversational styles and not in a style that would seem monotoned.

No Target Marketing: In cyberspace, people look for specific information. With the vast amount of information available, failing to have a target market is like shooting a shotgun at the side of the barn. You are bound to hit something, but is it what you really want to hit? Mass marketing is on its way out the door as fast and specialized marketing is on its way in. This may not seem like it is with all the unsolicited email you get from "spammers", but assuredly it fails more often that it succeeds.

8.7 CYBER MARKETING AND ROLE FOR GOVERNMENT

As a high-tech marketer, you are probably familiar with the thought processes, planning stages, factors, and risks involved which lead to a carefully planned and executable direct mail marketing program. The costs involved, creative, printing, postage etc. combined with adherence to basic guidelines, yield a responsible campaign to market goods or services to consumers. Consider how this entire paradigm drastically changes when it is performed electronically utilizing Email or the Web. With the removal of investment, risk and guidelines, it's easy for anyone to initiate a marketing campaign with no responsibility for their actions. From one point of view, the Internet democratizes marketing, allowing entrepreneurs to solicit customers in the same arena as larger companies. However, the paradigm shift due to the construct and accessibility of Email messaging and the Web opens an uncontrolled floodgate. With this floodgate open, anyone capturing Email addresses or establishing a home page can easily perform unethical marketing acts without any costs or risks. Intervention could help to preserve and nurture the legitimate marketers while, most importantly, protecting the consumer.

With some form or government involvement in place on the Internet, the unscrupulous vendor will think twice about the content of their mass Emailing and who they are targeting. It will also alleviate the mindset that marketing on the Internet is only for opportunists. Legitimate marketers who adhere to the guidelines will have momentum to use the electronic medium where they might have originally avoided it in fear of being labelled as “schlock”.

The government can add definition to how marketing is performed on the Internet, and actually make it a safer place for legitimate marketers by minimizing irresponsible opportunists. It's not government interference, but marketing responsibility that will make it better for all of us, including the consumers.

If you observe the origin of the Internet, the US Government has actually been involved all along, starting in the 1960's with the Advanced Research Projects Agency Network (ARPANET) funded by the Department of Defense. The primary use of the ARPANET was to allow scientists and researchers to easily access each other's information and to continue accessing information if one of the systems went off-line due to a military attack. In the 1980's, the Government's National Science Foundation officially created the Internet, replacing the original ARPANET with a more modern, higher-speed network. The NSF's original goal for the Internet was to provide distributed access to government-owned supercomputers. Intended as a broad base educational and research network, the Internet has evolved to include businesses, commercial services, and consumers. In addition to remote computing, file access, and Email, the Internet later supported multimedia elements, specifically color, graphics; audio, and video via the implementation of the World Wide Web, which is based on the infrastructure of the Internet. With the Internet's governmental roots, there is a place for continued involvement.

8.8 STEPS TO MAKE BETTER CYBER MARKETING

The following steps may help you for a successful cyber-marketing:

Analyze your business: As with any marketing venture, you have to nail down your objective: What are you selling and how are you selling it? We ask ourselves, what's our business? What do we do here? How do we do this? What do our customers ask for and what do we do for them on a daily basis? Once the self-analysis was complete; further, look into with two key questions. How can we use the Internet to do, in a more cost-effective way, something we are already doing? And what are we not doing that the Internet might help accomplish? The great danger for someone starting down this road is in thinking that by leveraging the

Internet, they're going to become a dot com. Instead, the attitude should be that the Web is just one channel among many that can help a firm do what it does better.

Hire a professional: The default thinking on launching a new business seems to be: start small and work up. But when it comes to the Web, that thinking will yield approximately the same result as setting up an office in a trailer in Citibank's parking lot. When you get on the Web, your competitors are the big guys. If you have a skimpy, amateurish website, you don't just suffer by comparison; you're aced out by comparison. Therefore you have hire professional to upto date you information on your website.

Avoid brochure-ware and cheap, non-interactive designs: Web designers come in may shapes and price ranges. It is advised that hiring can be done as much sophistication as you can afford. All the financial service expertise in the world won't make up for a substandard site.

Keep it simple: Once your website is up, test its usability early and often. This doesn't require a high-tech eye-scan lab to see where surfers rest their gaze first. It doesn't even require a focus group. Simply parade people into your office, watch them surf your site and ask them what they think. Are they satisfied with the site's speed and order? Is the layering logical, or do they have to click through 10 levels of sediment to find gold? Are the types of data on your site the kinds they'd hoped to find? Monitoring usability can help ensure your site doesn't become a digital ghost town.

Focus on service: Each of above aspects must be considered. Customer service became a big focus for us. Before launching a website you must be consider host of features it calls "view and do", e.g. in insurance business, "View" features include enabling clients to check the status of their own products-account balances, policy designations and the like. "Do" features are transactional, such as changing an address, changing investments in an annuity and changing fund allocation, have not only improved customer service, but have also made the firm's advisors more efficient. "Since we're leaving our low emotion/high transaction services to the Internet, our advisors are no longer functioning as data providers, instead, they are becoming a client's point of contact for more emotional decisions including buying additional services insurance. Therefore, we have to focus on service.

Keep it fresh: Before you leap into digital marketing, remember that today's Internet isn't the Internet of the mid-1990s. Surfers will not put up with static sites or those that change only once in a while. Access to an ever-changing content mix is critical. What people don't appreciate is that putting up a website is simple." But keeping it populated with interesting content is a nightmare. It is advised that partnership with other firms and services that can keep content fresh. Ready allies come in many shapes and sizes, but look first at those companies whose products you sell. Mutual fund companies and insurers often publish Web content they're willing to share in the form of how-to articles, advice and analysis. In addition, news and information services add snap and currency to a site. The more information a site offers, the more choices are available to the customer, but another reason for varying and cycling through fresh content: diversity of opinion. As an advisor, you have to make available various opinions from various sources, "that way, clients can be assured you've had the advantage of comparing opinions, as opposed to just promoting your own agenda.

Integrate your message: Once you've launched a website, you should mention it in all your marketing material, from business cards to brochures to stationary. But you also need to view your site as an extension of your marketing message. Are you running year-end print or broadcast ads? Update your Web content to match. Have you added a new fund or insurance product to your offerings? Add them to your site. As you fine-tune your marketing message, make sure you update your website.

These steps will helps you launch or fine-tune your cyber-marketing efforts. Generally it is observed that "the best sites are not those that are the most complicated, but those that deliver what the customer needs."

8.9 SUMMARY

Network-marketing is the personal selling tool, by which the producer interacts directly to the customers in terms of their salespeople; and they become able to get feedback from the customer quickly. Further, they become able to measure the performance of the product in the market. In addition, they can grab the potential of marketing in rural sector also. Through cyber-marketing producers can approach many potential customers who are not in their easy access. If they will launch a fine tuning among the websites, customers and competitors than they can provide better services in this field of marketing and collect many orders with huge profits and growth opportunities.

8.10 Key words

Tidbits: a small choice bit of food or item or information

Alleviate: ease (pain or distress)

Amateur: a person who does something as a pastime rather than as a profession

Skimpy: scanty (small in amount or extent)

8.11 SELF-TEST QUESTIONS

What do you mean by network marketing? Why it is important in present scenario?

What do you mean by cyber marketing? How can you develop a plan for it?

Distinguish between network marketing and cyber-marketing?

What is the role of electronic marketing for government and society?

Explain the planning and techniques of cyber-marketing?

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E-Commerce

Contents:

9.1 Objective: Main objective of this lesson is to make the student high-tech by providing the knowledge of the E-Commerce.

9.2 Introduction to E-Commerce

This is an age of Information Technology where the computer and communication technologies together play a very vital role in all spheres of human endeavour. The best known example that has touched all of us is the computerized railway reservation system. Here the computer located in different towns are interconnected through a special network of railway and the computes communicate with each other. Similarly airline reservation system hotel room reservation system etc. allow us to make suitable reservations from anywhere in the world. Another influence of the information technology can be seen in the banking sector where we could withdraw the money at any time from any of the branches or Automatic Teller Machine make payments through credit cards etc.

We can find so many other example of information technology around us. Advent of internet that has made the dramatic impact on the society by bringing people from all over the world together and making most of these application come alive. Internet has changed the way people communicate with each other in an efficient and cost effective manner through the features of e – mail, news groups, chat rooms and internet based conferencing.

With its all pervasive influence, IT is about to bring in the way we do shopping and business. IT enables complex business operations to be performed by effective using the electronic networks like internet and computers. When the business is performed on the electronic media, it is called electronic business (E-Business) or electronic commerce (E-Commerce).

9.3 Meaning

E-Commerce or Electronic Commerce is a general term for any type of business or commercial transaction that involves the transfer of information across the internet. This covers a range of different type of business from consumer based sites like Amazon.com, through auction and music sites like eBay or MP3.com, to business exchange trading goods or services between corporations

" Electronic commerce encompasses the use of technologies, processes and management practices that enhance organizational competitiveness through strategic use of electronic information. E-Commerce, which is selling of products on the internet, represents only the "front-end" of E-Business goes beyond E-Commerce by integrating it tightly with business operation to improve performance, create value and enable new relationship between business and consumers."

(MIS Magazine, May 1999)

According to David Baum, "Electronic commerce is a dynamic set of technologies, applications and processes that link enterprises, consumers and communities through electronic transactions and the electronic exchange of the goods, services and information."

Example of E-Commerce

There are several examples of electronic commerce covering a wide spectrum of application areas in industry. Given below a few areas in which E-Commerce is taking place and these give some idea of the current status of E-Commerce activity.

On line trading in stock exchange instead of traditional floor trading.

Trading in dematerialized share.

Electronic shopping for various types of product

Filling tax return electronically.

In supermarkets all over the world currently money transfer take place electronically.

Integrated financial networks used by the banks enable the customers to copy out their banking transactions electronically.

Following are some specific examples of E-Commerce:

Amazon.com : It is a world's largest bookstore and is an excellent example of E-Commerce service. An internet user has the facility to search for books, journals etc. based on keywords or title. The user can order the books online and use a credit card for paying the cost of the books. Amazon.com also locates the books from publisher and other booksellers and supplies the items.

Barclays Bank: Barclays Bank offer complete banking services to consumers who can do all their banking works including querying of accounts from their homes or offices.

Prudential ICICI : In India Prudential ICICI AMC is the first mutual fund that offers investment facility to non-resident Indians through E-Commerce.

9.4 Scope of E-commerce

E-Commerce encompasses all activities of business, starting from developing manufacturing , marketing and selling the products, obtaining information through market intelligence, assessing the market, grooming the market , providing pre and post sale support, procuring material facilitating contacts between traders, supporting shared business processes etc. In the broadest terms e-commerce includes any form of business/trading that is carried out using the electronic medium. It could involve goods or services. The transactions could takes place between:

One organization and another

An organization and an individual

An organization and a statutory or legislative body

Thus e-commerce encompasses all activities that are carried out by a manufacturing and business firms except those activities that are to be physically carried out, such as manufacturing, packing and shipping. It is not essential that all the above activities are to be carried out on the internet from the beginning. The store can select some activities to start with and then gradually expand the activities it carries out on the internet. E-commerce can also be applied in the field of

Education

Personnel training

Entertainment

Banking and financial transactions

Essential services etc.

9.5 Basic models & Essentials to establish E-Commerce

The basic business models are of two types.

Business-Consumer model

Business-Business model

1.Business to Consumer Model

This model cover all transactions done between consumer and trader just as marketing of goods, ordering for the goods and making payments etc.

Purpose of this model is to enable the consumer to locate and purchase desired goods or service over the internet when the customer is interested in making the purchase.

For the merchants this model ensures the higher revenue by enabling them to access broad market.

2.Business to Business Model

This model covers the interactions between the business houses. Taking the example of automobile industry , the broad areas of activity in this industry can be through off as: market survey, product development , market building , product production , product distribution or supply chain management, coordination of sales, financial planning and management, procurement and inventory management, personnel management etc. involve the firm dealing with other firms that can be done with help of internet. This model being encompassing all transactions with all parties involved, the information system tend to be much more complex than simple order supply transactions.

Essentials of E-Commerce

Enterprise large or small tend to develop their Web presence in stages. Once a web presence is created then the enterprise wants to use that site to enhance customer service and to produce revenue. It is at the latter stage that E-Commerce comes into play.

A server provider's hosting customers will go through the same evolution described in the preceding module. It is not enough just pick off the high end client who represents the highest per client revenue there simply enough of them. Furthermore the future opportunity is to provide a platform that can move a client along the range from low to high function as client sophistication and needs evolve. Many small and medium sized businesses are struggling with the high cost of entry to

E-Commerce. Creating a complete online selling environment can require considerable time, money and technical expertise. Many businesses follow the following three steps to establish an effective E-Commerce.

Step one: Develop a content site and handle transaction off-line.

Step two: Develop an on-line catalog and handle transaction off-line.

Step three: Develop an on-line catalog and handle transaction on-line.

Hardware required	**Software required**
Processor	Operating system
Modem	HTML, Java, IIS
Mouse	Java script, SQL Server
Scanner	Window Environment

Others: 1) DHTML 2) XML 3) VBS Script etc.

9.6 Impact of E-Commerce on business and consumers

E-Commerce provides the following benefits to sellers as well as consumers.

(A) Benefits to Business

1.Reduction in cost: E-Commerce helps a business by reducing the cost by the following means:

E-Commerce helps to reduce inventory costs by allowing the company to access and utilize their supplier's data base. This allow for the just in time inventory control by providing the knowledge about the inventory.

E-Commerce helps us to reduce cost of the procurement and the payments. By putting the catalogue on the net supplier can receive order on the net and payment can be received by the net which help the businessmen to reduce the cost regarding the above.

Human resource costs are reduced as the need for training and workers is reduced.

2.Improve customers satisfaction: Customer satisfaction can be ensured by following ways

The customers can be controlled by providing the information about the product at their home.

By delivering the product to the customers at home

By getting the payment on the net.

By providing the demonstration of the product on the net.

3.Improve management

By improving the reporting and information system

By ensuring the better control techniques

By improving sales and marketing services

(B) Benefits to Customers

From the consumer point of view E-Commerce has following benefits:

Consumer can access to the original firm rather than access to the dealer or middleman.

Consumer have global choice regardless of their geographical location.

The shopping decision will be much easier as the consumer can reach several shops, compare the quality and prices in a short time.

Saving of time and convenience

9.7 E-COMMERCE AND MARKETING MIX

The selection of an e-commerce marketing mix is likely to involve the application of established marketing management principles as the basis for defining how electronic technologies are to be integrated into a firm's existing operations. In many organizations, e-commerce marketing mix proposals will be based around enhanching existing offline activities by utilizing the Internet to provide new sources of information, customer supplier interaction and/or alternative purchase transaction channels.

9.7.1. PRODUCT AND PRICING

It will be necessary to determine whether the Internet provides an opportunity for product enhancement. Such opportunities include improving customer service and broadening the product line. As far as pricing is concerned, thought must be given to whether offline and online prices will be different and the potential implications of any price variance for existing offline customers. When the move to e-commerce involves new distribution costs, consideration should be given to delivery charges. Tesco, for example, imposes a delivery charge for its home shopping service.

9.7.2 PROMOTION

The first issue to be addressed when considering promotional mix decisions given the important role of the Internet in making information available to customers-is the design of a company's webside. Some large companies will decide that this is an activity over which they wish to retain absolute control. In this situation the firm will hire a team of employees to manage the website creation process. However, there are a variety of other approaches that may be adopted. The design process may be contracted out to a major consulting firm, such as IBM, or to one of the many specialist Internet agencies that have been formed in recent years. Firms with limited financial resources may wish to use a web-authoring package. One of the more expensive, but highly popular, authoring software packages is Drumbeat 2000 produced by Macromedia (www.macromedia.com). This product, besides containing a plethora of design options, also has features such as a shopping cart function; secure credit card transactions and an integrated database system. For those firms that do not feel able to run their own Internet operation, another option is to join an existing website, which acts as host for a number of organizations. These hosting services usually provide a choice of basic website templates to suit different types of business. The firm is provided with software by the hosting service, which permits it to customize a template and thus develop its own visual identity. An example of a hosting service is Mindspring.com (www.mindspring.com) The company provides software for a firm to build a product catalogue and storefront, which is then featured on the Mind spring site.

The degree to which a company already has a strong offline market presence will strongly influence the scale of an e-commerce promotional plan. Thus, for example, when

Tesco, the largest UK supermarket chain, began to offer an online grocery purchasing service; the promotional launch campaign was quite simple. As the company already had strong brand recognition in the market, the main aim of its promotional activity was to register awareness for its website address. This was achieved by using traditional channels such as some television advertising, mail shots to Tesco loyalty card holders and in-store merchandising displays. For new entrants with no offline presence, building brand recognition can be expensive. However, the Internet has also given rise to some novel approaches to promotion.

9.7.3. DISTRIBUTION

The commonest distribution model in the majority of offline consumer goods markets is to delegate both transaction and logistics processes (e.g. major brands such as Coca-Cola being marketed via supermarket chains). This can be contrasted with the online world where absolute delegation of all processes is a somewhat rarer event. The reason for this situation is that many firms, having decided that e-commerce offers an opportunity for revising distribution management practices, perceive cyberspace as offering a way to regain control over transactions by cutting out intermediaries and selling direct to their end-user customers. This process, in which traditional intermediaries may be squeezed out of channels, is, as we have already seen, usually referred to as disinter mediation. Hence, for those firms engaged in assessing the e-commerce distribution aspects of their marketing mix, there is a need to recognize that the technology has the following implications.

Distance ceases to be a cost influencer because online delivery of information is substantially the same no matter what the destination of the delivery.

Business location becomes an irrelevance because the e-commerce corporation can be based anywhere in the world.

The technology permits continuous trading, 24 hours a day, 365 days a year.

Once all the issues associated with the e-commerce marketing mix have been resolved, these variables will provide the basis for specifying the technological infrastructure that will be needed to support the planned e-commerce operation. In some cases the firm will decide to manage all of these matters in house but, in others, the firm may outsource a major proportion of its e-commerce operations to specialist subcontractors.

9.8 KEY SUCCESS FACTORS IN E-COMMERCE

Several factors have a role in the success of any e-commerce venture. They may include :

Providing value to customers: Vendors can achieve this by offering a product or product-line that attracts potential customers at a competitive price, as in non-electronic commerce.

Providing service and performance: Offering a responsive, user-friendly purchasing experience, just like a flesh-and-blood retailer, may go some way to achieving these goals.

Providing an attractive website: The tasteful use of colour, graphic, animation, photographs, fonts and white-space percentage may aid success in this respect.

Providing an incentive for customers to buy and to return: Sales promotions to this end can involve coupons, special offers, and discounts. Cross-linked website and advertising affiliate programs can also help.

Providing personal attention: Personalized we sites, purchase suggestions, and personalized special offers may go some of the way to substituting for the face-to-face human interaction found at a traditional point of sale.

Providing a sense of community: Chat rooms, discussion boards, soliciting customer input, loyalty schemes and affinity programs can help in this respect.

Providing reliability and security: Parallel servers, hardware redundancy, fail-safe technology, information encryption, and firewalls can enhance this requirement.

Providing a 360-degree view of the customer relationship: Ensuring that all employees, suppliers, and partners have a complete view, and the same view, of the customer. However, customers may not appreciate the big brother experience.

Owning the customer's total experience: E-tailers foster this by treating any contacts with a customer as part of a total experience, an experience that becomes synonymous with the brand.

Streamlining business processes, possibly through re-engineering and information technologies.

Letting customers help themselves: Provision of a self-serve site, easy to use without assistance, can help in this respect.

Helping customers do their job of consuming: E-tailers can provide such help through ample comparative information and good search facilities. Provision of component information and safety-and-health comments may assist e-tailers to define the customers' job.

Constructing a commercially sound business model: If this key success factor had appeared in textbooks in 2000, many of the dot.coms might not have gone ruined.

Engineering an electronic value chain in which one focuses on a “limited” number of core competencies - the opposite of a one-stop shop. (Electronic stores can appear either specialist of generalist if properly programmed.)

Operating on or near the cutting edge of technology and staying there as technology changes (but remembering that the fundamentals of commerce remain indifferent to technology).

Setting up an organization of sufficient alertness and agility to respond quickly to any changes in the economic, social and physical environment.

9.9 PRODUCT AND PRICING

Even if a provider of E-commerce goods and services rigorously follows these above “key factors” to devise an examplary e-commerce strategy, problems can still arise. Sources of such problems include:

Failure to understand customers, why they buy and how they buy: Even a product with a sound value proposition can fail if producers and retailers do not understand customer habits, expectations, and motivations. E-commerce could potentially mitigate this potential problem with proactive and focused marketing research, just as traditional retailers may do.

Failure to consider the competitive situation: One may have the capability to construct a viable book e-tailing business model, but lack the will to compete with Amazon.com.

Inability to predict environment reaction: What will competitors ? Will they introduce competitive brands or competitive web sites ? Will they supplement their service offerings ? Will they try to sabotage a competitor's site ? Will price wars break out ? What will the government do ? Research into competitors, industries and markets may mitigate some consequences here, just as in non-electronic commerce.

Over-estimation of resource competence: Can staff, hardware, software, and processes handle the proposed strategy ? Have e-tailers failed to develop employee and management skills ? These issues may call for thorogh resource planning and employee training.

Failure to co-ordinate: If existing reporting and control relationships do not suffice, one can move towards a flat, accountable, and flexible organizational structure, which may or may not aid co-ordination.

Failure to obtain senior management commitment: This often results in a failure to gain sufficient corporate resources to accomplish a task. It may help to get top management involved right from the start.

Failure to obtain employee commitment: If planners do not explain their strategy well to employees, or fail to give employees the whole picture, then training and setting up incentives for workers to embrace the strategy may assist.

Under-estimation of time requirements: Setting up an e-commerce venture can take considerable time and money, and failure to understand the timing and sequencing of tasks can lead to significant cost overruns. Basic project plainning, critial path, critical chain, or PERT analysis may mitigate such failings. Profitability may have to wait for the achievement of market share.

Failure to follow a plan: Poor follow-through after the initial plainning, and insufficient tracking of process against a plan can result in problems. One may mitigate such problems with standard tools: benchmarking, milestones, variance tracking, penalties for negative variances, rewards for positive variances, and remedial realignments.

Product suitability: Certain products/services appear more suitable for online sale; others remain more suitable for offline sales. Many successful purely virtual companies deal with digital products, including information storage, retrieval, and modification, music, movies, education, communication, software, photography, and financial transactions. Examples of this type of company include: Schwab, Google, eBay, Paypal, Egghead, and Morpheus.

Virtual marketers can sell some non-digital products/services successfully: Such products generally have a high value-to-weight ratio, and/or involve embarrassing purchases, and/or typically go to people in remote locations, and/or have shut-ins as their typical purchasers. Products such as spare parts, both for consumer items like washing machines and for industrial equipment like centrifugal pumps, also seem good candidates for selling online. Retailers often need to order spare parts specially, since they typically do not stock them at consumer outlets-in such cases, e-commerce solutions in spares do not compete with retail stores, only with other ordering systems. A factor for success in this niche can consist of providing customers with exact, reliable information about which part number their particular version of a product needs, for example by providing parts lists keyed by serial number. Purchases of pornography and of other sex-related products and services fulfil the requirements of both virtuality (or if non-virtual, generally high-value) and potential embarrassment; unsurprisingly, provision of such services has become the most profitable segment of e-commerce. Products unsuitable for e-commerce include products that have a low value-to-weight ratio, products that have a smell, taste, or touch component, products that need trial fittings, and products where colour integrity appears important.

9.10 ACCEPTANCE OF E-COMMERCE

Consumers have accepted the e-commerce business model less readily than its proponents originally expected. Even in product categories suitable for e-commerce, electronic shopping has development only slowly. Several reasons might account for the slow uptake, including :

Concerns about security: Many people will not use credit cards over the Internet due to concerns about theft and fraud.

Lack of instant gratification with most e-purchases (non-digital purchases). Much of a consumer's reward for purchasing a product lies in the instant gratification of using and displaying that product. This reward does not exist when one's purchase does not arrive for days or weeks.

The problem of access to web commerce, particularly for poor households and for developing countries. Low penetration rates of Internet access in some sectors greatly reduce the potential for e-commerce.

The social aspect of shopping: Some people enjoy talking to sales staff, to other shoppers, or to their cohorts: this social reward side of retail therapy does not exist to the same extent in online shopping.

9.11 SUMMARY

In short, the Internet World Wide Web is changing the way in which consumers and businesses communicate. The original obstacles facing early users of the Internet was how to find rapidly the information being sought. The solution to this problem was the creation of portals such Yahoo ! (**www.yahoo.com**), and Alta Vista (www.altavista.com), which provide search engines that locate those websites containing the information sought by the user. Initial projections on the on the scale of Internet usage and e-commerce have proved wildly optimistic. The past two years have seen a significant downturn in the technology sector and many high-profile Internet start-ups such as Boo.com, CDNow.com, eToys.com, First.com, Peapod.com, Pets.com and Pop.com have gone out of business. Mainstream companies have significantly reduced their investments in the Internet. Nevertheless, Internet usage is growing steadily and will continue to create new market openings as well as new ways of conducting marketing activity.

9.12 Key words

Vendor: a seller

Penetration: make a way into or through

9.13 SELF-TEST QUESTIONS

What do you mean by e-commerce ? Why it is important in present scenario ?

How can you develop a plan for e-commerce ?

What are the perspectives of electronic commerce in the competitive environment ?

Discuss the problem e-commerce and key factors for success of it.

9.14 SUGGESTED READINGS

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COURSE: BASIC PRINCIPLES OF MARKETING AND MANAGEMENT

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RURAL MARKETING IN INDIA

STRUCTURE:

10.1 OBJECTIVE: The present chapter aims to detail the scope and challenges of rural marketing in India.

10.2 INTRODUCTION

The Indian rural market, with its vast size and demand base, offers great opportunities to marketers. Nearly three-fourths of the country's consumers are in the rural market and one half of the national income is generated there. The rural market started showing its potential in the 1960s and the 1970s. The 1980s and the 1990s witnessed its steady development. The first decade of the new millennium is set to see its blossom. In numerical terms, India's rural market is indeed a large one; it consists of more than 740 million consumers. Though over the last three decades there has been a marginal reduction in the rural population expressed as a percentage of the total population, there has been a steady growth in rural population in terms of absolute numbers. And, it had reached 74 crore by 2001. In terms of households, the rural market consists of more than 12 crore households, forming over 70 per cent of the total households in the country.

10.3 RURAL MARKETING

Rural demand has grown steadily over the years. Not only has the market grown in quantitative terms, but qualitatively too it has undergone a significant change. The composition of rural demand has also been changing significantly. The products that are already well established in the rural market include: Textiles, bath soaps, washing soaps, washing powder, detergents, and detergent cakes, medicines and hygiene products, toothpowder/toothpaste, razor blades, packaged tea, other beverages, including alcoholic beverages, tobacco and tobacco products, agricultural inputs like fertilizers, pesticides, cooking utensils, pressure cooker, ornaments and jewellery, agricultural capital goods such as tractors, trailers, harvesters, pump sets, pipes and pipe fittings, bicycles, scooters and motorcycles, wristwatch radio/transistor/tape recorder, fans and TVs (B&W).

Many new products have entered the consumption basket of the rural consumer; and the relative shares of the different categories of products in the consumption basket have also recorded a good change. The upper segments, in particular, have started buying and using a variety of modern consumer products, which were till recently unknown in the rural market.

Marketers cannot now go by the perception of yesteryears and assume that rural India consumes only certain traditional. Essential products and that its share in other product categories is meager. Rural India now accounts for a sizeable share of the total consumption for a variety of consumer goods, such as packaged tea, washing products, including detergents, toiletries of various kinds, popular as well as premium bath soaps, toothpaste, tooth powder, safety razor blades, shaving rounds, talcum powder, hair oil, OTC products, and durables like electric irons, bicycles, scooters and motorcycles.

It is perhaps well known that products like packaged tea, bath soaps and washing products, including detergents/detergent cakes, are popular items of consumption in rural market. What is not known perhaps is that products like shampoo, toothpaste and talcum powder, and durables like electric irons, bicycles, mopeds, scooters, and motorcycles have joined this category in recent years. The rural demand for electric irons, mopeds, and motorcycles are now between 30 and 50 per cent of the all-India demand. Interestingly, in many products, rural consumption now accounts for a larger share than urban. Washing soaps (cakes bars); the rural share is over 60 per cent. Popular bath soaps, it is more than 50 per cent and in batteries, it is more than 56 per cent. Similar is the case with packaged tea and hair oils.

It is observe red that more than the land-owning class, those engaged in services (government staff, teachers and self-employed service providers including shopkeepers) are the major buyers of the high-priced durables in the rural market. The shopkeepers and service people together account for 45, 55 and 60 per cent of the market for television, two wheelers and refrigerators respectively, though they account for just 21 percent of the rural households. Between the two groups, the service class seems to have far greater potential for high-priced durables than the shopkeepers. The service class comprises just 13 percent of the rural households but owns 30 to 40 per cent of these durables. Within the service class, those who work outside the villages but live in the villages seem to be a far more fertile consumption group. Owner farmers continue to be a significant consumer group. They comprise one-third of rural households (their estimated number being 43 million households), and own one-third of the stock of these durables.

10.4 FEATURES OF RURAL CONSUMERS

The features found in the rural consumers are discussed below:

Location pattern: Practically, the whole of India, barring the metros and towns, constitutes the Indian rural market. In other words, the market is spread through the length and breadth of the vast country.

A scattered market: It is thus evident that the rural market of India is a geographically scattered market. Whereas the urban population of India is concentrated in 3,200 cities and towns, the rural population is scattered across 570,000 villages. And, of them, only 6,300 villages, or less than 1.1 per cent, have a population of more than 5,000 each. More than 3 lakh villages, or more than 55 per cent of the total number of villages, are in the category of 500 people or less and more than 1.5 lakh villages, or 25 per cent, are in the category of 200 people or less. The inference is clear; unlike urban demand, which is highly concentrated, rural demand is scattered over a large area.

Socio-economic position: By and large, rural consumers continue to be marked by low purchasing power/low per capita income. Similarly, they continue to be a tradition-bound community, with religion, culture and tradition strongly influencing their consumption habits. However, as we shall see in detail in this chapter, a sizeable segment of rural consumers defy this description.

Nearly 60 per cent of rural income comes from agriculture. Rural prosperity and discretionary income with rural consumers are thus linked to sizeable extent with agricultural prosperity. More than half the households are in the income category of less than Rs 25,000 per annum, but about 14 per cent of the households have an annual income that exceeds Rs 50,000 per annum. Remittances from Indians working outside have made a sizeable contribution to the growing rural income/purchasing power in some states. Analysis reveals that, in recent years, rural consumers have been increasingly drawn into the savings habit. Nearly, 70 percent of rural households now save a part of their income. The habit is relatively more widespread among salary earners like government staff, teachers, and self-employed non-farmers, who include in the main, shopkeepers and service providers.

Culturally a Diverse and Heterogeneous Market: The rural market is not only a scattered market, but is also diverse and heterogeneous. Rural consumers are diverse in terms of religious, social, cultural and linguistic factors. The diversity is manifest in a more intense manner among the rural segments. It can be said that heterogeneity is the No. I hallmark of the rural market- 5, 70,000 villages, half a dozen religions, 33 languages, 1,650 dialects and diverse sub-cultures characterize the market.

State-to-State Variation in Extent of Development: There is also a great deal of difference between different states in extent of development. It varies on various parameters, such as availability of health and education facilities, availability of public transport, electricity. TV transmission, banks, post offices, water supply and so on. A weight was decided upon for each facility based on the relative importance of that facility in indicating the extent of development of the village. While the average village in India has 33 development index points, villages in Kerala had an average of 88 points while those in Bihar had just 22; Mp, Rajasthan and UP were close to Bihar; and states like Maharastra, Haryana, Karnataka had points ranging between 40 and 50.

Literacy Level: It has been estimated that rural India has a literacy rate of 28 percent compared with 55 per cent for the whole country. The rate is certainly on the low side. However, such statistics do not reveal the whole picture. A number of aspects as shown below need to be emphasized specifically with regard to rural literacy. The picture has been changing over the years. For example, a decade ago, the literacy rate in rural India was only 20 per cent. Year-to-year too, there is a change. Every year about eight million people get added to rural India's literate population. The adult literacy programmes launched in the rural areas are bound to enhance the rural literacy rate in the years to come. In absolute numbers, already there are more literate people in rural India (16.5 crore) than in urban India (16 crore). The picture also differs from state to state and even from district to district.

Lifestyle: By and large, the rural consumers are marked by a conservative and tradition-bound lifestyle. But, what is striking today about this matter is not the basic conservative characteristic, but the fact that the lifestyle is undergoing a significant change. The lifestyle of a sizeable segment of rural consumers has already changed significantly in recent years, and that of a much larger segment is currently going through the process of change. As such, the earlier practice of bracketing all rural consumers as people with a tradition-bound lifestyle does not hold good in the new context.

Buying Behavior: To understand the buying behavior of rural consumers, we must go to the factors that influence their buying behavior. The factors include: Socio-economic environment of the consumer, cultural environment, geographic location, education/literacy level, occupation, exposure to urban lifestyles, exposure to media and enlarged media reach, the points of purchase of products, the way the consumer uses the products, involvement of others in the purchase, and marketers' efforts to reach out the rural market. In recent years, many corporate have been trying hard to develop a market for their products in the rural areas, investing substantially in these areas. This has brought about some change in the way buyers purchase different products. Developmental marketing has created discriminating buyers and hitherto unknown demand in the rural market. All the above factors influence the buying behavior of rural consumers and hence their responses to the marketing mix variables, and the reference points they use for purchase decisions.

No Stereotype Rural Consumer: The interesting position that finally emerges about the profile of the rural consumer is that one cannot proceed on the basis of a stereotype of the rural consumer or of rural consumer behavior. This signals problems as well as opportunities for the marketer. When we use the broad brush, we may be tempted to say that low purchasing power/low per capita income and low literacy level, are the common traits of rural consumers. Similarly, we may also say that the rural consumers are a tradition-bound community, with religion, culture, and tradition strongly influencing their consumption habits. None of this, however, constitutes the representative picture of rural consumers as a whole. A sizeable segment of rural consumers defy this description. We have to recognize that all rural consumers do not share a common buying behavior. There are consumers who can afford high-priced brands and are also willing to buy. There is thus great scope and need for segmenting the rural market on the basis of buying behavior.

10.5 FACTORS AFFECTING RURAL MARKETING

While a variety of factors in this concern have brought about the big growth in the rural demand, a few of them are discussed as follows:

New income due to agricultural/rural development: The technological breakthrough, popularly known as the green revolution, which took place in Indian agriculture from the mid-1970s onwards, has added to the prosperity of rural India considerably. Moreover, in recent years, as part of the new farm policy, high support prices are offered for farm products. As a result, there is now more money in the hands of the owner-farmers in the rural areas. There have also been some concerted efforts towards rural development in general, besides agriculture development. This has generated new employment and new income and purchasing power among the rural people. The rural population can no longer be labeled en masse as a poverty-stricken lot.

The expectation revolution: The expectation revolution among the rural folks completes the picture. The 'rising expectations' of the rural people have greatly influenced the rural, market environment. It has enlarged the desire as well as awareness of the rural people; it has strengthened their motivation to work, earn and consume. The rise in income provides substance to the aspirations.

Season: Rural demand is more seasonal compared to urban demand. The pre-dominance of agriculture in the income pattern is one main reason for this. The relatively greater influence of marriages and festivals on the purchase pattern is another. Interestingly, marriages and festivals often coincide with the harvest. Besides being seasonal, rural demand is somewhat irregular as well. The pre-dominance of agriculture in the income pattern is again the main reason for this. Agriculture in many parts of India still depends on the vagaries of the monsoons. A variety of factors have rendered the rural market quite attractive to corporate in recent years.

10.6 POTENTIAL OF RURAL MARKETING IN INDIA

The following factors are favoring the attraction towards rural market in India.

The Growing Opportunity: The growing opportunity in the rural market is no doubt the prime factor. In the preceding section, we saw that rural demand has been growing rapidly and its composition has been changing for the better in recent years. The increased income/purchasing power of the rural consumer and the improved income distribution have enhanced rural demand for several products. Better access too many modern products brands have added to this growth.

Heat of Competition in the Urban Market: The opportunity in the rural market becomes all the more rosier when the corporate see it in combination with the growing competition in the urban markets. The heat of competition in the urban market actually serves as the stronger driver behind the growing interest of corporate in the rural market. The fact that the rural market is still largely an untapped and virgin market and the fact that the early entrants can tap it without having to face intense competition as in the case of the urban market, makes the rural market all the more attractive to them. Corporate have been finding the going increasingly tough in the urban market, especially for products in respect of which penetration levels are already high. For example, penetration level for toothpaste in the urban market has now reached close to 80 per cent. In contrast, it is below 30 per cent in the rural market. Obviously, any substantial further growth in the product can come only from the rural market. Moreover, in the urban market, many consumers have been using particular toothpaste for quite some time and have settled down to the brand, its flavor and other characteristics. They cannot be expected to switch their brands very easily. In contrast, in rural areas, there are a lot of first-time users of toothpaste whom the companies can tap from the scratch. Toothpaste is but one example. Corporate find that the highly penetrated urban markets 'allow little room for volume growths for most of what are called 'necessity products' (toothpaste, bath soap, washing products, tea, etc.). Growth opportunity for many of the 'emerging products' (coffee, 'shampoo, biscuits, talcum powder, etc.) too is rather low in the urban market. The rural market thus becomes essential for companies with strong growth aspirations. Not competing in the rural market will keep them out of about half of the country's market for 'necessity' products and one-third of the market for 'emerging' products by value.

10.7 STEPS FOR TAPPING THE RURAL MARKETS

While rural India does constitute an attractive and sizeable market, firms have to strive hard for securing a share of it. For, the market bristles with a variety of problems. The firm has to grapple with them and find innovative solutions. Practically in every task of marketing, rural marketing poses some unique problems. The major steps that need to be followed in rural marketing are:

10.7.1 SEGMENTATION AND TARGETING

Firms have to analyze the consumers in-depth, carry out thorough market segmentation and select relevant segments as target markets. And, they have to develop a distinctive positioning and a distinctive marketing mix for each target segment.

Geographic segmentation: In the first place, the rural market can be segmented geographically, using different geographic bases.

Climate and level of irrigation: For example, climate can be one of them; regions endowed with favourable climate are usually more prosperous compared with climatically handicapped regions. Level of irrigation can be another base; irrigated areas and dry land areas pose different economic and marketing environments.

Nearness to a feeder town/industrial project: Firms can also segment the rural market using 'nearness to a feeder town/industrial project' as the base. Consumers located close to a feeder town visit it at least once a month to sell their product and/or to buy their requirements, and in buying habits, they differ from those living in the interior areas. It will thus be meaningful to segment the rural market into consumers located closer to a feeder town and consumers located away from them. Similarly, nearness to an industrial project centre can also be used as the base for segmentation. Many rural parts are studded with industrial projects. There is a cross flow of population between these project centers and the rural hinterlands, and the centers act as conduits for the flow of products and ideas. As such, the proximity to such centers can be used as a base for segmenting the market. It must be noted that in essence these are cases of buying behavior-based segmentation, though a geographical base is used for the segmentation. The point is that the difference in buying behavior arises out of the geographical reality.

Demographic segmentation: The rural market can be segmented demographically too. In fact, there are many possibilities of segmenting the rural market demographically.

Population concentration: Population spread or population concentration can be one base. About 40 per cent of the rural population lives in 7 per cent of the villages in the country and remaining 60 per cent in the other 93 per cent of the villages. Thus, the market can be segmented on the basis of different size classes with regard to population.

Age: Segmentation using age as the base has also good scope in rural marketing. In particular, the youth in the rural areas can be picked up as a separate market. There is a population of more than 20 cores in the age group of 16-30 years in the rural market. Surveys have revealed that the younger generation dominates purchases in the rural market. This is due partly to their greater literacy and exposure, and partly to their changing values and lifestyles. We have also seen earlier that rural youth differ from their elders in their buying behavior and that they are closer to their urban cousins as far as aspirations go. It will thus be meaningful to segment the rural youth as a separate market.

Literacy level: Literacy level can be another demographic base for segmenting the rural market. Though rural India, in general, is characterized by low literacy, there are wide variations in the matter of literacy within rural India. For example, while the rural literacy rate in Kerala is 80 per cent that in Bihar is only 15 per cent.

Income: Income too can be a base. The rural consumers can be segmented into different income classes. It will be incorrect to paint the whole area with the same brush and call it a market with 'low purchasing power'. The rural consumers can also be segmented into regular income and seasonal income segments. Earlier, we talked about the seasonal nature of rural income and demand. All rural consumers are not characterized by seasonality of income. There is a sizeable salaried class in the rural area. There is also a sizeable self-employed group, consisting of shopkeepers and service providers. There is nothing seasonal about the income of such people. Obviously, those with regular income will differ in buying habits compared with those whose income is seasonal.

Buying behavior segmentation: Earlier, we saw that rural consumers differ in their buying behavior from their urban counterparts as well as among themselves. This fact too could be factored into the segmentation exercise. Firms should, however, generate relevant data on the rural consumers and their buying behavior, perceptions and attitudes, and then segment them using their buying behavior as the base.

Sources of data on rural consumers: Luckily, India has a rich source of data on rural consumers in the form of census data. Reports of the Centre for Monitoring Indian Economy (CMIE) also form a useful source. As these are not usually in a user-friendly format, firms have to discern the needed insights from them and use them as the base for segmentation.

10.7.2 PRODUCT STRATEGY FOR RURAL MARKET

The first decision to be made in product strategy in the rural context is whether the product that is sold in the urban market can be supplied to the rural market as it is, or whether it must be adapted. It depends on the situation and the nature of the product. In many cases, some adaptation will be advantageous. Basically, the firm must find out what kind of product is actually required by the rural consumer and then decide if it should make an altogether distinct product or adapt the existing product. Economic and income realities of the market should certainly be considered while developing the product strategy for the rural market. In addition, socio-cultural realities should also be considered. When products are designed reflecting both these influences, the chance of success is greater. Lower-priced product versions do help in many cases in the rural market, but no generalization can be made in this regard. Many companies try to reduce the prices of their products for the rural market by creating smaller size, or by decreasing the quality. The approach works sometimes and with some products, but not all times, with all products.

Different Products/Models, Brands, Packing, Pricing and Positioning: By and large, the rural market can be tapped better through different products/models, different brands, different packaging and different positioning.

Designed Products: Specifically designed products do help in many cases, e.g. *tractor/trailer*. It is a product specifically designed for the rural market. It is designed as a replacement for the plough as well as a vehicle for transporting both men and material in the rural areas.

Models: Models developed specifically for the rural market have found more takers in the market. For instance, motorcycles that are designed to take on the rigours of rural roads have succeeded more in the rural market.

Colors: The rural consumers differ from their urban cousins in color preference. In the case of some products, color may matter very much. Firms can exploit this fact to their advantage. For example, in the paint business, Asian Paints understood the substantial difference between the urban and rural buyer in color preference. AP introduced paints with bright colors for the rural markets. AP also communicated the feature well through its communication campaigns.

Package Design and Packing Size: In some cases, the product can be the same, but the package and pack size may have to be different for the rural target group. Package design and color help identification of brands by rural buyers. Many rural consumers are not quite conversant with the various brands. All the same, they manage to pick the brands that they want. They recognize the brand by its packaging. This is the reason why a number of local brands in rural areas imitate the packaging of big national brands.

Logos, Symbols and Mnemonics: Image is far more potent in the rural market, which in many cases is an uninitiated market. Symbols, therefore, add value to brand recall and brand personality in the rural market, e.g. Asian Paints' Gattu, though equally well known in urban and rural markets, has greater effectiveness as an identity tool in the rural markets. Actually, in many rural parts of India, Asian Paints is referred to as the *bachchawala* or *chokrawala* company. Similarly, the Nirma girl in frock on the packs of Nirma washing powder has become the *mnemonic* for effective and good value in washing powders.

Branding Decisions: The rural consumers have already graduated from generic products to branded products. Today, the brand name is the surest means of conveying quality to rural consumers. To them, buying an established and well spoken of brand is the sure way of reducing risk. Therefore, the branded products must be provided to them. However, it will, be incorrect to assume that rural consumers prefer local brands to national brands.

Value Brands, Not Cheap: While brands specifically developed for the rural market and low-priced variants may work better in many cases, the strategy should be one of selling value brands not cheap brands. HLL's Lifebuoy, for example, is a low-priced carbolic soap that is often the first choice of bath soap by a rural consumer. HLL, however, does not sell it as a cheap soap. Instead, sells it as a hygiene brand. It communicates the value of the brand to the target market. It also tries to enhance the value of the offer by giving suitable 'add-ons'. For example, while targeting rural students for the soap it distributed height charts along with the soap and conveyed its concern for their health and well being. Rural marketers would do well to add some value to their products in this fashion if they are keen to secure the loyalty of the consumers.

10.7.3 PHYSICAL DISTRIBUTION

There are so many problems, which marketers have to face in physical distribution in the rural context.

Transportation and Warehousing: It is well known that transportation infrastructure is quite poor in rural India. Though the country has the fourth largest railway system in the world, many parts of rural India remain outside the rail network. As far as road transport concerned, proper roads do still not connect nearly 50 per cent of the

570,000-odd villages in the country. Many areas still have only *kacha* roads and most of the interiors have hardly any roads worth mentioning. As far as transport carriers concerned, the most common ones are the delivery vans and the animal drawn carts. Because of the difficulty in accessibility, delivery of products and services continues to be difficult in rural areas. In warehousing too, there are special problems in the rural context. Business firms find it quite difficult to get suitable godowns in many parts of rural India.

Cost of Service: The constraints affect adversely the service as well as the cost aspect in distribution. Maintaining the required service level in delivery of products becomes very difficult. At the same time, costs of distribution are shooting up. The scattered nature of the market and its distance from the urban-based production points compound the difficulty.

The Delivery Van: The delivery van has a key role in rural distribution. The companies concerned or their C&F agents/stockiest/distributors operate these vans. In some cases, independent third parties operate them as a service for a fee. Companies like Hindustan Lever and lTC, who are pioneers in rural marketing in India, have a task force of company delivery vans for rural distribution. The van takes the products to the retail shops in every corner of the rural market. Besides facilitating product delivery, the van serves certain other vital purposes. It enables the firm to establish direct contact with rural dealers and consumers. It also helps the firm in promotion. But, the cost of operating such vans is quite high. And the proposition can work only if the area assures substantial business. Through the van, they were not only solving the transportation problem of the rural market, but were also developing the market for their products.

10.7.4 CHANNEL MANAGEMENT IN RURAL MARKETING

Organizing marketing channels is the second part of the distribution task. It also faces problems in the rural context.

Organizing Marketing Channels: The distribution chain in the rural context usually requires more tiers, compared with the urban distribution chain. The distance between the production points and the rural market, and the scattered location of the consumers make it necessary. At the minimum, the distribution chain in the rural context needs three tiers, viz., the village shopkeeper, the mundi-level distributor, and the wholesaler/stockiest/C&F agent in the town. In addition, it involves the manufacturers' branch office operations in the territory. Such multiple tiers and scattered outfit push up the costs and makes channel management a major problem area.

Non-availability of dealers: Firms find that availability of dealers is limited and the scope for appointing fresh/exclusive dealers of the company is equally limited in view of the low demand and non-availability of suitable candidates.

Low feasibility of the outlets: A good number of retail outlets in the rural market suffer from low feasibility. A familiar paradox in rural distribution is that on the one hand the manufacturer incurs additional expenses on distribution and on the other, the retail outlets find that the business is un-remunerative to them. The additional funds the manufacturer pumps into the system are used by the scattered nature of the market and the multiplicity of tiers in the distribution chain. They usually do not result in any additional remuneration to any part of the chain. And, the volume is not adequate to assure the profitability of all.

Banking and credit facilities: Distribution in rural markets is also handicapped due to the lack of adequate banking and credit facilities. It is estimated that there is only one bank branch for every 50 villages.

10.7.5 SALES FORCE MANAGEMENT

Generally, rural marketing involves more intensive personal selling effort compared to urban marketing. The following steps can be taken for successful management of sales force.

Special Traits of Salesmen: First of all, only those who feel happy in living and working in the villages can become good rural salesmen. It is common knowledge that the rural areas lack modem amenities compared with the urban areas. Because of this factor, well-qualified salesmen are often reluctant to live in rural areas. Firms locate their salesmen in towns and allow them to cover the rural areas assigned to them from there. Such an arrangement does not produce optimum results. Successful rural marketing firms locate their salesmen right in the midst of the rural market to be covered.

Cultural congruence: The salesmen must be well acquainted with the cultural aspects of rural life. Since the cultural patterns of rural communities differ from one another, a background that gels with the culture of the given community is to be preferred. Urban markets, in contrast, present a cultural convergence.

Attitude: Attitude factors are of particular significance in the rural context. For example, the rural salesmen must have a great deal of patience, as their customer is a traditional and cautious person. Perseverance is another essential trait. It will not be possible for the rural salesman to clinch the sale quickly. He may have to spend a lot of time with the customer and make several visits to him to gain a favorable response.

Knowledge of local language: Rural salesman should also be conversant with the local language. Whereas his urban counterpart can successfully manage with English and a working knowledge of the local language, the rural salesman should be quite familiar with the local language. In fact, he must be well versed in the lingo and idiom of the local area/community.

Ability to handle several product lines: Often rural salesmen are required to handle several product lines. While urban salesman can generate an economic size business through a few product lines, rural salesmen are compelled to handle a large variety of products, as they do not generate economic volume of business with a few products. Quite often, the items differ widely from one another. Rural salesmen are thus required to be a 'jack of all trades'. They are also required to travel more compared with their urban counterparts. Whereas urban salesmen operate in highly concentrated and compact markets, rural salesmen have to cover large territories and scattered customers. His workload, therefore, is generally more.

Creativity: Rural selling also involves greater creativity. Often, the products concerned may be very new in the rural context. The rural salesmen have to mal<e special endeavors to introduce them. They have to make more of creative selling, using the consumption pioneers and opinion leaders in the areas. Rural marketing also presupposes the delivery of a new standard of living to the rural masses. It is essentially developmental marketing.

10.7.6 RURAL MARKETING COMMUNICATIONS

In rural marketing communication and promotion too, rural markets pose many problems. The constraints emanating from the profile of the audience, and the limitations in the matter of media cause these problems. The literacy rate among the rural consumers being low, the scope for using the printed word is rather limited. The tradition-bound nature of the people and their cultural barriers and taboos add to the difficulty of the communication task. The situation is further compounded by the linguistic diversity. In the urban areas, marketing communication can be managed by and large with English and Hindi. Marketing communication in the rural area has to necessarily be in the local language and idiom. The constraints in media compound the difficulty. Rural communication is also quite expensive. Rural communication has to go through the time-consuming stages of creating awareness, altering attitudes and changing behavior. In addition, it has to break the deep-rooted behavior patterns. The rural communicators can choose a combination of formal and informal media like TV, Cinema, Radio, Print media, Point of purchase sales promotions (POPs), Audio-Visual/publicity vans, syndicated AV vans, Puppet shows and Music cassettes in rural market.

10.8 SUMMARY

The Indian rural market is challenging because it offers large scope on account of its size and potential. It is also growing steadily. And, as said earlier, whereas the urban market is highly competitive, the rural market is fairly quiet. There are so many products, which are not in the grasp of rural customers but they want to purchase them; it can be done when these products may reasonably low priced in the market. In fact, for certain products, it is totally a virgin market. Firms can certainly reap more sales from the rural market if they will provide the low priced product and services.

10.9 Key words

Stereotype: a standardized conventional idea

Hinterlands: the district behind a coast

Counterparts: a person or a thing corresponding to another

Amenities: a pleasant or useful feature of a place

Conduits: a channel for liquid

10.10 SELF-TEST QUESTIONS

What do you understand by rural market in India?

Discuss the recent trends of rural marketing in India.

What type of problems rural marketers in India may face? How can do they resolved in a strategic manner?

Explain the potential of rural marketing in India.

How can a marketer tap rural market?

10.11 SUGGESTED READINGS

Marketing Management-Planning, Implementation & Control by Ramaswamy, V. S. and S. Namakumari, Macmillan Business Books: New Delhi.

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Product Management by Donald R. Lehmann and Russel S. Winer, Tata McGraw Hill Publishing Company Ltd.: New Delhi.

Marketing Management, by Phillip Kotler, Prentice Hall of India: New Delhi.

Marketing Management, Analysis, Planning and Control by Phillip Kotler, Prentice Hall of India, New Delhi.

Marketing Management by Rajan Saxsena, Tata McGraw Hill Publishing Company Ltd., New Delhi.

COURSE: BASIC PRINCIPLES OF MARKETING AND MANAGEMENT

Course Code: 05 Authors: Surrender Singh Kudu
Lesson: 11 **Vetter:** Dr. B. S. Bola

ETHICS AND MARKETING

STRUCTURE:

11.1 OBJECTIVE: The motive of this chapter is to understand the ethical issues for marketing environment. Further, in the present chapter, the methods of dealing with ethical practices in the business and factors affecting it also are discussed.

11.2 INTRODUCTION

While it may have been acceptable in the past for businesses to pursue profits single-mindedly with little or no consideration for the wider social and environmental impact of their activities, this is not the case today. The consumer movement and the environmental lobby are now firmly established as vigilant and powerful watchdogs, and have successfully brought about changes in business practice and in the laws which govern how businesses must operate. This is not to say that businesses have not responded to the criticisms leveled against them. Many have voluntarily changed their ways of operating to take these wider concerns into account. For example, in marketing, the 'marketing concept' has become synonymous with having a consumer orientation, and the more recent 'societal marketing concept' extols the need for marketers to consider the wants and long-run needs of both society and consumers. At first glance it would appear that marketers at least are facing up to their responsibilities to the world at large.

11.3 ETHICAL ISSUES CONCERNING PRODUCTS

There are three major ethical issues connected with products and services: product safety, planned obsolescence and deceptive packaging. Now you have to look at each of these in turn.

11.3.1 PRODUCT SAFETY

Recently, one of the major concerns about product safety has been that of the safety of genetically modified (GM) products. Vociferous pressure groups such as Green peace (www.greenpeace.org) lave spoken out about the dangers of genetic modification. Such concerns, and the attendant publicity, have led one of the pioneers of genetic modification, Monsanto (www.monsanto.com), to lack away from further development of GM foods, and supermarket chains to ban such produce from heir shelves. Supporters state that many new, products are introduced with a certain degree of risk being acceptable. For example, a new pharmaceutical product may harm a tiny percentage of users but the utilitarianist principle of the greatest good for the greatest number' would support its launch. It is the reality of modern day business that new products such as cars, pharmaceuticals and foods undergo extensive safety testing before launch. Anything less would violate the consumer's 'right to safety'.

11.3.2 PLANNED OBSOLESCENCE

Many of the products on the market have not been designed to last for a long time. From the producers' point of view this is sensible as it creates a repeat purchase situation. Hence, cars rust, computer software is quickly outdated and fashion items are replaced by the latest styles. Consumers accept that nothing lasts forever, but the main thrust of this issue concerns what is an acceptable length of time before replacement is necessary. One driving force is competition. To control the Japanese invasion, car manufacturers such as Ford (www. ford.com) and Volkswagen (www.vw.com) have made the body shells of their cars much more rust-resistant than they were before. Furthermore, it has to be recognised that many consumers welcome the chance to buy new clothes, new appliances with the latest features and the latest model of cars. Critics argue that planned obsolescence reduces consumers' right to choose since some consumers may be quite content to drive an old car so long as its body shell is free from rust and the car functions well. As we have noted, the forces of competition may act to deter the excesses of planned obsolescence.

11.3.3 DECEPTIVE PACKAGING

This is something that can happen when, say, a product is presented in an oversized package, giving the impression that the consumer is getting more than is actually the case. This is known as 'slack packaging' and has the potential to deceive when packaging is difficult. Products such as soap powders and breakfast cereals have the potential to suffer from 'slack packaging'. A second area where packaging may be deceptive is through misleading labeling. This may take the form of the 'sin of omission', for example the failure of a package to state that a product contains GM soya. This relates consumer's 'right to be informed', and can include the stating of ingredients (including flavorings colorants), nutritional contents and 'country of origin on labels. Nevertheless, labelling can still be misleading. For example, in the UK, the ''country of origin is only the last country where the product was 'significantly changed'. So oil pressed, Greek olives in France can be labelled 'French' and foreign imports that are packed in the UK can be labelled 'produce of the UK'. Consumers should be cautious of loose terminology. For example, smoked bacon may well have received its 'smoked flavor' from a synthetic liquid solution, 'farm fresh eggs' are likely to be eggs of indeterminate age (with no date mark) laid by battery hens, and 'farmhouse cheese may not come from farmhouses but from industrial factories.

11.4 ETHICAL ISSUES IN PRICING STRATEGY

Some key ethical issues relating to pricing include price fixing, predatory pricing, deceptive pricing, price discrimination and product dumping.

11.4.1 Price fixing

Competition is one of the driving forces towards lower prices. Therefore, it can be in the interests of producers to agree among themselves not to compete on price. This is known as the 'act of collusion' and is banned in many countries and regions, including the EU. Article 83 of the Treaty of Rome is designed to ban practices preventing, restricting or distorting competition, except where these contribute to efficiency without inhibiting consumers' fair share of the benefit. Groups of companies that planned are said to be acting as a cartel, and these are by no means easy to uncover. One of the European Commission's most famous success stories is the uncovering of an illicit cartel among 23 of Europe's top chemical companies from the UK, France, Germany, Belgium, Italy, Spain, The Netherlands, Finland, Norway and Austria. Through collusion they were able to sustain levels of profitability for low density polyethylene and PVC in the face of severe overcapacity. Quotas were set to limit companies' attempts to gain market share through price competition, and prices were fixed to harmonize the differences between countries in order to discourage customers from shopping around for the cheapest deals. Opponents of price fixing claim that it is unethical because it restrains the consumer's freedom of choice and interferes with each firm's interest in offering high-quality products at the best price. Its proponents argue that, under harsh economic conditions, price fixing is necessary to ensure a fair profit for the industry and to avoid price wars that might lead to bankruptcies and unemployment.

11.4.2 Predatory pricing

Predatory pricing refers to a situation that occurs when a firm reduces its prices with the aim of driving out the competition. The firm is content to incur losses with the intent that high profits will be generated through higher prices once the competition has been eliminated. Budget airline easyJet (www.easyjet.com) has accused British Airways of predatory pricing through its no-frills subsidiary Go;

easyJet claims that the low prices charged by Go are being subsidized by the profits made by BA's other operations.

11.4.3 Deceptive pricing

Deceptive pricing occurs when consumers are misled by the price deals offered by companies. Two examples are misleading price comparisons and 'bait and switch'. Misleading price comparisons occur when a store sets artificially high prices for a short time so that much lower 'sale' prices can be claimed later. The purpose is to deceive the customer into believing they are being offered bargains. Some countries, such as the UK and Germany, have laws that state the minimum period over which the regular price should have been charged before it can be used as a reference price in a sale. Bait and switch is the practice of advertising a very low price on a product (the bait) to attract customers to a retail outlet. Once in the store the salesperson persuades the customer to buy a higher-priced product (the switch). The customer may be told that the lower priced product is no longer in stock or that it is of inferior quality.

11.4.4 Price discrimination

Price discrimination occurs when a supplier offers a better price for the same product to a buyer, resulting in that buyer gaining an unfair competitive advantage. Price discrimination can be justified when the costs of supplying different customers vary, where the price differences reflect differences in the level of competition, and where different volumes are purchased. Price discrimination can be a particular issue in international marketing where price levels vary across borders and parallel importing ensues. This is where importers buy products from distributors in one country to sell them to distributors in another country who are not part of the manufacturer's normal distribution channel. A recent contentious case has been that between Tesco (www.tesco.com) and Levi Strauss (www.levis.com), which has been before the European court. Tesco claimed to be within its rights when it bought cheap, though genuine, Levi's products from countries outside the European Union for sale in its stores. Levi's countered that, as it is owner of the trademark, this practice amounted to breaking the law.

11.4.5 Product dumping

Product dumping involves products being exported at a much lower price than that charged in the domestic market, sometimes below the cost of production. Products are 'dumped' for a variety of reasons. First, unsold stocks may be exported at a low price rather than risk lowering prices in the home market. Second, products may be manufactured for sale overseas at low prices to fill otherwise unused production capacity. Finally, products that are regarded as unsafe at home may be dumped in countries that do not have such stringent safety rules. For example, the US Consumer Product Safety Commission ruled that three-wheeled cycles were dangerous. Many companies responded by selling their inventories at low prices in other countries.

11.5 ETHICAL ISSUES IN PROMOTION

The wide range of promotional techniques that we have discussed in this chapter gives rise to several ethical questions. These are discussed below.

11.5.1 Misleading advertising

This can take the form of exaggerated claims and concealed facts. For example, it would be unethical to claim that a car achieved 50 miles to the gallon when in reality it was only 30 miles. Nevertheless, most countries accept a certain amount of puffery, recognizing that consumers are intelligent and interpret the claims in such a way that they are not deceptive. In the UK, the advertising slogan 'Carlsberg-Probably the Best Lager in the World' is acceptable because of this. Advertising can also deceive by omitting important facts from its message. Such concealed facts may give a misleading impression to the audience. Many industrialized countries have their own codes of practice that protect the consumer from deceptive advertising. For example, in the UK the Advertising Standards Authority (www.asa.org.uk) administers the British Code of Advertising Practice, which insists that advertising should be 'legal, decent, honest and truthful'. Shock advertising such as that pursued by companies like Benetton and FCUK are often the subjects of many complaints to the Advertising Standards Authority.

11.5.2 Advertising to children

One particularly controversial issue is that of advertising to children. Critics argue that children are especially susceptible to persuasion and that they therefore need special protection from advertising. Others counter by claiming that the children of today are remarkably 'streetwise' and can look after themselves. They are also protected by parents who can, to some extent, counteract advertising influence. Many European countries have regulations that control advertising to children. For example, in Germany, advertising specific types of toy is banned, and in the UK alcohol advertising is controlled. An example of self-regulation at work was the dropping of an advertisement for a soft drink that featured a gang of ginger-haired, middle-aged men taunting a fat youth. The advertisement was withdrawn after numerous complaints were received contending that it encouraged bullying in schools.

11.5.3 The intrusiveness of direct marketing

Direct marketing is criticized for being intrusive and for invading people's privacy. Receiving unsolicited calls from telemarketing companies can be annoying, while many consumers fear that every time they subscribe to a club, society or magazine their names, addresses and other information will be entered on to a database, and that this will guarantee a flood of mail from the supplier. Poorly targeted mail, usually called junk mail, also irritates many people. The direct marketing industry is responding to these concerns and is becoming increasingly sophisticated in how it targets prospects. Many consumers are registering with suppression files indicating that they do not want to be recipients of direct marketing activities.

11.5.4 Use of trade inducements

To encourage their salespeople to push the manufacturers' products, retailers sometimes accept inducements from manufacturers. This often takes the form of bonus payments to salespeople. The result is that there is an incentive for salespeople, when talking to customers, to pay special attention to those product lines that are linked to such bonuses. Customers may, therefore, be subjected to pressure to buy products that do not best meet their needs.

11.5.5 Third-party endorsements

The use of third-party endorsements to publicize a product is another subject for ethical debate. In such cases, a person gives a written, verbal and/or visual recommendation of a product. A well known, well-respected person is usually chosen, but given that payment often accompanies the endorsement the question arises as to its credibility. Supporters of endorsements argue that consumers know that endorsers are usually paid, and are capable of making their own judgments regarding their credibility.

11.5.6 Deception by salespeople

A dilemma that, sooner or later, is likely to face most salespeople is the choice of telling the customer the whole truth and risk losing a sale, or misleading the customer in order to wrap up a sale. Such deception may take the form of exaggeration, lying or withholding important information that significantly reduces the appeal of a product. Such actions can be avoided by influencing the behavior of salespeople through training, by sales management that encourages ethical behavior, which is demonstrated through salespeople's own actions and words, and by establishing codes of conduct for salespeople. Nevertheless, from time to time evidence of malpractice in selling reaches the media. For example, in the UK it was alleged that some financial services salespeople mis-sold pensions by exaggerating the expected returns. This scandal cost the companies involved millions of pounds in compensation.

11.5.7 The hard sale

The use of high-pressure sales tactics to close a sale is another criticism leveled at personal selling. Some car dealerships have been deemed unethical due to their use of hard-sell tactics to pressurize customers into making a fast decision on a complicated purchase that may involve expensive credit facilities. Such tactics encouraged Daewoo (www.daewoocars.co.uk) to approach the task of selling cars in a fundamentally different way by replacing salespeople with computer stations where consumers could gather product and price information.

11.5.8 Bribery

Bribery is the act of giving payment, gifts or other inducements in order to secure a sale. Bribes are considered unethical because they violate the principle of fairness in commercial negotiations. A major problem is that, in some countries, bribes are an accepted part of business life: bribes are an essential part of competing. When an organization succumbs, it is usually castigated in its home country if the bribe becomes public knowledge. Yet, without the bribe, it may have been operating a major commercial disadvantage. Companies need to decide whether they are going to market those countries where bribes are commonplace. Taking an ethical stance may cause difficulties in the short term but in the long run the positive publicity that can follow may be of greater benefit.

11.6 ETHICAL ISSUES IN DISTRIBUTION

Five key ethical issues in distribution are the use of slotting allowances, grey markets, exclusive dealing, restrictions on supply and fair dealing.

11.6.1 Slotting allowances

In the packaged consumer goods industry, the power shift from manufacturers to retailers has meant that slotting allowances are often demanded before products are taken. A slotting allowance is a fee paid to a retailer in exchange for an agreement to place a product on the retailer's shelves. Critics argue that these represent an abuse of power and work against small manufacturers who cannot afford to pay such fees. Retailers argue that they are simply charging rent for a valuable scarce commodity: shelf space.

11.6.2 Grey markets

Nothing to do with the age-related 'grey market' (i.e. the burgeoning number of older people that make up the consumer population), this type of grey market occurs when a product is sold through an unauthorized distribution channel. When this occurs in international marketing the practice is called 'parallel importing'. Usually a distributor buys goods in one country (where prices are low) and sells them in another (where prices are high) at below the going market price. This causes anger among members of the authorized distribution channel who see their prices being undercut. Furthermore, the products may well be sold in down market outlets that discredit the image of the product, which has been built up by high advertising expenditures. Levi's recently won a court order against Tesco preventing it from sourcing cheaper products outside the European Union.

11.6.3 Exclusive dealing

This restrictive arrangement involves a manufacturer prohibiting the distributors that market its products from selling the products of competing suppliers. This action may restrict competition and hamper the entry of new competitors and products into a market. It may be found where a large supplier can exercise power over weaker distributors. The supplier may be genuinely concerned that anything less than an exclusive agreement will mean that insufficient effort will be made to sell its products by a distributor and that, unless such an agreement is reached, it may be uneconomic to supply the distributor.

11.6.4 Restrictions in supply

A particular concern of small suppliers is that the power of large manufacturers and retailers will lead to their being squeezed out of the supply chain altogether. In the UK, farmers and small grocery suppliers have joined forces to demand better treatment from large supermarket chains, which are forging exclusive deals with major manufacturers. They claim the problem is made worse by the growth of category management, where retailers appoint 'category captains' from their suppliers who act to improve the standing of the whole product category, such as breakfast cereals or confectionery. The small suppliers believe this forces them out of the category altogether as category captains look after their own interests. They would like to see a system similar to that used in France where about 10 per cent of shelf space is given to small suppliers by law.

11.6.5 Fair trading

One problem that arises from free market forces is that, when small commodity producers are faced with large powerful buyers, the result can be very low prices. This can bring severe economic hardship to the producers who may be situated in developing countries. In the face of a collapse in world coffee prices a fair trading brand, Café direct (www.cafedirect.co.uk), was launched. The company was founded on three principles: to influence positively producers' income security; to act as an example and catalyst for change; and to improve consumer understanding of fair trade values. It pays suppliers a minimum price for coffee beans pegged above market fluctuations, and provides tailor-made business support and development programmes. There are now more than 50 fair trade products on sale in the UK including Ridgeway's tea and Divine chocolate, and sales are rising.

11.7 ETHICAL ISSUES IN INTERNET AND ONLINE MARKETING

Although the growth of Internet and online marketing has had many beneficial effects-such as increasing customer choice and convenience, and allowing smaller companies access to global markets-there are also concerns about intrusions on privacy and social exclusion.

11.7.1 Intrusions on privacy

Some of those people using the Internet are extremely wary of online shopping because of the use of cookies, and the information they store and provide about consumers. Cookies are tiny computer files that a marketer can download on to the computer of online shoppers who visit a company's website so that details of these visits may be recorded. Cookies serve many useful functions: they remember users' passwords so they do not have to log on each time they revisit a site; they remember users' preferences so they can be provided with the right pages or data; and they remember the contents of consumers' shopping baskets from one visit to the next. However, because they can provide a record of users' movements around the web, cookies can also give a very detailed picture of people's interests and circumstances. For example, cookies contain information provided by visitors such as product preferences, personal data and financial information, including credit card details. From a marketer's point of view, cookies allow customized and personalized content for online shoppers. However, most Internet users probably do not know this information is being collected and would object if they knew. (Incidentally, online users can check if their drive contains cookies by opening any file named 'cookies'.) Some people fear that companies will use this information to build psychographic profiles that will enable them to influence customer behavior; others simply object to information about them being held without their express permission. Although users are identified by a code number rather than a name and address (and this, therefore, does not violate ED data protection regulations), the fear is that direct marketing databases will be combined with information on online shopping behavior to create a vast new way of peering into people's private lives.

11.7.2 Social exclusion

Another ethical consideration is the fear that the growing use of the Internet will exclude the poorest members of society from partaking of the benefits of online shopping since they can afford neither a computer nor the associated charges. For example, Prudential, the financial services company, has faced strong criticism for the way Egg (www.egg.com), its high-interest savings bank, cut itself off from mainstream customers by offering Internet-only access, thereby creating a system which ensures that it attracts only its wealthiest customers. In addition, some utility companies may be discriminating against low income groups by offering cut-price energy only over the Internet. However, as computer prices fall, and more and more service providers offer free access and low telephone charges, this situation may improve.

11.8 METHODS OF DEALING WITH ETHICAL ISSUES

There are following methods, which are responsible for ethical issues in society.

11.8.1 Denial of Responsibility

One option for people faced with a moral dilemma is to deny responsibility and one way of doing this is to claim 'moral sanctuary'. That is, the person essentially argues that the normal rules and constraints of ethics and morality do not apply in that situation. Adopting this approach, some have argued that there is no such thing as business ethics. Supporters of this argument either claim that business is like a game, and therefore the normal rules of society do not apply, or that "one cannot survive in business if one is too ethical". Neither of these arguments is convincing. In response to the first, it can be pointed out that, since games are governed by rules that specify not only how, but where and under what conditions a game is played, even games require ethical conduct. Furthermore, unlike games, where players can choose to participate and therefore voluntarily 'suspend' normal ethical considerations, no one has this option in business. Insofar as a person must make a living or purchase goods, he or she is of necessity a participant in the game. The second argument also falls down, on two counts. First, by claiming a right to survive, claimants are in fact accepting that there is such a thing as business ethics. Second, the assertion is simply not true; it is possible to be ethical and survive in business.

11.8.2 Neutralization

A second option available to people faced with a moral dilemma is to transgress, then justify the transgression. Vitell and Grove refer this process as 'neutralization', and write: "Those who employ techniques of neutralization do not feel that the norms they may be violating should be replaced, only that they do not or should not apply in these particular instances... These techniques of neutralization…...are essentially a learned vocabulary of motives for misconduct

used to protect one from self-blame. By employing verbal symbols and rationalizations shared by society at large, the techniques allow one to make use of widely pursued and accepted, but publicly un-verbalized values, such as revenge, as a means of diminishing one's culpability for a socially disapproved act ..." .

Examples of neutralization techniques, identified over thirty years ago, include:

Denial of responsibility: Individuals argue that they are not personally accountable for their actions because factors beyond their control are operating, e.g., "I couldn't help myself, and I was desperate."

Denial of injury: Individuals contend that their norm violating behavior is not really serious, since no party directly suffers because of it, e.g., "What's the big deal? No one was hurt."

Denial of victim: Individuals counter any blame for their actions by arguing that the violated party deserved whatever happened, e.g., "If they're foolish enough to believe that, it's their own fault they were taken advantage of."

Condemning the condemners: Individuals deflect moral condemnation to those ridiculing them by pointing out that they engage in similar disapproved behavior, e.g., "I was only doing what others do all the time."

Appeal to higher loyalties: Individuals argue that their norm violating behavior is the by-product of their attempt to actualize a higher order ideal or value e.g. "I did it because it was better for all concerned."

11.8.3 Good business is good ethics

A third approach, adopted by some people, accepts a need for ethical conduct, but never actually considers the question of ethics because proponents believe they behave ethically; that "good business is good ethics". The rationale for this approach is that the very requirements of profitable business constitute a morality, and leave managers with little choice but to "do well and avoid evil". Various groups have promoted this approach in New Zealand. However, organizations who adopt this philosophy put themselves seriously 'at risk' of unethical conduct, simply because they do not acknowledge the ethical consequences of their actions.

11.8.4 Good ethics is Good business

The view that "good business is good ethics" should not be confused with an alternative view that "good ethics is good business", expressed in books such as In Search of Excellence. Proponents of this argument suggest a corporation must have integrity in order to achieve long-term profitability; therefore good ethics is good business. While this appears an admirable sentiment, which would ensure ethical conduct, some writers take a far more cynical view, and argue that some corporations may be more concerned with public relations than action; "they want to **appear** good, not **be** good". On the other hand, this option does seem the most likely to lead to ethical behavior, even if the hypothesized links between profitability and ethical behavior are suspect.

11.9 FACTORS CONTRIBUTING TO UNETHICAL BEHAVIOUR IN BUSINESS

The following factors are responsible for unethical behavior in marketing.

11.9.1 Business objectives

Clearly, a variety of views about the role of ethics in business exist, and it would seem that most of these views actually put business people 'at risk' of unethical conduct. However, the problem extends even further than the arguments used to justify particular business and practices. To use marketing as an example, the objectives of marketing, the marketing concept, and even the language of marketing may also contribute to the problem. The ultimate goal in a commercial venture is some sort of profit achievement. As a consequence, the needs and wants of consumers and the wider concerns for the impact on society are only of concern to the marketer to the extent that they affect the objectives (e.g. profitability) of the operation. Marketers adopting this orientation may well remain oblivious to the likely consequences of their actions, unless there is a perceived threat to their operation. Furthermore, even if aware of possible consequences, business people faced with a moral dilemma will be predisposed to act in a way that has the least detrimental impact on profitability, even if this means adopting an unethical course of action.

11.9.2 The language of business

The language of business also presents problems. Two pervasive metaphors in marketing are those of 'war' and 'competition' ('strategy', 'tactics', 'competitors', 'heroes', 'targets'). This language emphasizes the notions of power, control and dominance - the antithesis of concern, caring and cooperation, and scarcely consistent with the notion of moral or ethical behavior. Paradoxically, even the 'marketing concept' and particularly the 'societal marketing concept' may add to the risk of unethical behavior. Because these concepts appear to put the needs of consumers and society first, they may lead the public to believe marketers are behaving in an ethical manner, regardless of whether they are. Since the concepts embrace an ethical dimension, they may also lead marketers to believe their actions are ethical by definition. This may result in a situation where ethics are given little thought. This is not to suggest business and marketing practice is totally unethical. The point being made is that the language of business, the objectives of business, and the ways in which business people perceive their roles, put them 'at risk' of unethical conduct. The responsibility is therefore on business people to ensure that they are not unwittingly contributing to the problem.

11.9.3 Limitations

While these methods of analysis may offer some assistance, they are of only limited help to people faced with a moral dilemma. A common difficulty with a moral dilemma is that of identifying clearly what the issues are. It is relatively easy to identify violations of widely held norms or moral principles, thus the responsibilities of managers in such situations are well defined. Sometimes, however, the norms or moral principles themselves substantially conflict, and it, is not clear which option should be chosen. King observes that western moral philosophy offers no guidelines for dealing with what he calls "moral dilemmas of the second kind". His suggestion is that we must therefore begin to examine the types of social relationship that must exist for there to be agreement on what is right, good and just.

11.9.4 Re-examine the moral paradigm

King argues that mainstream philosophy accepts the ideal of the theorist as a detached observer, and operates according to what he calls the "ethics of justice", which emphasizes objectivity and detachment. He suggests that this moral paradigm is also prevalent in business. The consequences of managers remaining detached, however, are that they can avoid accepting responsibility for the effects of their actions. A 'detached' manager is therefore at risk of acting in an unethical manner. Other authors, particularly with regard to accounting have made a similar point. The problem, according to King, is that mainstream philosophy, and business, ignores what he calls the "ethics of caring", with its connotations of compassion, empathy and relatedness. Drawing on the work of MacIntyre, King suggests that the ethics of caring is a necessary condition for any ethics of justice that the ethics of caring is the moral paradigm and that the ethics of justice is subsumed under it. King suggests that human endeavor consists of empirical, interpretive and evaluative dimensions, but that while we have well developed empirical methodologies, we do not understand the methodologies of interpretation and evaluation. He argues that everything we know is necessarily interpretive in nature - that we do and must construct our social realities. Since narrow interpretation leads to limited or stupid behavior, it is possible to construct realities in which evaluation becomes unintelligible. He concludes that caring is an essential part of the methodology of evaluation, and that this is the key to understanding the nature of "ethical encounters of the second kind".

The implications of what King is saying suggest radical changes to the way managers are educated. If we want managers to behave in an ethical manner, we must take into account the interpretive and evaluative, as well as the empirical dimensions of human endeavor. Since people construct their social reality and this affects evaluation, they must have a 'broad based' or 'general' education so they do not end up with a narrow interpretation of the world and construct a constricted or blinkered social reality. Furthermore, since caring is an important component of evaluation, education must encourage involvement in rather than detachment from issues and problems, and managers must be trained to understand others' point of view, to see the world through other people's eyes.

11.9.5 Adopt alternative methods of enquiry

The ideas presented so far suggest a different approach to ethics is required in marketing and in the training of marketing and business graduates. Hirschman, who argues that since marketing is a socially constructed enterprise, it requires different methods of enquiry developed specifically to address socially constructed phenomena, presents one possibility. In particular, she suggests that marketers should embrace humanistic methods of enquiry.

11.10 SUMMARY

Most examples of unethical conduct that make the headlines probably are those where the perpetrator knowingly and intentionally transgressed, and such behavior will always be a possibility in business as in other spheres. The concern of this chapter was not with this group of people, but with those who seek ethical solutions to complex moral dilemmas, and those who are oblivious to the ethical implications of their actions. This chapter has argued that conventional wisdom is of limited use for resolving complex moral dilemmas, and that there exist many situations that put business people 'at risk' of unethical behavior. It is further suggested that many people are ill-equipped to deal with moral and ethical issues, because of a way of thinking that contributes to blinkered vision and a narrow concept of reality. The suggested solution is to expose people to alternative ways of looking at the world, and to encourage them to become involved with rather than detached from everyday problems. To put this into practice in business, perhaps business students should take courses in languages or anthropology, or other chapters in the humanities or social sciences, in addition to their business courses. Quite clearly, the suggested adoption of a humanistic method of enquiry would be a radical departure from conventional approaches to ethical problems. However, such a paradigm shift may be a necessary prerequisite for the development of an "ethics of caring" that is perhaps necessary to resolve ethical dilemmas "of the second kind". As we have seen in this chapter, the field of online marketing covers a much wider area than the mere establishment of a website: it encompasses all aspects of utilizing advances in electronic communications as the basis for linking the company more closely with its customers. The online marketer is offered a variety of choices, from just providing a web page containing product information through to offering the customer the facility to remain in cyberspace throughout the implementation of all aspects of the purchase transaction process. Although the Internet is changing a number of facets of the market process, it is now becoming clear that the fundamental theories on which the marketing concept is based apply whether a firm is seeking to serve the customer either on- or offline. It is critical that a firm makes a careful assessment of strategic, financial and operational competences when determining whether it has the necessary capabilities to implement an effective online marketing plan. Market success will also be strongly influenced by the selection of an appropriate online competitive advantage. Having determined the nature of the competitive advantage, the firm needs to select an e-commerce marketing mix. Finally, marketers need to be aware of the ethical issues involved in Internet and online marketing, such as intrusions on privacy and social exclusion.

11.11 Key words

Utilitarianist: one who is on theory in which actions are justified if they benefit the majority Inducement: an incentive

Pegged: ready made

Condemnation: expressing of a strong disapproval Dilemmas: a situation in which a difficult choice has to be made

Conventional: an accepted custom

11.12 SELF-TEST QUESTIONS

Marketing on the Internet is a growing business. Why is this so? What are the barriers to its more rapid expansion?

Discuss the ways in which the operations of organizations are likely to change as a result of the development of e-commerce.

What are the benefits of implementing ethics/code of conduct in marketing world? How to deal in unethical business?

Discuss the key competencies necessary to implement a marketing-mix successfully. What are the methods can be used for ethical businesses?

Discuss the ethical issues, which can be used as the basis for competitive advantage in marketing field.

11.13 SUGGESTED READINGS

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Subject: Management	**PGDAd &PR (DE)**
Code: V	**Author: Dr. Karam Pal**
Lesson: 12	**Vetter: Dr. B S Bodla**

INTRODUCTION TO management

Lesson Structure:

12.1 Objective: The objectives of this lesson are to enable the students to define management; to describe the nature and functions of management; and to understand various levels of management; and

12.2 INTRODUCTION TO MANAGEMENT

Management is a vital aspect of the economic life of man, which is an organised group activity. It is considered as the indispensable institution in the modern social organization marked by scientific thought and technological innovations. One or the other form of management is essential wherever human efforts are to be undertaken collectively to satisfy wants through some productive activity, occupation or profession.

Management regulates man's productive activities through co-coordinated use of material resources. Without the leadership provided by management, the resources of production remain resources and never become production.

Management is the integrating force in all organised activity. Whenever two or more people work together to attain a common objective, they have to coordinate their activities. They also have to organize and utilize their resources in such a way as to optimize the results. Not only in business enterprises where costs and revenues can be ascertained accurately and objectively but also in service organizations such as government, hospitals, schools, clubs, etc., scarce resources including men, machines, materials and money have to be integrated in a productive relationship, and utilized efficiently towards the achievement of their gals. Thus, management is not unique to business organizations but common to all kinds of social organizations.

Management has achieved an enviable importance in recent times. We are all intimately associated with many kinds of organizations, the omnipresent being the government, the school and the hospital. In fact, more and more of major social tasks are being organised on an institution basis. Medical care, education, recreation, irrigation, lighting, sanitation, etc., which typically used to be the concern of the individual or the family, are now the domain of large organizations. Although, organizations other than business do not speak of management, they all need management. It is the specific organ of all kinds of organizations since they all need to utilize their limited resources most efficiently and effectively for the achievement of their goals. It is the most vital forces in the successful performance of all kinds of organised social activities.

Importance of management for the development of underdeveloped economies has been recognized during the last one and a half decade. There is a significant gap between the management effectiveness in developed and underdeveloped countries. It is rightly held that development is the function not only of capital, physical and material resources, but also of their optimum utilization. Effective management can produce not only more outputs of goods and services with given resources, but also expand them through better us of science and technology. A higher rate of economic growth can be attained in our country through more efficient and effective management of our business and other social organizations, even with existing physical and financial resources. That is why it is now being increasingly recognized that underdeveloped countries are intact under managed countries.

The emergence of management in modern times may be regarded as a significant development as the advancement of modern technology. It has made possible organization of economic activity in giant organizations like the Steel Authority of India and the Life Insurance Corporation of India. It is largely through the achievements of modern management that western countries have reached the stage of mass consumption societies, and it is largely through more effective management of our economic and social institutions that we can improve the quality of life of our people. The achievements of business management hold the hope for the huge masses in the third world countries that they can banish poverty and achieve for themselves decent standards of living.

12.3 DEFINITION OF MANAGEMENT

Although management as a discipline is more than 80 years old, there is not common agreement among its experts and practitioners about its precise definition. In fact, this is so in case of all social sciences like psychology, sociology, anthropology, economics, political sciences etc. Because of unprecedented and breath-taking technological developments, business organizations have grown in size and complexity, causing consequential changes in the practice of management. Changes in management styles and practices have led to changes in management thought. Moreover, management being interdisciplinary in nature has undergone changes because of the developments in behavioral sciences, quantitative techniques, engineering and technology, etc. Since it deals with the production and distribution of goods and services, dynamism of its environments such as social, cultural and religious values, consumers' tastes and preferences, education and information explosion, democratization of governments, etc., have also led to changes in its theory and practice. Yet, a definition of management is necessary for its teaching and research, and for improvement in its practice.

Many management experts have tried to define management. But, no definition of management has been universally accepted. Mary Parker Follett defines management as the "art of getting things done through people". This definition calls attention to the fundamental difference between a manager and other personnel of an organization. A manager is one who contributes to the organization's goals indirectly by directing the efforts of others – not by performing the task himself. On the other hand, a person who is not a manager makes his contribution to the organization's goals directly by performing the task himself.

Sometimes, however, a person in an organization may play both these roles simultaneously. For example, a sales manager is performing a managerial role when he is directing his sales force to meet the organization's goals, but when he himself is contacting a large customer and negotiating a deal, he is performing a non-managerial role. In the former role, he is directing the efforts of others and is contributing to the organization's goals indirectly; in the latter role, he is directly utilizing his skills as a salesperson to meet the organization's objectives.

George R. Terry gives an elaborated definition of management. He defines management as a process "consisting of planning, organizing, actuating and controlling, performed to determine and accomplish the objectives by the use of people and other resources". According to this definition, management is a process – a systematic way of doing things. The four management activities included in this process are: planning, organizing, actuating and controlling. Planning means that managers think of their actions in advance. Organizing means that managers coordinate the human and material resources of the organization. Actuating means that managers motivate and direct subordinates. Controlling means that managers attempt to ensure that there is no deviation from the norm or plan. If some part of their organization is on the wrong track, managers take action to remedy the situation.

Newman, Summer and Warren, "The job of Management is to make co-operative endeavor to function properly. A manager is one who gets things done by working with people and other resources in order to reach an objective."

G.E. Milward, "Management is the process and the agency through which the execution of policy is planned and supervised."

Ordway Tead, "Management is the process and agency which directs and guides the operations of an organisation in the realizing of established aims."

Management is the group of activities, which draft plans, prepare policies and arrange men, money, machine and materials required to achieve the objectives. The above definitions reveal that management is the activity of man who struggles for better living in the complex and competitive world. Besides, the management gives satisfaction to and rewards those who are engaged in the operation and ensuring an excellent performance. In other words, management is the process consisting of the functions of planning, organizing, staffing, directing and controlling the operations to achieve specified objectives.

To conclude, we can say that various definitions of management do not run contrary to one another. Management is the sum-total of all those activities that (I) determine objectives, plans, policies and programmes; (ii) secure men, material, machinery cheaply (iii) put all these resources into operations through sound organisation (iv) direct and motivate the men at work, (v) supervises and control their performance and (iv) provide maximum prosperity and happiness for both employer and employees and public at large.

12.4 CHARACTERISTICS OF MANAGEMENT

Starting with a formal scrutiny of the above definitions, the following characteristics of management are drawn here under:

Art as well as science

Management is both an art and a science. Management is an art in the sense of possessing of managing skill by a person. In another sense, management is the science because of developing certain principles or laws which are applicable in a place where a group of activities are co-ordinated.

Management is an activity

Management is a process or activity relating to the effective utilization of available resources for production. The term 'resources' includes men, money, materials and machine in the organization.

Management is a continuous process

The process of management mainly consists of planning, organizing, directing and controlling the resources. The resources (men and money) of an organization should be used to the best advantage of the organization and the objectives achieved. The management function of any one alone cannot produce any results in the absence of any other basic functions of management. So, management is a continuous process.

Management achieving pre-determined objectives

The objectives of an organization are clearly laid down. Every managerial activity results in the achievement of objectives fixed well in advance.

Organised activities

Management is a group of organised activities. A group is formed not only in Public Limited Company but also in ordinary club. All the organizations have their own objectives. These objectives will be achieved by a group of persons. These persons' activities should be organised in a systematic way to achieve the objectives. The objectives cannot be achieved without any organised activities.

Management is a factor of production

The factors of production include land, labor, capital and entrepreneur. Here, land refers to where production is undertaken. Labor refers to the paid employees of the organization who are working at different levels as skilled, unskilled, semi-skilled, manager, supervisor and the like. Capital refers to the working capital as in the form of cash, raw materials and finished goods and fixed capital as in the form of plant facilities and production facilities. These land, labor and capital could not realize the organization's goals on their own. The organization goals are achieved only when these are effectively co-ordinate by the entrepreneur. An individual can do such type of job in the case of small business. In the case of big sized business units, co-ordination job is done by the management. So, management is also treated as one of the factors of production. According to Peter F. Drucker, "Whatever rapid economic and social development took place after World War II, it occurred as a result of systematic and purposeful work of developing managers and management. Development is a matter of human energies rather than of economic wealth and the generation of human energies is the task of management. Management is mover and development is a consequence."

Management as a system of authority

A system may be defined as a set of component parts working as a whole. Authority may be defined as a right to command others for getting a particular course of organizational work done.

Individuals are the foundation stones of the management. An individual has some goals as a member of the organization. There may be a conflict between his own goals and the management's expectations from that individual. Such a conflict is resolved by the management by integrating individual goals with organizational expectations.

Authority is vested in many persons to take decisions and influence the behaviour of the subordinates. The very purpose of using the authority is to check and control the behaviour of the subordinates. The sources of authority rest with superiors as given in the organisation chart and social norms. The utilization of authority is based on the personality factors of the user and the behaviour of a person over whom it is used.

Management is a discipline

The boundaries of management are not exact as those of any other physical science. It may be increased by the continuous discovery of many more aspects of business enterprise. So, the management as a discipline is also increased in the same manner.

Management is a purposeful activity

Management is concerned with achievement of objectives of an organization. These objectives are achieved through the functions of planning, organizing, staffing, directing, controlling and decision-making. The organizational objectives are clearly defined and explained to every employee.

Management is a distinct entity

Management is distinct from its functional activities. The functions have the nature of "doing" but the management has the nature of "how to get things done." A manager requires some amount of skill and knowledge to get work done.

Management aims at maximizing profit

The available resources are properly utilized to get desired results. The results should be maximizing profit or increasing profit by the economic function of a manager.

Decision-making

There are number of decisions taken by the management everyday. Decision-making arises only when there is availability of alternative courses of action. If there is only one course of action, need for decision-making does not arise. The quality of decision taken by the manager determines the organizations' performance. The success or failure of an organization depends upon the degree of right decision taken by the manager.

Management is a profession

Management is a profession because it possesses the qualities of a profession. A fund of knowledge is imparted and transferred in profession and the same is followed by management. The established principles of management are applied in practice.

Universal application

The principles and practices of management are applicable not to any particular industry alone but applicable to every type of industry. The practice of management is different from one organization to another according to their nature.

Management is getting things done

A manager does not actually perform the work but he gets things done by others. According to Koontz and O'Donnell, "management is the art of getting things done through and with people in formally organised groups."

Management as class or a team

A class may be defined as a group of people having homogenous characteristics to achieve common objectives. Engineers and Doctors are grouped as class in a society. Each and every doctor has the same objectives in life. Just like engineers and doctors, the management people have got similar aspirations to achieve corporate objectives.

Management as career

Nowadays, management is developed as a career focused on certain specialization. Financial Management, Cash Management, Portfolio Management, Marketing Management, Personnel Management, Industrial Management and Business Management are some of the specializations of management. Specialists are appointed in the key posts of top management.

Direction and control

A manager can direct his subordinates in the performance of a work and control them whenever necessary. If the available resources are not utilized properly by him, he fails to achieve the corporate objectives in the absence of direction and control. Generally, the direction and control deals with the activities of human effort.

Dynamic

The management is not static. In the fast developing business world, new techniques are developed and adopted by the management. Management is changed according to the social change. The social change is the result of the changing business world.

Management is needed at all levels

The functions of management are common to all levels of organization. The top executives perform the functions of planning, organizing, directing, controlling and decision-making. The same functions are also performed at the lower level also.

Leadership quality

Leadership quality is developed in the persons who are working at the top level of management. According to R.C. Davis, "Management is the function of executive leadership everywhere."

12.5 MANAGEMENT FUNCTIONS

There is enough disagreement among management writers on the classification of managerial functions. Newman and Summer recognize only four functions, namely, organizing, planning, leading and controlling. Henri Fayol identifies five functions of management, viz. planning, organizing, commanding, coordinating and controlling. Luther Gulick states seven such functions under the catch word "POSDCORB' which stands for planning, organizing, staffing, directing, coordinating, reporting and budgeting. Warren Haynes and Joseph Massie classify management functions into decision-making, organizing, staffing, planning, controlling, communicating and directing. Koontz and O'Donnell divide these functions into planning organizing, staffing, directing and controlling.

For our purpose, we shall designate the following six as the functions of a manager: planning, organizing, staffing, directing, coordinating and controlling.

12.5.1 Planning: Planning is the most fundamental and the most pervasive of all management functions. If people working in groups have to perform effectively, they should know in advance what is to be done, what activities they have to perform in order to do what is to be done, and when it is to be done. Planning is concerned with 'what', 'how, and 'when' of performance. It is deciding in the present about the future objectives and the courses of action for their achievement. It thus involves:

determination of long and short-range objectives;

development of strategies and courses of actions to be followed for the achievement of these objectives; and formulation of policies, procedures, and rules, etc., for the implementation of strategies, and plans.

The organizational objectives are set by top management in the context of its basic purpose and mission, environmental factors, business forecasts, and available and potential resources. These objectives are both long-range as well as short-range. They are divided into divisional, departmental, sectional and individual objectives or goals. This is followed by the development of strategies and courses of action to be followed at various levels of management and in various segments of the organization. Policies, procedures and rules provide the framework of decision making, and the method and order for the making and implementation of these decisions.

Every manager performs all these planning functions, or contributes to their performance. In some organizations, particularly those which are traditionally managed and the small ones, planning are often not done deliberately and systematically but it is still done. The plans may be in the minds of their managers rather than explicitly and precisely spelt out: they may be fuzzy rather than clear but they are always there. Planning is thus the most basic function of management. It is performed in all kinds of organizations by all managers at all levels of hierarchy.

12.5.2 Organizing: Organizing involves identification of activities required for the achievement of enterprise objectives and implementation of plans;

grouping of activities into jobs; assignment of these jobs and activities to departments and individuals; delegation of responsibility and authority for performance, and provision for vertical and horizontal coordination of activities. Every manager has to decide what activities have to be undertaken in his department or section for the achievement of the goals entrusted to him. Having identified the activities, he has to group identical or similar activities in order to make jobs, assign these jobs or groups of activities to his subordinates, delegate authority to them so as to enable them to make decisions and initiate action for undertaking these activities, and provide for coordination between himself and his subordinates, and among his subordinates. Organizing thus involves the following sub-functions:

Identification of activities required for the achievement of objectives and implementation of plans.

Grouping the activities so as to create self-contained jobs.

Assignment of jobs to employees.

Delegation of authority so as to enable them to perform their jobs and to command the resources needed for their performance.

Establishment of a network of coordinating relationships.

Organizing process results in a structure of the organization. It comprises organizational positions, accompanying tasks and responsibilities, and a network of roles and authority-responsibility relationships.

Organizing is thus the basic process of combining and integrating human, physical and financial resources in productive interrelationships for the achievement of enterprise objectives. It aims at combining employees and interrelated tasks in an orderly manner so that organizational work is performed in a coordinated manner, and all efforts and activities pull together in the direction of organizational goals.

12.5.3 Staffing: Staffing is a continuous and vital function of management. After the objectives have been determined, strategies, policies, programmes, procedures and rules formulated for their achievement, activities for the implementation of strategies, policies, programmes, etc. identified and grouped into jobs, the next logical step in the management process is to procure suitable personnel for manning the jobs. Since the efficiency and effectiveness of an organization significantly depends on the quality of its personnel and since it is one of the primary functions of management to achieve qualified and trained people to fill various positions, staffing has been recognized as a distinct function of management. It comprises several sub-functions:

Manpower planning involving determination of the number and the kind of personnel required.

Recruitment for attracting adequate number of potential employees to seek jobs in the enterprise.

Selection of the most suitable persons for the jobs under consideration.

Placement, induction and orientation.

Transfers, promotions, termination and layoff.

Training and development of employees.

As the importance of human factor in organizational effectiveness is being increasingly recognized, staffing is gaining acceptance as a distinct function of management. It need hardly any emphasize that no organization can ever be better than its people, and managers must perform the staffing function with as much concern as any other function.

12.5.4 Directing: Directing is the function of leading the employees to perform efficiently, and contribute their optimum to the achievement of organizational objectives. Jobs assigned to subordinates have to be explained and clarified, they have to be provided guidance in job performance and they are to be motivated to contribute their optimum performance with zeal and enthusiasm. The function of directing thus involves the following sub-functions:

Communication

Motivation

Leadership

12.5.5 Coordination: Coordinating is the function of establishing such relationships among various parts of the organization that they all together pull in the direction of organizational objectives. It is thus the process of tying together all the organizational decisions, operations, activities and efforts so as to achieve unity of action for the accomplishment of organizational objectives.

The significance of the coordinating process has been aptly highlighted by Mary Parker Follet. The manager, in her view, should ensure that he has an organization "with all its parts coordinated, so moving together in their closely knit and adjusting activities, so linking, interlocking and interrelation, that they make a working unit that is not a congeries of separate pieces, but what I have called a functional whole or integrative unity". Coordination, as a management function, involves the following sub-functions:

Clear definition of authority-responsibility relationships

Unity of direction

Unity of command

Effective communication

Effective leadership

12.5.6 Controlling: Controlling is the function of ensuring that the divisional, departmental, sectional and individual performances are consistent with the predetermined objectives and goals. Deviations from objectives and plans have to be identified and investigated, and correction action taken. Deviations from plans and objectives provide feedback to managers, and all other management processes including planning, organizing, staffing, directing and coordinating are continuously reviewed and modified, where necessary.

Controlling implies that objectives, goals and standards of performance exist and are known to employees and their superiors. It also implies a flexible and dynamic organization which will permit changes in objectives, plans, programmes, strategies, policies, organizational design, staffing policies and practices, leadership style, communication system, etc., for it is not uncommon that employees failure to achieve predetermined standards is due to defects or shortcomings in any one or more of the above dimensions of management.

Thus, controlling involves the following process:

Measurement of performance against predetermined goals.

Identification of deviations from these goals.

Corrective action to rectify deviations.

It may be pointed out that although management functions have been discussed in a particular sequence-planning, organizing, staffing, directing, coordinating and controlling – they are not performed in a sequential order. Management is an integral process and it is difficult to put its functions neatly in separate boxes. Management functions tend to coalesce, and it sometimes becomes difficult to separate one from the other. For example, when a production manager is discussing work problems with one of his subordinates, it is difficult to say whether he is guiding, developing or communicating, or doing all these things simultaneously. Moreover, managers often perform more than one function simultaneously.

12.6 LEVELS OF MANAGEMENT

An enterprise may have different levels of management. Levels of management refer to a line of demarcation between various managerial positions in an enterprise. The levels of management depend upon its size, technical facilities, and the range of production. We generally come across two broad levels of management, viz. (I) administrative management (i.e., the upper level of management) and (ii) operating management (i.e., the lower level of management). Administrative management is concerned with "thinking" functions such as laying down policy, planning and setting up of standards. Operative management is concerned with the "doing" function such as implementation of policies, and directing the operations to attain the objectives of the enterprise.

But in actual practice, it is difficult to draw any clear cut demarcation between thinking function and doing function. Because the basic/fundamental managerial functions are performed by all managers irrespective of their levels or, ranks. For instance, wage and salary director of a company may assist in fixing wages and salary structure as a member of the Board of Directors, but as head of wages and salary department, his job is to see that the decisions are implemented.

The real significance of levels is that they explain authority relationships in an organization. Considering the hierarchy of authority and responsibility, one can identify three levels of management namely:

Top management of a company consists of owners/shareholders, Board of Directors, its Chairman, Managing Director, or the Chief Executive, or the General Manager or Executive Committee having key officers.

Middle management of a company consists of heads of functional departments viz. Purchase Manager, Production Manager, Marketing Manager, Financial controller, etc. and Divisional and Sectional Officers working under these Functional Heads.

Lower level or operative management of a company consists of Superintendents, Foremen, Supervisors, etc.

Top management : Top management is the ultimate source of authority and it lays down goals, policies and plans for the enterprise. It devotes more time on planning and coordinating functions. It is accountable to the owners of the business of the overall management. It is also described as the policy making group responsible for the overall direction and success of all company activities. The important functions of top management include:

To establish the objectives or goals of the enterprise.

To make policies and frame plans to attain the objectives laid.

To set up an organizational frame work to conduct the operations as per plans.

To assemble the resources of money, men, materials, machines and methods to put the plans into action.

To exercise effective control of the operations.

To provide overall leadership to the enterprise.

Middle management: The job of middle management is to implement the policies and plans framed by the top management. It serves as an essential link between the top management and the lower level or operative management. They are responsible to the top management for the functioning of their departments. They devote more time on the organization and motivation functions of management. They provide the guidance and the structure for a purposeful enterprise. Without them the top management's plans and ambitious expectations will not be fruitfully realized. The following are the main functions of middle management:

To interpret the policies chalked out by top management.

To prepare the organizational set up in their own departments for fulfilling the objectives implied in various business policies.

To recruit and select suitable operative and supervisory staff.

To assign activities, duties and responsibilities for timely implementation of the plans.

To compile all the instructions and issue them to supervisor under their control.

To motivate personnel to attain higher productivity and to reward them properly.

To cooperate with the other departments for ensuring a smooth functioning of the entire organisation.

To collect reports and information on performance in their departments.

To report to top management

To make suitable recommendations to the top management for the better execution of plans and policies.

Lower or operative management: It is placed at the bottom of the hierarchy of management and actual operations are the responsibility of this level of management. It consists of foreman, supervisors, sales officers, accounts officers and so on. They are in direct touch with the rank and file or workers. Their authority and responsibility is limited. They pass on the instructions of the middle management to workers.

They interpret and divide the plans of the management into short-range operating plans. They are also involved in the process of decisions-making. They have to get the work done through the workers. They allot various jobs to the workers, evaluate their performance and report to the middle level management. They are more concerned with direction and control functions of management. They devote more time in the supervision of the workers.

12.7 THE MANAGER'S JOB

Management performs the functions of planning, organizing, staffing, directing and controlling for the accomplishment of organizational goals. Any person who performs these functions is a manager. The first line manager or supervisor or supervisor is also a manager because he performs these functions. The difference between the functions of top, middle and lowest level management is that of degree. For instance, top management concentrates more on long-range planning and organization, middle level management concentrates more on coordination and control and lowest level management concentrates more on direction function to get the things done from the workers.

Every manager is concerned with ideas, things and people. Management is a creative process for integrating the use of resources to accomplish certain goals. In this process, ideas, things and people are vital inputs which are to be transformed into output consistent with the goals.

Management of ideas implies use of conceptual skills. It has three connotations. *First*, it refers to the need for practical philosophy of management to regard management as a distinct and scientific process.

Second, management of ideas refers to the planning phase of management process. *Lastly*, management of ideas refers to creditability and innovation. Creativity refers to generation of new ideas, and innovation refers to transforming ideas into viable relations and utilities. A manager must be imaginative to plan ahead and to create new Ideas.

Management of things (non-human resources) deal with the design of production system, and acquisition, allocation and conversion of physical resources to achieve certain goals. Management of people is concerned with procurement, development, maintenance and integration of human resources in the organization. Every manager has to direct his subordinates to put the organizational plans into practice.

The greater part of every manager's time is spent in communicating and dealing with people. His efforts are directed towards obtaining information and evaluating progress towards objectives set by him and then taking corrective action. Thus, a manager's job primarily consists of management of people. Though it is his duty to handle all the productive resources, but human factor is more important. A manager cannot convert the raw materials into finished products himself; he has to take the help of others to do this. The greatest problem before any manager is how to mange the personnel to get the best possible results. The manager in the present age has to deal efficiently with the people who are to contribute for the achievement of organizational goals.

Peter Drucker has advocated that the managerial approach to handle workers and work should be pragmatic and dynamic. Every job should be designed as an integrated set of operations. The workers should be given a sufficient measure of freedom to organize and control their work environment. It is the duty of every manager to educate, train and develop people below him so that they may use their potentialities and abilities to perform the work allotted to them. He has also to help them in satisfying their needs and working under him, he must provide them with proper environment. A manager must create a climate which brings in and maintains satisfaction and discipline among the people. This will increase organizational effectiveness.

Recently, it has been questioned whether planning, organizing, and directing and controlling provide an adequate description of the management process. After an intensive observation of what five top executive actually did during the course of a few days at work, Henry Mintzberg concluded that these labels do not adequately capture the reality of what managers do. He suggested instead that the manager should be regarded as playing some ten different roles, in no particular order.

Interpersonal Roles

Figurehead : In this role, every manager has to perform some duties of a ceremonial nature, such as greeting the touring dignitaries, attending the wedding of an employee, taking an important customer to lunch and so on.

Leader: As a leader, every manager must motivate and encourage his employees. He must also try to reconcile their individual needs with the goals of the organization.

Liaison : In this role of liaison, every manager must cultivate contacts outside his vertical chain of command to collect information useful for his organization.

Informational Roles

Monitor: As monitor, the manager has to perpetually scan his environment for information, interrogate his liaison contacts and his subordinates, and receive unsolicited information, much of it as result of the network of personal contacts he has developed.

Disseminator: In the role of a disseminator, the manager passes some of his privileged information directly to his subordinates who would otherwise have no access to it.

Spokesman: In this role, the manager informs and satisfies various groups and people who influence his organization. Thus, he advises shareholders about financial performance, assures consumer groups that the organization is fulfilling its social responsibilities and satisfies government that the origination is abiding by the law.

Decisional Roles

Entrepreneur: In this role, the manager constantly looks out for new ideas and seeks to improve his unit by adapting it to changing conditions in the environment.

Disturbance Handler: In this role, the manager has to work like a fire fighter. He must seek solutions of various unanticipated problems – a strike may loom large a major customer may go bankrupt; a supplier may renege on his contract, and so on.

Resource Allocate: In this role, the manager must divide work and delegate authority among his subordinates. He must decide who will get what.

Negotiator: The manager has to spend considerable time in negotiations. Thus, the chairman of a company may negotiate with the union leaders a new strike issue; the foreman may negotiate with the workers a grievance problem, and so on.

In addition, managers in any organization work with each other to establish the organization's long-range goals and to plan how to achieve them. They also work together to provide one another with the accurate information needed to perform tasks. Thus, managers act as channels of communication with the organization.

Managers are responsible and accountable: Managers are responsible for seeing that specific tasks are done successfully. They are usually evaluated on how well they arrange for these tasks to the accomplished. Managers are responsible for the actions of their subordinates. The success or failure of subordinates is a direct reflection of managers' success or failure. All members of an organization, including those who are not managers, are responsible for their particular tasks. The difference is that managers are held responsible, or accountable, not only for their own work, but also for the work of subordinates.

Managers balance competing goals and set priorities: At any given time, the manager faces a number of organizational goals, problems and needs all of which compete for the manager's time and resources (both human and material). Because such resources are always limited, the manager must strike a balance between the various goals and needs. Many managers, for example, arrange each day's tasks in order of priority the most important things are done right away, while the less important tasks are looked at later. In this way, managerial time is used effectively.

A manager must also decide who is to perform a particular task and must assign work to an appropriate person. Although ideally each person should be given the task he would most like to do, this is not always possible. Sometimes individual ability is the decisive factor, and a task is assigned to the person most able to accomplish it. But sometimes a less capable worker is assigned a task as a learning experience. And, at times, limited human or other resources dictate decisions for making work assignments. Managers are often caught between conflicting human and organizational needs and so they must identify priorities.

Managers think analytically and conceptually: To be an analytical thinker, a manager must be able to break a problem down into its components, analyze those components and then come up with a feasible solution. But even more important, a manager must be a conceptual thinker, able to view the entire task in the abstract and relate it to other tasks. Thinking about a particular task in relation to its larger implications is no simple matter. But it is essential if the manager is to work towards the goals of the organization as a whole as well as towards the goals of an individual unit.

Managers are mediators: Organizations are made up of people, and people disagree or quarrel quite often. Disputes within a unit or organization can lower morale and productivity, and they may become so unpleasant or disruptive that competent employees decide to leave the organization. Such occurrences hinder work towards the goals of the unit or organization; therefore, managers must at times take on the role of mediator and iron out disputes before they get out of hand. Setting conflicts requires skill and tact. Managers who are careless in their handling conflicts may later on find that they have only made matters worse.

Managers make difficult decisions: No organization runs smoothly all the time. There is almost no limit to the number and types of problems that may occur: financial difficulties, problems with employees, or differences of opinion concerning an organization policy, to name just a few. Managers are expected to come up with solutions to difficult problems and to follow through on their decisions even when doing so may be unpopular.

This description of these managerial roles and responsibilities shows that managers must 'change hats' frequently and must be alert to the particular role needed at a given time. The ability to recognize the appropriate role to be played and to change roles readily is a mark of an effective manager.

12.8 SUMMARY

Management is getting the things done through the people with all efficiency and effectiveness. Now days, the organizations are surrounded by many complexities and therefore, managing an organization successfully has become a very difficult task. In simple words, management is the force that unifies various resources and is the process of bringing them together and coordinating them to help accomplish organization goal. There are three levels of management - top, middle and lower. The managers are required to make an extensive use of the most widely accepted principles of management because without predetermined principles and policies, the organizations cannot be managed efficiently and effectively in this era of global competition.

12.9 Key words

Anthropology: the study of the origin

Delegation: group of representatives

Sequential: forming or following a logical sequence

12.10 SELF ASSESSMENT EXERCISE

"There is no important area of human activity than management since its task is that of getting things done through people". Discuss.

What do you understand by the term "Levels of Management". Explain with reference to an organization with which you are familiar.

Briefly discuss the nature, scope and functions of management.

What are the functions of a manager? Is mere knowledge of management enough to become successful manager?

Discuss and illustrate the meaning, definition and characteristics of management in modern organizations.

12.11 SUGGESTED READINGS

Kootnz & O'Donnell, Principles of Management.

Peter F. Drucker, Practice of Management

J.S. Chandan, Management Concepts and Strategies.

Arun Kumar & Rachana Sharma, Principles of Business Management.

Prasad, L.M., Principles and Practice of Management

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Lesson: 13	**Vetter: Dr. B S Bodla**

DECISION MAKING AND ORGANIZATION

Structure:

13.1 Objective: The learning objectives of this lesson are to know the meaning and importance of Decision Making; to understand the characteristics and process of Decision Making; understand the various types of Decisions; and to understand the meaning, characteristics and nature of organization.

13.2 DEFINITION OF DECISION MAKING

One of the most important functions of a manager is to take decisions. Whatever a manager does, he does through decision-making. Each managerial decision is concerned with the process of decision-making. It is because of this pervasiveness of decision-making that Professor Herbert Simon has said the process of managing as a process of decision-making. According to him, a post or position cannot be said to be managerial level until and unless the right of decision-making is attached to it. As a matter of act, it is the core of executive activities in a business organization.

Decision-making is a mental process. It is a process of selecting one best alternative for doing a work. Thus, it is a particular course of action chosen by a decision maker as the most effective alternative for achieving his goals. According to D.E. McFarland, "A decision is an act of choice-wherein an executive forms a conclusion about what must be done in a given situation. A decision represents a course of behaviour chosen from a number of possible alternatives".

In the words of Haynes and Massie, "A decision is a course of action which is consciously chosen for achieving a desired result".

Hence, decision-making is a typical form of planning. It involves choosing the best alternative among various alternatives, in order to realize certain objectives. A decision represents a judgment, a final word, and resolution of conflicts or a commitment to act in certain manner in the given set of circumstances. It is really a mental exercise, which decides what to do.

13.3 CHARACTERISTICS OF DECISION MAKING

The essential characteristics of decision-making are given below:

It is a process of choosing a course of action from among the alternative courses of action.

- It is a human process involving largely the application of intellectual abilities.
- It is the end process preceded by deliberation and reasoning.
- It is always related to the environment. A manager may take one decision in a particular set of circumstances and another in a different set of circumstances.
- It involves a time dimension and a time lag.
- It always has a purpose. Keeping this in view, there may just be a decision not to decide.

It involves all actions like defining the problem and probing and analyzing the various alternatives which take place before a final choice is made.

13.4 IMPORTANCE OF DECISION MAKING

Decision making is an essential part of every function of management. According to Peter F. Drucker, 'Whatever a manager does, he does through decision making'. Decision making lies deeply embedded in the process of management, spreads over all the managerial functions and covers all the areas of the organization. Management and decision making are bound up and go side by side in every activity performed by manager. Whether knowingly or unknowingly, every manager makes decisions constantly.

Right from the day when the size of the organization used to be very small to the present day huge or mega size of the organization, the importance of decision making has been there. The significant difference is that in today's complex organization structure, the decision making is getting more and more complex. Whatever a manager does, he does through making decisions. Some of the decisions are of routine and repetitive in nature and it might be that the manager does not realize that he is taking decisions whereas, other decisions which are of strategic nature may require a lot of systematic and scientific analysis. The fact remains that management is always a decision making process.

The most outstanding quality of successful manager is his/her ability to make sound and effective decisions. A manager has to make up his/her mind quickly on certain matters. It is not correct to say that he has to make spur of the moment decisions all the time. For taking many decisions, he gets enough time for careful fact finding, analysis of alternatives and choice of the best alternative. Decision making is a human process. When one decides, he chooses a course alternative which he thinks is the best.

Decision making is a proper blend of thinking, deciding and action. An important executive decision is only one event in the process which requires a succession of activities and routine decisions all along the way. Decisions also have a time dimension and a time lag. A manager takes time to collect facts and to weigh various alternatives. Moreover, after decides, it takes still more time to carry out a decision and, often, it takes longer before he can judge whether the decision was good or bad. It is also very difficult to isolate the effects of any single decision.

13.5 STEPS IN DECISION MAKING PROCESS

The following process should be followed in arriving at a correct decision:

Setting objectives: Rational decision-making involves concrete objectives. So the first step in decision-making is to know one's objectives. An objective is an expected outcome of future actions. So before deciding upon the future course of efforts, it is necessary to know beforehand what we are trying to achieve. Exact knowledge of goals and objectives bring purpose in planning and harmony in efforts. Moreover, objectives are the criteria by which final outcome is to be measured.

Defining the Problem: It is true to a large extent that a problem well defined is half solved. A lot of bad decisions are made because the person making the decision does not have a good grasp of the problem. It is essential for the decision maker to find and define the problem before he takes any decision.

Sufficient time and energy should be spent on defining the problem as it is not always easy to define the problem and to see the fundamental thing that is causing the trouble and that needs correction. Practically, no problem ever presents itself in a manner that an immediate decision may be taken. It is, therefore, essential to define the problem before any action is taken, otherwise the manager will answer the wrong question rather than the core problem. Clear definition of the problem is very important as the right answer can be found only to a right question.

Analyzing the problem: After defining the problem, the next step in decision-making is analyzing it. The problem should be thoroughly analyzed to find out adequate background information and data relating to the situation. The problem should be divided into many sub-problems and each element of the problem must be investigated thoroughly and systematically. There can be a number of factors involved with any problem, some of which are pertinent and others are remote. These pertinent factors should be discussed in depth. It will save time as well as money and efforts.

In order to classify any problem, we require lot of information. So long as the required information is not available, any classification would be misleading. This will also have an adverse impact on the quality of the decision. Trying to analyze without facts is like guessing directions at a crossing without reading the highway signboards. Thus, collection of right type of information is very important in decision making. It would not be an exaggeration to say that a decision is as good as the information on which it is based. Collection of facts and figures also requires certain decisions on the part of the manager. He must decide what type of information he requires and how he can obtain this.

Developing Alternatives: After defining and analyzing the problem, the next step in the decision making process is the development of alternative courses of action. Without resorting to the process of developing alternatives, a manager is likely to be guided by his limited imagination. It is rare for alternatives to be lacking for any course of action. But sometimes a manager assumes that there is only one way of doing a thing. In such a case, what the manager has probably not done is to force himself consider other alternatives. Unless he does so, he cannot reach the decision which is the best possible. From this can be derived a key planning principle which may be termed as the principle of alternatives. Alternatives exist for every decision problem. Effective planning involves a search for the alternatives towards the desired goal.

Once the manager starts developing alternatives, various assumptions come to his mind, which he can bring to the conscious level. Nevertheless, development of alternatives cannot provide a person with the imagination, which he lacks. But most of us have definitely more imagination than we generally use. It should also be noted that development of alternatives is no guarantee of finding the best possible decision, but it certainly helps in weighing one alternative against others and, thus, minimizing uncertainties.

While developing alternatives, the principle of limiting factor has to be taken care of. A limiting factor is one which stands in the way of accomplishing the desired goal. It is a key factor in decision making. If such factors are properly identified, manager can confine his search for alternative to those which will overcome the limiting factors. In choosing from among alternatives, the more an individual can recognize those factors which are limiting or critical to the attainment of the desired goal the more clearly and accurately he or she can select the most favorable alternatives.

Selecting the Best Alternative: After developing alternatives one will have to evaluate all the possible alternatives in order to select best alternative. There are various ways to evaluate alternatives. The most common method is through intuition, i.e., choosing a solution that seems to be good at that time. There is an inherent danger in this process because a manager's intuition may be wrong on several occasions.

The second way to choose the best alternative is to weigh the consequences of one against those of the others. Peter F. Drucker has laid down four criteria in order to weigh the consequences of various alternatives. They are:

Risk: A manager should weigh the risks of each course of action against the expected gains. As a matter of fact, risks are involved in all the solutions. What matters is the intensity of different types of risks in various solutions.

Economy of Effort: The best manager is one who can mobilize the resources for the achievement of results with the minimum of efforts. The decision to be chosen should ensure the maximum possible economy of efforts, money and time.

Situation or Timing: The choice of a course of an action will depend upon the situation prevailing at a particular point of time. If the situation has great urgency, the preferable course of action is one that alarms the organization that something important is happening. If a long and consistent effort is needed, a slow start gathers momentum approach may be preferable.

Limitation of Resources: In choosing among the alternatives, primary attention must be given to those factors that are limiting or strategic to the decision involved. The search for limiting factors in decision-making should be a never ending process. Discovery of the limiting factor lies at the basis of selection from the alternatives and hence of planning and decision making. There are three bases which should be followed for selection of alternatives and these are experience, experimentation and research and analysis which are discussed below:

In making a choice, a manager is influenced to a great extent by his past experience. He can give more reliance to past experience in case of routine decisions; but in case of strategic decisions, he should not rely fully on his past experience to reach at a rational decision.

Under experimentation, the manager tests the solution under actual or simulated conditions. This approach has proved to be of considerable help in many cases in test marketing of a new product. But it is not always possible to put this technique into practice, because it is very expensive.

Research and Analysis is considered to be the most effective technique of selecting among alternatives, where a major decision is involved. It involves a search for relationships among the more critical variables, constraints and premises that bear upon the goal sought.

Implementing the Decision: The choice of an alternative will not serve any purpose if it is not put into practice. The manager is not only concerned with taking a decision, but also with its implementation. He should try to ensure that systematic steps are taken to implement the decision. The main problem which the manager may face at the implementation stage is the resistance by the subordinates who are affected by the decision. If the manager is unable to overcome this resistance, the energy and efforts consumed in decision making will go waste. In order to make the decision acceptable, it is necessary for the manager to make the people understand what the decision involves, what is expected to them and what they should expect from the management.

In order to make the subordinates committed to the decision it is essential that they should be allowed to participate in the decision making process. The managers who discuss problems with their subordinates and give them opportunities to ask questions and make suggestions find more support for their decisions than the managers who don't let the subordinates participate. The area where the subordinates should participate is the development of alternatives. They should be encouraged to suggest alternatives. This may bring to surface certain alternatives which may not be thought of by the manager. Moreover, they will feel attached to the decision. At the same time, there is also a danger that a group decision may be poorer than the one man decision. Group participation does not necessarily improve the quality of the decision, but sometimes impairs it. Someone has described group decision like a train in which every passenger has a brake. It has also been pointed out that all employees are unable to participate in decision making. Nevertheless, it is desirable if a manager consults his subordinates while making decision.

Follow-up the Decisions: Kenneth H. Killer has emphatically written in his book that it is always better to check the results after putting the decision into practice. He has given reasons for following up of decisions and they are as follows:

If the decision is a good one, one will know what to do if faced with the same problem again.

If the decision is a bad one, one will know what not to do the next time.

If the decision is bad and one follows-up soon enough, corrective action may still be possible.

In order to achieve proper follow-up, the management should devise an efficient system of feedback information. This information will be very useful in taking the corrective measures and in taking right decisions in the future.

13.6 TYPES OF DECISIONS

Various authorities in various ways have classified decisions. The main types of decisions are as follows:

Programmed and non-programmed decisions: Professor Herbert Simon has classified all managerial decisions as programmed and non-programmed decisions. He has utilized computer terminology in classifying decisions. The programmed decisions are the routine and repetitive decisions for which the organization has developed specific processes. Thus, they involve no extraordinary judgment, analysis and authority. They are basically devised so that the problem may not be treated as a unique case each time it arises.

On the other hand, the non-programmed decisions are the one-shot, ill structured, novel policy decisions that are handled by general problem-solving processes. Thus, they are of extraordinary nature and require a thorough study of the problem, its in-depth analysis and the solving the problem. They are basically non-repetitive in nature and may be called as strategic decisions.

Basic and routine decisions: Professor George Katona has made a distinction between basic decision and routine decisions. Routine decisions are of repetitive nature and they involve the application of familiar principles to a situation. Basic or genuine decisions are those which require a good deal of deliberation on new principles through conscious thought process, plant location, and distribution is some examples of basic decisions.

Policy and operative decisions: Policy decisions are important decisions and they involve a change in the procedure, planning or strategy of the organization. Thus, they are of a fundamental character affecting the whole business. Such decisions are taken by the top management. On the contrary, operating decisions are those which are taken by lower levels of management for the purpose of executing policy decisions. They are generally concerned with the routine type of work, hence unimportant for the top management. They mostly relate to the decision-makers own work and behaviour while policy decision influences the work and behaviour of subordinates.

Individual and group decisions: Individual decisions are those decisions which are made by one individual – whether owner of the business or by a top executive. On the other hand, group-decisions are the decisions taken by a group of managers – board, team, committee or a sub-committee. In India, individual decision-making is still very common because a large number of businesses are small and owned by a single individual. But in joint stock Company's group decisions are common. There are both merits and demerits of each type of decision.

13.7 MEANING AND CHARACTERISTICS OF ORGANISATION

The term 'organization' connotes different meanings to different people. Many writers have attempted to state the nature, characteristics and principles of organization in their own may. For instance, to the sociologists organization means a study of the interactions of the people, classes, or the hierarchy of an enterprise; to the psychologists organization means an attempt to explain, predict and influence behaviour of individuals in an enterprise; to a top level executive it may mean the weaving together the functional components in the best possible combination so that an enterprise can achieve its goals. The word 'organization' is also used widely to connote a group of people and the structure of relationships.

Some important definitions of organization are given below:

"It is grouping of activities necessary to attain enterprise objectives and the assignment of each grouping to a manager with authority necessary to supervise it". Koontz and O'Donnel

"The process of identifying and grouping the work to be performed, defining and delegating responsibility and authority and establishing relationship for the purpose of enabling people to work more effectively together in accomplishing objects". Louis A. Allen

"The structure and process by which a cooperative group of human beings allocates its tasks among its members, identifies relationship, and integrates its activities towards common objectives".

Joseph L. Massive

From the above definitions, it is clear that organizing is the process of determining the total activities to achieve a given objective, grouping and assigning of activities to individuals, delegating them authority necessary to perform the activities assigned and establishing authority relationship among different positions in the organization.

An analysis of the above definitions reveals the following characteristics of an organization:

It is a group of individuals which may be large or small.

The group in the organization works under the executive leadership.

It is a machine or mechanism of management.

It has some directing authority or power which controls the concerted efforts of the group.

The division of labor, power and responsibilities are deliberately planned.

It implies a structure of duties and responsibilities.

It is established for accomplishment of common objectives

It is a functional concept.

NATURE OF ORGANISATION: The term 'organization' is used in two different senses. In the first sense it issued to denote the process of organizing. In the second sense it is used to denote the results of that process, namely, the organizational structure. So, the nature of organization can be viewed in two ways:

Organization as a process; and

Organization as a structure or framework of relationship.

Organization as a process: As a process, organization is an executive function. It becomes a managerial function involving the following activities :

Determining activities necessary for the accomplishment of the business objective.

Grouping of interrelated activities.

Assigning duties to persons with requisite competence,

Delegating authority, and

Coordinating the efforts of different persons and groups.

When we consider organisation as a process, it becomes the function of every manager. Organising is a continuous process and goes on throughout the life time of an enterprise. Whenever there is a change in the circumstances or material change in situation, new type of activities spring up. So, there is a need for constant review and reassignment of duties. Right persons have to be recruited and necessary training has to be imparted to enable them to be competent to handle the jobs.

The process of organization thus, involves dividing the work into rational way and interpreting the activities with work situation and personnel. It also represents humanistic view of the enterprise since it is the people which are uppermost in the process of integration of activities. Continuous review and adjustment makes this dynamic as well.

Organization as a structure or framework of relationships: As structure, organization is a network of internal authority, responsibility relationships. It is the framework of relationship of persons, operating at various levels, to accomplish common objectives. An organization structure is a systematic combination of people, functions and physical facilities. It constitutes a formal structure with definite authority and clear responsibility. It has to be first designed for determining the channel of communication and flow of authority and responsibility. For this, analysis of different types has to be done. Peter F. Drucker suggests following three types of analysis:

Activities analysis

Decision analysis, and

Relations analysis,

A hierarchy has to be built-up i.e., a hierarchy of positions with clearly defined authority and responsibility. The accountability of each functionary has to be specified. Therefore, it has to be put into practice. In a way, organization can be called a system as well.

The main emphasis here is on relationships or structure rather than on persons. The structure once built is not liable to change so soon. This concept of organization is, thus, a static one. It is also called classical concept. Organization charts are prepared depicting the relationship of different persons.

In an organizational structure, both formal and informal organizations take shape. The former is a per-planned one and defined by the executive action. The latter is a spontaneous formation, being laid down by the common sentiments, interactions and other interrelated attributes of the people in the organization. Both formal and informal organizations, thus, have structure.

13.8 STEPS IN THE PROCESS OF ORGANIZING

The managerial function of organizing may be called as the 'process of organizing'. When the objectives have been set and policies framed, the necessary infrastructure of organization has to be built up. The concentration goes to activities and functions. These form 'the building blocks' of the organizational structure. There are no such rules as to which will lead to the best organizational structure. But the following steps can be of great help in the designing a suitable structure, which will laid in achieving enterprise objectives:

Clear definition of objectives: The first step in developing an organizational structure is to lay down its objectives in very clear terms. This will help in determining the type, stability and basic characteristics of the organization. In fact, organization activities are detailed in terms of objective to be achieved.

Determining activities: In order to achieve the objectives of the enterprise, certain activities are necessary. The activities will depend upon the nature and size of the enterprise. For example, a manufacturing concern will have production, marketing and other activities. There is no production activity in retail establishment. Each major activity is divided into smaller parts. For instance, production activity may be further divided into purchasing of materials, plant layout, quality control, repairs and maintenance, production research etc.

Assigning duties: The individual groups of activities are then allotted to different individuals according to their ability and aptitude. The responsibility of every individual should be defined clearly to avoid duplication and overlapping of efforts. Each person is given a specific job suited to him and he is made responsible for its execution. Right man is put in the right job.

Delegating authority: Every individual is given the authority necessary to perform the assigned activity effectively. By authority we mean power to take decisions, issue instructions, guiding the subordinates, supervise and control them. Authority delegated to a person should commensurate with his responsibility. An individual cannot perform his job without the necessary authority or power. Authority flows from top to bottom and responsibility from bottom to top.

Coordinating activities: The activities and efforts of different individuals are then synchronized. Such coordination is necessary to ensure effective performance of specialized functions. Interrelationship between different job and individuals are clearly defined so that everybody knows from whom he has to take orders and to whom he is answerable.

Providing physical facilities and right environment: The success of an organization depends upon the provision of proper physical facilities and right environment. Whereas it is important to have right persons on right jobs, it is equally important to have right working environment. This is necessary for the smooth running and the prosperity of the enterprise.

Establishment of structural relationship for overall control: It is very essential to establish well defined clear-cut structural relationships among individuals and groups. This will ensure overall control over the working of all departments and their coordinated direction towards the achievements of predetermined goals of business.

It is thus clear from the foregoing analysis that organization provides a structural framework of duties and responsibilities. It not only establishes authority relationship but also provides a system of communication. The various processes of organization explained above are technically performed through (a) departmentation (b) delegation of authority and fixation of responsibilities and (c) decentralization of authority subject to central control through centralization of decision-making.

13.9 FORMS OF ORGANISATION STRUCTURE

Organization requires the creation of structural relationship among different departments and the individuals working there for the accomplishment of desired goals. The establishment of formal relationships among the individuals working in the organization is very important to make clear the lines of authority in the organization and to coordinate the efforts of different individuals in an efficient manner. In order to organize the efforts of individuals, any of the following types of organization structures may be set up : (I) Line organization, (ii) Line and staff organization, (iii) Functional organization, (iv) Committee organization, (v) project Organization, and (vi) Matrix organization. The nature merits and demerits of line organization, and line and staff organization are discussed as under:

13.9.1 Line Organization

The line organization represents the structure in a direct vertical relationship through which authority flows. It is the simplest from of organization structure and is also known as scalar or military organization. Under this, the line of authority flows vertically downward from top to bottom throughout the organization. The quantum of authority is highest at the top and reduces at each successive level down the hierarchy. Every person in the organization is in the direct chain of command as shown in Fig. 10.1:

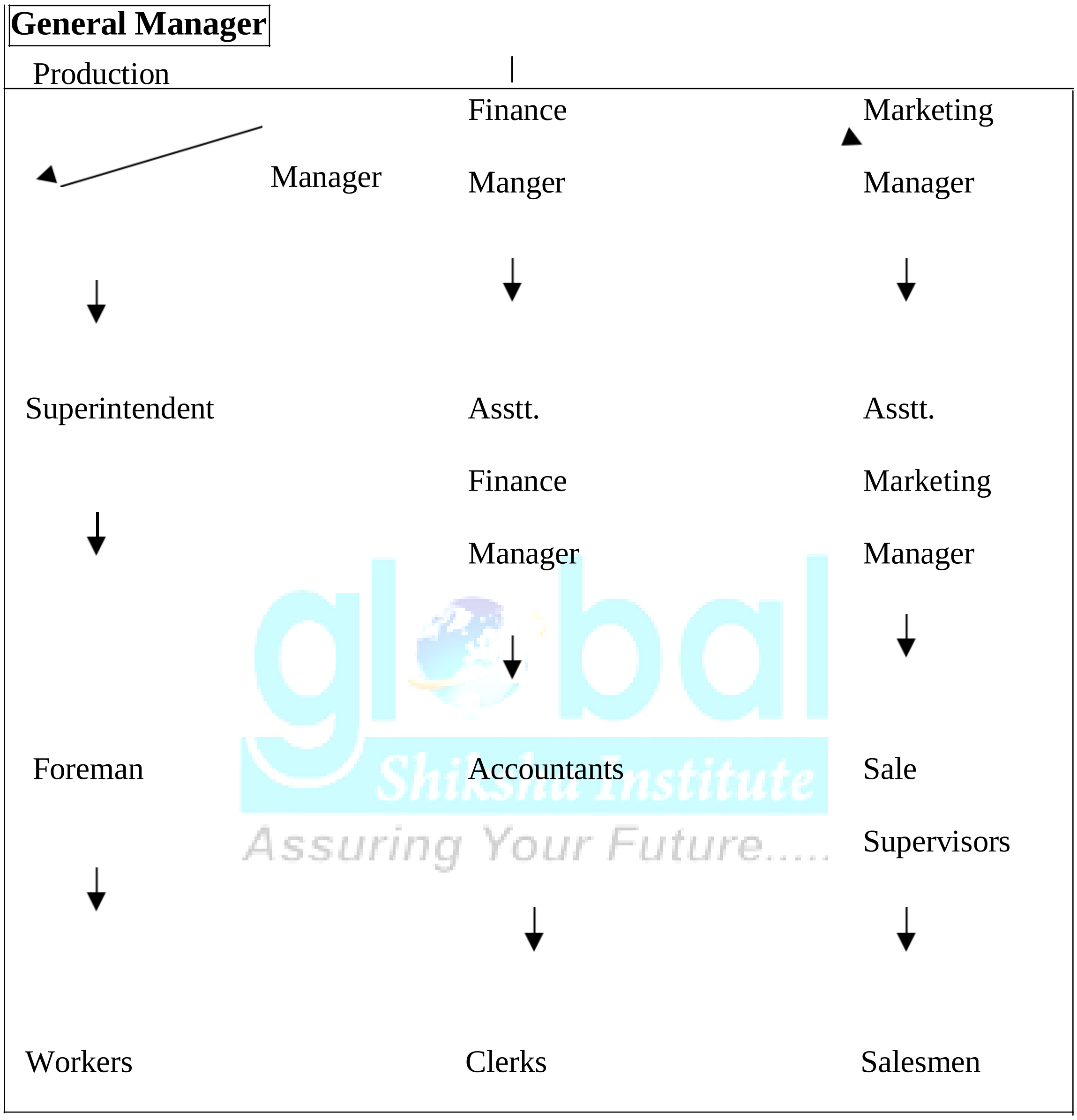

Fig. 10.1: Line Organization

In line organization, the line of authority consists of an uninterrupted series of authority steps and forms a hierarchical arrangement. The line authority not only becomes the avenue of command to operating personnel but also provides the channel of communication, coordination and accountability in enterprise.

Advantages of Line Organization

it is very easy to establish line organization and it can be easily understood by the employees.

If facilitates unity of command and thus conforms to the scalar principle of organization.

There is clear-cut identification of authority and responsibility relationship. Employees are fully aware of the boundaries of their jobs.

It ensures excellent discipline in the enterprise because every individual knows to whom he is responsible.

It facilitates prompt decision-making because there is definite authority at every level. An executive cannot shift his decision making to others, nor can the blame be shifted.

Disadvantages of Line Organization

With growth, the line organisation makes the superiors too overloaded with work. If the executive try to keep up with every activity, they are bogged down in myriad details and are unable to pay proper attention to each one. It will hamper their effectiveness.

There is concentration of authority at the top. If the top executives are not capable, the enterprise will not be successful.

Line organization is not suitable to big organizations because it does not provide specialists in the structure. Many jobs require specialized knowledge to perform them.

There is partially no communication from bottom upwards because of concentration of authority at the higher levels. If superiors take a wrong decision, it would be carried out without anybody having the courage to point out its deficiencies.

Inspire of these drawbacks, the line organization structure is very popular particularly in small organizations where there are less number of levels of authority and a small number of people. A modification of this structure is line and staff organization under which specialists are attached to line executives to provide them specialized assistance on matters of great importance to be enterprise.

13.9.2 Line and Staff Organization

The line executive is often described as the individual who stands in the primary chain of command and is directly concerned with the accomplishment of primary objectives. Line organization provides decision-making authority to the individuals at the top of the organization structure and a channel for the flow of communication through a scalar chain of authority. Line executives are generalists and do not possess specialized knowledge which is a must to tackle complicated problems. With a view to give specialist aid to line executives, staff positions are created throughout the structure. Staff elements bring expert and specialized knowledge to provide advice to line managers so that they may discharge their responsibilities successfully.

In line and staff organization, the line authority remains the same as it does in the line organization. Authority flows from top to bottom. The main difference is that specialists are attached to line managers to advise them on important matters. These specialists stand ready with their specialty to serve line men as and when their services are called for to collect information and to give help which will enable the line officials to carry out their activities better. The staff officers do not have any power of command in the organization as they are employed to provide expert advice to the line officers. Staff means a supporting function intended to help the line manager. In most organizations, the use of staff can be traced to the need for help in handling details, gathering data for decision-making and offering advice on specific managerial problems. Staff investigates and supplies information and recommendations to managers who make decisions. Specialized staff positions are created to give counsel and assistance in each specialized field of effort as shown in Fig.10.2:

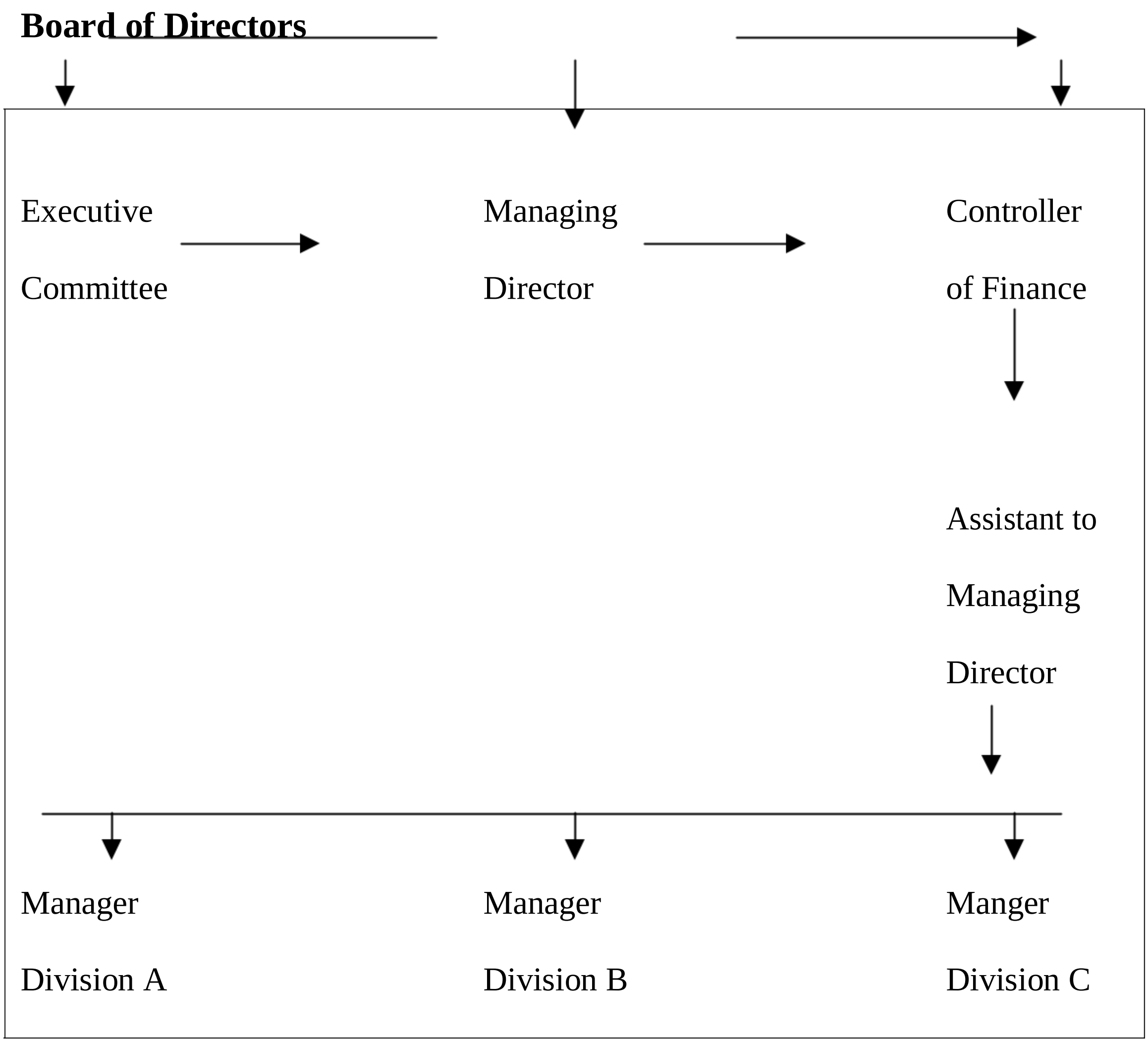

Fig. 10.2 Line and Staff Organization

Line and staff structure has gained popularity because certain problems of management have become very complex and, in order to deal with them, expert knowledge is necessary which can be provided by the staff officers. For instance, personnel department is established as staff department to advise the line executives on personnel matters. Similarly, finance, law and public relations departments may be set up to advice on problems related to finance and accounting, law and public relations.

The staff officers do not have any power of command in the organization as they are employed to provide advice to the line officers. In most organizations, the use of staff can be traced to the need for help in handing details, gathering data and offering advice on specific managerial problems.

Advantages of Line and Staff Organization

Specialised knowledge. Line managers get the benefit of specialized knowledge of staff specialists at various levels.

Reduction of burden. Staff specialists relieve the line managers of the botheration of concentrating on specialized functions like accounting, selection and training, public relations, etc.

Proper weight age. Many problems that are ignored or poorly handled in the line organization can be properly covered in the line and staff organization by the use of staff specialists.

Better decisions. Staff specialists help the line executives in taking better decisions by providing them with adequate information of right type at the right moment and expert advice.

Flexibility. Line and staff organization is more flexible as compared to the line organization. General staff can be employed to help line managers at various levels.

Unity of command. Under this system, the experts provide special guidance without giving orders. It is the line manager who only has got the right to give orders. The result is that the enterprises takes advantage of functional organization while maintaining the unity of command i.e., one subordinate receiving orders from one boss only.

Demerits of Line and Staff Organization

Line and staff organization suffers from the following drawbacks:

There is generally a conflict between the line and staff executives. There is a danger that the staff may encroach on the line authority. Line managers feel that staff specialists do not always give right type of advice, and staff officials generally complain that their advice is not properly attended to.

The allocation of duties between the line and staff executives is generally not very clear. This may hamper coordination in the organization.

Since staff men are not accountable for the results, they may not be performing their duties well.

There is a wide difference between the orientation of the line and staff men. Line executive's deals with problems in a more practical manner. But staff officials who are specialists in their fields tend to be more theoretical.

Superiority of Line and Staff Organization over Line Organization

Line and staff organization is considered better than the line organization because of the following reasons:

Staff makes available expert advice to line executives. This is necessary to deals with complex problems of management. For instance, personnel department is established as a staff department to advise the top executives and other line executives on personnel matters.

Better decisions are ensured in line and staff organization as compared to a simple line organization.

Line and staff structure is more suitable for large organizations as expert advice is always available. The line managers can make use of the knowledge of staff specialists to deal with complicated problems. Therefore, line and staff organization is certainly better than line organization.

13.10 PRINCIPLES OF ORGANISATION

Effective and efficient working of any organization depends on how the managerial function of organization is being performed. The function of organization can be carried effectively with the help of under mentioned principles:

Division of work: While structuring organization, division of work, at the very outset, should be considered as the basis of efficiency. It is an established fact that group of individuals can secure better results by having division of work. Therefore, while designing the organization we should aim at making suitable grouping of activities. This is also called the principle of specialization.

Attention to objectives: An organization is a mechanism to accomplish certain goals or objectives. The objectives of an organization play an important role in determining the type of structure which should be developed. Clearly defined objectives facilitate grouping of activities, delegation of authority and consequently effective coordination.

Span of management: Span of management also refers to span of control signifying the number of subordinates reporting directly to any executive. It is an established fact that larger the number of subordinates reporting directly to the executive, the more difficult it tends to be for him to supervise and coordinate them effectively.

This important principle of management should also be kept in mind.

Unity of command: Organization structure should also be designed in such a way that there exists unity of command in the sense that a single leader is the ultimate source of authority. This facilitates consistency in directing, coordinating and controlling to achieve the end objectives.

Flexibility: While designing the organization it should be kept in mind that organizational structure should not be regarded as static. Every organization is a living entity in a living environment which is fast changing. As such there must be sufficient room for changing and modifying the structure in the light of environmental changes so that the ultimate objective of the organization is achieved.

Proper balance: It is important to keep various segment or departments of an organization in balance. The problem of balance basically arises when an activity or a department is further divided and subdivided into smaller segments. The problems of balancing also crops up with the growing of any organization in its size and functioning.

Management by exception: It is a fundamental principle that makes any organization effective in its true sense. This principle signifies that problems of unusual nature only should be referred upward and decided by higher level executives in the managerial hierarchy, whereas the routine problems should be passed on to lower levels and resolved there. Application of this principle as such, certainly requires adhering to the principle of delegation of authority. The principle of exception is thus of significant practical utility and applies to all levels in the organization structure.

Decentralization: this principle is of great significance to big organizations. Decentralization implies selective dispersal of authority to help departments and units to run effectively and efficiently without frequent interruptions from the top of the enterprise. It requires very careful selection of what decisions to push down into the organization, of what to hold at or near the top specific policy making to guide the decision-making, selection and training of people and adequate control. Decentralization, as such, embraces all areas of management and evidently is of overwhelming significance in organization structure.

Departmentation: Departmentation is the process of grouping activities into units for purposes of administration. In other words, it denotes grouping of related jobs and activities without violating the principle of homogeneity over which an executive has authority to exercise and assert. The main advantages of departmentation are that it enables individual executive to mange his subordinates effectively since a manageable number of persons are brought under the direct supervision of individual executive.

Efficiency: The organization should be able to attain the predetermined objectives at the minimum cost. It is done so; it will satisfy the test of efficiency. From the point of view of an individual, a good organization should provide the maximum work satisfaction. Similarly, from the social point of view, an organization will be efficient when it contributes the maximum towards the welfare of the society.

Scalar principle: Scalar chain refers to the vertical placement of superiors starting from the chief executive at the top through the middle level to the supervisory level at the bottom. Proper scalar chain or line of command is prerequisite for effective organization.

Unity of direction: This means that each group of activities having the same objectives should have one plan and one head. There should be one plan or programme for each segment of work which is to be carried under the control and supervision of one head or superior. If different plans or policies are followed in one department by the subordinates, confusion is bound to occur.

Continuity: The form of organization structure should be such which is able to serve the enterprise to attain its objectives for a long period of time.

Coordination: The principal of coordination underlines that there should be proper liaison and cooperation between different departments and units of work. Unity of efforts for the accomplishment of desired objectives is the main aim of organization. This can be achieved through the principle of coordination.

Authority and responsibility: Authority should commensurate with responsibility. While assigning the responsibility, authority should also be assigned. If authority is not granted, the subordinates cannot discharge their responsibility properly.

13.11 SUMMARY

Decision-making has been defined and various characteristics of decision making have been discussed in the first phase of this lesson. The unit dimensional types decision i.e. Organizational vs. Personal, Routine vs. Strategic, Policy vs. Operating, and Programmed vs. non-Programmed and Individual vs. Group Decision are discussed. Three phases of decision making deal with identification, evaluation and selection of alternative to a problem.

The decision making process in a group and its difference from individuals decision making is also discussed.

On the other hand, the word organization has two common meanings. The first meaning refers to the process of organizing. The second meaning signifies the institution or group which comes into existence as a result of organizing. The organizing process involves a number of steps, viz. consideration of objectives, grouping of activities into departments, deciding which departments will be treated line and which will be related staff, determining the levels at which various types of decisions are to be made, determining the span of supervision and setting up a coordination mechanism. There are a number of principles of organizing, which should be remembered in the process of organizing.

13.12 Key words

Grasp: understand

Accomplish: succeed in doing

Matrix: an environment in which something develops

13.13 SELF ASSESSMENT EXERCISE

What do you understand by decision-making? What are its basic characteristics?

"Decision-making is the primary task of the manager". Discuss and explain the scientific process of decision-making.

Explain the various steps in the process of decision-making. Which one is most important and why?

4.Explain the meaning of organization and state its principles. Also, discuss the nature and importance of organization.

What do you mean by (a) line organization and (b) line and staff organization? Discuss their respective merits and demerits.

"Organization is an important tool to achieve organizational objectives," Comment.

13.14 SUGGESTED READINGS

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communication and control process

Lesson Structure

14.1 Objective
14.2 Introduction to Communication
14.3 Professional Model to Understand Communication Process
14.4 A Common Misconception
14.5 The Communication Environment
14.6 Communication Process
14.7 Significance of Communication
14.8 Introduction to Controlling
14.9 Control Process
14.10 Summary
14.11 Key words
14.12 Self Assessment Exercise
14.13 Suggested Readings

14.1 Objective: The learning objectives of this lesson are to know the meaning and importance of communication, to understand the characteristics and process of communication, and to understand the meaning, characteristics and process of controlling.

14.2 Introduction to Communication

Communication is the lifeblood of an organization and without it, organization cannot stay alive. As such, the top management of an organization should ensure that adequate and smooth communication flows in all directions and it is effective as well. A periodic review of the existing pattern of communication effectiveness should be made. This review would, on the one hand, reveal the direction in which the existing situation falls short of organizational requirements and, on the other would reveal the underlying forces responsible for the prevailing state of affairs as the actions required to remove those.

Communication is, however, one of the most difficult of all the managerial activities to measure. Quantitative and objective proof of the success of effectiveness is extremely hard to come by. However, in evaluating communication, much can be accomplished by a systematic approach utilizing a planned method of evaluation that likes for results in terms of stated objectives and takes into account both success and failure.

Any assessment of communication, as such, requires the determination of the criteria for this evaluation and fixation of norms in respect of these criteria. Both of these are, further, to be oriented to the basic objective of the process itself. In general, terms, the objective of communication may be defined as the passing of ideas and understanding from the sender to the target with the view to getting the desired behavioural response from the latter. The finding out of the actual behavioural responses and comparing these with the expected ones, however, in case of this continuously on-going process, presents insurmountable difficulties. The ultimate objectives of the communication are related to the communication programmes through their relationships with immediate objectives.

The word communication has been derived from the Latin word 'communis' that means ‘common’. However, communication incorporates, besides commonality, the concepts of transfer, meaning and information. **The communication can be defined as the process through which two or more persons come to exchange ideas and understanding among them.**

The definition involves two aspects in communication: First, there is something, which is transmitted, such as, facts, feelings, ideas, etc. It implies that there must be a receiver if communication is to occur. The sender of message must consider the receiver while structuring his message from a technical standpoint as well as in delivering it. When the receiver is not considered, there is either no response or there is wrong response.

Second, the definition emphasizes the understanding element in the communication. Sharing of understanding would be possible only when the person, to whom the message is meant, understands it in the same sense in which the sender of the message wants him to understand. Thus, communication involves something more than mere transmission of the message or transmission and physical receipt thereof. The correct interpretation of the message is important from the point of view of organizational efficiency. As such, the greater the degree of understanding presents in the communication, the more the likelihood that human action will precede in the direction of accomplishment of goals.

How do we define communication?

"Communication is something so simple and difficult that we can never put it in simple words," says *T.S. Mathews*.

However, we do need a definition to understand the term. In his book Communication in Business, *Peter Little* defines communication as follows:

"Communication is the process by which information is transmitted between individuals and / or organizations so that an understanding response results."

Another very simple definition of 'communication' has been provided by *W.H. Newman and C.F. Summer Jr*:

“Communication is an exchange of facts, ideas, opinions, or emotions by two or more persons.”

'Information' is the key word in the first definition communication consists in transmitting 'information'. However, this definition does not indicate the objects about which information is to be transmitted. This is precisely what is being done in the second definition. Communication transmits information not only about tangible facts and determinable ideas and opinions but also about emotions. When a communicator passes on or transmits some information, he may also, either deliberately or unconsciously, be communicating his attitude or the frame of his mind. Moreover, sometimes the latter may be more relevant to the reality that is being communicated. Often we may have come across words of high praise spoken in a scoffing tone. In such a case, the words signify nothing and the tone is the real thing. Similarly, high-sounding expressions of bravery may be only a mask to conceal a person's timidity and cowardice that may be betrayed by his facial expressions.

The following definition offered by William Scott appears comprehensive and particularly satisfying to the students of 'business communication' since it touches all aspects of the communication process:

"Managerial communication is a process which involves the transmission and accurate replication of ideas ensured by feedback for the purpose of eliciting actions which will accomplish organizational goals."

This definition highlights four imperative points:

The process of communication involves the communication of ideas.

The ideas should be accurately replicated (reproduced) in the receiver's mind, i.e., the receiver should get exactly the same ideas as were transmitted. If the process of communication is perfect, there will be no dilution, exaggeration, or distortion of the ideas.

The transmitter is assured of the accurate replication of the ideas by feedback, i.e., by the receiver's response, which is communicated, back to the transmitter. Here it is suggested that communication is a two way process including transmission of feedback.

The purpose of all communication is to elicit action.

It is a comprehensive definition and covers almost all aspects of communication. However, two comments can be made on it:

The concept of ideas should be adequately enlarged to include emotions also.

Even in administrative communication, the purpose may not always be to elicit action. Seeking information or persuading others to a certain point of view can be equally important objectives of communication.

It may be clear from the definition of communication discussed earlier that two-ways communication takes place when the receiver provides feedback to the sender. For instance, giving an instruction to a subordinate and receiving its acceptance is an example of two-way communication. On other hand, in case of one-way communication, feedback is absent. Here the sender communicates without expecting or getting feedback from the receiver. A policy statement from the chief executive is an example of one-way communication. One-way communication takes less time than two-way communication. In certain situations, one-way communication is more effective to get work from the subordinates.

Two-way communication is superior to one-way communication in the following respects:

Two-way communication is more effective than one-way communication. The feedback allows the sender to refine his communication so that it becomes more precise and accurate.

Receivers' self-confidence is higher in case of two-way communication as they are permitted to ask questions and seek clarification from the senders.

However, in case of two-way communication, the sender may feel embarrassed when the receiver draws his attention to sender's mistakes and ambiguities. It is therefore, essential to discuss the communication process in comprehensive manner. This lesson discusses the same.

14.3 Professional Model to Understand Communication Process

A conventional analysis of communication begins with a definition of the term. Many such definitions exist, so we would have no difficulty finding one suitable for our use. However, our approach is not conventional. We do not use words to define words, for, as we will see, such definitions are dangerous. Instead, we use an operational definition. By operational definition, we mean one that demonstrates how something works. The following pages present an operational definition in the form of a model.

In this presentation of the model, we strive to look with scientific diligence into the phenomenon of human communication. We take the event involving one human being communicating with another. We choose a face-to-face oral communication event because this is the communication situation with which we are best acquainted. Later in the chapter, we adapt the model to written communication. Our plan is to take the communication event and place it under the microscope of our minds. Our goal is to show how the process works and how it does not work.

In developing our model, we must incline heavily on the theoretical aspects, as we are not dealing with a subject that has received total factual support. The theoretical material presented, however, represents authoritative thinking on the subject: and research is constantly producing facts that lend support to this thinking. Regardless of its factual bases, this presentation will give us a meaningful understanding of communication and will provide us with principles that we can successfully apply to real-life communication problems.

14.4 A Common Misconception

Before beginning our analysis of the model, let us dispense with a common misconception. If you are like most people, you have never thought much about what communication really is. If you have thought about it, probably you have viewed communication as a very normal human activity. This assumption is far from correct.

Human communication at least the verbal part of it is far from being a natural function; that is, it is not the sort of thing we would do if left to nature's devices, as we would many of our other activities. Our hands, for example, would perform their natural functions of picking up and handling things whether we grew up with jungle animals or with civilized people. Likewise, our mouths would take in food and our teeth and jaws would chew it in either event. In addition, most of our other body parts would function naturally without instruction from other human beings. However, we cannot say the same about the major organs used in communication. Our vocal apparatus would not make words if we were not taught to make them. Neither would our brains know them nor do our hands write them without instruction. Clearly, communication is a function that we must learn. It was originated by human beings, and it must be acquired from human beings.

14.5 The Communication Environment

Study of the communication process logically is preceded by an analysis of the environment in which communication occurs. This is the sensory environment, in which we find ourselves every moment. It is made up of all the signs existing in the world of reality that surrounds each of us. Your sensory environment is the real world surrounding you as you read these words. It consists of all the signs your senses can detect. More specifically, it is all you can see, taste, smell, hear, or feel in that part of the world that surrounds you.

By ‘world of reality or real world’, we mean that what actually exists. It contrasts with the world that exists only in people's minds i.e. world of imagination. Of course, one may argue that what exists in the mind also is real that, right or wrong, the content of a mind exists in that mind. For our purpose, however, we must allow this variation in our definition. It is important to distinguish between what actually is in the world around a communicator and what the communicator says or thinks it is. Often the two are not the same.

By signs, we mean everything from the real world that can act as a stimulus to us. In other words, it is everything that our sensory receptors can detect. It is what our eyes can see, our ears can hear, our nostrils can smell, our tongues can taste, and our flesh can touch. It may be a spoken word, the sound of objects crashing together, a printed word, the aroma of a flower, or the movement of a bird. Thus, an individual sign is a portion of the real world that can create a response within us.

From the preceding comment, we can deduce the meaning of sensory receptors: those body organs that we use to detect the signs in the real world. Specifically, the term refers to our eyes, noses, ears, mouths, and flesh with its ability to detect surface and temperature differences.

Sign Detection

Our sensory receptors continuously pick up some of the infinite number of signs existing in our communication environment. Stated another way, the signs around us continuously produce responses within us through our receptors. Perhaps this phenomenon can best be explained by an example.

At this very moment, you are looking at this printed page. On it is the words (signs) that your eyes are picking up. We hope that these are the primary signs you are receiving, but there are others. Probably you are picking up some of them from time to time. Perhaps there are various noises around you -- voices from another room, the ticking of a clock, a radio playing in the distance, a roommate's movements and sounds. From time to time, you may become aware of being hot or cold, or your back may itch, or your sitting position may become uncomfortable. Thus, as you read these pages your sensory receptors are continuously picking up signs from all these parts of the reality that surrounds you.

Sensory Limitations

The number and types of signs we can detect from the real world, however, are limited by our sensory abilities. In short, the human sensory receptors are restricted. They are not capable of detecting all the signs that we know exist in the real world. For example, our eyes can detect only a small part of the total spectrum of wavelengths; and the ability to detect within these wavelengths varies from person to person. We can see only a fraction of the distance a hawk can see. Our ears can pick up only a narrow band of the vast range of air vibrations, and people's ability to pick up sounds within these ranges varies. As we all know, dogs and birds can hear much that we cannot. Likewise, we can smell only the stronger odors around us, while dogs and most other animals do a much better job of smelling and so. Clearly, our senses are limited and can detect only a small portion of the reality surrounding us.

Selective Perception

Although incapable of detecting all that exists in the real world, our sensory receptors can select some signs and ignore others. Place yourself, for example, in a roomful of talking people, and notice how it is possible to tune in on one conversation and ignore others. Alternatively, notice how you are able to focus your vision on one-minute object and then expand your view to a much broader picture. All of us have this ability to varying extents, and we can make use of it with all of our senses.

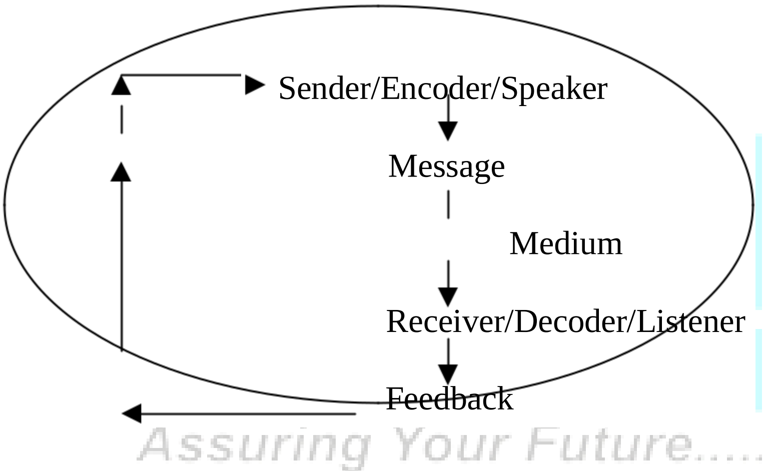
IV. Varying Alertness and Perception

Our detection or non-detection of signs also depends on our receptiveness to signs. There are times when we are keenly alert to our communication environment and times when we are less alert. Certainly, you have experienced occasions when you were sleepy, in a daze, or just daydreaming. During such times, you missed many of the signs in your communication environment. When you are asleep, you detect almost none.

14.6 The Communication Process

To this point we have seen how each of us lives in an environment of signs and how these signs are with us throughout each day. We have also seen how our ability to detect these signs varies, how we can tune them in or tune them out, and how our alertness to them varies across time. With this knowledge of the communication environment as a foundation, we are now ready to describe the communication process.

Communication is a two-way process in which there is an exchange and progression of ideas towards a mutually accepted direction or goal. For this process to materialize, it is essential that the basic elements of communication be identified. These elements are:



Sender/Encoder/Speaker:

The person who initiates the communication process is normally referred to as the **sender**. From his personal data bank, he selects ideas; **Encoding of** encodes them and finally transmits them to the receiver in the form of a **message.** The entire burden of communication then rests upon the sender or encoder. His choice of images and words, and the combination of the two is what goads the receiver to listen carefully. In this process, a number of factors come into play, primary among them being an understanding of the recipient and his needs. If the message can be formulated in accordance with the expectations of the receiver, the level of acceptance is going to be higher. For example, a consultant wishes to communicate with the HRD manager of a company. The objective is to secure consultancy projects on training of personnel. If the consultant wishes the HRD manager to communicate with him, he has to ensure that their goals converge. He has a tough task ahead of him. The manager has been interacting with many consultants. Why should he pay heed to the proposal of this consultant? In a situation such as this, a good strategy to be adopted is to expand the purview of the proposal and make it company specific. The result could be highlighted and spelt out in terms of increase in sales. If sufficient preparation has been done, the message too would be formulated in a manner conducive to the interests of the HRD manager.

Receiver/Decoder/listener:

The listener receives an encoded message, which he attempts to decode. This process is carried on in relation to the work environment and the value perceived in terms of the work situation. If the goal of the sender is clear, in the mind of receiver, the job of **decoding** becomes quite easy and the listener finds the message more receptive. The decoding of the message is done in almost entirely the same terms as were intended by the sender. In the example cited above, as soon as the HRD manager realizes that the proposal of the consultant is going to result in tangible benefits, he becomes more receptive and his interest in communication is reinforced.

Message:

Message is the encoded idea transmitted by the sender. The formulation of the message is very important, for an incorrect patterning can turn the receiver hostile or make him lose interest. At this stage, the sender has to be extremely cautious. What is the order in which he would like to present his ideas? Suppose he has four points to make. Would he (a) move in the stereotyped manner of presenting them in a sequence or (b) would he like to be innovative and proceed in a creative way? Probability is high that in the first case and he might become monotonous and in the latter case (b) he might touch a wrong spot. How then should the message be formulated and transmitted? The ordering, as stated earlier, should be based on the requirements of the listener so that its significance is immediately grasped. The minute the receiver finds his goals codified in the message, he sits up, listens and responds. The message thus has made an impact.

Medium:

Another important element of communication is the medium or channel. It could be oral, verbal or non-verbal. Prior to the composition of the message, the medium. channel should be decided. Each medium follows its own set of rules and regulations. For example, in oral communication, one can afford to be a little informal, but when using the written mode, all rules of communication need to be observed. It must be remembered that anything in writing is a document that would be field for records or circulated to all concerned.

Feedback:

This is the most important component of communication. Effective communication takes place only when there is feedback. The errors and flaws that abound in business situations are a result of lack of feedback. Let us take a look at the typical responses of people involved in miscommunication: "This is not what I meant", this is not what I said, or this was not my intention. If feedback is solicited on all occasions, this error can be minimized or even completely done away with. Fallacious statements or erroneous conclusions are made because of lack of confirmation through feedback and discrepancy between the message transmitted and message understood.

Process of Communication:

The sender, according to his ideas, behaviour pattern and intention, selects a message, encodes it, and transmits it to the receiver through a medium-be it oral, verbal or non-verbal. As soon as the message reaches the receiver, he decodes it and gives an internal response to the perceived message. It is noteworthy that the response is not in relation to the actual content but rather to the "perceived content" of the original message. This completes the first phase of the communication process. Interestingly at this point words in themselves have no meaning. It is the perception of a particular word and the intention behind it that assign it meaning. The manner in which the sender and receiver perceive the same word could give rise to difference in encoding and decoding.

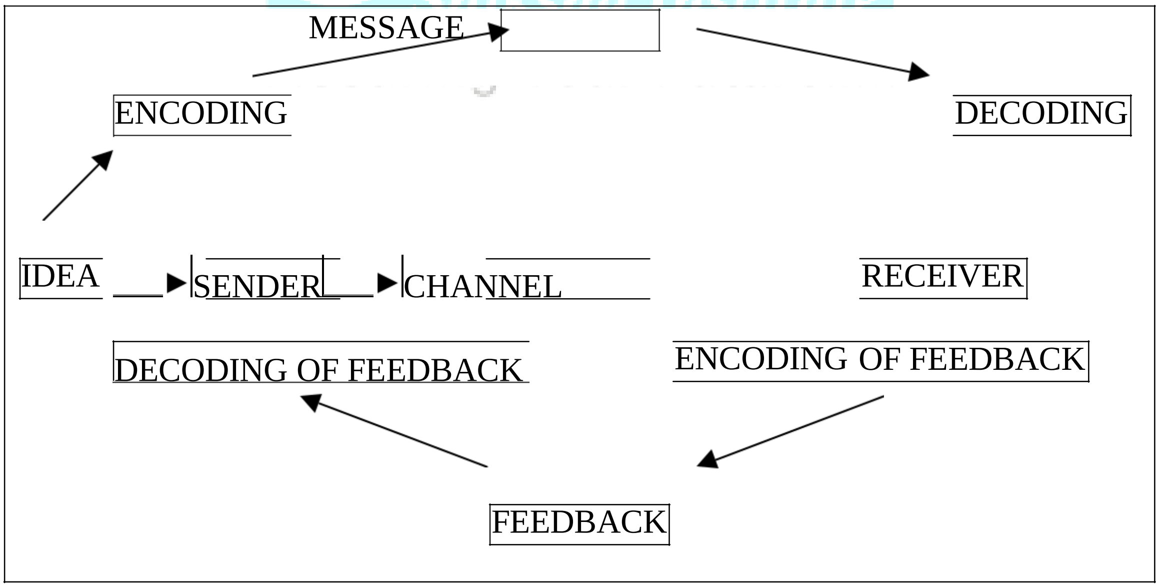
In the second phase, the receiver formulates his message, encodes it and transmits it to the original sender-now-turned-receiver. This stage is referred to as providing feedback and is most crucial. Unless and until there is feedback - be it in the verbal or the non-verbal form-, we cannot say that effective communication has taken place. If the feedback is in tune with the original intent of the sender, communication proceeds without a hitch. However, there could be moments when the receiver does not agree with the message of the sender. This does not mean that there is breakdown of communication. We can, in such instances; state that effective communication is stalled for the time being. It could resume after subsequent discussions.

For the process of communication to be effective, there should be a well-defined goal in the mind of the sender. Harmony between the goals of the two communicators makes for good and easy progression of ideas and concepts. Whatever be the initial situation, the sender necessarily needs to adhere to the following stages:

Create awareness in the mind of the receiver on the topic.

Propose his own point of view with clarity and preciseness to eliminate possibilities of confusion in the mind of the receiver.

Enable smooth flow of discussion through observance of communication strategies.



(Figure: 11.1 Communication Process)

Reinforce or correct ideas in the mind of the receiver concerning the goal of communication.

Achieve the goal of communication.

At the time of transmission and reception of message, all our five senses play an important role in grasping its intent. The sense that is predominantly active at a particular stage, helps in a higher degree of absorption, for example, in the course of the communication, if the visual sense at a particular moment, is highly active, we respond only to the visual cues.

14.7 Significance of Communication

Just as communication is vital to our existence in civilized society, it is essential to the functioning of the organizations our society has produced. In fact, we could go so far as to say that organizations exist through communication; without communication, there would be no organizations. As Herbert Simon expresses it. "Without communication there can be no organization, for there is no possibility then has the group influencing the behaviour of the individual."

If you need proof of the importance of communication to organized activity, you need only apply your good logic to any real life example. Take a very simple organization made up of just you and one other person. Assume that this organization has an objective - one that is unfamiliar to each of you. Now assume that each of you no longer can communicate. You cannot read; you cannot speak; you cannot write; you cannot gesture; you cannot draw. If the two of you make any progress at all, it is likely to be through individual effort. Strain your imagination as you will, there simply is no likelihood of coordinated effort without communication.

Needless to say, communication is the ingredient that makes organization possible. It is the vehicle through which the basic management functions are carried out. Managers direct through communication; they coordinate through communication; and they staff, plan, and control through communication. Virtually all actions taken in an organization are preceded by communication.

Just how much communicating a business organization needs depends on a number of factors. The nature of the business certainly is one. Some businesses (such as insurance companies) have a much greater need to communicate than do others (such as janitorial services). The company's organization plan also affects the volume of communication, for it generates much of the information flow. Finally, the people who make up the organization affect the extent of communication. As we would point out later, every human being is different. Each one has unique communication needs and abilities. Thus, varying combinations of people produce varying needs for communication.

Although communication needs may be dissimilar in different organizations and different groups of people in such organizations communication more than of us, suspect. According to one generally accepted estimate, between 40 and 60 percent of the work time spent in a typical manufacturing plant involves some form of communication (speaking, writing, listening, and reading). Of course, these percentages are only averages. Some employees spend much more of their time communicating. In fact, the higher up the organization structure the employee is, the more communicating he or she is likely to do. Typically, top executives spend from 75 to 95 percent of their time communicating. Unskilled labourers, on the other hand, need to communicate lesser in order to do their work.

Without question, communication is important to business organizations. Therefore, it makes sense that a business wants its communication to be done well. Nevertheless, all too rarely is a business satisfied with what it gets. Unfortunately, to use the often-quoted words of an authority in the field, "Of all the things business executives do, they are worst at communicating.”

Communication is the lifeblood of business. No business can develop in the absence of effective internal and external communication. Besides, communication skills of the employees are given high weight age at the time of their appointment as well as promotion.

Internal Communication *viz* Within Organization

Effective internal communication is considered important for the following reasons:

Business has grown in size. Large business houses have a number of branches within the country and even abroad. Some of the multinational corporations are no smaller than huge empires. The central organization of a large business house is its nerve center. For its healthy and even growth, it is extremely important that the central organization maintains a thorough and up-to-date knowledge of the various activities at the branch offices, and in turn keeps the branch offices will acquainted with the activities at the center, and some kind of link is maintained among the various branches. This calls for an effective and efficient network of communication.

Business activity has become extremely complex. This being an age of specialization, planning, production, sales, stores, advertising, financing, accounts, and different departments handle welfare, etc.. If these departments do not communicate with one another as well as with the management, there will be no coordination among them. This may give rise to some awkward and embarrassing situations for the management. When production is fully geared up, the stores department may report shortage or non-availability of raw materials. The planners, having spent one full month to work out the details of a new project, may suddenly discover that there are no finances available to execute the project.

Effective communication promotes a spirit of understanding and cooperation. If there exists effective communication between the management and the employees, it helps to bring about an atmosphere of mutual trust and confidence. The employees know exactly what is expected of them, the management is aware of the potentialities and limitations of the employees and knows how to exploit the first and make up for the latter. This mutual understanding is extremely beneficial to both the parties. The management gets better returns; the employees get job satisfaction. They also develop a sense of belonging and loyalty to the enterprise.

The significance of communication in the context of today's complex organizations is even greater. The organizations being designed based on specialization and division of labour constitute a large number of persons. The larger the size of the organization, the greater generally is the degree of specialization and division of labour and hence, the more urgent is the need for coordination. This coordination requires mutual understanding about the organizational goals, the mode of their achievement and the interrelationship between the work being performed by various individuals; and all this can be achieved through communication only. Effective communication, as such, is essential in any type of human grouping. As Haney has put it, "Communication is imminently essential in business, in government, military organizations. It is difficult, in fact, to imagine any kind of interpersonal activity which does not depend upon communication." Dealing with the problems of communication, then, becomes an important area of activity in management whose objective is the direction of individual efforts in such a way as to secure overall coordination of organizational activities.

External Communication

External communication includes communication with the government agencies and departments on the one hand and distributors, retailers, individual customers and general public on the other.

Government agencies and departments. Business organizations are required to deal with licensing authorities, foreign trade offices, customs authorities, banks and other financial institutions, income tax and sales tax offices, post offices, transporters, etc. Quite frequently, they find themselves tricky situations that can be handled only through tactful negotiation are nothing but communication.

Distributors, retailers, individual customers, etc. Modern business is a highly competitive phenomenon. Each product of common consumption is available in hundreds of brands, not all of which sell equally well. Marketing research has revealed that the organizations that can communicate had better also sell better. Sales are promoted through persuasion and persuasion is a very important aspect of communication.

Communication Skill is Job Requirement

Some areas like personal, public relations, marketing, sales, labour relations call for exceptional communication skills. Professionals like editors, writers, teachers, advocates, researchers etc., need a highly developed ability to communicate. Executives are also expected to make speeches, prepare pamphlets, brochures, souvenirs, and give interviews to the media in order to project a favourable image of their organization. Thus, the ability to communicate effectively has become a very important job requirement.

Important factor for promotion

In an article titled **What Do, You Mean I Can't Write?** [Harvard Business Review, May-June 1965], John Fielden lists the ability to communicate as the most essential prerequisite for promotion of the executives. He ranks this ability higher than other essential attributes such as the capacity for hard work, the ability for making sound decisions, academic qualifications and ambition-drive. In addition, this view is endorsed by numerous surveys conducted by a number of American universities and other scholars in the field.

14.8 Introduction to Controlling

Controlling is the function of ensuring that the divisional, departmental, sectional and individual performances are consistent with the predetermined objectives and goals. Deviations from objectives and plans have to be identified and investigated, and correction action taken. Deviations from plans and objectives provide feedback to managers, and all other management processes including planning, organizing, staffing, directing and coordinating are continuously reviewed and modified, where necessary.

Controlling implies that objectives, goals and standards of performance exist and are known to employees and their superiors. It also implies a flexible and dynamic organization which will permit changes in objectives, plans, programmes, strategies, policies, organizational design, staffing policies and practices, leadership style, communication system, etc., for it is not uncommon that employees failure to achieve predetermined standards is due to defects or shortcomings in any one or more of the above dimensions of management. Thus, controlling involves the following process: (a) Measurement of performance against predetermined goals;

(b) Identification of deviations from these goals; and (c) Corrective action to rectify deviations.

Through the controlling function, managers keep the organization on track. Without the controlling functions, other functions loose their relevance. If all the activities are properly planned, organized and directed but there is no control on the activities then there are full chances that the organization does not achieve its planned goals. Controlling function helps us knowing the deviations but the reasons for such deviations and the corrective actions is to be taken depends on the managers.

14.9 Control Process

According to K. Boulding, the indispensable activity of any organization is a control process mechanism. Where control process mechanism fails, plan also fails and where plan delivers, it must be credited to successful control process mechanism. The control process involves the following steps:

Se*tting of standards of performance at strategic points:* Control standards are derived directly from the objectives, specifications and other goals established in the process of planning of an organization. These goals or objectives should be associated closely with individual responsibilities, e.g., in management by objectives or results. Control standards should be simplified by concentrating only on strategic or vital points. They should offer prompt, economical, comprehensive and balanced checks. Performance standards are expressed in terms of quantity, quality, time and cost. If possible, we may have measurable standards and should be practical on corporate operations.

Leading, Motivating and Supervising the staff: Supervision and direction is the second step in control process mechanism especially with reference to control over the performance of employees against well-set standards. Supervision if proper enhances the efficiency as well as the economy of corporate operations. It also ensures action as per plan already devised by the top management of the organization.

Comparison between actual and planned course of actions: In fact, the supervision process makes sure as to what extend the actual and planned course of actions are deviating. The supervisor is expected to see whether the subordinates are delivering as per plan or not. The variations are reported to higher authority in the organization for necessary action.

Correctives actions taken: By this time the higher authority in the organization makes the mind whether the variations reported earlier are significant and if so, the corrective actions are taken to ensure the actual courses of action as per planned document. Most of the time, the managers set some lower and upper limits and if actual course of actions remain theses boundaries then no corrective action is required. However, in case, the lower and higher limits are crossed then the managers are authorized to take immediate corrective action so that the planned work does not suffer adversely.

14.10 Summary

The process of leadership as a part of the function of direction requires effective communication between the leader and the led as also between one subordinate and the other. Simply stated, the process of communication is the passing of information and understanding. According to Louis Allen, "Communication is the sum of all things one person does when he wants to create understating in the mind of another. It involves a systematic and continuous process of telling, listening and understanding." It is the responsibility of management to establish and maintain channels whereby it can convey its own thinking and policies to the subordinates and can receive their reactions and an account of their problems.

Two-way communication is more effective than one-way communication. The feedback allows the sender the refine his communication so that it becomes more precise and accurate. Receivers' self-confidence is higher in case of two-way communication as they are permitted to ask questions and seek clarification from the senders.

Thus, these were the various spices which must be added to make each and every element of the communication process is of its utmost importance and with the absence of any of these elements the communication can't be effective or we can say that the absence of any of the above elements makes the communication process same as a handicap person living his life in the absence of any important part of the body. So, as a business communicator our efforts should be to make communication process as effective as possible and let each element of the process to play its part, sufficiently well.

Controlling is ordinarily understood as giving of orders or restricting. However, properly speaking, it means to guide something or somebody in the direction in which it is intended to go. In terms of managerial functions, control consists of the steps taken to ensure that the performance of the organization conforms to the plans. A manager is responsible for controlling the work for which he is accountable.

The managerial function of control is inseparably connected with the function of planning. Unless the management is able to fix in clear and unambiguous terms the objectives of the organization and can chart out a clear and realistic course of action for their attainment, effective control is almost impossible. The most notable feature of the process of control is that it is forward-looking or futuristic. A manager cannot, for obvious reasons, control or do anything about past. He can study the past, note the pitfalls and avoid them in future with a view to preventing their recurrence.

14.11 Key words

Aroma: smell; a pleasant one

Janitor: a caretaker of a building

14.12 Self Assessment Exercise

"Communication is sharing of understanding", Discuss this and bring out the process of communication.

"Management is a two-way traffic; it is based upon the effective machinery of communication." Discuss this statement.

What do you mean by controlling function? Discuss the process mechanism of controlling in management.

14.13 Suggested Readings

Pal, Rajendra and Korlahalli, J. S., Essentials of Business Communication.

Kaul, Asha, Effective Business Communication.

Lesikar, R. V. and Pettite J. D., Business Communication.

Sharma, R. C. , Business Communication and Report Writing.

Shinha, P., Business Communication.

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Course Code : **Vetter : Mr. B.K. Punia**

Subject : Human Resource Management

Lesson : 15

HUMAN RESOURCE MANAGEMENT

Structure

15.1 Objectives

15.2 Definition of human resource management

15.3 The perceptual process, making judgement about others, frequently used shortcuts in judging other

15.4 The learning process, approaches to learning

15.5 Motivation process, Sources, approaches, motivation and behavior

15.6 Personality development, determinants, dimensions

15.7 Role and qualities of a good manager

15.8 Summary

15.9 Key words

15.10 Self Assessment Questions

15.11 Suggested readings

15.1 Objective

This lesson is intended to explain the concept human resource management. The study also focuses to impart the knowledge about Perception, the learning process, the motivation process and personality development in detail. The study also includes various approaches to explain the aforesaid conceptual process. The study also includes the expected role and quality of a manager. Because he is the person who plans, organize, lead and control human, financial, physical and information resources in the efficient and effective pursuit of specified organizational goals.

15.2 Introduction

Organizations are made up of people and function through people. Without people organizations cannot exist. The resources of men, money, materials and machinery are collected, coordinated and utilized through people. These resources by themselves cannot fulfil the objectives of an organization. They need to be united into team. It is through the combined efforts of people that material and monetary resources are effectively utilized for the attainment of common objective. Without common efforts no organization can attain its goals. All the activities of an organization are initiated and completed by the persons who make up the organization. This resource is called human resource and it is the most important factor of production.

To understand what human resource management is, it should first review what managers do. Most experts agree that there are five basic functions all managers perform: planning, organizing, staffing, leading, and controlling. In total, these functions represent the management process. In this lesson, the focus is on one of these functions: the staffing, personnel management or human resource management. Human resource management refers to the practices and policies one need to carry out "people" or personnel aspects of management, position including recruiting, training, rewarding and appraising. According to National Institute of Personnel management of India, "personal management is that part of management concerned with people at work and with their relationships within the organization. It seeks to bring together men and women who make up an enterprise, enabling each to make his own best contribution to its success both as an individual and as a member of a working group." Scott and others have defined as, "personnel management is that branch of management which is responsible on a staff basis for concentrating on those aspects of relationship of management to employees and employees to employees and with the development of the individual and the group, the objective is to attain maximum individual development, desirable working relationship between employers and employees and employees and employees, and effective moulding of human resources as contrasted with physical resources.

Human resource management is known by different names, e.g., personnel management, manpower management, personnel administration, staff management etc. On the basis of definition given above, the following features of human resource management can be identified:

Comprehensive function

Human resource management is concerned with managing people at work. It covers all types of people at all levels in the organization. It applies to workers, supervisors, officers, managers and other types of personnel.

People – oriented

It is concerned with employees as individual as well as groups. It is the process of bringing people and organizations together so that the goals of each are met.

Action-oriented

It focuses to got a solution of personnel problems to achieve both organizational objective and employees personnel goals

4 Individual-oriented

Human resource management is concerned with development of each and every member of organization.

Continuous function

Management of human resource is a continuous process. in the words of Terry, “It can not be turned on and off like water from a faucet” ; it can not be practiced only one hour each day or one day a week. It requires a constant alertness and awareness of human relation and their importance in everyday operations.

Future oriented

It helps an organization to achieve its objectives in the future by providing for competent and well-motivated employees. It attempts to obtain willing cooperation of people for the attainment of the desired objectives.

Challenging function

Managing human resources is a challenging job due to dynamic nature of people. People have sentiments and emotions, so they cannot be treated like machines. It is, therefore, necessary to handle them tactfully. It is not simply managing people but administrating a social system.

15.3 The Perceptual Process, Making Judgement About Others, Frequently Used Shortcuts In Judging Other

15.3.1 The Perceptual Process

Perception can be defined as a process by which individuals organize and interpret their sensory impressions in order to give meaning to their environment. However, what one perceives can be substantially different from objective reality. It is a process by which individuals organize and interpret their sensory impressions in order to give meaning to their environment. We are familiar with the term sensation. Sensation means seeing, hearing, touching, smelling and tasting. In other words, sensation means drawing effect from the five senses. Perception is much more than sensation. Perception depends upon the senses for raw data but the cognitive process filters, modifies or completely changes data. In other words, people interpret what they see or hear with their own experience or beliefs.

Factors Influencing Perception

A number of factors operate to shape and sometimes distort perception. These factors can reside in the perceiver, in the object or target being perceived, or in the context of the situation in which the perception is made.

The Perceiver

Perceiver's needs, habits, impact of past experience, ethics and values, attitude and personality, all influence the perception process. For example, a person with strong ego needs would look at other people or situation either as ego satisfying or ego threatening, thus perhaps making the perceptions inaccurate. Similarly, less secure people often find faults with others. Secure persons tend to see others as warm and friendly.

The Target

Appearance, communication, behavior affects the perceptual process. Both verbal and nonverbal communication affects our perception about others. The choice of words and percussion of language can form impressions about education and sophistication of the person. The tone of voice sometimes indicates the mood of the person at a given time similarly; the status or occupation of a person also creates an impression in our mind. We tend to behave in a more respectful way when we are introduced to a president of a large corporation or a judge of a Supreme Court or a movie celebrity.

The Situation

Physical location, social setting and organizational setting can also affect perceptual process. For example, if your meet some lady for first time and she is with another person whom your respect and admire your will create a favorable image about her in your mind as compared to a situation in which you see here with a person whom you intensely disputed.

15.3.2 Making Judgment about Others

Attribution Theory

When individuals observe behavior, they attempt to determine whether it is internally or externally caused. Attribution theory has been proposed to develop

explanations of the way, in which we judge people differently, depending on what meaning we attribute to a given behavior. Three factors basically (1) distinctiveness, Consensus, and (3) consistency. Prior to discuss these factors; let's clarify the differences between internal & external causation.

Internal caused behaviors are those that are believed to be under the personal control of the individual. External caused behaviors that are beyond the control of individual. If one employee is late for his job, the internal caused behavior attribute it as oversleeping of that employee, and external caused behavior attribute it as a major automobile accident that tie up traffic on the road that this employee regularly uses. Distinctiveness refers to whether an individual deploys different behaviors in different situations. For example, if the late coming employee is becoming the source of complaints by other co-workers for being a "goof off". What we want to know is whether this behavior is unusual. If it is, the observer is likely to give the behavior an external attribution. If this action is not unusual, it will probably be judged as internal.

If everyone who is faced with a similar situation responds in the same way, this behavior can be treated as consensus. Our late employee's behavior would meet this criterion if all employees who took the same route to work were also late. If consensus is high, the attribution perspective is external. Whereas, if other employees who took the same route made it to work on time, the attribution perspective is internal.

Observation → Interpretation → Attribution of course

Individual Behaviour → Distinctiveness → High → External
Low → [redacted]

Individual Behaviour → Consensus → High → External
Low → Internal

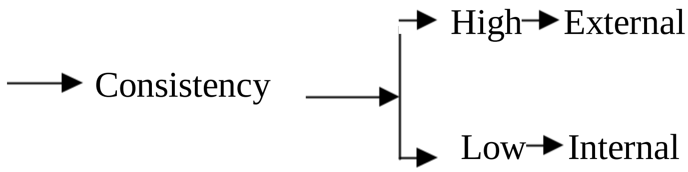

Fig (12.2.2.1) Attribution Theory

Finally, come to consistency in a person's action – If a pattern of behavior is consistently similar, so that the same person behaves in the same fashion at different time under similar situations, then the cause of such behavior can be considered as internally generated.

15.3.3 Frequently Used Shortcuts in Judging Others

Selective perception

People selectively interpret what they see on the basis of their interests, background, experience, and attitudes. There are a variety and magnitude of stimuli confronting us every day affecting all our senses. Out of all these stimuli we select only some portion of it. So selective perception is defined as the tendency to select certain objects from the environment for attention such that these objects are consistent with our existing beliefs, values and needs. Without this ability of selection I will not be able to consider all available information necessary to initiate behavior. This selectivity is enhanced by two processes. First, it is believed that our senses are activated only by a certain type of stimuli. These stimuli may go unnoticed if these are not strong. But these are bright or loud enough to activate our senses. The second process, called as 'sensory adaptation' relates to our ability to tune out certain stimuli to which we have been continuously exposed. For example, a new home owner near an airport might be excessively bothered by the noise, but such noise does not bother those who have been living there for a long time and have been exposed to this noise over this longer period.

Halo effect

This is drawing a general impression about an individual on the basis of single characteristics, which may be favorable or unfavorable. For example, A charming smile may create a favorable impression about the person. Similarly a well-dressed person leave positive impression that poorly dressed person. Two tracts were identified by Asch i.e. 'cold' and 'warm'. The group with the list containing the word 'warm' described the person as friendly, humorous, imaginative and intelligent. And the group with the list containing the word 'cold' described the person as aloof, serious and without many friends.

Contrast effect

This is defined as an evaluation of person's characteristics that are affected by comparisons with other people recently encountered who rank higher or lower on the same characteristics. For example, there is an old adage among entertainer who performs in variety shows: Never follow an act that has kids or animals in it. Because the audiences love children and animals so much that your will look bad in comparison.

Projection

Projection refers to the tendency of the people to see their own traits in other people, meaning that when they make judgements about other, they project their own characteristics into others. Like, when a professor meets another professor, he would make the same assumptions. As the saying goes, "to the honest man, every body is hones."

Stereotyping

When we judge some one on the basis of our perception of the group to which he or she belongs, we are using the shortcuts called stereotyping. Suppose you get into an executive's office and notice a man and a woman talking to each other besides a secretary's desk. Our first reaction would generally be to assume that the woman is the secretary and the man is executive even though the case may be just opposite. This reaction is due to stereotyped impression that the secretaries tend to be women and executives tend to be men.

Stereotyping is particularly critical when new people, since so we know tittle about them and we tend to characterize them according to certain categories on the basis of age, sex, occupation, and religion and ethnic background.

Both men and women have been stereotyped into separately perceived categories. Men have been considered as tough with leadership ability, self-confidence, competitiveness, ambitiousness and analytical ability, while women are stereotyped as emotional, impulsive and submissive. This type of stereotype is known as “sex role stereotype”. Age is another stereotype, which presents problems in the organizational environment. Such capabilities as physical, psychological and intellectual are sometimes presumed on the basis of the age of the person.

The older employees are thought to be more resistant to organizational change, less creative and less likely to take calculated risks. The older employees do not have negative impression all times. On the positive side, they are considered more experienced for consulting positions. These stereotype impressions effect business decisions regarding hiring, promotions and career development training programs.

15.4 The Learning Process, Approaches To Learning

15.4.1 Learning Process

Learning can be defined as a relatively permanent change in behavior or potential behavior as a result of direct or indirect experience. There are two primary elements in this definition that must both be present in order to identify learning process. First, the change must be relatively permanent. Means after “learning” one’s behavior must be different from his prior behavior. And second aspect of definition is that this change must occur due to some kind of experience or practice. This learning is not caused by biological maturation. For example, a child does not learn to walk; it is a natural biological phenomenon because the child gains strength, as he grows older.

15.4.2 Approaches to Learning

There are basically four general approaches to learning namely classical conditioning, operant conditioning, cognitive learning and social learning.

Classical learning

The most well known experiments on classical conditioning were undoubtedly conducted by I.P. Pavlov with dogs, and he established a stimulus – Response (S-R) connection. Classical conditioning introduces a simple cause – and – effect relationship between one stimulus and response. It also makes the response reflexive or involuntary after the stimulus- response relationship has been established. For example, if some one is always reprimanded explain by his boss when asked, "To step in the boss's office", he may become nervous whenever asked to come to the office of his boss, because of this association.

Operant conditioning

Operant conditioning introduces a voluntary change in behavior and learning occurs as a "consequence" of such change. It is also called as reinforcement theory and it suggests that behavior is a function of its consequences. This relationship is built around two principles. First, that behavior which results in positive rewards tends to be repeated and behavior with negative consequences tends not to be repeated. Second, based upon such consequences, the behavior can be predicted and controlled.

Cognitive learning

Cognitive leaning is different from above two models in that leaning is considered as the outcome of deliberate thinking about the problem. Cognition, in fact, is the act of knowing an item of information and this knowledge affects the behavior of the person so that information provides cognitive cues towards the expected goal. The learning took place when the relationship between the cues and expectancy was strengthened because the cues led to expect goals.

Social learning

Social learning's integrates the cognitive and operant approaches to learning. It believes the neither environmental stimuli nor individual determinism alone contribute to learning. But a lend of both views contributes towards social learning. In addition, learning can also be gained by discipline and self-control and an inner desire to acquire knowledge or skills irrespect of the external rewards or consequences.

While operant conditioning and reinforcement is probably the most important principle for explaining learning and predicting and controlling behavior, there are some other principles that need to be explained here.

The Learning Curve

The principle of learning involves the time factor and the repeated efforts in order to gradually increase the strength of the response. This is especially true when the behavior to be learned is comparatively complex such as skills that are learned and improved by practice. The approach suggests that with the passage of practice time the performance/degree of skill increases as also shown in following figure.

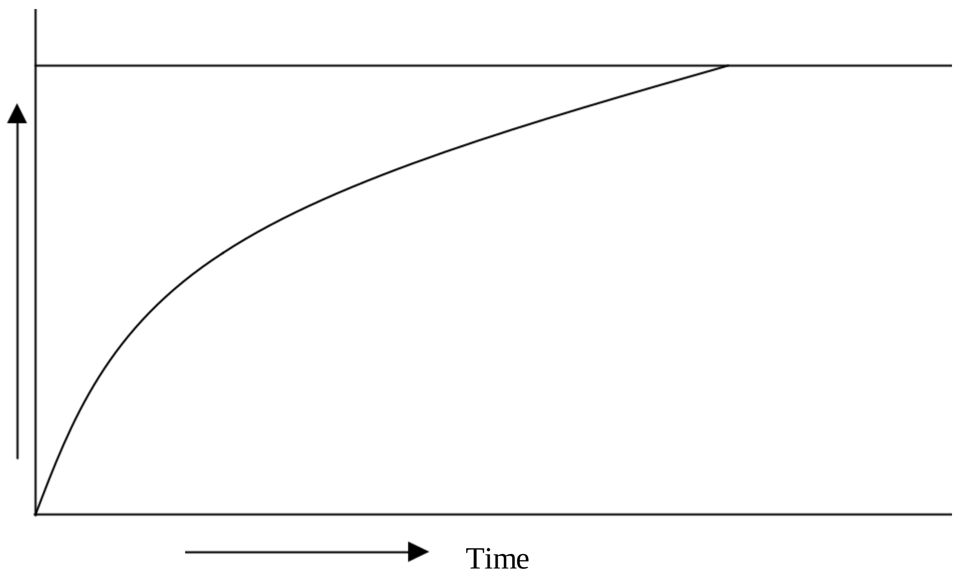

Fig (12.3.2.1) Learning Curve

Principle of Reinforcement

Reinforcement is the process by which certain types of behaviors are strengthened. Thus a "reinforcer." is any stimuli that cause certain behavior to be repeated or inhibited.

The organizations are interested that the employees behave in a manner that is desirable by the organization. In contrast to it, they are interested to eliminate undesirable behavior among workers. By introducing some reinforces, the organizations can maintain or increase the probability of such behaviors as quality oriented performance, accurate decision making, high level of attendance and punctuality and so on there are four basic reinforcement strategies following as:

Positive reinforcement

A positive reinforcement is a reward for a desired behavior. The reward should be powerful and durable so that it contributes to increase in desired behavior. Money is probably the most powerful reinforcement for positive behavior some of positive reinforcers are participative decision making recognition for a job done well, challenging task and freedom to decide how the job is to be done and so on.

Negative reinforcement

It is also known as "escape condition or "avoidance learning". This is also method to strengthen the desired behavior. Unlike the positive reinforce here employee works hard to avoid repercussion, reprimand and other aspects of the organizational environment. For example- the manager may like his sub ordinates to dress in a business suit when they come to work and may criticize individuals who dress casually. To avoid criticism, the employee may dress well to keep the manager happy.

Extinction

This type of reinforcement is applied to reduce undesirable behavior, especially when such behaviors were previously rewarded. This method is a suitable form of punishment in the form of withholding the positive enforcement or simply ignoring the undesirable behavior. For example, if an employee is consistently late to work and thus consistently fails to get praise from his superior and is not recommend for a pay raise, then we would expect his non-reinforcement for a pay raise, then we would expect his non-reinforcement to lead to "extinction" of the habit or behavior of coming late to work.

Punishment

It is most controversial method of behavior modification and involves delivering an unpleasant consequence contingent upon the occurrence of undesirable behavior. The punishment process is similar to the extinction process in that both have the effect of decreasing and eliminating the undesirable behavior, but technically there is a difference. In the extinction process, we withhold rewards for behavior that has previously been rewarded because the behavior was not undesirable previously. The punishment process on the other hand consists of "application" of an undesirable consequence or "withdrawal" of a desirable consequence for an undesirable behavior, which has never been associated with the reward before.

15.5 Motivation Process, Sources, Approaches, Motivation and Behaviour

15.5.1 Motivation Process

"Motivation represents an unsatisfied need which creates a state of tension or disequilibrium, causing the individual to move in a goal directed pattern towards restoring a state of equilibrium, the satisfying the need". Vitals define the motivation in the sense that motivated people are in constant state of tension. This tension is relieved by drives towards an activity and outcome that is meant to reduce or relieve such tension. The greater the tension, the more activity will be needed to bring about relief and hence higher the motivation.

Thus following figure can depict the basic motivation process.

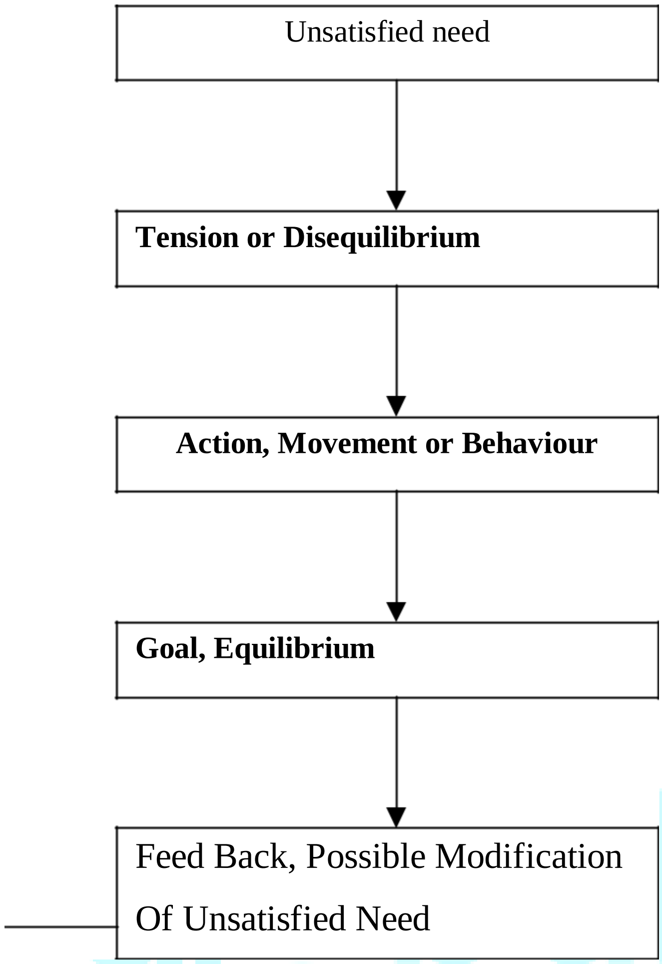

Fig (12.4.1.1) the Process of Motivation

Luthans (1986) sees motivation as a combination of needs, drives and incentives. Motivation is defined as a process that starts with psychological or physiological or physiological deficiency or need that activates behaviour or a drive that is aimed at a goal or incentive. Scott has defined motivation as "Motivation is a process of stimulating people to action up to accomplish desired goals".

As against this, McFarland has defined it as follows, “Motivation refers to the way in which urges, drives, desires, aspiration, strivings, needs direct, control, or explain the behaviour of human beings.

On analysis of these definitions, we can drive the following characteristics of motivation.

Motivation is psychological phenomenon, which generates with in an individual. Needs are feelings in the mind of a person that he lacks certain things. Such feelings affect the behaviour of the person.

Persons in totality, not in part, are motivation. Each individual in the organization is a self-contained and inseparable unit and his all needs are interrelated. Feelings of needs are a continuous process as such these create continuity in human behavior.

Motivation is a permanent and an integral part of human being. Motivation is persistence in the efforts. Motivation is continuously goal directed so that once a goal is achieved, a higher goal is selected and efforts are exercised towards this higher goal.

15.5.2 Sources of motivation

The employees of an organization are not equally motivated even under the same set of motivational factors. Some may motivate by rewards or some may motivate by fear or any punishment. On the basis of such behavior motivational sources can be classified as:

Positive motivation

It involves proper recognition of employee efforts and appreciation of employee contribution employee efforts and appreciation of employee contribution towards the organizational goal achievement. Such motivations improve the standards of performance, lead to team spirit and pride, a sense of cooperation and a feeling of belonging and happiness.

Negative motivation

This motivation is based upon the use of force, power, fear and threats. The fear of threats or unfavorable consequences affects the behavioral changes like, fear of failure in the examination induces motivation in many students to work harder and pass the course.

Extrinsic motivation

It is based upon the assumption that the behavior, which results in positive rewards, tends to be repeated. However, the reward for the desired behavior should be sufficiently powerful and durable as that it improves the probability of occurrence of desirable behavior. Money is the most powerful motivational factor.

4. Intrinsic motivation

Intrinsic motivation arises due to feelings of achievement and accomplishment and is concerned with the state of self-actualization in which the satisfaction of accomplishing something worthwhile motivates the employee further so that this motivation is self generated. This motivation is independent of financial rewards. For example, there are many retired doctors who work free in the hospital it give them a sense of accomplishment and satisfaction.

15.5.3 Approaches of motivation

There are basically two approaches developed to define a motivational process. One approach is based on the belief that there are certain drives and needs that motivate people to work is known as "content theories". Other approach is "process theories" which attempt to specify the variables that go into motivation and their relationship with each other.

Here we will discuss only the content theories. Some of the most important content theories are:

Maslow's Model

Abraham Maslow (1954, 1968) suggested a "need hierarchy model" to explain motivation. He suggested that people have a complex set of exceptionally strong needs and the behavior of individuals at a particular moment is usually determined by their strongest need. His model explained the five basic needs arranged in successive levels. These needs continue to change resulting in change in goals and activities. The first three needs at the bottom are collectively called as "deficiency needs" And the top two sets of needs are called as "growth needs" former needs must be satisfied in order to ensure the individual's very existence and security and make him fundamentally comfortable. Later needs are concerned with personal growth development and realization of one's potential.

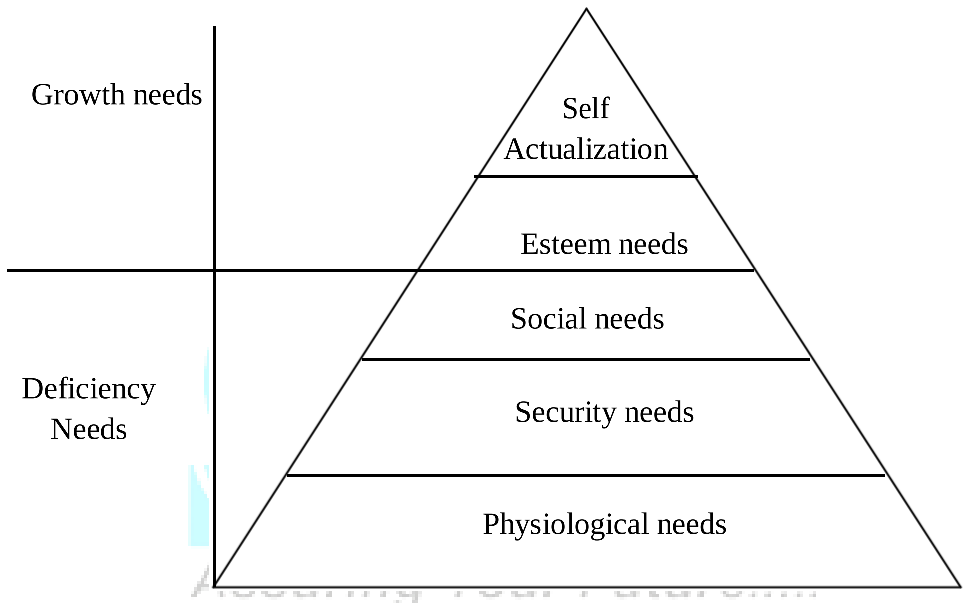

Fig (12.4.3.1) Need Hierarchy Model

Physiological needs

These needs form the foundation of the hierarchy and tend to have highest strength in terms of motivation. These are basic needs for food, water, shelter, clothing etc.

Security needs

Once the physiological needs gratified, the security needs become predominant. These needs include those of security, stability, freedom from anxiety and a structured and ordered environment. It also involves a sense of protection against threats and danger of losing of job in the future.

Social needs

After the needs of the body and security are satisfied, then a sense of belonging and acceptance becomes prominent in motivating behavior. These needs include the needs for love, friendship, affection and social interaction.

Esteem needs

This need for esteem is to attain recognition from other which would induce a feeling of self worth and self-confidence in the individual. It is an urge for achievement, prestige, status and power, self-respect in the internal recognition.

Self-Actualization needs

This last need is the need to develop fully and to realize one's capacities and potentialities to fullest extent possible, whatever these capacities and potentialities may be. This is the highest level of need in Maslow's hierarchy and is activated as a motivator when all other needs have been reasonably fulfilled. At these level persons seeks challenging work assignments that allow for creativity and opportunity for personal growth and advancement. This need is for soul searching and is inner – oriented.

ERG Theory

The ERG theory was developed by Clayton Alderfer. It is refinement of Maslow's need hierarchy theory. Instead of Maslow's five needs, ERG theory condensed these five needs into three needs. These three needs are named as Existence, Relatedness and Growth.

Existence needs

Similar to Maslow's physiological and safety needs. These include those needs which are meant for the existence of individual like for substance, shelter, physiological and psychological safety etc.

Relatedness needs

These needs are roughly correspond to social and esteem needs in Maslow's hierarchy. These needs are satisfied by personal relationships and social interaction with others.

Growth needs

These are the needs to develop and grow and reach the full potential that a person is capable of reaching. These are similar to Maslow's self-actualization needs. These needs includes new opportunities and challenging assignments

Herzberg's Two Factor Theory

Fredrick Herzberg and his associates developed the two factor theory in the rate 1960s. They had concluded by analyzing the relationship between working environment and the attitude of the employee towards his work. They had described the type of environment in which the workers felt good or bad about their job on the basis of such research they had categorized the factors into two categories. One category contains the factors that are consistently related to job satisfaction. Second one contains the factors that are consistently related to job dissatisfaction.

Hygiene factors

These are the factors, which are consistently related to job dissatisfaction. These factors do not motivate people. They simply prevent dissatisfaction. But it does not imply that they lead to satisfaction. Their presence maintains a zero level of motivation. E.g. low pay can cause dissatisfaction. But high pay can not increase satisfaction among workers.

Motivational Factors

These are factors, which are consistently related to job satisfaction. Their presence motivates workers and has positive effect on morale, satisfaction, efficiency and productivity like proper recognition and appreciation improves the satisfaction of employees. Opportunity for their development, certain authority delegated to them also acts as motivational factors that are responsible for satisfaction of employees.

Motivational process starts with feeling of certain deficiency in the mind of individual that is termed as need. Need create certain tension in mind and convert itself into want depending upon environment. This tension is released when this particular need is satisfied by certain behavior. In the environment incentives exists to satisfy the needs. A behavior end the moment tensions is released. However, satisfaction of one need leads to feeling to another need. Which may or not similar to previous one. So in that sense we can say that this process is continuous process.

15.5.4 Motivation and Behaviour

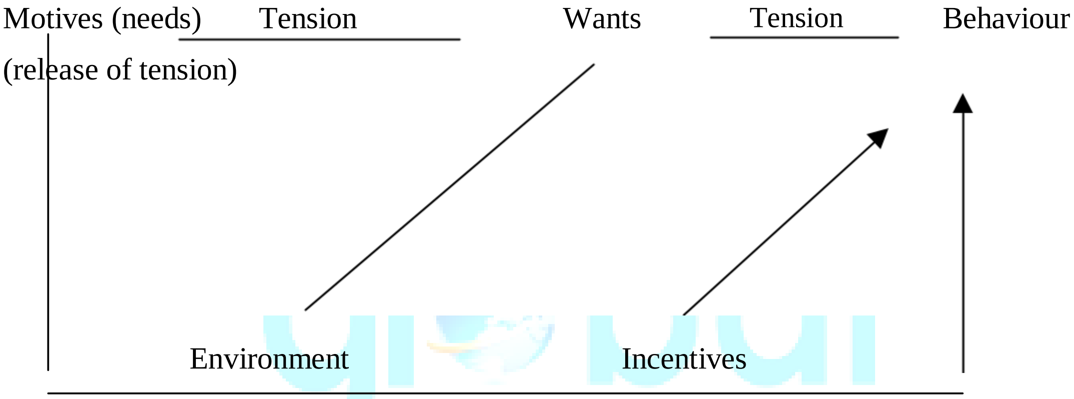

Fig (15.5.4.1) needs cause behavior

15.6 Personality development, Determinants, Dimensions

15.6.1 Personality Development

Personality is the concept, which is being used by us in our daily routine life. We identify the people as a pleasing personalized was produced by Gordon. All port more than 60 years ago. He defined personality as the dynamic organization with in the individual of those psychophysical systems that determine his unique adjustments to his environment. In other words, the personality and interacts with other.

15.6.2Personality Determinates

There are two broad categories of factors, which influence the formation, and development of personality. These are heredity factors and environmental factors.

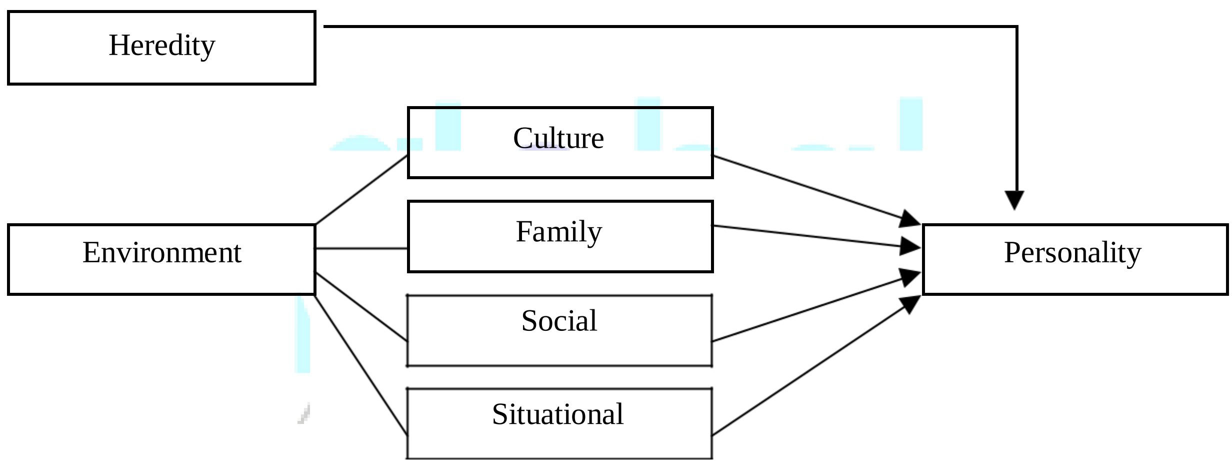

Fig (15.6.2.1) the Determinants of Personality

Heredity

Heredity refers to those factors that were determined at conception. Physical stature, facial attractiveness, gender, temperament, muscle composition and reflexes, energy level, and biological rhythms are characteristics that are generally considered to be influenced by parents. At conception, each parent normally contributes twenty-three chromosomes containing thousands of genes, which seems to be the transmitters of traits in certain combination. These traits are those of physique, eye color, hair color, attractiveness, height and nervous system.

Environment

Some of factors constituting the environment are:

Culture

The members of the society define culture as the sum total of learned behavior traits, which are manifested and should. Individuals born into a particular culture are exposed to existing values, beliefs and norms of that culture concerning an acceptable form of behavior.

Family

The immediate family plays an especially important part in the early personality development. The nature of such influences depends upon the socio economic level of the family, family size, birth order, race, religion, parent's educational level, geographic location etc. For example, a person belongs to poor family has different attitude towards like than a person coming from rich or stable family.

Social factors

A man is known by the company he keeps. The personality of a person is influenced by his friends, his peer groups at work, associates and his social circle. Much of the behavior is an outcome of respect for norms and laws of the society in which the individual exists.

Situational factors

The personality of individual influenced by events and experiences. Some traumatic experiences can sometimes change the personality of a person. There are a number of stories in Hindu scriptures where a dacoit or a killer came to a religious temple and a single interaction with priest changed him into a saint.

15.6.3 Dimensions of Personality

Personality is a set of relatively stable characteristics of people that account for consistency in their behavour in various situations.

Authoritarianism

It refers to blind acceptance of authority. These type of people believes in obedience and respect for authority. They are conservative, close minded, less educated and are concerned with toughness and power.

Bureaucratic personality

These personalities are not interested to blind respect of authority, but are based upon respect for organizational rules and regulations. Bureaucratic person values subordination rules conformity, orderly processes in the organization.

Machiavellianism

This term is associated with Nccola Machiavelli, a sixteenth century author. These types of personality have high confidence. They are cool and do not hesitate to manipulate others for personal gains. They are skilled to influencing others and they approach the situations thoughtfully and logically.

Problem solving style

Individuals have their own style to make a decision and this style reflects their behaviour. Some people are very thorough, meticulous, and detail oriented other are impulsive. The problem solving style includes two steps. First step is to collect and organize the date while the second step is to evaluate the data and make a decision.

Locus of control

Some people believe that they are master so of their own fate, and some believes that what happens to them in their lives is due to luck or chance. The former personality is called internals, who believe that they control what happens to them and later personality is called an externals, who believe that what happens to them is controlled by outside forces like fate or luck. A person's perception of the source of his or her fate is termed as locus of control. All most all the successful salespeople are internals. It is pretty difficult to succeed in sales if you do not believe you can effectively influence outcomes.

Introvert and extrovert personalities

Some personalities prefers to be alone and have difficulty in communicating are termed as introvert personalities. Some personalities are outgoing, objective, and aggressive and relate well with people is termed as extrovert personality. Introvert personalities are characterized by quiet, introspective, intellectual, well-ordered, emotionally inexpressive and prefers small groups of intimate friends on the other hand extroverts are characterized by sociable, lively, impulsive, seeking novelty and change, emotionally expressive and carefree.

Self-esteem

Self-esteem means the degree of respect a person has for himself. It is a measure of self-confidence and respect for one's abilities and motivation. It is also a higher level of need in Maslow's need hierarchy model. It is positively related to assertiveness, independence and creativity. Esteemed personalities are very friendly, affectionate and find it easy to form interpersonal attachment.

15.7 Role and Qualities of a Good Manager

Manager is a person who performs all managerial function with in organization effectively and efficiently. There is certain role expected from an effective manager.

Mintzberg (1973) developed model of ten related roles categorized into three categories namely:

1. Interpersonal Roles - Figure head Role
   Leader Role
   Liaison Role

   Disseminator
   Spokesperson

   Disturbance handler
   Resource allocator

Negotiator

Interpersonal Roles

Figurehead roles

It deals largely with ceremonial and symbolic activities that may or may not have real substance. Conducting tours for visiting dignitaries and attending grand opening ceremonies are examples of figurehead role.

Leader role

An executive must take initiation and motivate his subordinate to behave in particular way so that their efforts can lead to productive work.

Liaison role

An executive must develop and maintain a network of contacts outside the organization. Specific activities might involve mail correspondence and membership in professional organisation.

Informational role

These roles include the management of information. He has to obtain information and disseminate the information to needy.

Monitor role

It deals with search and collection of valuable information from both insides as well as out side the organization.

Disseminator role

It deals with transmission of relevant information to required person. The dissemination may be written or oral, formal or informal.

Spokesperson

The role deals with the dissemination of information to those outside the company related to strategies, corporate plans, policies etc.

3. Decisional roles

To solve certain routine and non-routine problems, a manager has to decide effectively.

Entrepreneur role

It is the process by which the manager seeks and identified opportunities to promote improvement and needed change.

Disturbance handler role

The manager has to take corrective action to resolve unexpected disturbances like strikes and natural disasters.

Resource allocator role

The manager has to allocate resources according to the budget and requirements. The allocation should be optimum with full utilization of resources.

Negotiator role

The manager has to negotiate resolutions to important disputes, both and inside outside of the company.

Quality of a Manager

Besides aforesaid role expected of managers, certain qualities are expected to be present in manager. He must act as self-starter and be able to take correct decision. He must be able to influence the behaviour of others. He is able to motivate subordinate to perform specific task. He must be creative, intelligent, and responsible and have clear thinking.

15.8 Summary

The present study is focused to describe the concept of human resource management. Human resource is a valuable resource of any organization as it contributes towards the accomplishment of organizational goals. Perception is also helpful to assess the organizational behavour. It states that people interpret what they see or hear with their own experience or beliefs. Similarly, learning. Process is also helpful to assess the ability to learn in an organization.

It states that there are certain stimulus response connection introduces a simple cause and effect relationship. Learning curve theory focuses that as the practice time passes the performance/degree of skill increases. There is also some consideration on motivational process and personality development. Motivational process represents a set of deficient need, which reinforces an individual to behave in particular direction. Similarly personality of individual can be defined as the sum total of ways in which an individual reacts and interacts with others. With pleasant personality one can influence the behavour of other. The role and quality of manager also described in present chapter. Being a manager he should act as a leader, motivator and resource allocator.

15.9 Key words

Intrinsic: existing in a thing as a natural or permanent quality, essential

Extinction: being, becoming or making extinct (with no living members; no longer active)

15.10 Self Assessment Questions

Define human resource management and discuss the perceptual process in detail.

Define the concept learning. Discuss the approaches to learning in detail.

Define the concept motivation. Discuss Maslow’s need hierarchy theory in detail.

Compare the Herzberg's two factor theory with Maslow's need hierarchy theory.

What is personality? What are various determinants of personality developments

Describe various roles and qualities of good manager.

15.11 Suggested Readings:

S.P. Robbins, Organizational Behaviour, Printice- Hall of India.

J.S. Chandan, Organization Behaviour, Vikas publication.

L.M. Prasad, Principles and Practice of Management, Sultan Chand Publications.

C. Martis and M.G. Diwan, Human Resource Management, Insurance Institute of India.

Gary Dessler, Human Resource Management, Printice Hall of India

Gene Burton and Manas Takur, Management today- Principles and Practices, Tata McGraw – Hill Publishing Company Limited.

C.B. Gupta, Human Resources Management, S. Chand and Sons.

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Lesson No: 16	**Vetter: Mr. B.K. Punia**

Entrepreneurship

Structure

16.1 Objective

16.2 Introduction

16.3 Concept of entrepreneurship

16.4 Creation of new venture

16.5 Sources of data collection

16.1 Objective

This lesson is intended to explain the concept of entrepreneurship and also focuses to impart the knowledge about advantages and disadvantages to be an entrepreneur. It also includes the role of new ventures in economic development and explains the preparation for a new venture. One can gather information through marketing research analyzing environment, competition and to assess the strategic planning for emerging venture. This lesson exclusively includes the venture life cycle concentrating at future trends in management have been discussed.

16.2 Introduction-Entrepreneurship

Entrepreneurship is more than the mere creation of business. Although that is certainly an important facet, it's not the complete picture. The characteristics of seeking opportunities, taking risk beyond security, and having the tenacity to push an idea through to reality combine into a special perspective that permeates entrepreneurs. An entrepreneurial perspective can be developed in individuals. This perspective can be exhibited inside or outside an organization, in profit or non-profit enterprises and in business or non-business activities for the purpose of bringing in advance creative ideas. Thus, entrepreneurship is an integrated concept that permeates an individual's business in an innovative manner.

16.3 Concept of Entrepreneur and Entrepreneurship, Advantages, Disadvantages, Characteristics of Successful Entrepreneurs, Profile of Today's Entrepreneur

16.3.1 Entrepreneur and entrepreneurship

The economy of country depends primarily on entrepreneurs. An entrepreneur is often considered as a person who sets up his own business or industry. The entrepreneur is the individual that identify the opportunities, gathers the necessary resources and is ultimately responsible for the performance of organization. Entrepreneurs are action oriented, highly motivated individuals who are willing-full to take risk to achieve goals. Entrepreneurship is the purposeful activity of an individual or a group of associated individuals, undertaken to initiate maintain or aggrandize profit by production, or distribution of economic goods and services. It is very often associated with adventurism, risk bearing, innovative creativity. It is concerned with making dynamic changes in the process of production, innovation in production, new usage for materials etc.

Concept of entrepreneur

The word “entrepreneur” is derived from the French word “entreprendre” which means to initiate or undertake. In the early sixteenth century, the Frenchmen who organised and led military expeditions were referred to as “entrepreneurs”. By French economist Richard Cantillon, the term entrepreneur was applied to business in early 18^{th} century. According to him, the entrepreneur buys the factor services at certain prices with a view to sell their products at uncertain prices in the future. Entrepreneurs, who willing to take risk have been the leaders that have produced our recent economic growth, The concept entrepreneurship is based on the theory of economy and society. The term entrepreneur is also coined by Frenchman J.B. Say around 1800. He postulated that the major role of entrepreneur is to exploit change, not by doing things better but by doing something different. He viewed the entrepreneur as someone in society who upsets and disorganizes the status quo.

Joseph Schumpeter, in his 1911 publication of "The theories of Economic Dynamics" was perhaps the first economist to support Says concept. He said that the entrepreneur is an advanced economy-a method of production not yet tested by experience in the branch of manufacturer concerned, a product with which consumers are not yet familiar, a new source of raw material or of new market and the like. He viewed an entrepreneur is an innovator, who introduces something new in the economy. Innovation may be called as "an introduction of new product, an introduction of new methods of production, developing new markets and finding fresh sources of raw materials and making the changes in the organization and management."

An entrepreneur, in the face of risk and uncertainty, combines resources in new and different ways to create value, often accomplished via the formation and development of new business ventures. Entrepreneurship is also very much alive in existing companies. It can be found in all sectors of society, not just in business. Although the concept entrepreneurship was developed and popularized in the context of a business environment.

16.3.2 Advantages to becoming an entrepreneur

Before starting a new venture, the potential entrepreneur should carefully review the advantages and disadvantages of a business, since success in never guaranteed. Most entrepreneurs invest their lives in starting and managing their business.

Opportunity to gain control over one's own destiny.

Opportunity to reach one's full potential.

Opportunity to benefit financially.

Opportunity to contribute to society and be recognized for one’s efforts.

16.3.3 Potential drawbacks to be an entrepreneur

Owning a business has many benefits and provides many opportunities. Nevertheless, anyone planning to enter the world of entrepreneur should be aware of the potential drawbacks.

Uncertainty of income.

Risk of losing your entire invested capital.

Long hours and hard work.

Lower quality of life until the business gets established.

Complete responsibility.

16.3.4 Characteristics of successful entrepreneurs

Commitment and determination

These attitudes are perhaps the most important personality traits in determining the relative success of an entrepreneur’s venture. Most new ventures require entrepreneurs to immerse themselves totally in their business. Without this level of commitment, an entrepreneur has much larger margins for mistakes.

Desire for responsibility

Entrepreneurs feel a personal responsibility for the outcome of ventures in which they are associated. This willingness to accept the responsibility for the outcome of the entrepreneurial venture is closely related to the deep desire of entrepreneurs to maintain an internal locus of control.

Opportunity obsession

Successful entrepreneurs are obsessed with goal achievement. To them, an established goal comes from the recognition of opportunity out of chaos.

Tolerance for risk, ambiguity and uncertainty

Successful entrepreneurs are not gamblers. They do not take wild risks. Rather, they are risk managers. Entrepreneurs have to show patience while facing uncertain situation.

Self-confidence

Successful entrepreneurs have substantial confidence in them selves. They firmly believe that what they accomplish is with in their over control. They tend to optimist.

Creativity and flexibility

A creative entrepreneurial mind is required to deal with the changing demand of their customers and their businesses. The ability to respond in a flexible manner to constant change requires a high degree of creativity.

Desire for immediate feedback

Successful entrepreneurs have a strong desire to improve their performance. They are always ready to learn from mistakes.

High level of energy

They are more energetic with full of new creative ideas. They are ready to work for long hours and hard work.

Motivation to excel

Successful entrepreneurs are highly motivated and self-starters and appear driven internally to compete against their own benchmarks.

Orientation to future

Research has indicated that entrepreneurs who created high growth ventures exhibited a far greater concern for the future than did those who headed row and medium growth ventures.

Leadership ability

Successful entrepreneurs have an ability to exert influence without power. This tactics requires that the entrepreneurs be more of a mediator or negotiator than dictator is. He is visionary leader, not dreamer.

16.3.5 Profile of today's entrepreneur

Age

Various studies report slight difference in the age of the entrepreneur at the time of venture creation. More than 50 percent of entrepreneur is between the age of 25 and 40 when they begin their business.

Women entrepreneurs

Today women are starting their own business and representing themselves as a fastest growing of the small-scale business. Currently, women in the United States own one third of all business.

Minority entrepreneurs

Minorities are choosing entrepreneurship more often than ever before. Asians, Hispanics, and African- Americans are most likely to become entrepreneurs. But minority business ownership remains low. For example, African-Americans makeup 12.4 percent of U.S. population, yet they own only 3 percent of nations business.

4. Immigrant entrepreneurs

The United States has always been attracted many immigrants by its economic freedom. Today's immigrants arrive with education and experience and establish their businesses.

5. Part time entrepreneurs

Starting a part time business is a popular gateway to entrepreneurship. The part time entrepreneur can ease into a business without sacrificing the other benefits.

6. Home –based new ventures

Home based businesses are booming. Some 26 million entrepreneurs now run companies from their homes.

7. Family-owned business

A family owned business is one that includes two or more members of a family with financial control of the company. Of the 20 million businesses. In the United States, 90 percent are family owned and managed. These companies employ more than 40 million people and generate 40-60 percent of the U S Gross National product (GNP).

Co-preneurs

Co-preneurs are entrepreneurial couples who work together as co-owners of their businesses. Estimates suggest that companies co-owned by spouses are one of the fastest growing businesses, up 90 percent from 1980.

16.4 Creation of New Venture

16.4.1 Predominance of new ventures in the economy

The past decade has demonstrated the powerful emergence of entrepreneurial activity in the United States Many statistics illustrated that, during the past ten years, new business incorporations averaged 600,000 per year. Although many of these incorporations may have been sole proprietorship previously, it still demonstrates venture activity, whether it was through start-ups, expansion or development. More specifically, 807,000 new small firms were established in 1995, an all-time record. Small firms constitute more than 90 percent of the entire business population. Approximately 12 million businesses have owners whose principal occupation is owning and operating them. Out of 12 million, approximately 7 million have owners who work for themselves without employing anyone else. Of the 5 million remaining firms, only 15,000 employ 500 or more people.

Three types of establishments have been identified by small business Administration: (1) “small” establishments owned by small enterprises, (2) “apparent small” establishments owned by large establishments, and (3) “large” establishments owned by large enterprises. Small enterprises are defined as having 100 or fewer employees; large enterprises have more than 100 employees. More than half of all businesses employ fewer than 5 people. More significantly, almost 90 percent of firms employ fewer than 20 people. This employment number is important, since all the small entrepreneurial firms have created the most net new jobs in the U.S. economy from 1977 to 1990. In addition, the smallest of our enterprises have created a steady supply of net new jobs over the business cycle from 1977 to 1990.

16.4.2 Environmental assessment

This often entails evaluating the general economic environment and determining about the governmental regulations, both national and local, will impact the venture. A more detailed evaluation of the industry is then made, with primary consideration given to such areas as common industry characteristics, barrier to entry, and competitive analysis. For a new venture environment is assessed internal and external before making a decision. External environment consists of variables (opportunities and threats) that are outside the organization and consists of two parts namely task environment and societal environment. The task environment includes elements or groups that directly affect and are affected by an organization's major operations. Some of these are stockholders, governments, suppliers, local communities, competitors, customers, creditors, labour unions, special interest groups, and trade associations. The task environment generally referred to as its industry.

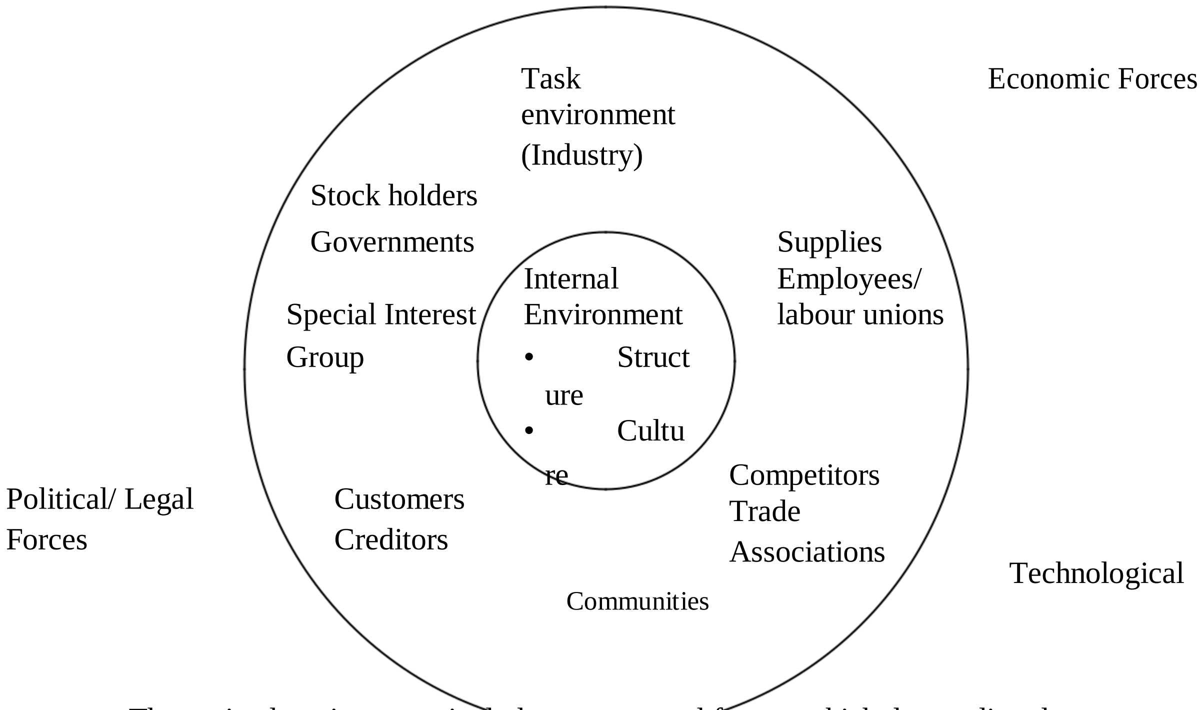

Fig (13.2.2.1) Environmental Variables

The societal environment includes more genral forces, which do not directly thouch the shourt run activity of the organization but can, and often do, influence its long run decisions.

The internal environment of a venture consists of ventrues structure, culture and resoruces. They explore the strengths and weaknesses that are within the organization itself and are not ususally within the short run control of the enterpreneurs. The venture structure consists of communication, authority, and work flow. The organizational culture is the pattern of beliefs, expectations and value shared by organizational's members. Resoruces are the assets that form the raw material for the production of an organization's products or services.

While assessing the environment of an enterpreneur, two major areas should be considered.

Assessing the economic environment

Assessing the industry enviroment

Assessing the economic environment

The economic environment plays a vital role in the success and failure of any new venture. An assessment of the economic environment can help them to avoid pitfalls. Some of the most import questions to be answered followed: How many firms are in this industry? Do the firms vary in size and general characteristics, or are they all similar? Do the firms serve only the domestic market? What is the competitive nature of this business?

Answers to these questions provide an overall picture of the business climate with in which a new venture will operate. In addition, entrepreneurs with emerging new ventures must realize that certain attitudes and skills are needed for proper assessment of the environment.

Understanding the regulatory environment

A business must comply with governmental rules and regulations. Costs and profits can be affected as much by government policies. Over the past decade, government has become a partner to small business. The administrator have begun to establish new ground rules by which small business venture have as equal a chance to survive and prosper as large ventures. A coalition to advocate the interests of small firms and new venture is now emerging, and a network of state commerce departments, trade and professional associations, the national chamber of commerce, the small business administration (SBA), and certain universities is developing a stronger voice for the small business person over the past few decades, many legislators focused their attention on big business and expected small business to fall into the line. Today, the past few years have seen a shift in the attitudes and actions of legislators.

A number of reasons can be cited for this shift; an awareness of the need to strengthen the small business sector of the economy; an efforts to increase national employment by promoting small business interest; and the growth of foreign multinationals in the country.

Governmental regulations affect smaller venture in a variety of ways:

Prices – Small businesses are often forced to raise their prices to absorb the cost of regulatory compliance.

Cost inequities – Financially, small businesses feel the burnt of regulatory burdens more than big businesses.

Competitive restriction – Greater burden discouraging small business and subtly encouraging large corporations.

Managerial restriction – Small business has to sacrifice their valuable managerial time due to development of a paper work – imposed duties etc.

Mental burden – Postponed projects, wasted time and managerial failure due to lock of time and energy all contribute to frustrate and may spell failure to small business.

Trades in policy formation

The political influence of entrepreneurs has been steadily growing over the past decade. Regulatory reform legislation has established milestone laws that offer small businesses some objective consideration. Three of these acts are highlighted here.

The regulatory flexibility act

This act recognizes that the size of a business has a bearing on its ability to comply with federal regulation. The law puts the burden of review on the government to assure that legislation does not unfairly impact small business. The major goals of this act are (1) to increase agency awareness and understanding of the impact of agency regulations on small business, (2) to require that agencies communicate and explain their findings to the public, and (3) to encourage agencies to provide regulatory relief to small entities.

The equal assess to justice act

This act provides greater equity between small business and regulatory bodies. According to this act, if a small business challenges a regulatory agency and wins, the regulatory agency must pay the legal costs of the small business. The main objectives are

the government or the small business may initiate litigation, (2) bad faith by the governmental agency does not have to be proven, (3) substantially justified actions must be demonstrated by the agency, (4) no dollar limit to the awards exists, (5) to receive an award, the business does not have to prevail on all issues.

The prompt payment act

This act was enacted in 1982 to help small businesses doing work for the federal government to collect their money. The act requires that bills be paid in 30 days with an additional 15 days grace period. Interest penalty charges become retroactive from the 30 days point. If any partial contractual disputes occur, the federal agency cannot withhold the entire contracted amount. Only the disputed monies may be withheld, the remaining bills must be paid.

Assessing industry environment

Strategic consultant Michal E. Porter has suggested that, environmental assessment involve asking two critical questions, " First, what is the structure of your industry, and how is it likely to evolve over time?" Second, what is the company's relative position in the industry? An entrepreneur will not do well if it is not attractive as well as does not hold a good position in an industry. Although industries varied in a size and development, certain characteristics are common to new and emerging industries. The most important are discussed here.

Technological uncertainty

A great of uncertainty usually exists about the technology in an emerging industry. What product configuration will ultimately prove to be best? Which product technology will prove to be most efficient? And, how difficult will it be to develop this technology?

Strategic uncertainty

Since no “right” strategy has been clearly identified, industry participants will formulate different approaches to product positioning, advertising, pricing, and the like, as well as different product configurations or production technologies.

First time buyers

Buyers of an emerging industry’s products or services are called first time buyers. The marketing task is thus one of substitution, or getting the buyer to make the initial purchase of the new product or services.

Short time horizons

In much emerging industry, there a pressure to develop or produce products that must satisfy consumers need. For this they have very little time to get an attention of consumers.

Barriers to entry

There are certain entry barriers that restrict the entry of new business/firms. These are proprietary technology (expensive to access), access to distribution channels (limited or closed to new comers), access to raw materials and other inputs (Skilled labour), cost disadvantages due to lack of experience etc.

Competitive analysis

Both the quality and quantity of competition must be carefully scrutinized. This competitive analysis involves consideration of the number of competitive analysis involves consideration of the number of competitors as well as the strength of each.

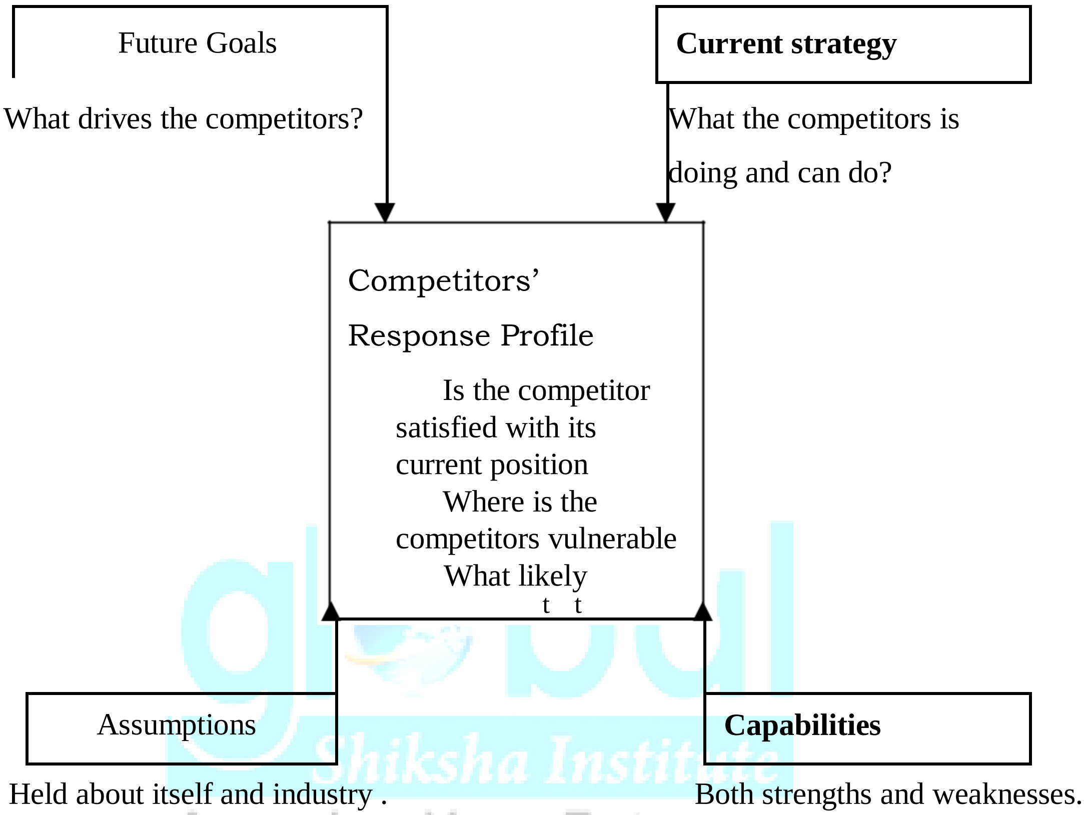

Fig (13.2.2.1) Components of a competitive Analysis

A number of useful steps can assist an entrepreneur with examining the industry.

Clearly define the industry for the new venture will provide a better chance to sound start.

An analysis of the number, relative size, traditions, and cost structure of direct competitors in an industry can help to establish the nature of competition.

Determine the strength and characteristics of suppliers.

Establish the value added measures of the new venture is useful to introduce backward or forward integration. Backward integration is the movement of buyer to acquire supplier services. Forward integration is the movement of supplier to absorb the duty of buyer.

16.4.3 Market research for new venture

A ‘market’ is a group of potential consumers who have purchasing power and unsatisfied needs. A new venture will survive only if a market exists for its products or services. This is so obvious that it would seem every entrepreneur would prepare thoroughly the market analysis is need to establish a target market.

Thus “Marketing research” involves the gathering of information about a particular market, followed by analysis of that information. The first step in marketing research is to define precisely the informational requirements of the decision to be made. In addition, specific objectives should be established like:

Identify potential consumers go to purchase the goods in question.
Why they choose to go there?
What is the size of the market?
What impact does the business promotion?
How does the business compare with competitors?

The process of marketing research starts with collection of data. The data collected can be of primary nature or secondary nature. Primary data is defined as the data collected by researcher him on first hand. Secondary data may be defined as information that has already been compiled. Generally, collection of secondary data is less expensive to gather than new or primary data.

16.5 Sources of data collection

Sources of primary data collection

To collect primary data, several techniques can be used. These are often classified as observational method and questioning method. Observational method avoids contact with respondents, where as questioning method involves respondents in varying degree.

Questioning method can be used by two ways, (1) survey method, and (2) is experimentation.

Survey includes contact by mail, telephone, and personal interviews. Mail surveys are often used in case of dispersed respondents. Experimentation is a form of research that concentrates on investigating cause-and-effect relationship. The goal is to establish the effect an experimental variable has on a dependent variable.

Sources of secondary data collection

Secondary data is readily available data. Secondary data may be internal or external. Internal secondary data consist of information that exists with in the venture. For example, the various records of the business are containing useful information. External secondary data are available in numerous periodicals, trade association literature, and government publications. Sometime one problem can be faced by researcher that the secondary data may be outdated and, therefore less useful.

Interpreting and reporting the information

After the accumulation of necessary data, it should be developed into usable information. Large quantities of data are only facts. They must be organized and molded into meaningful information. The methods of summarizing and simplifying information for users include tables, charts, and other graphic representation. Descriptive statistics, such as the means mode, and median, are the most helpful in this step of the research procedure.

Limitations of marketing research

Cost: Marketing research can be expensive, and some entrepreneurs believe that only major organizations can afford it.

Complexity: Marketing research is a collection of various steps involving sampling, surveying and statistical analysis. The quantitative analysis is most complex technique and entrepreneurs have to depend upon the expert for reliable results.

Strategic decisions: Some entrepreneurs feel that only major strategic decisions need to be supported through marketing research. This idea is tied to the cost and complexity issues already discussed.

Irrelevancy: As marketing research is concerned with collection of data. The collected data may be relevant or irrelevant. Many entrepreneurs believe marketing research data will carry information, which is already known to entrepreneurs. Thus, most of entrepreneurs inhibit the use of marketing research.

Marketing stages for growing ventures

Most emerging ventures will evolve through a series of marketing stages. In each stage the marketing function will differ; thus each requires a specific type of marketing strategy. A growing venture has four distinct stages; entrepreneurial marketing is called as stage – I, opportunistic marketing is stage – II, responsive marketing is stage III, and diversified marketing is stage IV.

Stage I, describes a strategy of developing a market niche and a goal of attaining credibility in the market place.

Stage II, seeks a strategy of strategy of market penetration for the purpose of attaining sales volume.

Stage III, seeks to develop product- market to create customer satisfaction.

Stage IV, focuses on new business development and seeks to manage the product lifecycle.

The following table is useful to explain each stage in relation to marketing strategy, marketing organization, marketing goals and critical success factors.

The Evaluation of Marketing Research

	Stage I Entrepreneurial Marketing	Stage II Opportunistic Marketing	Stage III Responsive marketing	Stage IV Diversified marketing
Marketing Strategy	Market niche	Market Penetration	Product Market development	New business development
Marketing organization	Informal, Flexible	Sales management	Product-market Management	Corporate and divisional levels
Marketing Goals.	Credibility in the market place	Sales Volume	Customer satisfaction	Product life cycle and portfolio management
Critical success factors	A little help from your friends	Production economies	Functional coordination	Entrepreneurship and innovation

16.6 Structuring the New Business Venture, Strategic Planning For Emerging Venture

Structuring the new business venture

Before deciding how to organize an operation, prospective entrepreneurs need to identify the legal structure that will best suit the demand of the venture. Three primary forms of organization are the sole proprietorship, the partner ship, and the corporation.

Sole proprietorships

A sole proprietorship is a business that is owned by and operated by single person. The enterprise has no existence apart from its owner. This individual has a right to all the profits and bears all of the liability of the debts and obligations of the business. The individual also has unlimited liability, which means his/her business and personal assets stand behind the operation. It the company cannot meet its financial obligations, the owner can be forced to sell his family car, house and whatever assets would satisfy the creditors.

Advantages

Less formality and fewer restrictions are associated with establishing a sole proprietorship.

The owner is the only person responsible for profit.
Decision making authority retains to one person only.
Except for requiring the necessary information licenses, very little governmental interference occurs in the operation.
They have freedom from corporate business taxes.

Disadvantages

In spite of advantage of sole proprietorship, some disadvantages are also listed below.

The individual proprietor is only responsible for unlimited liabilities.
The enterprise may be terminated if the owner become ill or dies.
Less available capital is also a problem faced by individual owner of sole proprietorship.
Because the enterprise rests exclusively on one person, it often has difficulty to raise long-term capital.

The partnerships

A partnership is an association of two or more persons acting as co-owners of a business for profit. Each partner contributes money, property, labour, and skills and each share in profits as well as losses of the business. The uniform partnership act is generally followed by most states as the guide for legal requirements in forming a partnership. The articles of partnership clearly outline the financial and managerial contributions of the partners and carefully delineate the roles in the partnership relationship.

Advantages of partnerships

Legal formalities and expensive are few than the complex enterprise.
Partnership is motivated to put their best efforts by direct sharing of profits.
Partnership facilitates growth and performance to enterprise.
They have relative freedom from government control and regulations.

In spite of above advantages, partnerships also have certain disadvantages, although some partners can have limited liability, at least one must be a general partner who assumes unlimited liability. Most partnership has some problem in raising a great deal of capital, especially when long-term financing is involved. It is also difficult to dispose of partnership interest.

Partnership success

The desire and decision to form partnerships appear to be fairly well understood. However, every little information is available regarding the process required to develop and nurture partnership. There are certain key factors responsible for partnership success. These variables commitment, coordination, interdependence, trust on each other are termed as partnership attributes. There are certain communication behaviour explain the success of partnership. These variables are quality of information is sharing, and the level of participation in decision making.

The last variable is conflict resolution techniques used in partnerships. These techniques are problem can be solved by joint consultation, persuasion, smoothing, up to what extent they are dominating on each other, the level of using harsh words and lastly the use of arbitration.

Corporations

A Corporation is an artificial being, invisible intangible and existing only in contemplation of the low. As such, a corporation is a separate legal entity apart from the individuals who own it. A Corporation is created by the authority of state laws and is usually formed when a transfer of money or property by prospective shareholders takes place in exchange for capital stock (ownership certificate) in the corporation. The procedures ordinarily required to form a corporation are (1) subscription for capital stock must be taken and a tentative organization may created, and (2) approval must be obtained from the secretary of state in the state in which the corporation is to be formed.

Advantages and disadvantages of corporations

The stockholder's liability is limited the individual's investment. Ownership can be transferred trough the sale of stock to interested buyers. Long term funds can be raised through issuing of bongs and shares against he assets of the business or personal guarantees of the major stockholders.

Beyond the aforesaid advantages, certain limitations are also associated with corporation. Corporate activities are limited by the charter and by various laws. Minority stockholders are sometimes outvoted by the majority, who forces their will on the others. Government regulations are extensively imposed followed by a lot of paperwork and red tape.

Franchising

Today more than a third of all retail sales and an increasing part of the gross domestic product are generated by private franchises. A franchise is any arrangement in which the owner of a trademarks, trade name, or copyright has licensed other to use it in selling goods or services. A franchise is generally legally independent but economically dependent on the integrated business system of the franchiser. The merits of franchising as compared to starting a new business or buying an existing one, is that the franchiser will usually provide both training and guidance to franchisee. As a result, the likelihood of success is much greater. A well-known brand has a good chance to succeed. Another benefit is that franchiser has already proved the operation can been successful. Of course, it is not the case of first time franchising. Apart from this, certain limitations are also associated with franchising. The most important is franchisee fee. The large and more successful franchiser, the greater is the franchisee fee. Another important disadvantages are the franchisee fee. Other important disadvantages are the franchiser control over franchisee. If entrepreneurs do not follow franchiser directions, they may not have their franchisee license renewed when the contract expires. Strategic planning for emerging ventures

Strategic planning is the formulation of long range plans for the effective management of environmental opportunities and threats in the light of venture's strength and weaknesses. It includes defining the venture's mission, specifying achievable objectives, developing strategies and setting policy guidelines.

Thus strategic planning is a primary step in determining the future direction of a business. These are five basic steps involved in strategic Planning:

Examine the internal and external environments of the venture (strengths, weaknesses, opportunities and threats).

Formulate the ventures long range and short range strategies (mission, objectives, strategies and policies).

Implement the strategic plan (programs, budgets and procedures).

Evaluate the performance of the strategy.

Take follow-up action through continuous feedback.

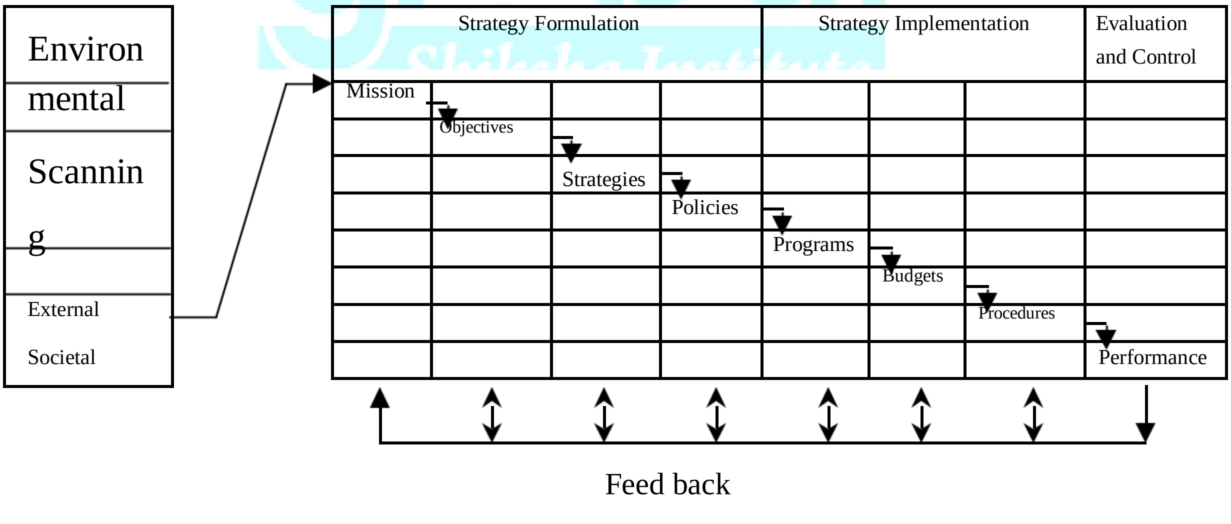

Fig (13.3.2.1) Strategic Management Model

A clear review of a ventures internal and external factor is needed, and both sets of factors must be considered when performing an environment analysis. This analysis is often is called a SWOT analysis. SWOT is an acronym for a venture's internal strengths and weaknesses and its external opportunities and threats. By focusing on this analysis, an emerging venture can proceed through other steps of formulation, implementation, evaluation and feedback.

Key dimensions influencing a firms strategic planning activities

1. Demand on strategic manager's time

From their perspective, increased strategic planning activity provides the means to accommodate owner-managers need to maintain control and direction of the enterprise, while giving up some activities in recognition of increased time pressures.

2. Decision making speed

More systematic strategic planning practices are needed for entrepreneurs to guide and control the increasing decision making with in time.

3. Problems of internal politics

Strategic planning practices are seen as one way to alleviate difficulties associated with the dysfunctional effects of internal politics on organizational decision making.

4. Environmental Uncertainty

The need of strategic planning is greater in the presence of increased environmental uncertainty.

5. Entrepreneur's vision

To a large degree, venture planning is an extension of the entrepreneurial ego. Planning is the process of transforming vision and idea into action.

Limitations of strategic planning

The importance of new ventures to the economy is substantial in terms of innovations, employment, and sales and effective planning can help these new firms survive and grow. Unfortunately, research has shown a distinct lack of planning on the part of new ventures.

Time scarcity: Managers report that they have scarce time and difficult to allocate to planning in the face of day-to-day operating problems.

Lack of knowledge: Small firms have little knowledge of and minimal exposure to planning process. The entrepreneurs are also unfamiliar with many planning information sources and how they can be used.

Lack of expertise/skills: Small business managers typically are generalists, and they often lack the specialized expertise necessary for the planning process.

Lack of trust and openness: Small firm owners are highly sensitive and guarded about their businesses and the decisions that affect them. Consequently, they are hesitant to formulate a strategic plan that requires participation by employees or outside consultants.

Perception of high cost: Small business owners perceive the cost associated with planning to be very high. This fears of expensive planning causes many business owners to avoid or ignore planning as a viable process.

In addition to these difficulties, others factors have been reported as difficulties of the planning process namely, in adequately defined objectives, securing commitment from employees, insufficient time for planning, unpredictable political environment, unfavourable economic situation, insufficient subordinate participation, and inexperienced managers. Quite obviously, strategic planning is no easy chore for new ventures.

On the other hand, many benefits can be gained from such planning.

The value of strategic planning

All of the research indicates that firms that engage in strategic planning are more effective than those that do not are. Study reported benefits of strategic planning are cost saving, more efficient resource allocation improved competitive position, more timely information, more accurate forecasts, better employee morale, ability to explore alternatives, reduced feelings of uncertainty, faster decision making, fewer cash flow problems, and increased sales.

16.7 Managing Entrepreneurial Growth, Venture Life Cycle

Managing entrepreneurial growth

This may be the most critical tactics for the future success of business enterprises. After initiating of a new venture, the entrepreneur needs to develop an understanding of management change. The survival and growth of a new venture require that the entrepreneur possess both strategic and tactical skills and abilities. Which specific skills and abilities are needed depends in part on the ventures current development.

Venture Life Cycle

As shown in fig, the traditional life-cycle stages of an enterprise. These stages include new venture development, startup activities, growth, stabilization, and innovation and decline.

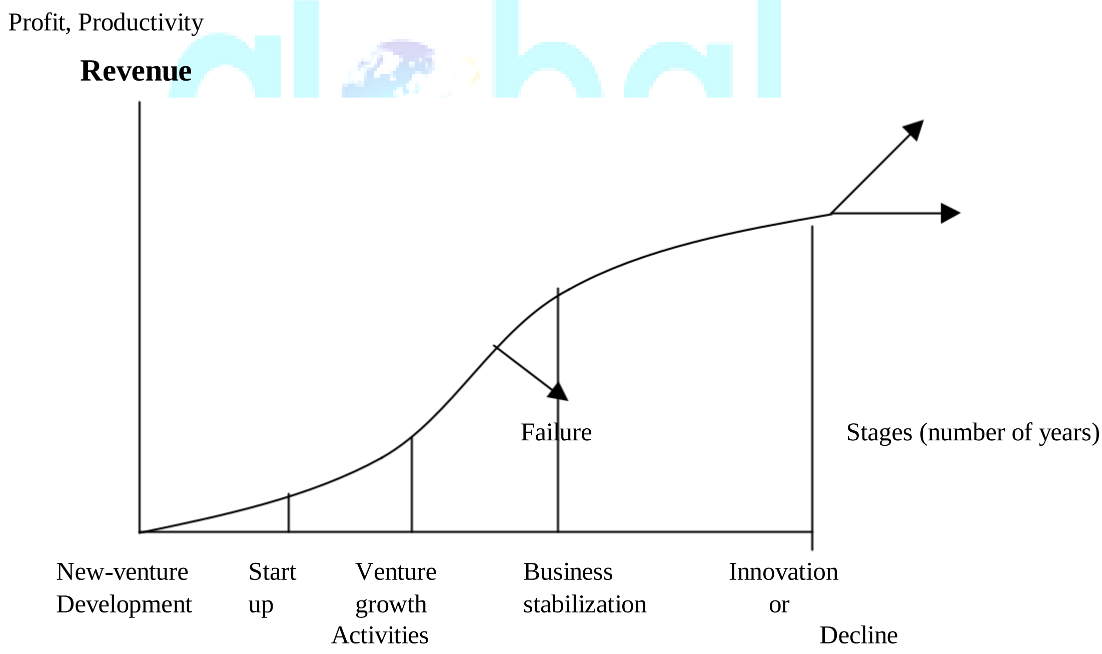

Fig (13.4.2.1) venture life cycle

New-venture development

This is first stage, consists of activities associated with the initial formulation of the venture. This initial phase is the foundation of the entrepreneurial process and requires creativity and assessment. In addition to accumulation and expansion of resources, this is a creativity, assessment and networking stage for initial entrepreneurial strategy formulation. The enterprise's general philosophy, mission, scope and direction are determined during this stage.

Start up activities

This is second stage, encompasses the foundation work needed for creating a formal business plan, searching for capital, carrying out marketing activities and developing an effective entrepreneurial team. These activities typically demand on aggressive entrepreneurial strategy with maximum efforts devoted to launching the venture.

Growth

This stage often requires major changes in entrepreneurial strategy. Competition and other market forces call for the formulation of strategies. This growth stage presents newer and more dominant problems than those the entrepreneur faced during the startup stage. This growth stage is a transition from entrepreneurial one person leadership to managerial team oriented leadership.

Business stabilization

This stage is a result of both market conditions and entrepreneurs efforts. During this stage a number of developments commonly occur, including increased competition, consumer indifference to the entrepreneurs good(s) or service (s), and saturation of the market with a host of "me too" look alike. Sales begin to stabilize and the entrepreneur must begin thinking about where the enterprise will go ever the next three to five years.

Innovation or Decline

The last stage, firms that fail-to innovate will die. Financially successful enterprises often will try to acquire other innovative firms, thereby ensuring their own growth. Also, many firms will work on new product/service development in order to complement current offerings.

All of venture's life cycle stages are important strategic points and each requires a different set of strategies.

16.8 Management In Future

No one can deny that the role of management in contemporary society is changing. There are certain factors responsible for changing role.

Forces for change

In general, four basic forces currently shape the manager's job. First, more and more firms are recognizing the need to cut back and retrench aimed at eliminating unnecessary flattening their structures by eliminating unnecessary costs and unprofitable operations. In, addition many firms are flattening their structures by eliminating levels of management, which is called as downsizing.

Second, advances in computers and communications technology are greatly altering the nature of managerial work. Machines replace the human resources and software is being developed that can significantly aid managers in their jobs.

Third, the rapid growth in the service sector promises to continue. This means that a greater array of services will be available for all types of consumers, more and different kinds of managerial positions will be available with in service firms, and new services not yet imaginable will emerge.

Finally, the emerging importance of small businesses and entrepreneurship will play a major role in shaping the future of management. More people than ever before are choosing to work for themselves. Small business growth is mushrooming, and successful entrepreneurs such as Steve Jobs, Bill Gates, and Sam Walton have increasingly become popular figure in the United States and the world.

Effects of change

The effects of this change can demonstrate by two dimensions, which in turn Directly affect the degree of uncertainty, which managers and organizations face. One dimension is increased dynamism – that is, an increase in the rate of change. Other dimension is complexity refers to the sheer number of issues, problems, opportunities and threats that must be considered. In the past most managers needed to concern themselves

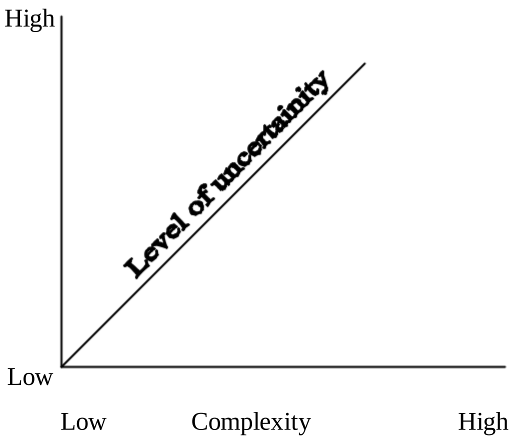

Fig Increased managerial uncertainty

with only a limited number of environmental elements. Now the number of competitor regulators, suppliers, and customer continue to increase rapidly. This combination often results in surprising relationships. For example, General Motors and Toyota are competitors in the world market place for automobiles, but in California, they are collaborating in a venture.

Figure demonstrated that both the dimensions, dynamism and complexity rises, the level of uncertainty will also rise in the same proportion.

Organizational governance

Organizational governance refers to the rights and privilege of the organizations and the individuals in those organizations. The trend toward even more employee participation in decision making through such arrangements are semiautonomous work teams and quality circles suggests that workers will have increasing influence on what occurs in workplace.

Other issue involves the constitutional rights of employee while they are at work. Another governance involves the employee's legal claim to his job. The doctrine of "employee at will" generally governed the implied employment contract between the worker and the organization. This doctrine held that the organization was free to employ someone at will and could therefore dismiss the employee at any time for any reason. All these practices affect the future of management.

Global interdependence

The increase in international competition and movement toward a truly global economy will mean that many future managers will need to be fluent in more than one language. In addition, these involve the heighten level of uncertainty and complexity managers will face in future. Balance of payments deficit and international world war will affect the future of managers significantly. Another implication is with the increased global interdependence; the distinction between domestic and foreign is blurred.

Information technology

We have also considered some of the dramatic changes and effects on management caused by innovations in information technology in general and computers in particular. The advent of computers, computer networks, and electronic mail helps managers to access information, sort and process information and disseminate the information to others very quickly. Secondly, Managers will need to assess new generation of computers as well as each new developed application, so that productivity can be enhanced. Lastly, every organization will have to contend with issues of supervision and coordination.

Organizational dynamics

The way in which organizations structure themselves and manage their employees is called as organizational dynamics. For example, the distinction between line and staff workers is already becoming blurred. Employees are better educated and more and more women and members of minority groups are entering the workplace and competing effectively for higher level positions. Organizations find that they must explore a variety of compensation arrangements, benefits offering and flexible at work schedule.

Beyond general issues there are certain specific issues affecting the future activities of managers.

Stress

The problem of occupational stress has emerged as an important concern for individual managers and organizations alike. Stress or physical or emotional tension occurs when a person is subjected to unusual situations, to demands that are difficult to handle. Starting a new job, trying to win a promotion, long working hours, being pressured by a demanding boss all includes stress. Of course, a moderate level of stress is normal, and in fact healthy.

Career issues

Other significant issues in the manager's future relate to his/her career, particularly to what might be called forced mobility. In the past people started working for a company right after college. One or more job changes in the early years were normal, but by mid career most people had settled with one company. In this age of retrenchment and downsizing, however, it is becoming increasingly common for organizations to fire people in the middle of their career. It is also becoming more common for managers to move frequently, some to get extra pay, some to accelerate advancement, and others to find new challenges.

Changing demographics at work

Organizational demographics refer to the age, sex, education, race, ethnic background, country of national origin, and experience of the work force has begun to change. The more obvious aspects of that change are reflected in the increasing presence of women and minority group members in management. Communication patterns will also change. Mobility and dual career problem will increase; this complexity will further contribute to the stress problem.

Preparing for the future

To become better equipped for the future managers must develop an awareness of change, continue to train for changes, learn to adopt and develop a professional view of their work. Simply, managers need to be aware that things are changing. Education is a life long experience for the manager. Throughout his/her career he/she will learn new thing from his/her job, and he/she will participate in training and development programs.

16.9 Summary

This chapter attempted to provide a broad perspective of the entrepreneur and entrepreneurship. Beginning with the concept of entrepreneurship, advantages and disadvantages have been discussed. Characteristics of successful entrepreneurs have been discussed. Today's entrepreneurs are a reflection of our diverse society and reflect recent changes in orientation to life and career. Women are the fastest growing group of entrepreneurs. Many part time entrepreneurs now "test the water" before making a total commitment. Family owned businesses still dominate in the number of business firms in America. Many of new ventures are targeted at market opportunities that will allow the firm to grow at a faster rate and produce major employment in the economy.

In assessing a new venture, entrepreneurs considered a number of different environments. One of them is economic environment and other is industry environment. In relation to this, marketing research has to be included in present chapter. Marketing research includes gathering of information proceed to analyse, evaluate and interpretation of data. Entrepreneurs do not carry out marketing research due to cost, complexity and collection of irrelevant data.

This chapter also focused three main forms of legal organizations viz. sole proprietorship, partnership and corporations. The advantage and disadvantages of each form were highlighted and compared. In addition franchising was also discussed with emphasis on advantages and disadvantages. In addition to this, many ways of strategic planning for a new venture with its benefits was discussed. Entrepreneurs do not use

strategic planning due to scarce time, lack of knowledge, lack of experience etc. A typical life cycle of a venture has been explained with its five distinct stages.

Finally, future trends in management have been discussed with factors responsible to affect the management practices. Some of them were considered as general factors and other were treated as specific like stress, career issues etc. At last, we have discussed about the solutions of these problems.

16.10 Key words

Obsession: the state of being obsessed

Predominance: exert control

Franchising: to right to vote in public relations

16.11 Self Assessment Questions

What do you mean by entrepreneur and enterpreneurship; also discuss the advantages and disadvantages to create a new venture.

What does the study of the characteristics of successful entrepreneurs tell us about why they succeed?

Describe the predominance of new venture in the economy.

Identify and describe the factors responsible to assess economic and Industry environment.

How can marketing research help an entrepreneur identify the market?

How do you estimate the value of strategic planning for new venture?

Discuss venture life cycle in detail.

What are the major forces bringing about change in management and organizations?

How should managers prepare themselves and their organizations for future?

16.12 Suggested readings

Donald F. Kuratko, Richard M. Hudgetts, Enterpreneurship – A Contemporary Approach, The Dryden press, Harcourt Brace College Publishers.

Thomas W. Zimmerer, Norman M. Scarborough, Enterpreneurship And New Venture Formation, Printice Hall, Upper Saddle River, New Jersey 07458.

Robert D. Hisrich, Michael P. Peters, Enterpreneurship, Tata McGraw Hill Publishing Company, New Delhi.

Van Fleet, Contemporary Management, Houghton Mifflin Company Boston.

Gene Burton And Manab Thakur, Management Today – Principles and Practice, Tata McGraw Hill Publishing Company, New Delhi.

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Course Code : **Vetter :**

Subject :

Lesson : 13

ENTREPRENEURSHIP

Objective

This lesson is intended to explain the concept of entrepreneurship. The study also focuses to impart the knowledge about advantages and disadvantages to be an entrepreneur. The study also includes profile of today's entrepreneur. The study also includes the role of new ventures in economic development. The main aim is to explain the preparation for a new venture. One can gather information through marketing research analyzing environment, competition and to assess the strategic planning for emerging venture. This lesson exclusively includes the venture life cycle. And, lastly future trends in management have been discussed.

Structure

13.1 Concept of entrepreneur and entrepreneurship, advantages, disadvantages, characteristics of successful entrepreneurs, profile of today's entrepreneur

13.2 Creation of new venture

13.3 Structuring the new business venture, strategic planning for emerging venture

13.4 Managing entrepreneurial growth, venture life cycle

13.5 Management in future

13.6 Summary