

# **Marketing Management**

This book is a part of the course by **Jaipur National University**, Jaipur.  
This book contains the course content for Marketing Management.

JNU, Jaipur  
First Edition 2013

The content in the book is copyright of JNU. All rights reserved.

No part of the content may in any form or by any electronic, mechanical, photocopying, recording, or any other means be reproduced, stored in a retrieval system or be broadcast or transmitted without the prior permission of the publisher.

JNU makes reasonable endeavours to ensure content is current and accurate. JNU reserves the right to alter the content whenever the need arises, and to vary it at any time without prior notice.

<b>I. Content .....</b>	<b>II</b>
<b>II. List of Figures.....</b>	<b>VI</b>
<b>III. List of Tables .....</b>	<b>VII</b>
<b>IV. Abbreviations.....</b>	<b>VIII</b>
<b>V. Case Study .....</b>	<b>151</b>
<b>VI. Bibliography.....</b>	<b>155</b>
<b>VII. Self Assessment Answers .....</b>	<b>159</b>

### **Book at a Glance**

## Contents

<b>Chapter I.....</b>	<b>1</b>
<b>Introduction to Marketing .....</b>	<b>1</b>
Aim .....	1
Objectives .....	1
Learning outcome .....	1
1.1 Introduction.....	2
1.2 Marketing in the Twenty-First Century .....	2
1.3 The Impact of the New Economy .....	3
1.4 Changes in Customers.....	3
1.5 Changes in Business Scenario .....	3
1.6 Marketing Objectives.....	4
1.7 Marketing Environment.....	4
1.8 Marketing Mix .....	5
1.8.1 Element of Marketing Mix .....	5
1.9 The Product Mix .....	7
1.10 The Price Mix.....	8
1.11 The Promotion/Communication Mix .....	9
1.12 The Place Mix/Distribution Mix .....	10
1.13 Significance of Marketing Mix.....	13
1.14 Factors Affecting Marketing Mix .....	13
<b>Summary.....</b>	<b>14</b>
<b>References .....</b>	<b>14</b>
<b>Recommended Reading.....</b>	<b>14</b>
<b>Self Assessment.....</b>	<b>15</b>
 <b>Chapter II .....</b>	 <b>17</b>
<b>Product-Product Classification, Features and Life Cycle .....</b>	<b>17</b>
Aim .....	17
Objectives .....	17
Learning outcome .....	17
2.1 Introduction.....	18
2.2 Definition of Product .....	18
2.3 Features of a Product .....	18
2.3.1 The Product Characteristics .....	20
2.4 The Classification of Products .....	21
2.5 Product Life Cycle .....	23
2.6 Definitions.....	23
2.7 Observations .....	23
2.8 Stages of the Product Life Cycle .....	24
2.9 Implications of the Product Life Cycle Concept.....	26
2.10 Bottom Line .....	28
<b>Summary.....</b>	<b>29</b>
<b>References .....</b>	<b>29</b>
<b>Recommended Reading.....</b>	<b>29</b>
<b>Self Assessment.....</b>	<b>30</b>
 <b>Chapter III.....</b>	 <b>32</b>
<b>New Product - Decisions, Step, Processes and Design .....</b>	<b>32</b>
Aim .....	32
Objectives .....	32
Learning outcome .....	32
3.1 Introduction.....	33
3.2 New Product.....	33

3.3 Types of New Products .....	33
3.4 Why New Products Fail? .....	34
3.5 Challenges to New Product Development .....	34
3.6 Concept Strategy in a Nutshell .....	35
3.7 Steps in the Development of the New Product .....	35
3.8 Conclusion of the Process .....	40
<b>Summary</b> .....	<b>42</b>
<b>References</b> .....	<b>42</b>
<b>Recommended Reading</b> .....	<b>42</b>
<b>Self Assessment</b> .....	<b>43</b>
 <b>Chapter IV</b> .....	 <b>45</b>
<b>Test Marketing, Product Branding and Brand Management</b> .....	<b>45</b>
Aim .....	45
Objectives .....	45
Learning outcome .....	45
4.1 Introduction to Test Marketing .....	46
4.2 Objectives of Test Marketing .....	46
4.3 Problems in Test Marketing .....	46
4.4 How Test Marketing is Conducted? .....	47
4.5 Introduction to Product Brand .....	51
4.6 Definition of Product Branding .....	52
4.7 Purpose of Branding .....	53
4.8 Features of Good Brands .....	54
4.9 Significance and Importance of Branding .....	54
4.10 Branding in the New Economy .....	55
<b>Summary</b> .....	<b>57</b>
<b>References</b> .....	<b>57</b>
<b>Recommended Reading</b> .....	<b>57</b>
<b>Self Assessment</b> .....	<b>58</b>
 <b>Chapter V</b> .....	 <b>60</b>
<b>Product Packing, Price and Pricing</b> .....	<b>60</b>
Aim .....	60
Objectives .....	60
Learning outcome .....	60
5.1 Introduction .....	61
5.2 Objectives of Packaging .....	61
5.3 Purpose and Functions of Packaging .....	62
5.4 Types of Packaging .....	63
5.5 Criticism Against Packaging .....	66
5.6 New Trends in Packaging .....	66
5.7 Introduction to Pricing .....	67
5.8 The Meaning of Price .....	67
5.9 The Role of Pricing in the Market Strategy .....	67
5.10 The Objectives of Pricing .....	68
5.11 Pricing Decisions Adopted by Modern Firms .....	71
<b>Summary</b> .....	<b>73</b>
<b>References</b> .....	<b>73</b>
<b>Recommended Reading</b> .....	<b>73</b>
<b>Self Assessment</b> .....	<b>74</b>

<b>Chapter VI</b>	<b>76</b>
<b>Setting the Price of Product</b>	<b>76</b>
Aim	76
Objectives	76
Learning outcome	76
6.1 Introduction	77
6.2 Steps in Fixing the Price of a Product	77
6.2.1 Setting the Pricing Objectives	77
6.2.2 Estimating the Demand	77
6.2.3 Estimating the Costs	78
6.2.4 Analysing Competitors' Costs, Prices and Offers	78
6.2.5 Selecting a Pricing Method	78
6.2.6 Selecting the final price	79
6.3 Methods of Pricing	79
6.4 Approaches to Pricing	84
<b>Summary</b>	<b>92</b>
<b>References</b>	<b>92</b>
<b>Recommended Reading</b>	<b>92</b>
<b>Self Assessment</b>	<b>93</b>
 <b>Chapter VII</b>	 <b>95</b>
<b>Physical Distribution of Products</b>	<b>95</b>
Aim	95
Objectives	95
Learning outcome	95
7.1 Introduction to Physical Distribution	96
7.2 Definition of Physical Distribution	96
7.3 Objectives of Physical Distribution	96
7.4 Introduction to Channel of Distribution	98
7.5 Definition of a Distribution Channel	99
7.6 Objectives of the Channels of Distribution	99
7.7 Role and Significance of Distribution Channels in Marketing	99
7.8 Functions of the Distribution Channel	100
7.9 Intermediaries Involved in the Channel of Distribution	102
7.10 Types of Wholesalers	106
7.11 Retailers	107
7.12 Classification of Retailers	108
7.13 Factors Governing the Choice of a Channel of Distribution	110
<b>Summary</b>	<b>114</b>
<b>References</b>	<b>114</b>
<b>Recommended Reading</b>	<b>114</b>
<b>Self Assessment</b>	<b>115</b>
 <b>Chapter VIII</b>	 <b>117</b>
<b>Warehousing</b>	<b>117</b>
Aim	117
Objectives	117
Learning outcome	117
8.1 Introduction	118
8.2 Definition of Warehousing	118
8.3 Characteristics of Warehousing	118
8.4 Centralised and Decentralised Warehousing	119
8.5 Inventory Management	119
8.6 Goals of Inventory Management	119
8.7 Determination of Economic Order Quantity (EOQ)	120

8.8 Exercising Control by Importance and Exception (ABC Analysis) .....	120
8.9 Keeping Track of Inventory .....	121
8.10 Factors Governing Inventory Levels .....	121
8.11 Modes of Transportation .....	123
8.12 Factors Governing the Choice of Transport Mix .....	125
8.13 Cost of Transport.....	125
8.14 Introduction to Sale Promotion.....	125
8.15 Definition .....	126
8.16 The Objectives of Sales Promotion.....	126
8.17 Kinds of Sales Promotion .....	127
8.17.1 Consumer Sales Promotion.....	128
8.17.2 Trade or Dealer Sales Promotion .....	129
8.17.3 Sales Force Promotion .....	129
<b>Summary.....</b>	<b>130</b>
<b>References .....</b>	<b>130</b>
<b>Recommended Reading.....</b>	<b>131</b>
<b>Self Assessment.....</b>	<b>132</b>
 <b>Chapter IX.....</b>	 <b>134</b>
<b>Advertising, Personal Selling and Direct Marketing.....</b>	<b>134</b>
Aim .....	134
Objectives .....	134
Learning outcome .....	134
9.1 Introduction.....	135
9.2 Definition of Advertising .....	135
9.3 The Objectives of Advertising .....	135
9.4 The Role of Advertising .....	136
9.5 Limitations of Advertising .....	138
9.6 Introduction to Selling .....	139
9.7 Definition of Personal Selling.....	139
9.8 Objectives of Personal Selling.....	139
9.9 Advantages of Personal Selling .....	140
9.10 Limitations of Personal Selling.....	140
9.11 Introduction to Direct Marketing .....	141
9.12 Definition Direct Marketing .....	141
9.13 Advantages of Direct Marketing.....	141
9.14 Demerits of Direct Marketing.....	142
9.15 Integrated Direct Marketing.....	143
9.16 Channels of Direct Marketing.....	143
9.17 On-line Marketing.....	145
<b>Summary.....</b>	<b>148</b>
<b>References .....</b>	<b>148</b>
<b>Recommended Reading.....</b>	<b>148</b>
<b>Self Assessment.....</b>	<b>149</b>

## List of Figures

Fig. 1.1 Four P's and four C's .....	7
Fig. 2.1 The product life cycle .....	24
Fig. 2.2 Product brand analysis.....	26
Fig. 3.1 Block diagram of steps in the development of the product .....	35
Fig. 3.2 Commercialisation .....	40
Fig. 3.3 The new product development decision process .....	41
Fig. 4.1 How test marketing is conducted.....	48
Fig. 4.2 Alternatives to test marketing .....	51
Fig. 4.3 Introduction to branding .....	52
Fig. 4.4 Brands .....	52



## List of Tables

Table 1.1 Four P's and four C's .....	7
Table 1.2 Behavior variables.....	13
Table 1.3 Factors affecting marketing mix .....	13
Table 2.1 Different features of explicit and implicit characteristics .....	20
Table 2.2 Product characteristics .....	20
Table 2.3 Classification based on durability and tangibility.....	21
Table 2.4 Classification based on consumer goods on shopping habit.....	22
Table 2.5 Classification based on industrial goods.....	22
Table 2.6 Classification based on evolution .....	23
Table 2.7 Classification based on aspin wall .....	23
Table 2.8 Categories of life cycle.....	27
Table 2.9 Marketing strategy .....	28
Table 3.1 New product categories.....	34
Table 3.2 Type of failure .....	36
Table 3.3 Marketing strategy development.....	38
Table 4.1 Test marketing plan.....	47
Table 4.2 Advantages and limitations of sales wave research .....	49
Table 4.3 Six level of meaning in branding .....	53
Table 5.1 Types of packaging .....	65
Table 5.2 Role of pricing.....	68
Table 5.3 Price quality strategies.....	71
Table 6.1 Cost pricing method.....	80
Table 6.2 Demand based on pricing method .....	81
Table 6.3 Type of pricing .....	83
Table 6.4 Origin price approach .....	84
Table 6.5 Type of discount.....	86
Table 6.6 Discriminatory pricing approach .....	87
Table 6.7 Product mix pricing approach.....	87
Table 6.8 Initial price cuts .....	88
Table 6.9 Over demand.....	89
Table 7.1 Objective of physical distribution.....	97
Table 7.2 Importance of physical distribution .....	98
Table 7.3 Principles of the distribution channel.....	100
Table 7.4 Functions of the distribution channel.....	102
Table 7.5 Functions of the wholesaler .....	104
Table 7.6 Objectives of physical distribution .....	105
Table 7.7 Services Provided by the wholesalers.....	106
Table 7.8 Types of wholesalers .....	106
Table 7.9 Classification of retailers.....	108
Table 7.10 Market related factors .....	111
Table 7.11 Product related factors.....	111
Table 7.12 Company related factors .....	112
Table 7.13 Middlemen related factors.....	112
Table 8.1 Devices use for promotion .....	119
Table 8.2 Devices use for promotion .....	128
Table 9.1 Contribution of advertising .....	138
Table 9.2 Limitations of advertising .....	139
Table 9.3 Advantages of personnel selling .....	140
Table 9.4 Demerits of direct marketing .....	142
Table 9.5 Role of the internet in promotion .....	147

## Abbreviations

AMA	-	American Association
AT & T	-	American Telephone and Telegraph
ATM	-	Automated Teller Machine
B2B	-	Business to Business.
B2C	-	Business to Commerce - Internet Domains
C2B	-	Consumer to Business.
C2C	-	Consumers to Consumer.
CD	-	Compact Disk
CEO	-	Chief Executive Officer.
CPM	-	Critical Path Method
CPS	-	Critical Path Scheduling
CRY	-	Child Relief and You
EOQ	-	Economic Order for Quantity
FOB	-	Free on Board
FOR	-	Free on Rail
JIT	-	Just-in-Time
L&T	-	Larsen and Toubro
MARC	-	Manufacturer - Agent - Retailer – Consumer
MAU	-	Manufacturer -Agent - Industrial User
MAWU	-	Manufacturer - Agent - Wholesaler - Industrial User
MC	-	Manufacturer to Consumer
MRC	-	Manufacturer - Retailer – Consumer
MRTP	-	Monopolies and Restrictive Trade Practices Act
MU	-	Manufacturer To Industrial Users
MWC	-	Manufacturer - Wholesaler – Consumer
MWRC	-	Manufacturer - Wholesaler - Retailer -Consumer
MWU	-	Manufacturer - Wholesaler – Industrial
ONGC	-	Oil and Natural Gas Corporation Ltd.
PLC	-	Product Life Cycle
QFD	-	Quality Function Deployment
ROI	-	Return On Investment
TCO	-	Total Cost of Ownership
TV	-	Television
UNICEF	-	United Nations International Children’s Emergency Fund
VFM	-	Value For Moneys
VPP	-	Value Payable Post

# Chapter I

## Introduction to Marketing

### Aim

The aim of this chapter is to:

- explain the concept of marketing
- highlight the history of marketing
- interpret the changing business scenario

### Objectives

The objectives of this chapter are to:

- enlist various types of marketing
- explain the factors affecting marketing
- evaluate four P's and four C's concepts

### Learning outcome

At the end of this chapter, you will be able to:

- understand various business scenarios
- identify four P's and four C's concepts in real time situation
- understand the factors affecting marketing management

## 1.1 Introduction

The American Association (AMA) offers a very comprehensive definition of marketing: “Marketing is the process of planning and executing the conception, pricing, promotion and distribution of idea, goods and services to create exchanges that satisfy individual and organisational goals.”

Following points illustrate the fundamental definition

- An individual is considered to be the customer.
- An organisation exists because a customer needs exist.
- The next step is to create something of value to meet that need for which customers are willing to pay. This results in an exchange between the organisation and its customers.
- In satisfying the customer needs and creating exchanges, an organisation must satisfy its own goals.
- The goals of all business organisation must satisfy its own goals.
- The goal of all business organisations is to deliver return-on-investment to its shareholders. Unless this objective is achieved, the organisation does not exist.
- The aim of marketing and of the entire organisation is to create profitable exchanges that satisfy both, the customer needs and organisational goals.

### Idea, Goods and Services

It is not only physical product that satisfies customer needs. As per Phillip Kotler, marketing people are involved in marketing ten types of entities:

- Goods - Motorcycle, ice-cream
- Services - Beautician, lawyer, education
- Experiences - Amusement parks, trekking expedition
- Events - A cricket match, Olympics
- Persons - All celebrities need marketing
- Places - Marketing a particular place as a holiday destination or as an ideal location to set up a new industry
- Properties - Both moveable (Mutual funds, equities, bonds) and immovable (real estate)
- Organisations - The companies themselves, UNICEF, CRY
- Information - New magazines, websites
- Idea - Political parties needs to market their ideologies

The following three points describe how Planning and Executing the Conception, Pricing, Promotion and Distribution of Idea, Goods and Services are related to marketing.

- No exchange can be created between an organisation and a customer unless a product is created to satisfy the customer need.
- The product has to be priced, communicated to the customer and made available to them.
- All this requires careful analysis, planning and execution of programs.

## 1.2 Marketing in the Twenty-First Century

In the past, things were simple. The economy was based on the Industrial revolution and manufacturing was considered a key sector in the economy. The manufacturer standardised the products to bring down costs and aimed at continuous expansion of markets to enjoy the fruits of economies of scale. They applied the same procedures and policies in every market with a view to increase efficiency. They developed a hierarchical organisational pattern with the highest level of centralisation of authority, and, at least for some time they made good progress. However, later on they had to face the challenges generated by the New Economy wherein business is conducted at nanosecond speed.

As the big corporate houses and business enterprises are expanding their commercial wings worldwide, it invites unpredictable challenges that may impact modern industrial growth which may deter annual growth rate of the economy. The advancement of technology pushed the threshold point to a much higher level of hyper-competition resulting finer products and greater customer satisfaction.

### **1.3 The Impact of the New Economy**

The New Economy is based on the digital revolution and the efficient management of information. The pace of technological change is becoming increasingly rapid and marketers need to understand how technological development might affect them in some business area.

- New technology can allow new goods and services to be offered to customers-telephone banking, mobile telecommunications, and new drugs.
- New technology can allow existing product to be made more cheaply, thereby widening their market through being able to charge lower price.

Technological development have allowed new methods distributing goods and services for example, ATM machines in bank allow banking service to be made available at a time and place which were previously not economically possible.

New opportunities for companies to communicate with their targeted customers have emerged, with many financial services companies using computer database to targeted potential customers. Regular interaction helps in maintaining a good relation with established customer. Internet opens up new distribution opportunities for many companies.

Information has several attributes; it can be easily differentiated, customised and personalised. It can be sent to a large number of people through networks and it can reach them fast. So information is public and is easily accessible, people will be better informed and able to make better choices.

### **1.4 Changes in Customers**

The digital revolution has placed a completely new set of capabilities in the hands of consumers and businesses.

The significant changes that have taken place have completely changed the business environment.

Some of the significant changes that are noticed are stated below:

- A substantial increase in buying power resulting in empowered consumers.
- A greater variety of goods and services are available on an increasing scale, so that the consumers can get better quality products at lower prices from any part of the world.
- An information explosion results in greater amount of information about everything which is readily available. Hence, the consumers' knowledge and expectations have significantly increased.
- A greater possibility in interacting, placing and receiving orders, leading to increase in the consumers' sovereignty, increased ability in exchanging information and opinions so that consumers get an opportunity to confirm their knowledge.

### **1.5 Changes in Business Scenario**

It has been noticed that the capabilities of business organisations have significantly increased. Some of these capabilities are as follows:

- Companies can collect detailed information about markets, customers, competitors, prospects; etc. and may conduct surveys to collect more information whenever needed. Therefore, the awareness and knowledge of companies about changes in the internal and external environment is increasing.
- Companies can use new powerful information and sales channels to cover a wider geographical area to promote and inform about their business, products and services.

- Companies are able to communicate with their employees at a faster rate by using the internet and employees can download or upload the needed information from and to the main computer of the company.
- Companies can have two-way communication with customers, suppliers, creditors and so on.
- Companies are able to customise their offerings and services to individual customers.
- Companies can improve their practices relating to purchasing, recruiting, training and in internal and external communications.
- Companies can send advertisements, coupons, samples and other information to customers.
- Companies are able to improve logistics and operations at lower costs while improving accuracy and service quality.
- The internet is the best means to pass information to anybody, at any place, at any time, quickly and economically.
- These new capabilities provided by the Information Age call for new forms of marketing and business. Division of labor, mass production, mass consumption, huge inventories and huge advertisements along with rampant discounts characterise the industrial age.
- Now, the Information Age promises to lead to more accurate levels of production, more targeted communications, more relevant pricing and consumer enlightenment.

## 1.6 Marketing Objectives

Marketing managers are responsible for catering to the demand and they have to influence the level, timing and composition of the demand to meet the organisational objectives. Marketing Managers have to face competition which is at four levels, based upon the degree of product substitutability.

These are as follows:

- Brand competition
- Industrial competition
- Form Competition
- Generic Competition

## 1.7 Marketing Environment

Marketing managers have to work in a marketing environment, which may be classified into Task Environment and Broad Environment.

### Task environment

- Task environment includes the immediate actors involved in producing, distributing and promoting products and services.
- The main factors include the company, suppliers, distributors, dealers and the target customers.
- Under the groups of suppliers are materials and service suppliers such as marketing research agencies advertising agencies banking and insurance company's transportation telecommunication companies.
- Under this group are included, distributors and dealers agents, brokers, manufacturer representatives and others who facilitate finding and selling to customers.

### **Broad environment**

- Demographic
- Economic
- Socio-cultural
- Natural
- Technological
- Political-legal environments

These environments contain several forces that have an impact on the actors in the task environment. The market actors must pay proper attention to the trends and developments in these environments and make the necessary adjustments in time towards their marketing strategies so that the goals of marketing can be easily achieved.

### **Broad environment**

- Demographic
- Economic
- Socio-cultural
- Natural
- Technological
- Political-legal environments

These environments contain several forces that have an impact on the actors in the task environment. The market actors must pay proper attention to the trends and developments in these environments and make the necessary adjustments in time towards their marketing strategies so that the goals of marketing can be easily achieved.

## **1.8 Marketing Mix**

Prof. N. H. Borden of the Harvard Business School introduced the concept of Marketing Mix.

According to him, it refers to two things:

- A list of important elements or ingredients that make up the marketing program
- A list of the forces that have a bearing on the marketing operations

He argued that the marketing mix refers to the apportionment of effort, the combination, the designing and the integration of the elements of marketing into a programmed mix, which will best achieve the objectives of an enterprise at a given time.

### **1.8.1 Element of Marketing Mix**

Marketing mix is a set of marketing tools that the firm uses to pursue its marketing objectives in the target market.

McCarthy has classified these tools into four broad groups, which are known as the 4 P's of marketing. They are as follows:

- Product
- Price
- Place
- Promotion

The marketing variables covered under each P are shown below. Marketing Mix hence includes:

**1. Product**

- Product variety
- Quality
- Design
- Features
- Brand name
- Packaging
- Sizing
- Services
- Warranties
- Returns

**2. Price**

- List price
- Discounts
- Allowances
- Payment period
- Credit terms

**3. Promotion**

- Sales promotion
- Advertising
- Sales force
- Public relations
- Direct marketing
- Telemarketing
- Internet

**4. Place**

- Channels
- Coverage
- Assortments
- Location
- Inventory
- Transport

Marketing mix decisions are made to influence the consumers' choice and trade channels. A company has to offer a product, service and price through the promotion mix. A firm can change its price, size of sales force and advertising expenditure in the short run. In the long run it is only possible to develop new products and modify their distribution channels. The 4 P's of the marketing mix indicate the sellers' view of the marketing tools to influence the buyers. From the buyer point of view, each marketing tool is designed to deliver benefits to the customer.



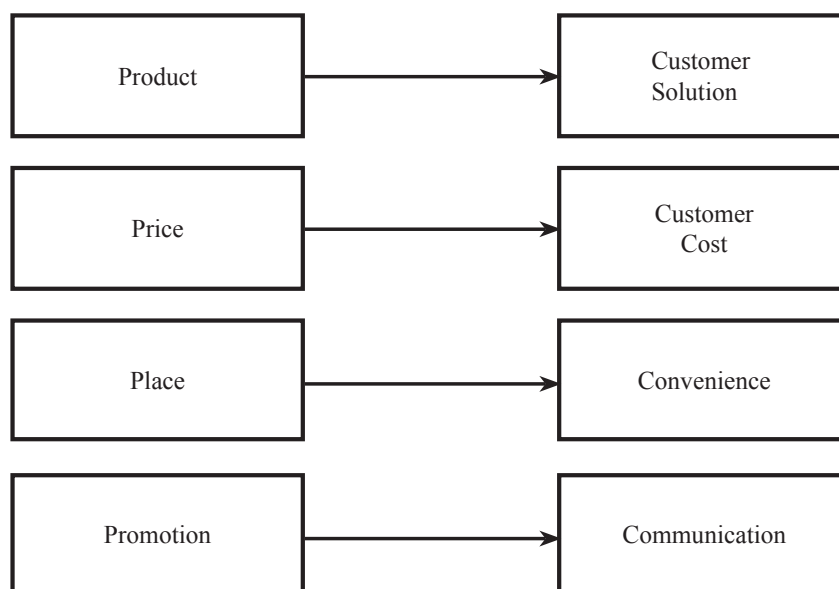
Four P's	Four C's
Product	Customer solution
Price	Customer cost
Place	Customer's convenience
Promotion	Customer communication

**Table 1.1 Four P's and four C's**

Thus the marketing mix may be considered as a master mix of 4 sub-mixes

- Product Mix
- Price Mix
- Promotion Mix
- Place Mix

Each one of these has many variables on which the marketing organisation has to maintain a control.



**Fig. 1.1 Four P's and four C's**

## 1.9 The Product Mix

A Product is the sum total of physical and psychological factors that provide satisfaction to the customers. It is hence, the focus of all marketing efforts. The Product mix is the package of products offered for sale by the firm.

According to Stanton, the product mix is the full list of all the products offered for sale by a company. The product mix structure has both dimensions of breadth and depth. The number of product lines carried is the depth, while the breadth deals with the variety of sizes, colors and models offered within each product line.

A product line may be designed as a broad group of products intended for similar uses and possess reasonably similar physical characteristics. The product mix is considered the most powerful instrument in the hands of the marketing manager.

The product mix involves not only the various activities relating to the product, service or idea but also deals with planning, developing and producing the right types of products and services to be marketed by the firm.

The important variables of the product mix are as follows:

- The product line and product range
- Product design
- Product package
- Product quality
- Product branding
- Product labeling
- After sales service and guarantees

Every organisation has to decide who should be responsible for the services to customers.

### **1.10 The Price Mix**

The Price mix is a major marketing tool that is often used to direct the product to a specific consumer segment. Price is the money value of the product or service.

The price policy determines the return on investment, provides a stable economic structure. It creates, maintains and expands the market and market share.

Hence from above mentioned point pricing, is an important element of the marketing mix.

**There are many variables affecting the price of a product, such as**

- the nature of the product
- nature of the market
- the cost of marketing
- sales policies
- the channels of distribution
- fiscal policy of the government

**The major price variables include:**

- The pricing policies and pricing strategies
- The terms of credit
- Terms and conditions of delivery of goods
- Trade margin includes the margin of profit to the retailers, wholesalers and the producers. Trade margins that are the difference between the final price paid by the consumer and the total cost of making the product.
- Resale price maintenance
- When the product is a part of product mix, the firm searches for a set of prices that maximises profits on the total product mix
- Pricing is difficult because various products have a demand and cost interrelationship and are subject to different degrees of competition

According to Kotler, the product mix and pricing may take six forms. These are as follows:

#### **Product line pricing**

Companies normally develop product lines rather than single products and introduce price accordingly.

#### **Optional feature pricing**

Companies may offer optional products which are features and services along with their main product, for example, many restaurants price their liquor high and their food low. The food revenue covers costs and the liquor produces profits. On the other hand some restaurants price their liquor low and food high to attract a “drinking crowd”.

#### **Captive product pricing**

Some products require the use of ancillary or captive products, for example, manufacturers of razors and cameras often price them low and set high marked prices on razor blades and photo films respectively. AT & T may give a cellular phone free if a person subscribes for two years of its services.

#### **Two part pricing**

A service firm often practices it. It consists of a fixed fee plus a variable usage fee, for example, telephone users pay a minimum monthly fee plus charges for calls beyond a certain limit. The fixed fee is set low enough to induce purchase of the service and profits are made on the usage fees.

#### **By-product pricing**

The production of certain goods like chemicals and petroleum products often results in by-products. If the by-products have value to a customer group, they are priced accordingly. Any income earned on the by-products makes it easier for the company to charge a lower price on its main product.

#### **Product-bundling pricing**

Sellers often bundle products and features. Pure bundling occurs when a firm only offers its product as a bundle or tied up in sales. However, in case of Mixed Bundling, the seller offers goods both individually and in bundles. While offering a mixed bundle, the seller charges a lesser price for the bundle than to those who purchase the items separately.

### **1.11 The Promotion/Communication Mix**

The marketing mix activities that deal with product, price and place are performed mainly by the organisation, or between the organisations and its marketing partners. However, with promotional activities, the firm communicates directly with its potential customers. Thus marketers have to be very effective communicators. Promotion is the element in the marketing mix that serves to inform, persuade and remind the market of the organisation and the customers of its products. Promotion aims at influencing the potential buyers, their feelings, beliefs or behaviour.

The Promotional Mix is the combination of following:

- Personal selling
- Advertising
- Sales promotion
- Publicity
- Public relations that helps the organisation to achieve marketing objectives

Above points are discussed below:

#### **Personal selling**

It is the presentation of the product to a prospective customer by the representative of a selling organisation. In most organisations, a large amount is spent on personal selling, than on any other form of promotion.

### **Advertising**

It is a paid form of impersonal mass communication in which the sponsor is clearly identified. The most common forms used for advertising are broadcast through TV, radio and the print media (newspapers, magazines and so on).

### **Sales promotion**

It is designed to supplement advertising and coordinate personal selling. It includes activities such as, contests for salesmen and consumers, trade shows and in-store displays.

### **Publicity**

It is a mass communication to stimulate demand. Publicity consists of a favorable news presentation for a product or company presented through any medium. Organisations frequently provide the material for publicity by way of news releases, press conferences, photographs, etc.

### **Public relations**

It is a more targeted activity than publicity. It is a planned effort of an organisation to influence the attitudes and opinions of a specific group. The target may be customers, stockholders, government agencies or a group with some special interest. They attempt to maintain good relations with the public. Promotion, thus, is a critical element in many marketing strategies.

## **1.12 The Place Mix/Distribution Mix**

In the early days it was held that a quality product, a fair price and aggressive sales are sufficient to attract customers. As competition started becoming more intense, manufacturing firms adopted cost reduction techniques.

- Firstly, physical distribution was one element for cutting the cost.
- Secondly, it was noticed that the costs of physical distribution were rising rapidly and even a small saving in distribution contributed significantly to profitability of the company.
- Thirdly, the high cost of energy and high interest rates affected inventory costs and compelled organisations to take steps to develop efficient and effective physical distribution systems. Physical distribution in marketing is basically a problem of logistics.

A business unit cannot develop unless it has enough stock of its final products to satisfy the demand of the market. The location factor too plays an important role in marketing. Thus, essential products have to be made available at the right time and right place to maximise profitable sales. Physical distribution is the physical flow of the products. It is the development and operation of efficient flow systems for products. The full scope of physical distribution involves the flow of raw materials from the source of supply to the production line, to the movement of the finished goods from the end of the production line to the ultimate user. Middlemen help in the process of the management of this flow.

The main elements of physical distribution or place mix are as follows:

- Transportation
- Warehousing
- Materials handling
- Inventory control
- Order processing
- The channels of distribution

A decision related to any one of these elements affects other elements too.

Let us discuss these elements briefly:

### **Transportation**

In many organisations, a major function of the physical distribution system is shipping the products to customers. The form of transportation and particularly the carriers are essential to any organisation.

The five major forms of transportation are as follows:

- Rail roads
- Trucks
- Water vessels or ships
- Pipe lines
- Air transport

When we consider the transport of goods, the railways stand out as important means of transport followed by truck transport and water transport. The railways offer special facilities to attract the transportation of goods. Transportation creates place utility; it widens the market and increases the marketability of products. It is also necessary to make goods available at a place that is suitable to the customers. However, one who bears the cost of transportation is a question to be addressed.

There are various transportation policies which have been discussed below:

- The Free on Board (FOB) policy is where the buyer pays the transport cost, from the point of shipment to the point of purchaser.
- Paid on delivery Policy, it is where the seller pays all the shipping costs.
- Freight Allowance Policy is where the seller as well as the buyer shares the cost of transportation in an agreed proportion.
- Averaged Transportation charge policy is where the buyer is made to pay uniform charges on all shipments irrespective of their location, for example, The Bata Shoe Company follows this policy.
- Basing point policy is where the buyer pays the cost of transport from a basing point.

The transportation policy of a manufacturing organisation is influenced by:

- Consumer Demand
- Advertising
- Plant Location
- Profit
- Warehouse Facilities
- Competition
- Product Value

### **Warehousing and Inventory Location**

Warehousing facilities are necessary to create time utility by way of adjusting the supply to the demand and preserving the products to obtain a higher price. Therefore, plans and policies have to be worked out and implemented to make their use economical. In modern times, warehousing performs four essential functions in the distribution of goods.

These are as follows:

- receiving and checking goods received
- selecting goods to meet orders received
- shipping the goods to the user, after checking their specifications

### **Material handling**

The selection of proper equipment to physically handle the products is an important aspect of physical distribution management. Proper equipment helps in reducing handling costs and time. It can minimise losses from breakage, spoilage, theft, etc. Now-a-days, containerization has become popular. It is a handling system where shipments of products are encased in large containers made of metal. The containers are transported unopened. It thus minimises physical handling, reduces damages, risk of theft and allows for transportation that is more efficient.

### **Inventory control**

For any physical distribution system, it is necessary to maintain control over the size and composition of its inventories. Inventories represent a sizeable investment; hence, the goal of inventory control is to minimise both the investment and fluctuations in inventories, yet fulfilling the customers' orders promptly and accurately. The development of computer technology has enabled the management to reduce order delivery time, which has led to a substantial reduction in the size of inventories. The management has to establish an optimal quantity for re-order while replenishing inventory stocks. The Economic Order for Quantity (EOQ) has to be estimated for the leading or key items of the inventory. The modern Just-in-Time (JIT) technique of inventory management is beneficial to both, the producers and the suppliers.

### **Order processing**

Another important aspect of the physical distribution system is a set of procedures for handling and filling orders. It includes billing, granting credit, preparing invoices, collecting due accounts, and so on. If a company makes mistakes or is very slow in following the orders received, it may disappoint customers. As demand for information becomes more complex, companies are turning to computers to implement their order processing activities.

### **Channels of distribution**

A manufacturer or a producer has to take a decision regarding most the economical and convenient distribution channel. One has to work out plans and policies to determine the number of middlemen to be utilised, the number of distributors and dealers to be employed or the number of franchise agreements to be entered into. For this, it is necessary to take into consideration the following:

- the type of the product
- nature and extent of the market
- channels employed by the competitors
- cost benefit of each channel, and so on

Depending upon the prevailing conditions, a producer may adopt a policy of

- intensive distribution by using maximum number of outlets or
- selective distribution

The variables of marketing mix discussed above are internal and controllable. In addition, we have behaviour and environmental variables which are external, and uncontrollable in nature.

The behavioural variables include:

- customer variables
- competitive variables
- trade variables
- environment variables

Customer Variables	Competitive Variables	Trade Variables	Environment Variables
<ul style="list-style-type: none"> <li>To the number of customers</li> <li>Their purchasing power</li> <li>Buying behavior</li> <li>Personality traits and attitudes</li> <li>Lifestyles and their consumer needs</li> </ul>	<ul style="list-style-type: none"> <li>The structure of trade</li> <li>Types of intermediaries</li> <li>Their number and strength in trade practices</li> <li>Attitudes and the motivation of the intermediaries</li> </ul>	<ul style="list-style-type: none"> <li>The structure of trade</li> <li>Types of intermediaries</li> <li>Their number and strength in trade practices</li> <li>Attitudes and the motivation of the intermediaries</li> </ul>	<ul style="list-style-type: none"> <li>Government policies about products</li> <li>Product prices</li> <li>Product distribution</li> <li>Controls over trade practices</li> <li>Economic conditions</li> <li>Technological progress</li> <li>Culture and traditions</li> <li>Law and politics</li> <li>Attitude of public and press, etc. through selective outlets</li> </ul>

**Table 1.2 Behavior variables**

### 1.13 Significance of Marketing Mix

Significance of marketing management is as follows:

- Emphasis on key elements
- Guide for resource allocation
- Allocation of the responsibilities
- Analysis of cost and benefits
- Facilitating communication process

### 1.14 Factors Affecting Marketing Mix

There are several factors influencing marketing mix. These factors are divided into two categories:

Market Factors	Marketing Factors
<p>Market factors are those over which the company has no control but they affect the marketing activities of the company. These include:</p> <ul style="list-style-type: none"> <li>• Consumer behavior</li> <li>• Competition</li> <li>• Pattern of the distribution system</li> <li>• Government policy</li> </ul>	<p>Marketing factors are those over which the company has full control. These include:</p> <ul style="list-style-type: none"> <li>• Product planning</li> <li>• Brand policy</li> <li>• Packaging policy</li> <li>• Distribution channels</li> <li>• Personal selling</li> <li>• Advertisement policy</li> <li>• Special sales promotion policy</li> <li>• Physical Distribution</li> <li>• Market Research</li> </ul>

**Table 1.3 Factors affecting marketing mix**

## Summary

- The American Association (AMA) offers a very comprehensive definition of marketing as "marketing is the process of planning and executing the conception, pricing, promotion, distribution of idea, goods and services to create exchanges that satisfy individual and organisational goals."
- The New Economy is based on the Digital Revolution and the efficient management of information.
- The significant changes that have taken place have completely changed the business environment.
- Companies can collect detailed information about markets, customers, competitors, prospects; etc. and may conduct surveys to collect more information whenever needed. Therefore, the awareness and knowledge of companies about changes in the internal and external environment is increasing.
- The ten types of entities of marketing include goods, services, experiences, events, persons, places, properties, organisations, information, and ideas.
- Marketing managers have to work in a marketing environment, which may be classified into task environment and broad environment.
- McCarthy has classified marketing tools into four broad groups, which are known as the 4 P's of marketing: product, price, place, promotion.
- Four C's of marketing are customer solution, customers cost, customers convince, customer's communication.
- The promotional mix is the combination of personal selling, advertising, sales promotion, publicity.
- The transportation policy of a manufacturing organisation is influenced by consumer demand, advertising, plant location, profit, warehouse facilities, competition, and product value.

## References

- Myant, M. R. & Cox, T., 2008. *Reinventing Poland: Economic and political Transformation and Evolving National Identity*. British Library Cataloguing Publication.
- Dasgupta, D. *Tourism Marketing*. Publication Dorling Kindersley Pvt. Ltd.
- *Importance of Marketing Mix*, [Online] Available at: <<http://www.streetdirectory.com/etoday/importance-of-marketing-mix-cffpoo.html>> [Accessed 21 August 2012].
- 2011. *Managerial Finance: Lecture 1a*, [Video Online] Available at: <<http://www.youtube.com/watch?v=bXo2M6BX2LA>> [Accessed 21 August 2012].
- 2008. *Introduction to Marketing Mix part-1* [Video Online] Available at: <<http://www.youtube.com/watch?v=owHpvLmyQIE>> [Accessed 21 August 2012].
- Jenkins, H. 2008. *The Marketing Mix*, [Online] Available at: <<http://www.streetdirectory.com/etoday/importance-of-marketing-mix-cffpoo.html>> [Accessed 21 August 2012].

## Recommended Reading

- Chernev, A., 2007. *Strategic Marketing Analysis*. Brightstar Media, Inc publication 2nd edition.
- Blattberg, R.C., Getz, G. & Thomas, J.S., 2009. *The Marketing Mix*. Harvard Business School Press publication.
- Farris, P. W., Bendle, N.T, Pfeifer, P. E. & Reibstein, D. J., 2007. *Marketing Metrics: Managing Your Product Mix, Pricing, Sales Channels and Promotions*. 1st ed., Prentice Hall.



## Self Assessment

1. Who has defined marketing as, “marketing is the process of planning and executing the conception, pricing, and promotion, distribution of idea, goods and services to create exchanges that satisfy individual and organizational goals”?
  - a. American association
  - b. American group
  - c. American committee
  - d. American followers
2. Marketing mix is a set of marketing tools that the firm uses to pursue its marketing objectives in the \_\_\_\_\_.
  - a. overall market
  - b. main market
  - c. target market
  - d. stock market
3. Which of the following sentences is true?
  - a. Marketing mix decisions are made to influence the consumers’ choice and trade channels.
  - b. Marketing mix decisions are made to influence world market.
  - c. Marketing mix decisions are made to influence the common man.
  - d. Marketing mix decisions are made to influence the broker’s.
4. Which of the following sentences is true?
  - a. The significant changes that have taken place have completely changed the business environment.
  - b. The significant changes that have taken place have completely changed the business.
  - c. The significant changes that have taken place have completely changed the business nature
  - d. The significant changes that have taken place have completely changed the business perspective.
5. A manufacturer or a producer has to take a decision regarding most the \_\_\_\_\_distribution channel.
  - a. expensive and handy
  - b. discounted and inconvenient
  - c. cheap and favorable
  - d. economical and convenient
6. Marketing managers have to face competition which is at four levels, based upon the degree of \_\_\_\_\_.
  - a. productivity
  - b. work
  - c. product substitutability
  - d. work culture

7. Match the following:

1. Four P's	a. Four C's
2. Product	b. Customer cost
3. Price	c. Customer solution
4. Place	d. Customer's communication

- a. 1-a, 2-c, 3-b, 4-e,
  - b. 1-b, 2-a, 3-d, 4-c,
  - c. 1-c, 2-b, 3-d, 4-a,
  - d. 1-d, 2-c, 3-b, 4-a,
8. \_\_\_\_\_ is designed to supplement advertising and coordinate personal selling.
- a. Sales promotion
  - b. Sales profits
  - c. Sales penalty
  - d. Sales price
9. \_\_\_\_\_ is a mass communication to stimulate demand.
- a. Advertising
  - b. Publicity
  - c. Human resource
  - d. Promotion
10. \_\_\_\_\_ aims at influencing the potential buyers, their feelings, beliefs or behaviour.
- a. Promotion
  - b. Publicity
  - c. Personal selling
  - d. Advertising

## **Chapter II**

### **Product-Product Classification, Features and Life Cycle**

#### **Aim**

The aim of this chapter is to:

- state the explicit and implicit features of products
- explain various methodology of classifying the products
- evaluate various elements in the product life cycle

#### **Objectives**

The objectives of this chapter are to:

- evaluate features and classification of product
- explain the impact of new economy
- explain various marketing implications of the product life cycle

#### **Learning outcome**

At the end of this chapter, you will be able to:

- understand the explicit and implicit features of the product
- evaluate various methodology of product life cycle
- comprehend the impact of new economy

## 2.1 Introduction

The Product is a key element in the market offering. Marketing mix planning begins with formulating an offering to meet the target customer's needs or wants. A customer judges the offering by three basic elements:

- Product features
- Service mix
- The price

Thus, the three elements must be meshed into a competitively attractive offering.

## 2.2 Definition of Product

- A production is anything that can be offered to a market to satisfy a want or a need.
- The products that are marketed include physical goods, services, experience, events, persons, places, information and ideas.
- Alternatively, a product is a set of tangible physical attributes assembled in an identifiable form.
- The set of tangible and intangible attributes include packing, colour, price, quality and brand plus the services and reputation of the seller.
- The product in a need-satisfying entity.
- Different people view products differently
  - to a consumer, the product is a bundle of perceived benefits that meets needs
  - to a manufacturer, the product is a bundle of attributes that ideally meet consumer needs
  - to the production executive, a product is the task or food for thinking. One has to spend lot of time thinking
  - about the product
  - to an advertising agency, the product is a "communication challenge"
  - to the finance manager, the product is a source of finance
  - to the cost accountant, the product is an item of cost
- The product is the sum total of three things:
  - the intrinsic characteristics are material, structure, ability to perform
  - the extrinsic characteristics such as its packaging, brand or trade mark

The American Marketing Association defined a product as anything that can be offered to a market for attention, acquisition or consumption including physical objects, services, personalities, organisation and desires.

## 2.3 Features of a Product

Although the definitions of a product stated above indicate a variation in the emphasis, there is a consensus of opinion about the essential features or ingredients of a product. These features may be listed as follows:

The main features of a product may be classified into explicit characteristics and implicit characteristics.

Explicit Characteristics	Implicit Characteristics
Explicit characterisations of a product are those for which there exists a perception which is reasonably uniform amongst its observers	The explicit characteristics are seller oriented as they define parameters. However, consumer perception differs and each can look at the product in a different and unique way

Explicit	Physical Configuration	<ul style="list-style-type: none"> <li>• Every product is made up of certain materials</li> <li>• Each product has its own size, shape, odor, color, texture, weight, length and breadth, etc</li> <li>• A product is able to carry out a function or set of functions only because of these physical characteristics</li> <li>• A product may serve several functions for several persons at different times</li> </ul>
	Associated Services	<ul style="list-style-type: none"> <li>• Generally, products are sold with a common understanding that the seller will supply before and after sales service, which is essential for making the product function efficiently</li> <li>• Demonstrations, providing credit facilities, advertising, etc. are before sales service</li> <li>• The after sales services include delivery of the product, installation providing spare parts and repair services, warranties, etc</li> </ul>
	Package and Brand Name	<ul style="list-style-type: none"> <li>• The package is considered a part of the product because sometimes a product cannot be separated into contents and packages as in the case of deodorants, cleansers, etc</li> <li>• Similarly, a brand name is also intrinsic to the product but the appearance is explicit</li> <li>• A brand stands for the product. For example, one may demand “Colgate” instead of toothpaste or “Thumps up” instead of a soft drink</li> </ul>
	Product Mix	<ul style="list-style-type: none"> <li>• It indicates the relationship of the product with the other products sold by the company</li> <li>• A given product may be a part of a set of products offered by the seller</li> <li>• A seller considers the width (number of different product lines) depth (average number of items within each product line) and consistency (similarity amongst the product lines)</li> <li>• The consumer thinks not just about a single product in isolation but is aware about the other products produced by the producer</li> </ul>
Implicit	Product Life Cycle	<ul style="list-style-type: none"> <li>• At my point of time, it is possible to locate the product in some stage of its evolution</li> <li>• Every product passes through a life cycle</li> <li>• The time taken at each stage may vary from product to product</li> <li>• The product life cycle has its own implications both, for the producer and the consumers</li> </ul>
	Product Symbolism	<ul style="list-style-type: none"> <li>• The Product is a cluster of symbols</li> <li>• A product is a symbol because of its form, size, color, functions, etc</li> <li>• Its importance varies with its association with individual needs and social interaction</li> <li>• A product is the sum total of the meaning that it communicates to the consumer</li> </ul>

		<ul style="list-style-type: none"> <li>A product may be a status symbol of economy, of performance or of achievement, etc</li> </ul>
	Communication Media	<ul style="list-style-type: none"> <li>As a product is a cluster of symbols, it is a bundle of communication</li> <li>The product speaks for itself, about its use and who can use it</li> </ul>
	Product Perception	<ul style="list-style-type: none"> <li>The consumers' perception about the product is very critical to the product's market viability</li> <li>Once a producer knows the perception of the consumer, he will be in a position to develop a new product as needed by the consumer</li> </ul>
	Product Evaluation	<ul style="list-style-type: none"> <li>It is the process of comparing the efforts involved with the</li> <li>benefits received by the consumers</li> <li>The evaluation of a product differs from consumer to consumer and from time to time by the same individual</li> </ul>

**Table 2.1 Different features of explicit and implicit characteristics**

### 2.3.1 The Product Characteristics

The product characteristics can be classified in the following two ways.

Tangible attributes	Intangible attributes
A product can be felt, touched, seen and its physical presence felt	This may be in the form of services such as repairing, banking and insurance, etc. Sometimes services may be associated with tangible products, for example, mobile servicing.

**Table 2.2 Product characteristics**

#### Peripherals of associated attributes

Such attributes facilitate the identification and acceptance of the product by the customers. These include brand name, package, warranty, credit and delivery term, etc. For example, Hindustan Lever has vanaspati ghee with the brand name Dalda and its package exhibits a palm tree with which the customers identify it. Its brand name has developed an image in the market in such a way that all kinds of vanaspati ghee are now called Dalda. It has become a generic name for all types of vanaspati ghee.

#### Exchange value

Every marketable product has an exchange value which is exchanged between the buyer and seller for a mutually agreed or acceptable consideration.

#### Consumer satisfaction

Products have the ability to deliver value and satisfaction to consumers.

#### Business need satisfaction

Every product has an attribute that satisfies the business need - to earn a profit through selling.

### **The care constituent**

- This is a component in the total personality of the product. For example Mysore sandal-oil soap.
- Its oval shape, color, odor, brand name, the premium price and its positioning as luxury soap, etc. constitute the product personality.
- The fundamental component in it remains its generic constituent - soap.

### **Associated features**

- Every product contains several associated features along with the care constituent.
- These features contribute to the total product personality.
- Marketing managers try to enhance the personality of their products through associated features.

### **Brand name**

- The brand name of a product is useful for effective product promotion.
- To advertise an unbranded product is a difficult task.
- Intensive brand promotion practices by some companies of certain products have made consumers “brand conscious”, for example, nobody asks just for soap, many of them ask for “Lux”.

### **The package**

- This gives protection to the product and also adds to the aesthetics and sales appeal of the product.

### **Labelling**

- A label provides written information about the product. It helps in understanding the nature of the product, its features, composition, performance, etc.

## **2.4 The Classification of Products**

Marketers classify products based on their characteristics, durability, tangibility, use, etc. Products are classified as stated below:

Based on durability and tangibility, products can be classified into three groups:

<b>Sr. no</b>	<b>Property</b>	<b>Description</b>
1.	Non durable goods	Some tangible goods which are consumed once or after using a few times, for example, bar-soaps, etc. They are consumed quickly, so they are also purchased frequently.
2.	Durable goods	These are tangible goods that survive for many years and have many uses, for example, refrigerators, scooters, etc.
3.	Services	Some intangible, inseparable, variable and perishable part of a product, for example, Vehicle repairs, hospitality, customer care, etc.

**Table 2.3 Classification based on durability and tangibility**

**Classification of consumer goods based on shopping habits:**

Sr.no	Shopping habit	Description
1.	Convenience goods	Goods that consumers purchase frequently, immediately and with minimum effort, for example, newspaper, soap.
2.	Shopping goods	Before final selection good style, suitability, etc. s, they are compared with other goods quality, price,
3.	Specialty goods	Good are that have special or unique characteristics or have brand identification, for example, cars, cameras, etc
4.	Unsought goods	Those goods that the consumers may have no knowledge about and they hence may not think of buying them, for example, life insurance, encyclopaedias, etc.

**Table 2.4 Classification based on consumer goods on shopping habit****Industrial classification of goods:**

Sr.no	Goods	Description
1.	Materials and parts	Goods that is required for manufacturing a product, for example, raw materials, component parts or spare parts.
2.	Capital goods	These are durable goods, used to produce consumption goods.
3.	Supplies and business services	These are short lasting goods and business services that facilitate in developing the finished goods.

**Table 2.5 Classification based on industrial goods****Classification on the basis of Evolution:**

Sr.no	Product	Description
1.	Generic Product	Generic product is the unbranded and undifferentiated product. For example, rice, wheat, bread, cloth, etc.
2.	Branded product	Branded product is the product identified by its name, for example, “Modern bread”.
3.	Differentiated Product	Differentiates product is a product which is differentiated to show its uniqueness, which may be real (due to difference in quality, utility, etc.) or psychological- as a result of sales appeal, for example, “Maggie noodles” claims to be distinct from other noodles.
4.	Customised Products	Products that are developed considering the specific requirement of a customer, for example, L & T supplies oil rigs to ONGC



5.	Augmented products	Products where a voluntary improvement has been brought about by its manufacturers to enhance the value of the product, for example, Tata Tea introduced 'Tetley' tea bags.
6.	Potential Product	The final product is improved as per prospect of customer.

**Table 2.6 Classification based on evolution**

**The Aspin Wall classification: It classifies goods as:**

Sr. No.	Goods	Description
1.	Red Goods	Convenience goods are those which are usually purchased by a consumer, for example, grocery products, drugs, etc.
2.	Yellow Goods	Shopping goods, which are purchased by the consumer after comparing it with other goods for their quality, price, suitability, etc.
3.	Orange Goods	Orange Goods are those goods, which lie between two extreme types of goods red goods and yellow goods

**Table 2.7 Classification based on aspin wall**

## 2.5 Product Life Cycle

- The Product life cycle (PLC) model was first developed by Prof. Theodore Levitt.
- The PLC is a conceptual representation.
- As a human being is subject to a life cycle consisting of childhood, adolescence, youth and old age, similarly, a product follows a life cycle.
- The PLC is a graphic representation of the sales history of a product right from its introduction till it is withdrawn from the market.
- It aims at recognising the distinct stages in the sales history of a product.

## 2.6 Definitions

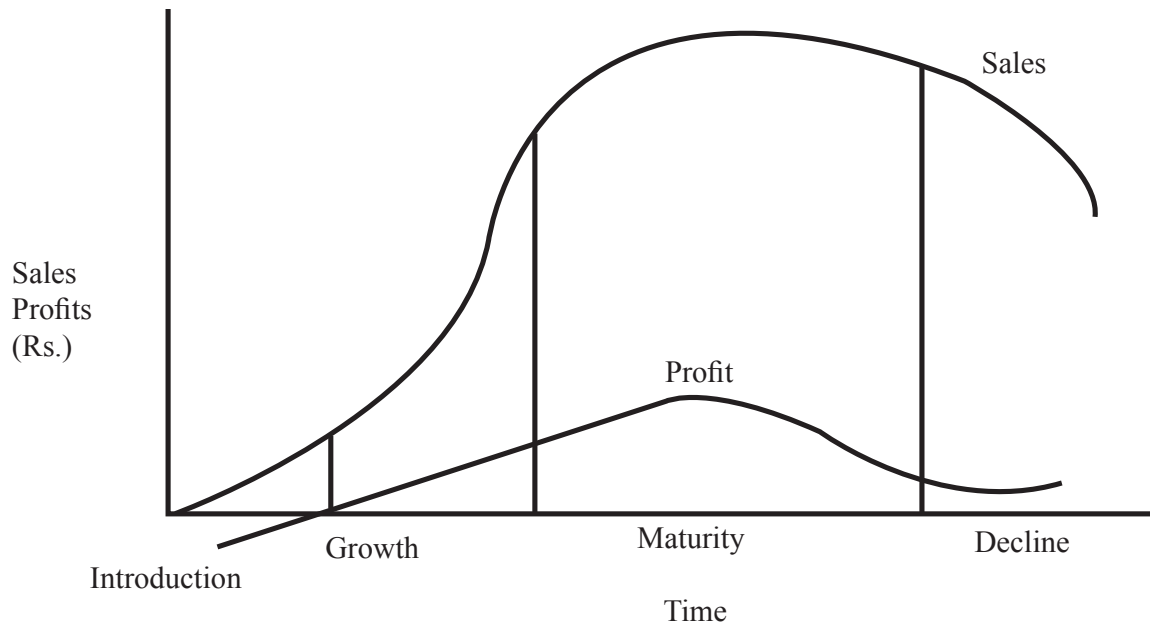
- According to Kotler, "PLC is an attempt to recognise distinct stages in the sales history of the product".
- Thus the PLC has three key elements:
  - , Products move through a cycle of introduction, growth, maturity and decline at different speeds, each stage having different opportunities, challenges and problems.
  - , Both sales volume and unit profit increase steadily during the growth stage but tend to fall after the maturity stage.
  - , The functional emphasis essential for effective product management changes from stage to stage due to changes in the level of profits, i.e., each stage needs different strategies to manage it.

## 2.7 Observations

- All the products introduced in the market may not pass through all the stages of PLC as some products may go through the first and second stage and then die out.
- There is no line of demarcation between the different stages.
- A product may have different stages in different markets.
- The time span for each stage in PLC may vary with products.

## 2.8 Stages of the Product Life Cycle

- The product aging process passes through four stages. These are as follows:
  - Introduction
  - Growth
  - Maturity
  - Decline stages as shown in the diagram.



**Fig. 2.1 The product life cycle**

The product life cycle Stages:

### Introduction stage

- It is a period of slow sales growth of the product as it is new in the market.
- It may have potential demand but not an effective demand.
- Hence, the sales are very low and may increase but at a very low rate.
- On account of huge promotional expenses and slowly rising demand, profits are practically absent.
- The prices charged may be high as competition is low and may sell only to the higher income group of customers.

Thus the main characteristics of the first stage are:

- low and slow sales
- highest expenses on promotion
- highest prices of products

### Growth stage

- As the market accepts the product, the sales start rising and prices may remain high to recover all development costs, so profits rise rapidly.
- This sets about competition and may lead to product improvement.

The main features of this stage are:

**Increase in the rate of sales due to**

- development of distribution network
- streamlining of production
- reduction in commerce resistance

**A higher level of promotional expenditure**

- Advertising on large scale is undertaken to create and maintain selective demand.
- Attempts are made to build up the brand image. Concessions, allowances and special offers are made to wholesalers, stockiest, etc.

**Product improvements**

- Higher prices and sales attract competing firms, which enter the industry with modified products.
- To prime their sales they may reduce a price, which compels the original firm to reduce the price and improve the product. Hence profits may show a declining trend.

**Maturity stage**

As the market becomes saturated, demand and growth start decreasing. Competition increases, sales decline although the product remains popular in the market. Competition becomes more intense as every producer tries to maintain the same production level to minimise costs of production per unit of output. At the same time, prices are lowered to maintain the level of sales.

All the producers try to extend this stage and as a result, the maturity stage tends to last a long time.

**The main features of this stage are:**

- development of new markets
- increase in sales at a lower rate
- development of new uses of the products
- reduction in promotional expenditure
- lowering the level of prices
- development of new design and models of the products
- wider range of products
- increase in the frequency of use of the products

**Decline stage**

- This is the final stage. After some time, the sales start declining rapidly because of increase in competition and entry of new substitutes, changes in consumer tastes and preferences.
- As a result, prices and profits start decreasing. Technological progress enables production of new products of better quality. This makes the old product obsolete.

The main features of this stage are:

- absence of promotional expenditure
- rapid decrease in sales prices and profits

## 2.9 Implications of the Product Life Cycle Concept

The concept of the product life cycle has wide implications and is used for the following purposes:

### Product planning

- The product life cycle enables the management to make necessary modifications in the product during various stage of the cycle so that the sales and profits can be maintained.

### Product pricing

- The product life cycle provides guidelines to work out suitable product pricing policies to maximise profits.
- Initially a producer may charge a higher price and earn higher profits.
- Later on, he may go on reducing the price to discourage competitors from entering into the same product line.

### Product control

- The concept is useful for multi-product firms, which deliver several products in the market at the same time.
- The different products may have different levels of demand.
- The technique of the life cycle may be applied to know the product position in the market and accordingly the marketing strategy can be modified to achieve and maintain the maximum market share.

### Advertising decision

- The aim of advertisements is to create demand and sell the product to satisfy consumer needs and maximise profits.
- As the product passes through different stages, it becomes necessary to work out an appropriate advertising policy.
- In the initial stages, advertisements aim at reducing consumer resistance and during the growth stage they aim at achieving a higher growth rate.
- During the stage of maturity, they aim at maintaining demand.
- The first stage speaks for product availability, during growth stage - product differentiation, in the maturity phase product improvement and the last stage is that of a grand clearance sale.

### Sales forecasting

- The product life cycle concept is also useful in sales forecasting, especially to explain violent changes in sales volumes of the product.
- Business organisations have to function effectively under a dynamic environment. Hence, knowledge about the product life cycle is useful for arriving at definite Solutions.
- Product and Brand Analysis

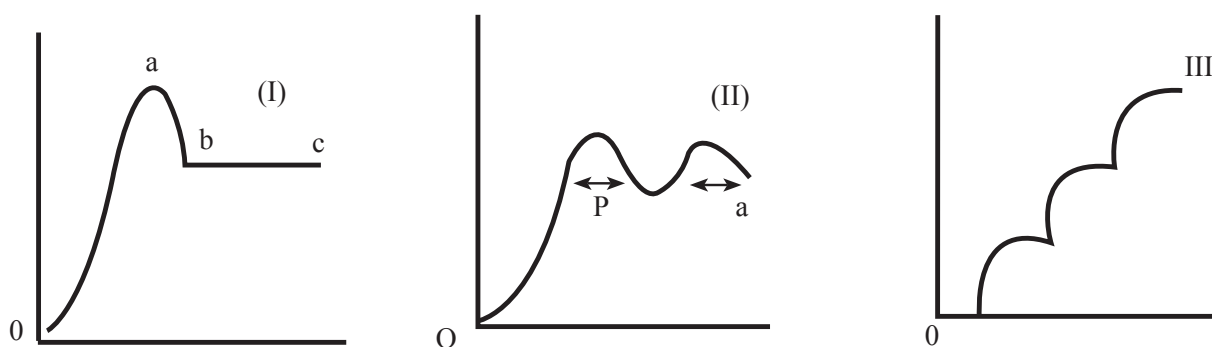


Fig. 2.2 Product brand analysis

### The product brand analysis

The PLC concept is useful to analyse the product category, product form and product brand.

All products do not follow a bell shaped curve in the PLC. The three other common forms identified by Kotler are as follows –

- Fig. 2.2 (I) Shows Growth - Slump - Maturity pattern indicated by oa, ab and bc, observed in case of kitchen appliances.
- Fig. 2.2 (II) shows a cyclical pattern. This is seen in the sales of new drugs. The new drug is aggressively promoted that produces a primary cycle (P). However, later sales start declining, so the company gives another promotion push that produces a second cycle (R) of smaller magnitude and duration.
- Fig. 2.2 (III) indicates a scalloped PLC as sales pass through a succession of life cycles based on the discovery of new product characteristics, uses or users, for example, Nylon sales.

### Categories of PLC

Three special categories of the life cycle can be distinguished. These are as follows:

Sr. no	Categories	Description
1.	Styles	A style is a basic and distinctive mode of experience that is observed in human activities especially in clothing, art, home, etc. that may last over a generation.
2.	Fashions	<p>A fashion is a popular style in a particular field, which passes through four stages</p> <ul style="list-style-type: none"><li>• Distinctiveness</li><li>• Emulation</li><li>• Mass fashion</li><li>• Decline.</li></ul> <p>The duration of a fashion depends upon its capacity to meet social needs, values and norms.</p>
3.	Fads	<ul style="list-style-type: none"><li>• Fads are the fashions that come quickly and are adopted widely, reach the peak fast and decline at a higher rate</li><li>• The length of its cycle is very short and attracts only those who are in search of excitement or to distinguish themselves from others</li><li>• Fads do not last longer as they do not serve any strong need..</li></ul>

**Table 2.8 Categories of life cycle**

## Marketing strategies

The PLC concept is useful to work out the appropriate marketing strategies.

Introduction Stage	Growth Stage	Maturity Stage	Decline Stage
A pioneer should enter with the product in the market with the highest profit potential	In the growth stage a firm faces a trade-off between a high market share and high current profit	The Maturity stage has three phases - growth, stable and decaying maturity	If the company is in attractive industry and has competitive strength, it should consider strengthening its investment
Then introduce the product in the second market. Then develop a second product for the second market and take the second product to the first market.	Through product improvement, promotion and distribution, items capture dominant positions.	Most of the products are in this stage and hence marketing managers face the problems of marketing mature products	If a company is in an unattractive industry but possesses competitive strength, it should then adopt the strategy of shrinking selectively
Then launch a third product for the first market. Thus, the pioneer firm can control a higher market share in the first two segments and serve them with two or three products	The firm may forego a maximum current profit hoping that it can make greater profits in the next stage.	A firm may try to expand the market by expanding the number of brand users by converting non-users or by entering new markets, i.e., market modification or product modification through quality improvement A firm may go for a product mix modification especially sales, in promotion and advertising	

**Table 2.9 Marketing strategy**

### 2.10 Bottom Line

The PLC concept helps in interpreting product and market dynamics. It can be used for production planning, product pricing, product control, forecasting, etc. The PLC is criticised on the following grounds:

- Life cycle patterns are variable in shape and duration. There is no fixed sequence of stages and fixed length of each stage.
- It is multi-dimensional in nature.
- There may be difficulties in stage identification.
- The PLC pattern is basically the result of marketing strategies rather than an inevitable course that the sales must follow. Though the PLC concept is very good, it has certain limitations. So great care, precaution and judgment is needed to get the best results.

## Summary

- The Product is a key element in the market offering. The customer judges the offering by three basic elements, viz., product features, service mix and the price.
- The main features of a product may be classified into explicit characteristics and implicit characteristics.
- Explicit characterisations of a product are those for which there exists a perception which is reasonably uniform amongst its observers.
- The brand name of a product is useful for effective product promotion. To advertise an unbranded product is a difficult task.
- The aim of advertisements is to create demand and sell the product to satisfy consumer needs and maximise profits. As the product passes through different stages, it becomes necessary to work out an appropriate advertising policy.
- According to Kotler, “PLC is an attempt to recognise distinct stages in the sales history of the product”.
- The product aging process passes through four stages—introduction, growth, maturity, decline stages.

## References

- Sharma, M., 2009. *Product Management: Product Lifecycle and competitive marketing strategy*. Global India Publications Pvt Ltd New Delhi.
- Dr. Mishra, P., *Product Management and Strategy*. . Available at: <<http://www.scribd.com/doc/6655796/Product-Management-and-Strategy>> [Accessed 10 November 2010].
- *Understanding Pricing Objectives and strategies*, [Online] Available at: < <http://pubs.cas.psu.edu/freepubs/pdfs/ua441.pdf> > [Accessed 27 august 2012].
- Dr. Chopra. S., *Basic Concepts in Marketing* Available at: <[http://www.du.ac.in/fileadmin/DU/Academics/course\\_material/EP\\_16.pdf](http://www.du.ac.in/fileadmin/DU/Academics/course_material/EP_16.pdf)> [Accessed 27 august 2012].
- 2012. *What Your Customers Want* [Video Online] Available at: <<http://www.youtube.com/watch?v=DxIDT-f7U1Q>> [Accessed 27 August 2012].
- 2011. *Pricing Strategies in Marketing*, [Video Online] Available at: <<http://www.youtube.com/watch?v=H8aZr-Ula1w>> [Accessed 27 August 2012].

## Recommended Reading

- Kotler, P., 1999. *Kotler on marketing: how to Create, Win and Dominate Markets*. 1 ed., Free Press.
- Bidgoli, H., *The Handbook of Technology Management: Supply Chain Management, Marketing and Advertising, and Global Management*. Publication john Wiley and Sons.
- Onkvisit, S. & Shaw, J., 1989. *Product Life Cycle and Product Management*. Publication: Quorum Books.

## Self Assessment

1. \_\_\_\_\_ begins with formulating an offering to meet the target customer's needs or wants.
  - a. Marketing mix preparation
  - b. Marketing mix set-up
  - c. Marketing mix planning
  - d. Marketing mix scheduling
2. The set of tangible and intangible attributes include packing, color, price, quality and brand plus the \_\_ of the seller.
  - a. services and reputation
  - b. services and status
  - c. sources and value
  - d. sales and revenue

3. Match the following.

I	II
1. The product is a bundle of perceived benefits that meets his needs	a. Advertiser
2. The product is a bundle of attributes that ideally meet consumer needs.	b. Production Executive
3. A product is the task or food for thinking. He has to spend lot of time thinking about the product.	c. Manufacturer
4. The product is a "communication challenge".	d. Consume

- a. 1-d,2-a,3-b,4c
  - b. 1-d,2-c,3-b,4-a
  - c. 1-b,2-c,3-d,4-a
  - d. 1-d,2-c,3-a,4b
4. Which goods is the goods that consumers purchase frequently, immediately and with minimum effort, for example, newspaper, soap?
  - a. Convenience goods
  - b. Shopping goods
  - c. Specialty goods
  - d. Unsought goods
5. In the \_\_\_\_ a firm faces a trade-off between a high market share and high current profit.
  - a. publicity stage
  - b. growth stage
  - c. finance stage
  - d. development stage



6. Which one of the following sentences is true?
  - a. The Maturity stage has two phases.
  - b. The Maturity stage has four phases.
  - c. The Maturity stage has three phases.
  - d. The Maturity stage has five phases.
7. Which of these following sentences is true?
  - a. The product life cycle provides guidelines to work out suitable product pricing policies to maximise profits.
  - b. The product life cycle provides guidelines to work out suitable product pricing policies to average profits.
  - c. The product life cycle provides guidelines to work out suitable product pricing policies to minimum profits.
  - d. The product life cycle provides guidelines to work out suitable product pricing policies to profits.
8. Which among the following is not a feature of the maturity stage?
  - a. Development of new markets
  - b. Increase in sales at a higher rate
  - c. Increase in the frequency of use of the products
  - d. Reduction in promotional expenditure
9. Both sales volume and unit profit increase steadily during the growth stage but tend to fall after the \_\_\_\_\_.
  - a. observation stage
  - b. profitable stage
  - c. competition stage
  - d. maturity stage.
10. What aims at recognising the distinct stages in the sales history of a product?
  - a. Product life cycle
  - b. Product graphs
  - c. Profit graph
  - d. Publicity stage

## Chapter III

### New Product - Decisions, Step, Processes and Design

#### Aim

The aim of this chapter is to:

- explain the concept of new product
- elucidate the decisions and steps involved in designing a new product
- evaluate the process of developing new product

#### Objectives

The objectives of this chapter are to:

- explain the meaning and procedure of new product design
- elucidate the methodology and complexity of new product design
- explain the approach of market over new product design

#### Learning outcome

At the end of this chapter, you will be able to:

- understand the meaning and significance of new product design
- categorise the market testing method for new product design
- understand the commercial aspects of designing a new product

### 3.1 Introduction

Product development is one of the most important components of product management. Even though existing products and product lines are managed successfully, this is not enough. In order to achieve a higher level of growth and to attain the position of leadership, a firm must be progressive and insist upon the development and successful marketing of new products.

The modern age is the age of scientific and technological advances and hence change is a natural consequence. Change is taking place in almost all the aspects of human life. Even the tastes and preferences of consumers are changing fast; their expectations and requirements are also changing. People are in search of better products, new fashions, greater convenience and more value for money, etc.

Hence, a business firm has to respond to these dynamic needs of customers by the way of manufacturing new services and products of better quality and sell at lower prices to maximise consumer satisfaction and delight. This is necessary for any firm in order to survive, grow and continue to earn profits under changed circumstances. In addition, the modern dynamic environment continuously generates threats and challenges.

In order to combat the environmental challenges, firms have no alternative but to develop new products and services as demanded by the society at large. Sometimes companies prefer manufacture of new products in order to utilise excess capacity or processing of by-products that go unprocessed or recycling of waste products.

### 3.2 New Product

A product that a company introduces is new for the company, though it may be similar to a product produced by others. Several companies produce a similar product under different brand names.

Any product that consumers consider an addition to the existing products for making choices may be considered a new product. From the firm's point of view, new products are those that are new for the company and may include even modified existing products or duplication of the competitors' products or innovative original products.

A company can add new products through acquisition, which may take four forms:

- It can buy another company
- Acquire patents from other companies or
- Buy a license or franchise from another company.

A company can develop a new product either in its own laboratories or it can contract with independent researchers or new product development firms to develop specific new products.

New products are also those, which may create new challenges to the management especially in terms of technical development, testing and commercialisation. A new product may be defined as the product, which is considered a new product by a majority of consumers.

### 3.3 Types of New Products

Booz, Allen and Hamilton identified six categories of new products as follows

Sr. No.	Categories	Description
1.	New product lines	It includes new products that enable a company to enter an established market for the first time
2.	Addition to existing product lines	It covers those products that supplement a company's established product lines

3.	Improvements or revisions to existing product	The product which are considered the best and are most valuable are revised and replaced for better results
4.	Products new to the world	Include those products that create entirely new markets
5.	Repositioning	These products cover existing products that are targets to new markets or new market segments
6.	Cost reductions	Include new products which provide similar performance at lower cost

**Table 3.1 New product categories**

- It was also observed that less than 10% of the new products are truly innovative and new to the world.
- Such products involve higher costs and risks because they are both, new to the companies and to the markets.
- Most of the new products are improvements in existing products. Most companies rarely innovate, some innovate occasionally. Very few companies innovate continuously, for example, Sony, 3M, Oracle, Microsoft, etc. created a positive attitude toward innovation and risk taking and have routinised the innovation process through teamwork, allowing people to experiment and even fail.
- They have realised that in an economy characterised by rapid changes, continuous innovation is necessary and an inevitable practice.

### 3.4 Why New Products Fail?

Companies that fail to develop new products have to face great risks. It has been observed that around 95% of the new consumer products in the USA and 90% in Europe are subject to failure.

Some of the important reasons for product failure are as follows:

- The idea may be good but the market size is over saturated
- Top executives may push their favourite idea through
- The product may not be well designed
- The product may be incorrectly positioned in the market, or it may not be effectively advertised or may be over priced
- Products may fail due to lack of sufficient distribution coverage or support
- The development costs of the new product are very high
- Competition may fight back harder than expected
- Customer reactions are unfavorable

### 3.5 Challenges to New Product Development

The development and positioning of a new product in the market has become a costly and risky affair under the modern dynamic environment. There are several challenges that need to be faced. Some of these are stated below:

- Cost of development that covers research and development, manufacturing marketing, etc. tends to be high.
- There is an increase in domestic and foreign competition.
- A shortage of innovative ideas: Very few areas left to be improved with some basic products like steel, detergents, etc.
- Fragmented markets: When companies aim at selling their new products to the sellers markets, it results in lower sales and profits for each of the producers.
- Social and governmental constraints: New products have to satisfy needs of consumer safety and protection of environment.
- Capital Shortages as compared to heavy demand for investment in research and development.

- Failure to attain a faster rate of development: A new firm needs to reduce the development time to overcome competition.
- Need to develop unique and superior products that have chances of success.
- Achievement of technological and marketing synergy, quality of execution and market attractiveness.
- Development of appropriate organisational arrangements in spite of resistance of employees.

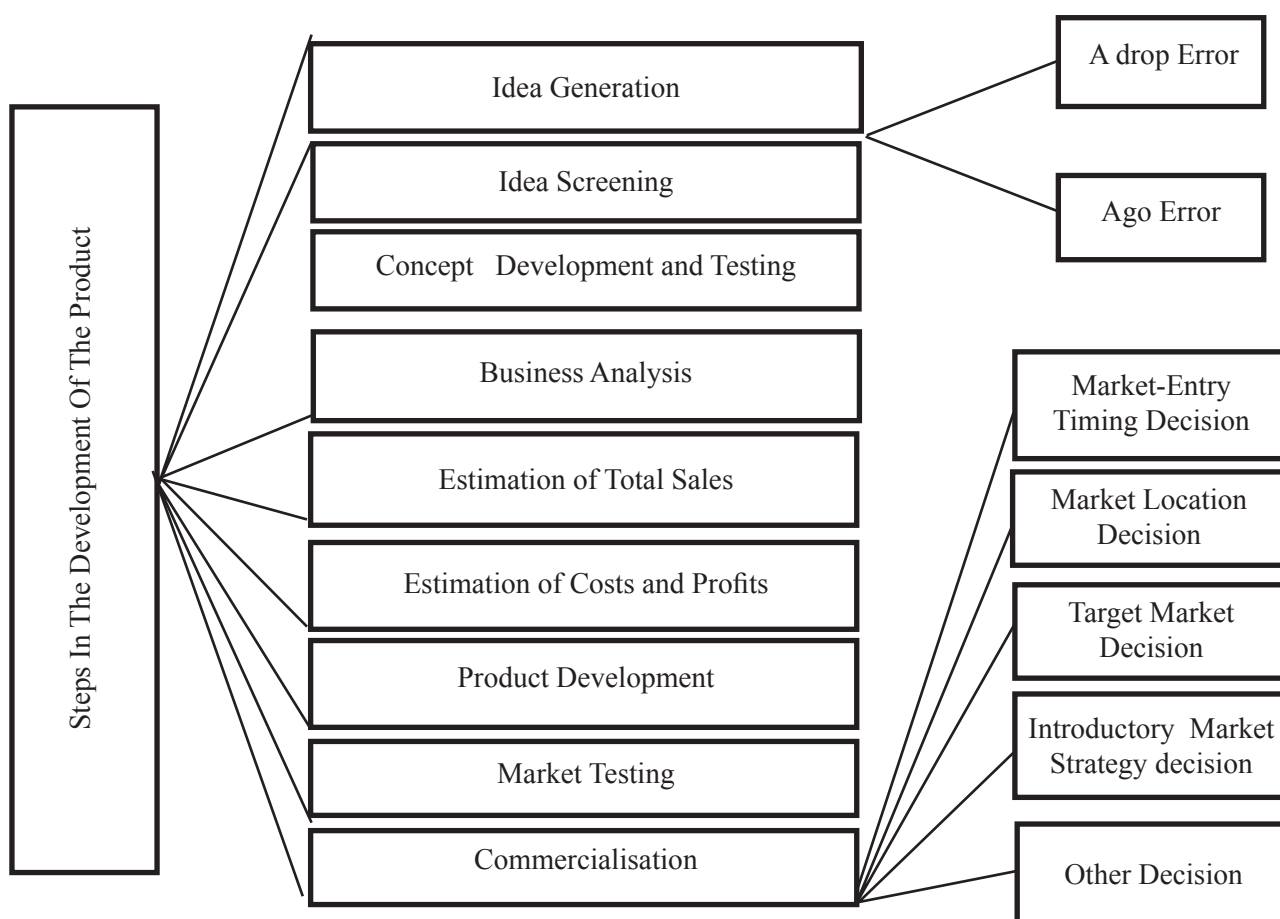
### 3.6 Concept Strategy in a Nutshell

The new product decision process starts with the selection of an explicit new product strategy.

- The strategy serves as a meaningful guideline throughout the systematic development process for a new product.
- The main purpose of the new product strategy is to identify the strategic role that new products will play in achieving corporate and marketing goals. For example, a new product might be designed to defend a market share position or to maintain the company's position as product innovator. It is only in recent times that many companies consciously have identified new product strategies as a separate activity in the development process.
- As a result, there has been a significant increase in the efficiency of the development process.

### 3.7 Steps in the Development of the New Product

With a company's new product strategy as a guide, the development of a new product proceeds in stages they are as discussed below



**Fig. 3.1 Block diagram of steps in the development of the product**

## Idea generation

- Ideas for new products can come from customers, employers, competitors, channel members, scientists and top managers.
- Generally customer needs and wants are where the highest percentage of ideas originates.
- They are able to give suggestions for improvements in the existing products.
- Employees in the company too can suggest ideas for improving a product, for example, Toyota claims that its employees suggest about 2 million ideas annually, i.e., 35 suggestions per employee, of which over 85% are implemented.
- Some companies like Kodak give monetary benefits, holidays and recognition awards to employees for their suggestions.
- Companies also find good ideas by looking into the competitor's products and services.
- They can find out the customer's likes and dislikes about the competitor's products.
- They may buy the competitor's products, take them apart and develop better products.
- The company's salespersons and intermediaries also suggest new ideas as they are in close contact with customers.
- Sometimes ideas may come from inventors, patent attorneys, universities, laboratories, industrial consultants, advertising agencies or marketing research firms, etc.

## Idea screening

- When the idea manager receives new ideas from employees, an idea committee reviews these ideas each week.

These ideas are then classified into three categories as

- Promising ideas
- Marginal ideas
- Rejects
- A committee member then researches each promising idea and reports them to the committee.
- The surviving ideas then move into a full scale screening process. While screening the ideas, the company has to avoid two types of errors.

### A drop error

- It takes place when the company rejects an otherwise good idea, hence, while dismissing an idea, great care has to be taken.

### A go error

It occurs when the company accepts a poor idea to move into development and commercialisation

Sr.no	Type of Failure	Description
1.	Absolute Product Failure	An absolute product failure results into loss of money and its sales do not cover even variable costs
2.	Partial Product Failure	A partial product failure loses money but its sales may cover variable costs and partly fixed costs.
3.	Relative Product Failure	A relative product failure yields profit, which is lower than the targeted rate of return to the company

**Table 3.2 Type of failure**

- The main purpose of screening of ideas is to drop poor ideas early because the product development costs increase during later stages.
- The ideas accepted by the committee after detailed scrutiny are rated using a weighted index method, in order to have systematic evaluation and discussion.
- As an idea moves towards development, the company has to revise its estimate of the product's overall probability of success with the help of the formula -

$$P_0 = P_t \times P_c \times P_e$$

Where

$P_0$  = overall probability of success

$P_t$  = probability of technical completion

$P_c$  = probability of commercialisation, given technical completion

$P_e$  = probability of economic success given commercialisation

Finally, during the idea screening stage, it has to be seen whether a product idea is compatible with the Company's objectives, strategies and resources. Otherwise, the idea has to be dropped.

#### Concept of development and testing

- Accepted ideas need to be refined into testable product concepts.
- A product idea is a possible product that the company may offer to the market.
- A product concept is an elaborated version of the idea expressed in meaningful consumer terms.
- A product idea may be divided into several concepts that is
  - Who will use these products?
  - When will the benefits be provided?
  - When will people use these products?

With the answers to the questions, several concepts can be formed. Each concept will be known as a category concept that defines the product's competition. Next, the product concept has to be converted into a brand concept. Then working out a brand positioning, the product can be marketed.

#### Concept testing

- It involves presenting the product concept to the target customers to get their reactions.
- The concepts can be presented symbolically or physically.
- If the tested concept is exactly similar to the final product, concept testing becomes more dependable.
- In the past, creating a prototype physically was time consuming and costly.
- Now with the use of Computer Aided Design and manufacturing programmes, rapid prototyping is easier and cheaper.
- Producing plastic models have become a common practice and potential customers can give their reactions on the plastic models.
- Some companies use the virtual reality to test the product concept.
- Computers and sensory devices such as Gloves or Goggles are used in virtual reality programmes for stimulating reality.
- Other companies use customer driven engineering to design new products.
- The technique gives more importance to incorporating customer preferences in the final design.
- Concept testing involves presenting consumers with an elaborated version of the concept. This enables the consumer to get a clear idea about the product that helps in taking the buying decision.

- Next the measurement of product dimensions is carried out by collecting information through questions to consumers about
  - Communicability and believability about the benefits of a product
  - The need satisfaction level
  - The gap arising out of dissatisfaction with the use of other products
  - The perceived value
  - The frequency of purchase, purchase intention, etc.

The answers to these questions indicate whether the concept has a broad and strong consumer appeal against the competing products and target consumers. Information about the need gap level and the purchase intention levels enables to us know whether the concept is a winner or a loser. A decision then can be taken.

### Marketing strategy development

Once a successful concept test is over, the new product manager has to develop a preliminary marketing strategy plan for introducing the new product into the market. The plan consists of three parts

- The first part describes the size, structure and behaviour of the target market, the planned product positioning and the sales, market share, profit goals to be achieved in a short time.
- The second part deals with planned price, distribution strategy and marketing budget for the first year.
- The third part describes long-term sales and profit goals and marketing mix strategy over time.

Sr. No.	Part	Description
1.	First Part	The size, structure and behaviour of the target market. The planned product positioning and the sales, market share, profit goals to be achieved in a short time.
2.	Second Part	Planned price, distribution strategy and marketing budget for the first year.
3.	Third Part	Long-term sales and profit goals and marketing mix strategy over time.

**Table 3.3 Marketing strategy development**

### Business analysis

- After developing the product concept and marketing strategy, the management now has to evaluate the business attractiveness of the proposal.
- The management has to prepare projects for sales, costs and profits to find out whether they satisfy the objectives of the company.
- If they help in achieving the objectives, then the concept moves on to the development stage.
- As and when new information is received, the business analysis has to be revised in order to keep it up-to-date.

### Estimation of total sales

The total estimated sales include the total of estimated first time sales, replacement sales and repeat sales.

### Estimation of costs and profits

- Costs are estimated by research and development, manufacturing, marketing and finance departments.
- Companies use the technique of break level analysis to estimate how many units of the product should be sold to break-even at a given price and cost structure.
- If the management concludes that sales would easily reach the break-even point, product development can take place.



- For the purpose of estimating profit, the risk analysis method is used.
- According to this risk analysis method, three estimates- (Optimistic, Pessimistic and most likely) are obtained for each uncertain variable affecting profitability under the assumed marketing strategy and market environment for the period covered by the plan.
- With the help of computer simulation, the possible outcomes and the rate of return are estimated.

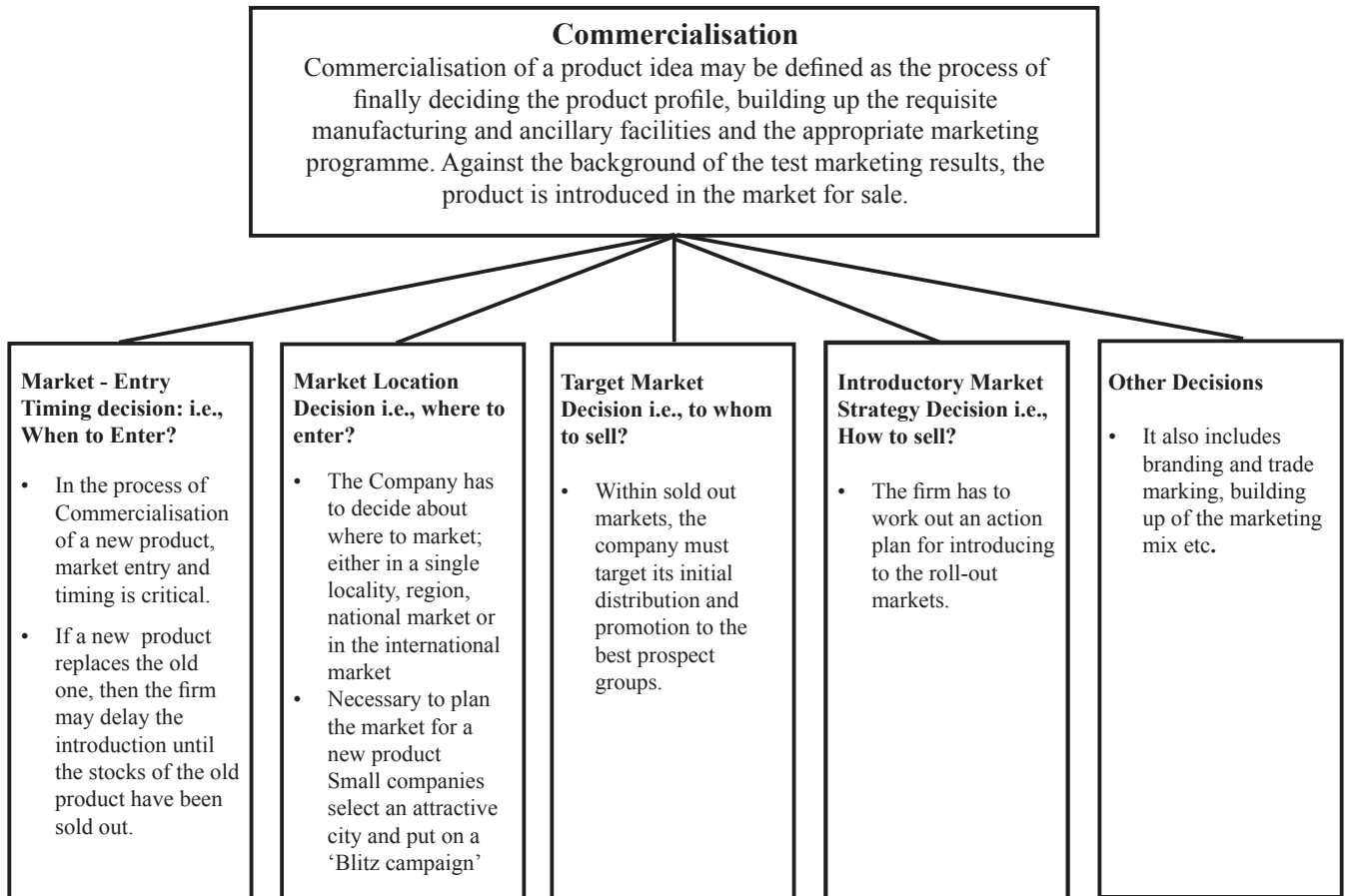
### **Product development**

- During the product development stage, the management determines whether the product idea can be translated into a technically and commercially feasible product.
- If not, then the product idea will be dropped.
- If the product idea is observed to be feasible, then a set of methods known as Quality Function Deployment (QFD) are applied for translating the job of the target customer requirements into a working prototype.
- For this purpose, the list of consumer-designed attributes supplied by market research are converted into engineering attributes, which are then used by the engineering department to put them into practice.
- The research and development department develops one or more physical versions of the product concept.
- It tries to find a prototype that includes the key attributes described in the product concept statement that performs safely during normal use and under normal conditions and it can be produced within the budgeted manufacturing costs.
- Developing and manufacturing a prototype may take months or even years.
- However, modern sophisticated virtual reality technology is useful in speeding up the process.
- With the rise of the World Wide Web, it has become easier to have more rapid proto typing and a more flexible developmental process.
- When the prototype is ready, it has to be put to rigorous functional tests and customer tests.
- Alfa Testing is the procedure of testing a product within the firm to see its performance in different applications.
- After refining the prototype further, beta testing is to be applied.
- A set of customers are selected for using the prototype and to give feedback.
- Beta testing is useful when potential customers are heterogeneous, the potential applications are not fully known.
- Several decision makers are involved in purchasing the product and the opinion of the early users is sought.

### **Market testing**

- Once the management is satisfied with the functional and physiological performance, the product is ready to be dressed up with a brand name and package and to be put to a market test.
- The new product is introduced in the market to know how the dealers, retailers and consumers react to it.
- Many companies do not undertake market testing.
- Market testing depends upon the cost of investment and risk on the one hand, and the time pressure and research cost on the other.
- High investment, high-risk products where the chances of failure are very high, must be market tested as the cost of the market test is insignificant as compared to the total project cost.

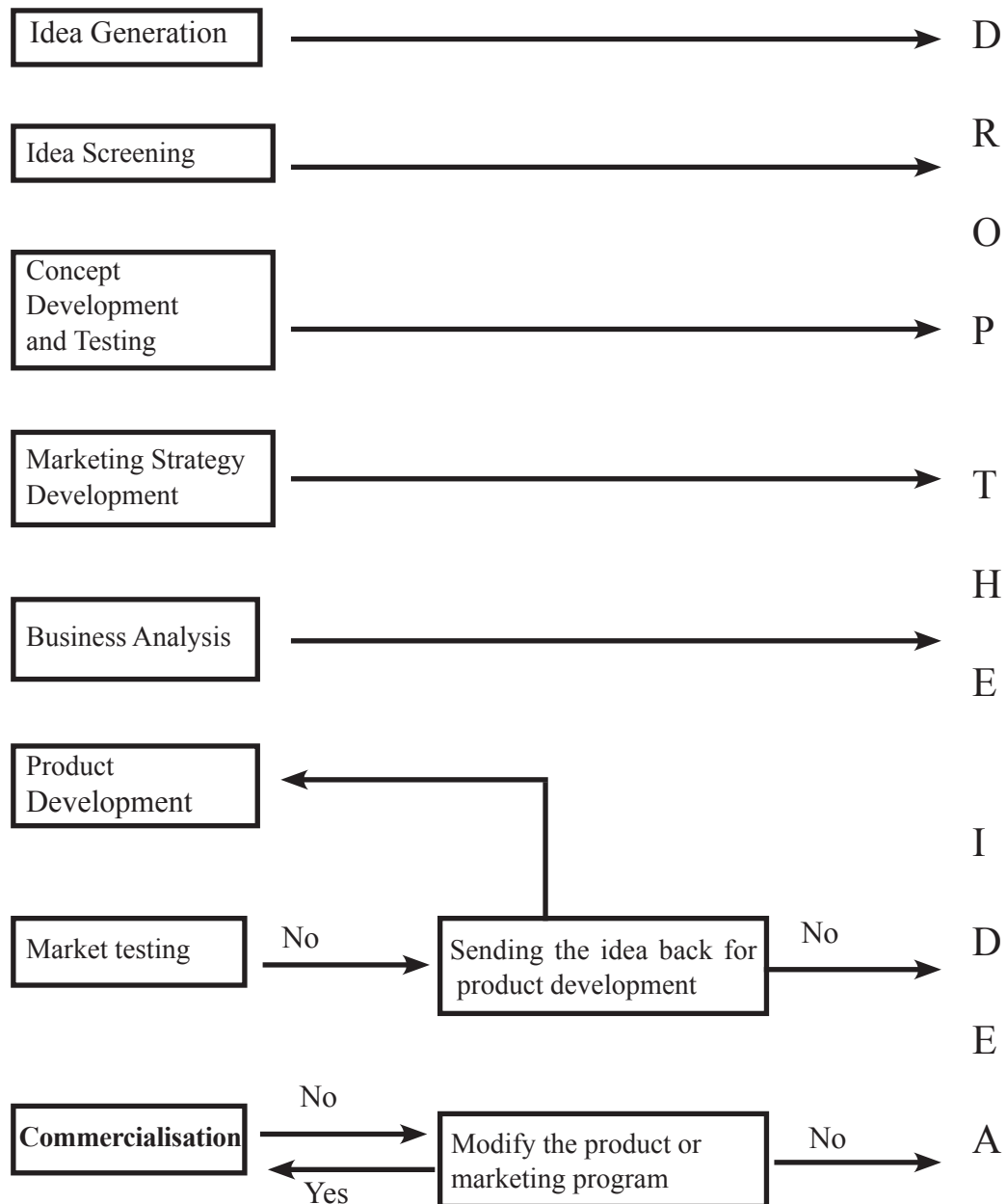
## Commercialisation



**Fig. 3.2 Commercialisation**

### 3.8 Conclusion of the Process

- In order to coordinate various activities involved in launching a new product, the management can use networks, planning techniques, such as the Critical Path Method CPM or Critical Path Scheduling (CPS).
- The CPS calls for developing master charts indicating simultaneous and sequential activities that have to take place to launch the product successfully.
- It enables the planners to estimate the time required to complete the project. Hence, planners can take the necessary steps to complete the project in time.



**Fig. 3.3 The new product development decision process**

## Summary

- Product development is one of the most important components of product management.
- Type of the New product have six categories: new product lines, addition to existing product lines, improvements or revisions to existing product, product new to the world, repositioning, cost reductions.
- Companies that fail to develop new products have to face great risks.
- The development and positioning of a new product in the market has become a costly and risky affair under the modern dynamic environment.
- The strategy serves as a meaningful guideline throughout the systematic development process for a new product.
- Steps in the development of the new product are idea generation, idea screening, concept development and testing, a drop error, a go error, marketing strategy development, business analysis, estimation of total sales, estimation of costs and profits, product development, marketing testing, commercialisation.

## References

- Kaplan, S.R. & David, P., 2004. Norton Strategy Maps: Converting Intangible Assets into Tangible Outcomes. Publisher: Harvard Business Press; 1 Edition.
- 2005. *Consumer- Centric Category Management: How to Increase Profits By managing Categories Based on the Consumer Needs*. Wiley.
- *Understanding Pricing Objectives and strategies*, [Online] Available at: < <http://pubs.cas.psu.edu/freepubs/pdfs/ua441.pdf> > [Accessed 27 august 2012].
- *Physical Distribution*, [Online] Available at: < <http://tutor2u.net/business/presentations/marketing/physicaldistribution/default.html> > [Accessed 27 august 2012].
- 2010. *Marketing: Channels of Distribution*, [Video Online] Available at: <<http://www.youtube.com/watch?v=Tb8bF2hCyLw>> [Accessed 27 August 2012].
- 2011. *Seller Pricing Strategies - Part 1*, [Video Online] Available at: <<http://www.youtube.com/watch?v=BdA2PLLjMJk>> [Accessed 27 August 2012].

## Recommended Reading

- Roam, D., 2009. *The back of the Napkin: Solving problem and selling Idea with Pictures*. Portfolio Hardcover; 1st ed.
- Day, G. S., 2006. *Peripheral Vision: Detecting the weak signals that will make or break your company*. 1st ed., Harvard Business Press.
- Uijttenbroek, A. A., 2007. *BDM Business Development Methodology*, Core Processes. Assign, Inc.

## Self Assessment

1. \_\_\_\_\_ is one of the most important components of product management.
  - a. Product quality
  - b. Product development
  - c. Product enhancement
  - d. Product management
2. \_\_\_\_\_ includes new products that enable a company to enter an established market for the first time.
  - a. Addition to existing product lines
  - b. Improvement or revision to existing product
  - c. New product line
  - d. Repositioning
3. \_\_\_\_\_ covers those products that supplement a company's established product lines.
  - a. Addition to existing product lines
  - b. Improvement or revision to existing product
  - c. New product line
  - d. Repositioning
4. \_\_\_\_\_ includes those products that create entirely new markets.
  - a. Cost reductions
  - b. Improvement or revision to existing product
  - c. New product line
  - d. Products new to the world
5. Developing and manufacturing a \_\_\_\_\_ may take months or even years.
  - a. prototype
  - b. tagging
  - c. presenting
  - d. allocating
6. Which of the sentences is true?
  - a. It was observed that less than 70% of the new products are truly innovative and new to the world.
  - b. It was also observed that less than 10% of the new products are truly innovative and new to the world.
  - c. It was also observed that less than 1% of the new products are truly innovative and new to the world.
  - d. It was also observed that less than 90% of the new products are truly innovative and new to the world.
7. Which of the sentences is true?
  - a. Companies that fail to develop new products have to face great risks.
  - b. Companies that fail to develop improve products have to face great risks.
  - c. Companies that fail to develop different products have to face great risks.
  - d. Companies that fail to develop products have to face great risks.

8. When the prototype is ready, it should be put to rigorous \_\_\_\_\_ .
- a. sales test
  - b. functional tests and customer tests
  - c. market test
  - d. shops test
9. \_\_\_\_\_ are estimated by research and development, manufacturing, marketing and finance departments.
- a. Overheads
  - b. Spending
  - c. Outlays
  - d. Costs
10. The \_\_\_\_\_ serves as a meaningful guideline throughout the systematic development process for a new product.
- a. plan
  - b. policy
  - c. advance
  - d. strategy

## Chapter IV

### Test Marketing, Product Branding and Brand Management

#### Aim

The aim of this chapter is to:

- explain the concept of test marketing
- state the needs of the test marketing
- explore the concept of 'brand'

#### Objectives

The objectives of this chapter are to:

- evaluated the type of test marketing
- explain the mechanism of test marketing
- evaluate the alternatives to test marketing

#### Learning outcome

At the end of this chapter, you will be able to:

- understand the concept of test marketing
- comprehend the mechanism of test marketing
- understand the advantages and limitation of branding

## 4.1 Introduction to Test Marketing

After creating the product prototype, obtaining consumer preferences testing results and the formulation of a tentative marketing programme, the product is ready for mass production and distribution. But the marketing managers are not prepared to take a risk until they are confident about positive market response.

- In order to reduce risks and uncertainty in such decisions, they prefer to test the product in the market and check consumer response so that necessary modifications can be incorporated in the product and other aspects of the marketing mix.
- This pretesting of a product before actual marketing is known as “Test Marketing” or “Market Testing”.

Test marketing is defined as a research technique in which the product under study is placed on sale in one or more selected localities or areas and its reception by consumer and trade is observed, recorded and analysed

## 4.2 Objectives of Test Marketing

The basic objective of test marketing is to sharpen the knowledge of the area of marketing new products

- To improve the knowledge of potential product sale
- To evaluate the effectiveness of product marketing in terms of sales, volume and profitability
- To pre-test alternative marketing plans
- To ascertain the nature and dimensions of the consumer reactions to the new product and marketing programme
- To know in advance about product defects
- To know the reactions of competitors
- To work out an effective marketing strategy for the new product

### Subject matter of test marketing

The information to be collected through test marketing depends upon the objectives of testing laid down by the management. However, generally the subject matter covered by test marketing includes the following:

- Potential sales volume and profitability
- Identification of innovative buyers
- Comparison of the actual and target number and types of buyers
- Recognition of the strength of the product by consumers
- Advertising message emphasizing strong points of the product
- Planning for effective distribution
- The potential for repeat purchases

## 4.3 Problems in Test Marketing

Many companies do not adopt the practice of test marketing as they do not believe in it. It may be popular in some industries but there are also firms that do not use it.

The main reason for not using it lies in certain problems that are faced in conducting test marketing. The main problems in test marketing are as follows:

### Test marketing is a costly exercise

- It has been argued by several marketing managers that test marketing is a costly exercise.
- To carry out test marketing for new products calls for heavy investment not only in its procedure but also in the remuneration and expense of the internal or external persons involved in it.
- The external specialised agencies also charge heavily for conducting test marketing. Hence, several companies do not accept it because of its heavy costs.



### **It is a time consuming and tedious process**

- In the context of the time required for test marketing, there is a paradoxical situation.
- If a new product is subject to market testing over a very short period, competitors take advantage of it, develop substitute products, and market it, to earn huge profits.
- If the test marketing of the new product takes longer time, it does not then remain a new product when it enters the market.

### **Unreliable results of test marketing**

- In case of many new products, it has been observed that, in spite of favorable results of test marketing the product failed in its commercial success.
- Several studies conducted on predictive value of test marketing have concluded that there exist very large margins of error.
- It indicates that a great care has to be taken while conducting test marketing.
- If the test marketing exercise is carried out very carefully on scientific lines, then there is a possibility of reducing the gap between the test marketing results and actual performance of the product in the market.

### **Competitors benefit**

- The test marketing exercise is an open exercise, which could be easily noticed by anybody.
- A good marketing intelligence system may communicate its operation to the competitor without any delay.
- Competition is likely to increase rapidly after test marketing a new product.
- When competitive forces penetrate into test areas, the value of new product test results decreases significantly.
- However, taking into consideration the benefits of the scientific test making and comparing them with the costs involved or the application of cost benefit analysis enables us to conclude that test marketing is a most useful technique especially for big organizations as it can save them from new product failures resulting into huge losses

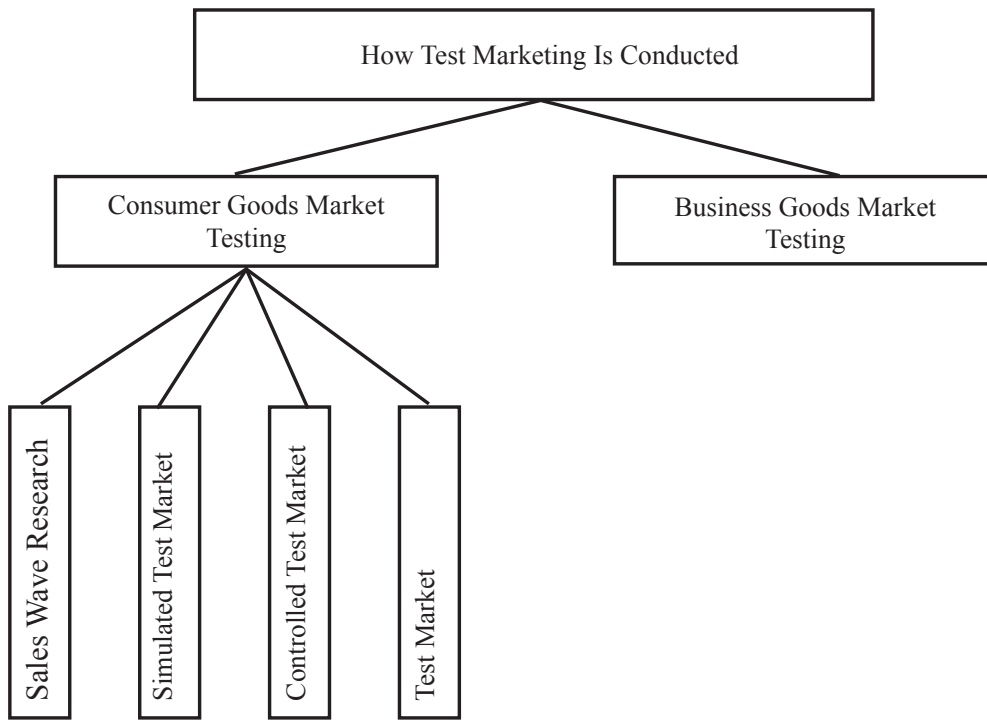
## **4.4 How Test Marketing is Conducted?**

The technique of test marketing is developing rapidly and it is becoming a scientific technique. Big companies prefer to develop their own plan for test marketing, while medium sized companies prefer to do it through advertising agencies or specialised consulting houses.

The test-marketing plan covers the following items:

<b>Sr. no</b>	<b>Items</b>	<b>Description</b>
1.	Number of cities to be selected	It depends upon the factors of representativeness and cost
2.	The length of the test run	It is decided by the factors of average repurchase period, competition and cost.
3.	Collection of information	Information to be collected related to the sales and profitability in case of alternative plans.
4.	The action to be taken	These are one of the two alternatives - to go for commercialization or drop the product

**Table 4.1 Test marketing plan**



**Fig. 4.1 How test marketing is conducted**

### **Consumer goods market testing**

While testing consumer products, the company seeks to estimate to variables namely

- Trial
- First Repeat
- Adoption
- Purchase Frequency

The company aims at finding all these variables at maximum levels. In some cases many consumers may try the product but only few may re-purchase it. Alternatively there may be high permanent adoption but very low purchase frequency.

### **Sales wave research**

- Under this method, consumers who initially try the product at no cost are re-offered the product, or a competitor's product, at reduced rates.
- For the sale of the product, three to four times (sales waves); the company maintains a record about how many customers select the product again and their repeat level of satisfaction.
- Sometimes consumers are exposed to one or more advertising concepts to estimate the impact of the advertisement on repeat purchases.

<b>Advantages</b>	<b>Limitations</b>
Can be implemented easily and quickly	It does not indicate the trial rates that would be achieved with different sales promotion incentives, because the consumers are re-selected to try the product.
Can be conducted with a fair level of security	It also does not indicate the brand's power to gain distribution and favorable shelf position.
Can be carried out without final packaging and advertising	

**Table 4.2 Advantages and limitations of sales wave research**

### **Simulated test marketing**

- Under this method, about 30 to 40 qualified shoppers are selected and they are questioned about brand familiarity and preferences in a specific product category. They are later on invited to a brief screening of both well-known and new commercial or print ads.
- On arrival the consumers are given a small amount of money and an invited to a store where competitive brands are placed. This provides a measure of the ad's relative effectiveness against competing ads in a stimulating trial.
- Consumers are asked reasons for their purchases or non-purchases.
- Those who did not buy the new brand are given a free sample.
- After a few weeks, they are re-interviewed on phone to determine product attitudes, usage, and satisfaction and repurchase intension and are offered an opportunity to repurchase any products.

### **The main advantage of this method**

It gives accurate results on advertising effectiveness and trial rates in a shorter time at less cost. The results are incorporated into new product forecasting models to project the ultimate sales levels. Marketing research firms give accurate predictions of sales levels of products that can be launched in the market.

### **Controlled test marketing**

- In this method, a research firm selects a panel of stores, to carry new products for a fee.
- The company with a new product specifies the number of stores and geographic locations it wants to test.
- The research firm delivers the products to these participating stores and controls the shelf position, number of facings, displays and point of purchases promotions and pricing.
- Electronic scanners at the check-outs are used to measure sales results. The company can evaluate the impact of local advertising and promotions during the test.

### **The main advantages of this method are**

- It enables the company to test the impact of in-store factors and limited advertising on the buying behaviour of the customers.
- The company does not have to maintain a sales force for this purpose or give a trade allowance.

It exposes the product and its features to the scrutiny of the competitors and can have this disadvantage. In spite of this drawback, the method is widely used in developed countries and by big firms.

### **Test markets**

- The company selects a few representative cities.
- The sales force tries to give the product a good shelf exposure.
- The company adopts a campaign with full advertising and promotion in these markets.
- A full-scale test may cost several crores of rupees. This depends on the number of test cities selected, the test duration and the amount of data to be collected.
- Test marketing is useful in testing the impact of alternative marketing plans.
- Inspire of its several benefits, modern companies rely on the faster and more economical market testing method in place of test marketing.
- Large companies prefer to launch new products in about 1/4th of the nation at the same time, which is an area quite large for rivals to disrupt.
- They related review the retail data, which helps them to know how the product is doing and what additional steps need to be taken. Colgate Palmolive adopts this method

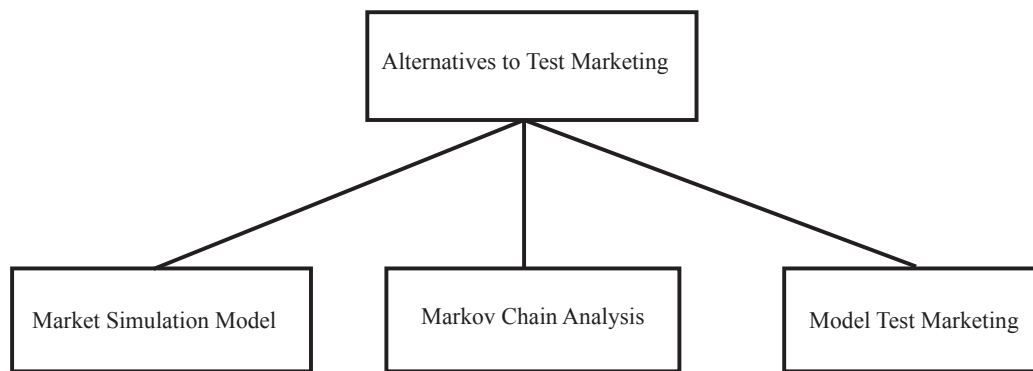
### **Business goods market testing**

In case of expensive industrial goods and new technologies, alpha testing (within the company) and Beta Testing(with the customers) techniques are used.

- During the process of Beta Testing, the vendors' technical experts observe the way the customers use the product.
- Problems related to safety and servicing help accordingly in customer training and servicing.
- The vendor may study the value that the equipment adds to the customer's operation. This helps in finalizing the subsequent pricing.
- The vendor may ask the test-customers about their purchase intentions and other reactions after the test.
- The Beta test results have to be interpreted carefully because it covers only a small number of test-customers who are not randomly selected.
- The second type of risk is that the customers who are not satisfied with the product may leak unfavorable reports about the product.
- The second test method used for business goods is to introduce the new product at Trade Fairs or Trade Shows.
- The vendor may study the buyer's interest in the new product, how many of them purchase it, etc.
- Booksellers arrange such trade fairs in the form of Book Exhibitions each spring in USA and during January, February in India.
- The main disadvantage of trade shows is that, the product is revealed to the competitors.
- The vendors must be ready to launch the product immediately after the trade show.
- Sometimes new industrial products are displayed in the playrooms / offices / shops of distributors where competitor's products are also displayed.

### **Alternatives to test marketing**

In order to overcome the limitations of the Test Marketing as a predictive technique in the field of new product development, experts have developed three alternative techniques to serve the purpose of test marketing, as follows



**Fig. 4.2 Alternatives to test marketing**

#### **Market simulation model**

- Under market simulation method, an attempt is made to simulate the real market situation with a computer aided model.
- The model aims at ensuring a viable new product introduction by assuming that the marketing plan can be efficiently balanced in respect of maximum profit, risk and pay out period, in a short time.
- The main advantage of the model is that of reducing risk and the rate of new product failure, reduction in the time required for introducing a new product and replacing test marketing, lowering costs of introducing new products and ensuring maximum profit on new products.

#### **Markov chain analysis**

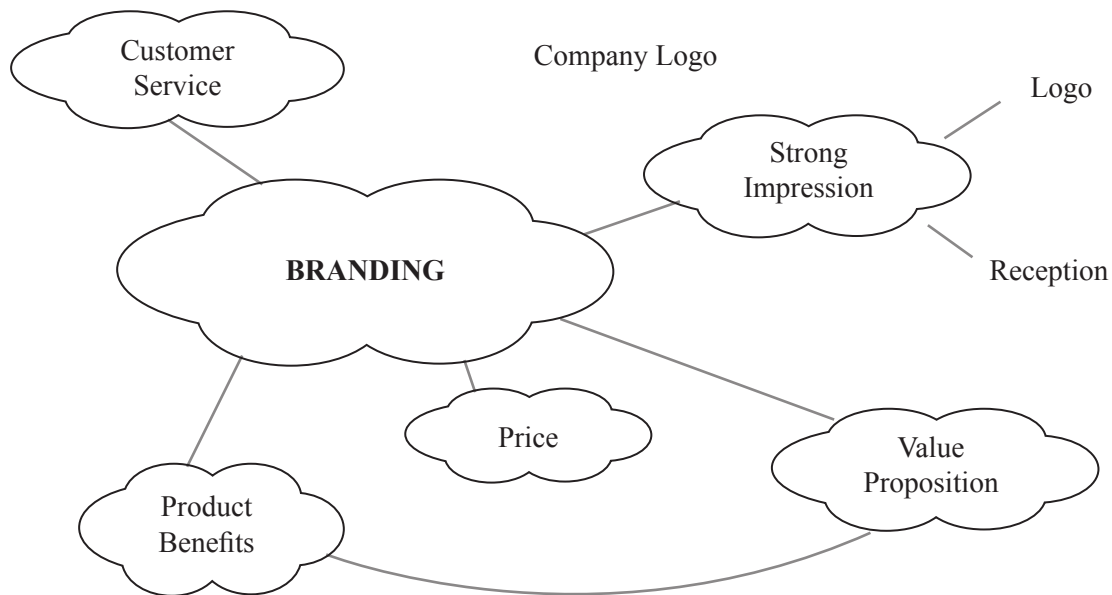
- The technique is useful in giving information to the test marketers about the dynamics of competition and the forces responsible for consumers' brand switching.
- The technique is also useful for the determination of the market share of a new product.
- In the future by tracing its market share through successive stages in a function of transitional probabilities, i.e., the sum of the probabilities of switching from one brand to another is the square of the number of brands in the product category.

#### **Model test marketing**

- This technique is employed where the total market place is modeled in order to reduce time and cost of full market. This technique is useful where full-scale marketing is beyond the capacity of the firm or it involves huge expenditure.
- A panel of housewives is selected and the sales literature of the product category is supplied to them, and they are encouraged to shop either at the firm's retail outlets or marked outlets.
- Their buying decisions are studied in detail to know about their decision making process.

### **4.5 Introduction to Product Brand**

- Products are never presented to consumers in their natural forms.
- They are packed, branded and sold along with related products and services.
- Consumers are also particular about the products, their packaging, brand name, and that their guarantee or warranty ensures product quality and safety.



**Fig. 4.3 Introduction to branding**

Products also use labels to give instructions. Consumers are more particular about what the total product offers than the product itself. Branding is a major issue in product strategy. Well-known brands can be sold at higher prices. Japanese companies like Sony and Toyota have built a brand loyal market. To develop a branded product needs long term investment in advertising, promotion, packaging etc.



**Fig. 4.4 Brands**

#### 4.6 Definition of Product Branding

The American Marketing Association defines brand as

- a name, term, sign, symbol or design
- a combination of terms mentioned above intended to identify :
  - the goods or services of one seller
  - group of sellers

- to differentiate them from those of competitors
  - a brand identifies a seller or product
  - a brand name consists of words, letters or numbers that can be vocalised like lux, Rexona, and ponds and Colgate etc
- A trademark is a brand that is a given legal protection to one seller
- Thus, all trademarks are brands, which include words, letters or number that can be pronounced. It also includes pictorial design, for example, Dalda with the palm tree. The brand creates a product image, a value, a quality or a personality.
- Brands are complex symbols that can convey six levels of meanings:

Sr.no	Levels	Description
1.	Attributes	A brand brings to mind certain attributes, for example, Mercedes suggests an expensive, well built, durable, high prestige automobile
2.	Benefits	Attributes must be translated into functional or emotional benefits, for example, the attribute “durable” could be translated into functional benefit - “I won’t have to buy another car for several years.”
3.	Values	The brand says something about producers values, for example, Mercedes stands for high performance, safety and prestige
4.	Culture	The brand may represent a certain culture. Mercedes represents German Culture which is organised, efficient and of high quality.
5.	Personality	The brand projects a certain personality, for example, Mercedes may suggest a ‘No Nonsense Boss’ (a person), a reigning lion (animal) or an austere palace (object).
6.	User	The brand suggests the kind of consumer who buys or uses the product. We expect to see a 55- year-old top executive behind the wheel of a Mercedes and not a 20-year-old secretary

**Table 4.3 Six level of meaning in branding**

Branding is the process of finding and fixing the means of identification or naming the product, just like naming a child. Thus products are their offspring for manufacturers. Branding is the practice of giving a specified name to a product or group of products of one seller or producer. Once a brand establishes a position of market leadership, the position often is maintained over a long period of time

## 4.7 Purpose of Branding

The practice of branding is common because of the following reasons:

- the brand is an instrument for sales promotion in the market
- it facilitates easy advertisement and publicity
- it creates special consumer references over the product
- brands help in increasing sales
- it is useful to attract buyers
- it is easy for the customer to remember the product through a brand name
- it differentiates the goods of a producer from the goods of the competitor

- it ensures standard quality and satisfaction to buyers
- it facilitates memory recall and rapid and frequent buying, creating a deeper loyalty
- it helps in advertising - to make it more effective and link with other communication programmes
- promotes the ready acceptance of a product by wholesalers and retailers
- facilitates self- selection, especially in self-service stores
- display space is easily obtained and special promotions are made more practicable and easier
- the importance of price differentiation can be diminished
- branding makes market segmentation easier, different brands of similar products may be developed to meet specific categories of users
- it reduces personal persuasive selling efforts
- brand loyalty enables the manufacturer to have greater control over marketing (strategy and channels of distribution)

#### 4.8 Features of Good Brands

An ideal brand should possess the following features:

- brands should be suggestive
- it should suggest something about the product such as, purpose, quality, benefits, use, action, etc. Tiger lock, Godrej typewriter, and so on
- it should be easy to advertise, identify and remember
- it should be permanent in nature
- it should be distinctive
- it should be capable of being registered and protected legally
- it should be clean and attractive
- it should be simple and easy to pronounce, for example, Lux, Dalda
- it should not be out of date or very old
- it should be able to create a good image
- it should not be harmful and/or offensive
- it should to be original
- it should be economical and simple to reproduce
- it should be pleasant to hear
- it should be short, simple and easy to pronounce, for example, Lux, Gold Flake, Moti, and so on

#### 4.9 Significance and Importance of Branding

The major function of a brand is to create an identity for the product so that it can be easily identified and distinguished from the products produced by manufacturers. A brand possesses several advantages and limitations as follows

##### Consumer's Advantages and Limitations

###### Advantages

A product is distinguished due to its brand. The consumer is assured of its quality and consistency in the brand. The branding of a product saves time and energy while shopping for goods. Consumers get a better quality product at fair price and satisfaction is maximised on account of branding of the product. Certain brands provide prestige and status to consumers who get a psychological satisfaction of using good products. It becomes easier to lodge complaints and claims against producers when the branded product fails to satisfy its proclaimed values. Therefore, consumers get legal and trade protection against unscrupulous trade practices. Consumers feel safe and are satisfied when they use popular and branded products.



### **Disadvantages**

- Consumers may be confused when they come across a large variety of brands, each claiming good quality and fair price
- Branding of products tends to attach the consumer with a preference to branded products. So it deprives the consumer of other newer and better brands
- A very popular brand commands a much greater demand; hence branded products remain highly priced so that the common man may not be able to enjoy the advantage of consuming it

### **Marketer's Advantages and Limitations**

#### **Advantages**

- Brand is described as a major intangible asset because it is not possible to copy brand names.
- Brand loyalty ensures repeat and replacement purchases, which help the marketers overcome competitive pressure and enjoy market control.
- The brand is a great promotional tool. A brand enables firms to compete on non-price basis. The best means to popularise a product is through advertisement and this is not possible if the product is unbranded. Salespeople may find it difficult to sell a product without a brand name. Thus branding plays a creative role and a key role in building up and maintaining product demand.
- A brand has significant communication value so as to attract customers and make demand for the product relatively inelastic. With this, the marketer may adopt an independent price policy.
- The brand helps in building up a unique reputation for its owner, which facilitates introduction of new products and helps get favorable consumer response.
- Middlemen prefer to stock popular brands. The reputation built by a brand for its owner is an antidote for the hesitation and hostile attitude of middlemen.
- Branding is the easiest way to promote identification of the product or service. For a customer, brand is value, quality, prestige, personality and image. So customers use the brand image as a proxy for quality, dependability and prestige. Even an illiterate person can identify by brand marks and is prepared to purchase it even at higher price, for example, spare parts supplied by Tata or Kirloskar companies.

#### **Disadvantages**

- Branding of a product involves the responsibility of maintaining quality standards and maintaining delivery conditions as proclaimed. Branding implies commitment towards consumer expectations. Any deviation from this may result in severe damage to the reputation of the brand.
- Branding enables producers to have a monopoly in the market, but it needs huge expenditure on advertisements to build up the brand. This is neither easy nor cheap. Hence, small firms cannot afford it.
- Some products are such that they cannot be branded. In spite of these limitations, branding is a popular practice among the marketers.

## **4.10 Branding in the New Economy**

Brand building developed during the last century and called for creating product differentiation. It has been observed that several companies have failed in brand building in spite of their efforts based on the traditional theory of brand building.

They argue that the proliferation of media and message delivery systems has eroded mass advertising power. They urge that in modern times, companies should use a different type of paradigm to build their brands in the new economy.

The following modifications are suggested in this context:

- Companies should classify corporate basic values and build a corporate brand. Companies like Sony, General Electric, American Express, etc. have built strong corporate brands; their name on a product creates an image of quality and value.
- Companies should use brand managers to carry out the tactical work, but the brand's ultimate success will depend on everyone in the company accepting and living the brand's value proposition. CEO's are playing a growing role in shaping brand strategies.
- Companies need to develop more comprehensive brand-building plans to create positive customer experiences at every touch point - Events, seminars, news, telephone, E-mail, Person to person contact, etc.
- Companies need to define the brand's basic essence to be delivered in whatever it sells.
- Companies must use the brand value proposition as the key driver of the company's strategy, operations, services and product development.
- Companies must measure their brand building effectiveness not only by old measures of awareness, recognition and recall but by customer perceived value, customer satisfaction, customer share of wallet, customer retention and customer advocacy.

## Summary

- After creating the product prototype, obtaining consumer references testing results and the formulation of a tentative marketing programme, the product is ready for mass production and distribution.
- Test marketing is defined as a research technique in which the product under study is placed on sale in one or more selected localities or areas and its reception by consumer and trade is observed, recorded and analysed
- The information to be collected through test marketing depends upon the objectives of testing laid down by the management.
- Pretesting of a product before actual marketing is known as “Test Marketing” or “Market Testing”.
- The information to be collected through test marketing depends upon the objectives of testing laid down by the management.
- The brand is a great promotional tool. A brand enables firms to compete on non-price basis. The best means to popularise a product is through advertisement and this is not possible if the product is unbranded. Salespeople may find it difficult to sell a product without a brand name. Thus, branding plays a creative role and a key role in building up and maintaining product demand.
- Branding of a product involves the responsibility of maintaining quality standards and maintaining delivery conditions as proclaimed. Branding implies commitment towards consumer expectations. Any deviation from this may result in severe damage to the reputation of the brand.
- Many companies do not adopt the practice of test marketing as they do not believe in it. It may be popular in some industries but there are also firms that do not use it.
- Products are never presented to consumers in their natural forms. They are packed, branded and sold along with related products and services.

## References

- Kotler, P., 2003. *Marketing Management*. Publisher Pearson Education, 11th ed.
- Zikmund, W. G. *Exploring Marketing Research*. Available at: <<http://www.scribd.com/doc/14520940/ch12-test-marketing>> [Accessed November 15 2010].
- *Test Marketing* [Online] Available at: < <http://www.businessdictionary.com/definition/test-marketing.html>> [Accessed 27 august 2012].
- Dr.Chopra. S. *Basic Concepts in Marketing* Available at: <[http://www.du.ac.in/fileadmin/DU/Academics/course\\_material/EP\\_16.pdf](http://www.du.ac.in/fileadmin/DU/Academics/course_material/EP_16.pdf)> [Accessed 27 august 2012].
- 2012. *Logo and Product Branding* [Video Online] Available at: <[http://www.youtube.com/watch?v=b\\_KAJk9RXi0](http://www.youtube.com/watch?v=b_KAJk9RXi0)> [Accessed 27 August 2012].
- 2012. *What Your Customers Want* [Video Online] Available at: <<http://www.youtube.com/watch?v=DxlDT-f7U1Q>> [Accessed 27 August 2012].

## Recommended Reading

- Tybout, C. T. & Kotler, A., 2005. *Kellogg on Branding, The marketing faculty of the Kellogg school of management*. 1st ed., Willey.
- Kavartzis, A. G., 2010. *Toward effective place Brand Management: Branding European Cities and Regions*. Edward Elgar.
- Kotler, P., Armstrong, G., 2010. *Principle of Marketing*. 13th ed., Pearson.

## Self Assessment

1. \_\_\_\_\_ is defined as a research technique in which the product under study is placed on sale in one or more selected localities or areas and its reception by consumer and trade is observed, recorded and analysed.
  - a. Test analysis
  - b. Marketing management
  - c. Test marketing
  - d. Test mixing
2. Under market simulation method, an attempt is made to simulate the \_\_\_\_\_ situation with a computer aided model.
  - a. real market
  - b. stock market
  - c. retail market
  - d. wholesale market
3. The information to be collected through test marketing depends upon the objectives of testing laid down by the\_.
  - a. higher authority
  - b. management
  - c. officers
  - d. HR
4. Products are never presented to consumers in their \_\_\_\_\_.
  - a. odd forms
  - b. extraordinary forms
  - c. natural forms
  - d. normal forms
5. Products also use labels to give \_\_\_\_\_.
  - a. instructions
  - b. directions
  - c. advice
  - d. orders
6. Which of the sentences is true?
  - a. If the test marketing of the old product takes longer time, it does not then remain a wanted product when it enters the market.
  - b. If the test marketing of the new product takes longer time, it does not then remain a new product when it enters the market.
  - c. If the test marketing of the tricky product takes longer time, it does not then remain a new product when it enters the market.
  - d. If the test marketing of the old product takes longer time, it does not then remain a new product when it enters the market.

7. \_\_\_\_\_ is likely to increase rapidly after test marketing a new product.
- Opposition
  - Struggle
  - Competition
  - Relation

8. Match the following:

I	II
a. Collection of Information	1. It depends upon the factors of representativeness and cost
b. The length of the test run	2. It is decided by the factors of average repurchase period, competition and cost.
c. Number of cities to be selected	3. Information to be collected related to the sales and profitability in case of alternative plans. related to the sales and profitability in case of alternative plans.
d. The action to be taken	4. These are one of the two alternatives - to go for commercialisation or drop the product

- a-4,b-2,c-1, d-3
  - a-3,b-2,c-4, d-1
  - a-3,b-1,c-2, d-4
  - a-3,b-2,c-1, d-4
9. A \_\_\_\_\_ test may cost several crores of rupees. This depends on the number of test cities selected, the test duration and the amount of data to be collected.
- full-scale
  - half scale
  - middle scale
  - intermediate
10. Under which method, an attempt is made to simulate the real market situation with a computer aided model?
- Market simulation
  - Alternative method
  - Markov Chain Analysis
  - Model test marketing

## Chapter V

### Product Packing, Price and Pricing

#### Aim

The aim of this chapter is to:

- explain the concept of product packaging
- state the objective of packaging
- interpret the purpose and function of packaging

#### Objectives

The objectives of this chapter are to:

- make the students understand the concept of product packaging and pricing
- evaluate various types of packaging
- elucidate the meaning and concept of pricing

#### Learning outcome

At the end of this chapter, you will be able to:

- understand the significance of the packaging and pricing
- identify various types of packing
- comprehend the pricing decision adopted by the market

## 5.1 Introduction

Traditionally the function of packaging is to protect the product. It has now been realised that packaging can function as an effective promotional tool and a major image builder, contributing towards the success of the product and is another technique of product identification.

Packaging includes all the activities of designing and producing the container for a product. A package is a wrapper or container in which a product is enclosed, encased or sealed. A package is an important peripheral attribute of a product.

Packing is a process that speaks of the company's ability to contain economically man-made or natural products for shipment, storage and sale for final use.

- It includes the activities of wrapping or creating the product to perform the marketing functions more easily and economically.
- Packaging uses packages or containers like tins, cans, bags, jars, bottles, boxes, etc.
- Package design is the unique combination of colors, graphics and symbols used for distinguishing products.

## 5.2 Objectives of Packaging

The primary objective of packaging is protection of the contents or products. It protects the product against:

- the possibility of theft
- pilferage
- leakage
- spilling
- breakage
- contamination
- deterioration
- evaporation
- adulteration

Packaging enables people to identify the product. The size, color, graphics, designs, etc. used for each package makes it a unique product. It can hence be easily remembered and identified. Packaging aims at providing maximum convenience to producers, distributors and consumers.

A well-designed package facilitates the product's shipping, storage, stock handling and display by the producers, distributors and dealers.

Packaging is also a powerful promotional tool as it performs several advertising functions which include

- Self advertising
- Window, Counter display
- Media advertising
- Product publicity

Attractive packaging enables the firm to earn more profits.

### 5.3 Purpose and Functions of Packaging

- In the modern dynamic, complex and competitive environment, the role and purpose of packaging has been steadily increasing.
- It has now become a specialised activity to improve the profitability of an organisation, to the middlemen and to promote convenience, safety and utility to the customers.
- As an important peripheral attribute of a product, a package has the following purposes to serve.

#### Utilisation purpose

Packaging serves by way of enhancing and retaining the product value to the consumers in several ways as follows:

Packaging helps in brand identification.

- It protects products from spoilage, deterioration, spilling, evaporation, etc. during transit and storing.
- It increases the use convenience of the product by keeping the product clean, safe and undisturbed.
- It makes handling of the product easier.
- It helps in extending the life cycle by updating the external attributes of the product.
- It satisfies the public demand about safety and convenience. Safety in packaging has become an important marketing and social issue.
- Packaging of bulk items makes the packaged goods more convenient, cleaner and economical to the users.
- Packaging promotes convenience in self-service as many products are sold on self-service basis in departmental stores and supermarkets. Packaging makes the consumer purchase process safe and convenient.

#### Communication purpose

Packaging also performs the purpose of communication by becoming an important element of communication mix especially in advertising and sales promotion. This serves in the following ways:

- Packaging makes the process of product identification and differentiation very simple, easier and effective.
- Packaging makes the product look different and unique from the other competitive brands.
- Package features help in communicating the product message and to motivate the customers to buy.
- Good packaging works as a promotion tool.
- It works like a silent salesman.
- It does self-advertising, displaying and publishing.
- The size, design, color, weight etc. of the package adds to the sale ability of the product.
- It helps in increasing product density, which implies that the selection of packaging materials, design, shape, etc. help in making optimum use of the available space in the most economical way.
- It normally increases the attractiveness of arrangement as also improves relations with common carriers.
- A Change in product package, design and message helps in the implementation of product / brand responsibility strategy of the company.
- It helps in making the product mix more flexible and easy.
- Packaging repeats selling messages printed on it to the customer who handles it repeatedly during a series of uses.
- It encourages repeat and replacement purposes, for example, it promotes products at the point of purchase and encourages impulse buying.



### Profit purpose

- Packaging also serves to earn the maximum profit for the producers as
- Consumers that assign a higher value to the package are prepared to pay higher for its product attribute.
- Effective packaging reduces the cost of handling, transportation and storage and protects products from damages. Thus it saves the organisation from cuts in profits.
- Innovative packaging results into more benefits to consumers and higher profits to the organisation.
- Companies incorporating unique materials and features for convenience in the use of the product not only increase consumer satisfaction but also bring in higher profits.
- Developing effective packaging is a costly and time-consuming process. But those companies which pay attention
  - to growing environmental and safety concerns
  - shortages of paper
  - aluminum and other materials and call for reducing packaging achieve not only a social status but also higher profitability
- Packaging creates the problem of solid waste disposal which is costly; hence most companies prefer to go “Green” with less emphasis on packaging and using material which is desirable

### 5.4 Types of Packaging

With an increasing need for enhancing the sales effect of packaging, business firms continuously search for different packaging material, design, size, shapes etc. There are several types of packaging now available in the market. A company has to select the proper type of packaging depending upon the nature of the product and expectations of the consumer.

The common types in use are mentioned in table given below:

Sr. No.	Type of packages	Description
1	Consumer package	<ul style="list-style-type: none"><li>• It is a type of package, which contains the required volume of a product for household consumption. For example, toothpaste, shoe polish, etc.</li></ul>
2	Family Package	<ul style="list-style-type: none"><li>• Under this type, packages of the entire product line closely resemble each other</li><li>• The major features of the whole product line are exactly similar. For example, Camlin puts the image of a small black camel on the packages of its stationery products</li><li>• The main advantage of this type of packaging is that- any new product due to identical packaging enjoys the same level of market reputation and acceptance</li><li>• It also reduces packaging costs because of bulk buying of required materials</li><li>• There are disadvantages of this type of packaging too. For example, if the old product is a failure, then the new product is also likely to fail because of the same product package and resemblance</li><li>• Secondly, middlemen may feel that they are over-stocking a particular brand or package of the same company. Consumers also feel that the dealers do not have sufficient varieties</li></ul>

3	Re-use Packaging	<ul style="list-style-type: none"> <li>• The manufacturers offer such packages that can be reused after consuming the contents. Therefore, these are also called dual packages</li> <li>• The package has secondary uses, for example, Nescafe is offered in a glass jar, which can be used as a tumbler or a plastic cup of ice cream, etc.</li> <li>• Reuse packaging is used to enable the consumer to re-use the package and hence stimulate repeat purchases as it offers additional benefits for the same price</li> <li>• Many housewives may buy 4 to 6 Nescafe cases so as to have a full set of beverage glasses. However, it may not be much effective, because in order to maintain consumer interest, the package has to be changed quite often</li> </ul>
4	Multiple Packaging	<ul style="list-style-type: none"> <li>• In case of multiple packaging, a number of products that are often used by the customers are placed in a single package. For example, <ul style="list-style-type: none"> <li>▪ Several cosmetic items are packed together</li> <li>▪ A shaving set that includes brush, razor, blades, lotion, etc.</li> </ul> </li> <li>• This type of packaging enables the company to increase sales considerably. But it has not become popular in India</li> <li>• It facilitates the acceptance of a new product idea by a consumer who normally may not purchase it</li> <li>• It is used where the items passing through dissimilar life cycle stages are packed together so that new and old products may be sold</li> <li>• However, it is generally difficult to break consumer resistance of the products</li> <li>• Hence, there is a possibility</li> </ul>
5	Ecological Packaging	<ul style="list-style-type: none"> <li>• Certain containers like throwaway or cheap containers create ecological and solid waste management problems</li> <li>• It has been increasingly realised that the protection of the environment is a part of the social responsibility of business</li> <li>• In order to preserve the physical environment, modern manufacturing organisations are taking steps, which include <ul style="list-style-type: none"> <li>▪ using returnable bottles and containers</li> <li>▪ using such type of containers, which decompose over a certain period of time</li> <li>▪ using light weight material</li> <li>▪ making arrangements for retrieval of packaging material so as to recycle them</li> <li>▪ carrying out research on a continuous basis to develop new packaging materials that are biodegradable or which minimise environmental pollution problems</li> </ul> </li> </ul>

6	Fractional Packaging	<ul style="list-style-type: none"> <li>Recently, providing small unit packages has been used to serve the needs of customers and their convenience, for example, toothpastes are made available in 200 gm. packaging as well as 50 gm</li> <li>In order to achieve economy, a family package has also been made available</li> <li>Larger households prefer purchasing these economy packages to avoid the inconvenience of having to make frequent purchases, making some savings in the bargain</li> </ul>
7	Flexible Packaging	<ul style="list-style-type: none"> <li>The concept of flexible packaging is becoming popular in several organisations</li> <li>It has less investment costs, both for the packager as well as the consumer products company</li> <li>It not only offers a wide range of design and print but also gives substantial value for money (VFM) to the end user, who gets the product at much cheaper rate as packaging in sachets (for example, coffee and shampoos) further stimulates the development of flexible packaging</li> <li>Flex industries, paper products and sharp industries, etc big players in flexible packaging</li> </ul>
8	Sachets	<ul style="list-style-type: none"> <li>Tiny packs or sachets have become popular</li> <li>Several consumer products like soap, cough syrup, hair oil, shampoo, etc. have been popularised because of the use of these sachets</li> <li>In the mid-eighties, pan masalas which were packed in sachets became rapidly popular because of the convenient packaging. Hence sachets are used as a key marketing tool for penetrating distant rural markets, for inducing product trials and even for serving a casual user</li> <li>In shampoos, brands like Sunsilk have become popular in rural markets due to sachets</li> <li>Mainly because the low unit price of sachets makes them affordable even to the lower income groups</li> <li>It also helps in trial and adoption. Thus, there are several types of packages now available for use, while taking a packaging decision; a company has to take into account marketing, product protection, economic and ecological factors into consideration on the one hand and consumer convenience on the other</li> <li>The appropriate selection of suitable type of packaging may help the organisation achieve marketing and organisational goals</li> </ul>

**Table 5.1 Types of packaging**

## 5.5 Criticism Against Packaging

Packaging is in the socio-economic forefront because of its relationship to environmental pollution issues. The biggest challenge facing packagers is how to dispose off the used containers. Consumers desire convenience in the form of throwaway containers yet desire a clean environment.

The other criticisms are as follows:

- Packaging results into depletion of natural resources. However, now-a-days packagers are increasingly using recycled and bio-degradable materials.
- Secondly, effective packaging helps in reducing spoilage, which is another form of waste of resources.
- Packaging is a very costly matter, for example, cosmetic packaging. However, effective packaging tends to reduce transportation costs and losses or product spoilage.
- Plastic packaging creates problems of health hazards. However, the government bans certain packaging materials that are harmful.
- Packaging is deceptive. However, it may be noted that Government regulations and improvements in business practices in the field of packaging have reduced the significance of this criticism.

At present, marketing executives are facing the challenge of satisfying complaints although at the same time they have to retain marketing effectiveness, consumer convenience and the product protection aspects of packaging.

## 5.6 New Trends in Packaging

Vast and significant changes have taken place all over the world in respect of packaging. New materials and new technologies of production have totally revolutionised packaging practices. Where packaging serves the purpose of protection, highly effective protective packages have been developed. Where packaging is used to add charm to the product, totally new concepts and styles of packaging are emerging.

In cases where packaging is used to make handling large volumes cheaper and easier, new techniques like containerisation have been developed. Thus, packaging practices are continuously subjected to modifications from the point of view of protection of the product and convenience of the customers in an economical way. Packaging has been considered as an internal part of the core product. It has been realised that packaging is a tool to convey the message of a good quality product to the customers.

In certain cases, the cost of packaging may be as high as around 50%; while in some industries the cost of packaging is higher than the product, for example, mineral water. Packaging is used to make the brand stand out as unique product.

Packaging innovations are changing the way of consumption of the product. It has also affected the method of selling the product. Sachet type packing has been successful in attracting low-income group consumers as in the case of shampoos.

When the superiority of the core product is observed to be difficult to establish, packaging takes care of the brand to attract and induce consumers to buy the product. Thus, packaging innovations tend to be never en process.

Packaging is also related to the distribution system, for example, the rectangular packaging of Dhara is found to be convenient by trade although customers do not find it convenient. Frooti, Dhara and Pan Parag are outstanding examples of success only on account of innovative packaging.

Packaging also has a socio-economic dimension, which has been recognised by various sections of society. It is mainly because of its close relationship with the issues relating to environmental protection. The major challenge faced by marketers today is to develop packages of such nature that they do not create any socio-economic, environmental all other related problems. The development of packaging in future has to be oriented towards product protection on the one hand and consumer convenience on the other in the most economical way.

## 5.7 Introduction to Pricing

Pricing plays an important role in a competitive and developing economy. Price is the main factor that determines the efficiency of the organisation, a good price policy is of great importance to the producers, wholesalers, retailers and consumers. Marketers try to achieve their long run pricing objectives through price strategies and price policies

## 5.8 The Meaning of Price

- Price is the amount for which a product or service or idea is exchanged or offered for sale, regardless of its worth or value to the purchaser.
- Price may be defined as a value expressed in terms of money. It is the value of the product's attributes expressed in monetary terms, which a consumer pays in exchange, and anticipation for the offered utility. Thus, price serves as a link between consumers and the organisation.
- It helps in establishing mutual advantages, economic relationships and facilitates the transfer of ownership of goods and services from the seller to the buyers.
- Pricing is the art of translating into quantitative or monetary terms the value of the product or a unit of service to consumers at a point of time.
- Pricing starts with the understanding of the corporate mission, target markets and marketing objectives.
- The marketing manager may define pricing as a function determining the product, service or idea value in terms of money before it is offered to the targeted consumers for sale.

## 5.9 The Role of Pricing in the Market Strategy

- Price is a complex and dynamic process because producers, middlemen, consumers and government influence it.
- Pricing policies play a crucial role in the entire scheme of marketing and play a key role both, at the macro level and micro level.
- At the micro level it determines the allocation of resources, their optimum use and returns from them.
- Prices may encourage or discourage production and consumption.
- In a competitive economy, a flexible price system leads to maximum economic efficiency. The role of pricing can be described as follows:

Sr. no	Role of Pricing	Description
1.	Price is the prime mover of the wheels of the economy	<ul style="list-style-type: none"><li>• In a free market or capitalist economy, the price system affects the allocation of scarce resources</li><li>• It affects production, distribution, exchange and the consumption pattern in the economy</li><li>• It can serve as a reliable means to achieve the goals of the planned economy</li><li>• It acts as a tool to attain a higher rate of growth and sustained economic development</li></ul>
2.	The price policy enables the management to regulate the demand	<ul style="list-style-type: none"><li>• The price is a useful means to regulate the demand for products</li><li>• Price is described as the strongest element of the marketing mix</li><li>• A rise in the price reduces demand while decrease in price increases the demand</li><li>• The magnitude of change in demand depends upon the elasticity of demand for the product</li><li>• The efficiency of the marketing programme depends upon a rational pricing policy</li></ul>

3.	Price serves as a competitive weapon	<ul style="list-style-type: none"> <li>A company can maintain its competitive position and market share by adjusting the price policy to decisions taken by the competitors.</li> </ul>
4.	Price as the determinant of profitability	<ul style="list-style-type: none"> <li>The price policy of a firm affects the sales and hence the profitability of the firm</li> <li>Price as an important element of marketing mix can be effectively used to overcome the weaknesses in other elements</li> <li>It is often used as an offensive or defensive strategy to maintain profitability of the organisation</li> </ul>
5.	Price as a major decision input	<ul style="list-style-type: none"> <li>Price is used as an important decision input in case of several marketing decisions</li> <li>Price should be seen as a decision variable in planning the product as one of the several critical performance attributes</li> <li>In underdeveloped countries where the marginal value of money is higher, the consumer response to price changes are more significant and faster</li> <li>A non-price differentiation in the form of brands and promotion is less effective than price differentiation</li> <li>For example, if a decision is to be taken about selecting the possibilities for product improvement, then it is desirable and advantageous to select that possibility which goes with the highest price as compared to the cost</li> <li>It helps in maximising profits, which is one of the objectives of business organisations</li> <li>Pricing may be said to be a major and the most important function of the marketing manager, which affects the survival and growth of the organisation</li> </ul>

**Table 5.2 Role of pricing**

### 5.10 The Objectives of Pricing

- The most important task in the management of the pricing function is to set the relevant objectives.
- The objectives serve as the benchmarks against which the management can fix the prices for products or services and formulate effective policies and strategies.
- These objectives also help in interpreting prices with other marketing inputs to develop a synergistic effect in marketing and corporate strategies of the organisation.

The main objectives of pricing are:

- to maximise profit in the short and long run
- to attain and maintain a target rate of return on investment
- to prevent or overcome competitive forces
- to attain and maintain a maximum market share
- to take steps for price stabilisation
- to expedite cash collection by encouraging cash sales and expediting the realisation of bills and receivables
- to mobilise resources to meet the needs of expansion and in financing development projects
- to promote developmental activities
- to influence the price structure of other organisations
- to maintain the image of the organisation

### **Factors influencing pricing decisions**

The factors influencing product pricing decisions may be classified into two categories –

- internal factors
- external factors

#### **Internal or controllable factors**

- Every firm has a set of certain short term and long term objectives of pricing.
- The pricing decision of a firm has to be consistent with the basic philosophy of pricing of the organisation and also with the overall objectives of the firm.
- A firm also aims at having a particular public image through its pricing policies.
- All these aspects constitute the internal factors as they are under the control of the management.
- The pricing strategy has to fit into overall the marketing strategy of the company.

These internal factors may be listed as follows:

#### **Organisational factors: These factors include:**

- to determine the objectives of the pricing policy
- the cost of the product
- factors affecting the pricing decision
- fixing prices for products

#### **Marketing mix**

Pricing decisions cannot be taken in isolation but have to be taken as a part of the total marketing strategy without having any conflict with other elements of the marketing mix namely product, promotion and place.

#### **Product differentiation**

This is the ability of a producer to make his product distinctive from others so as to be unique and acquire a relatively inelastic Demand. This enables him to follow an independent price policy for maximum profit.

#### **Objectives of price policy**

- The nature of price policy is determined by the goals set by the top management and the pricing objectives provide a direction to price policies and strategies.
- The firm should define the objectives of the price policy in clear terms so that these can be achieved efficiently and effectively.

#### **Product life cycle**

- The pricing policy is worked out according to the stage of the product in its life cycle.
- During the introduction stage, the price policy aims at market penetration by keeping the price at the lowest possible level.
- It helps in making the product popular and improving the goodwill of the organisation.
- During the growth stage, prices may be raised till the customers can accept them.
- During the maturity stage, the price rise may continue but care and precaution has to be taken so that the competitors do not react and may not take notice of it.
- In the decline stage, it is desirable to reduce the prices so as to maintain demand at a desirable level



### **Product costs**

The price of the product or service depends upon the cost of production.

- Generally, the price is set at the cost, plus the level of demand for the product or service and the intensity of competition.
- Hence, attempts to minimise the cost of production and maintain fair prices help the organisation in achieving its goal of profit maximisation.

### **System of physical distribution**

- Firms that have a longer distribution channel have the product price which tends to be higher.
- Sometimes it is inevitable to have a longer distribution channel especially in case of consumer products.
- Under such conditions, the only alternative is to have efficient channel management so as to bring down the costs.
- There is also a need to have co-ordination in the functioning of the manufacturers and middlemen so that control over operations and administration and the advertising cost can be achieved.

### **External or non-controllable factors**

- External factors are beyond the control of management and need to be carefully studied, analysed and interpreted correctly.
- These factors may briefly be discussed as follows

### **Demand for the product**

- The demand for the product is the single major factor that affects the price.
- The pricing decision mainly depends upon the nature of elasticity of demand for the product.
- If the demand is relatively inelastic, then a higher price can be charged for maximising profit.

### **Intensity of Competition**

- A firm working under competitive conditions has to keep a close watch on the policies of the competitors.
- If competition is intense, then the price policy has to be carefully worked out.
- Generally non-price methods like advertisements, direct marketing commissions, etc. may be tried without disturbing an existing price structure.

### **Economic environment**

- The conditions prevailing in the economy also affect the pricing policy of the organisation.
- During the period of prosperity when the general public has the purchasing power for the product, the price may be raised along with the competitors in order to maximise profits.
- During a depression, it may become necessary to reduce prices to maximise sales.

### **Government policies**

- The Government regulates the prices of mass consumption goods in the social interest.
- The Government, with the MRTP Act, Essential Commodities Act, and the Consumer Protection Act, etc., regulate the prices and reduce consumer exploitation through higher pricing and creating artificial scarcity conditions in the economy.
- Hence the pricing policy has to be rational within the legal framework in order to avoid government intervention.



### The buyers' behaviour

- The ability of the buyer affects the pricing policies of the firm.
- The pricing policy has to be different for industrial buyers and the final users.
- The price policy has to be based on the buyer's behaviour at both, individual and the organisational level.

### The suppliers' policy

The suppliers of different inputs can affect the pricing policies of the organisation by changing prices for the inputs or raw materials and fabricated parts, whenever they find that the manufacturers are making a substantial profit.

### Ethical considerations

- A price strategy worked out may appear to be unethical and hence undesirable.
- Businessmen prefer to follow ethical norms and the pricing policy should aim at making a reasonable profit.
- Such steps taken by firms help to improve their image and popularity amongst the customers.
- In addition, the bargaining power of customers, competition, pricing policy and strategy, social considerations also affect the pricing decision.
- The price of a product is one of the four elements of the marketing mix, hence, in order to achieve the marketing and organisational goals it is necessary that all the four elements of the marketing mix co-ordinate properly.

## 5.11 Pricing Decisions Adopted by Modern Firms

- Modern firms function as open systems under a dynamic environment and work out pricing strategies taking into consideration the price-quality relationship.
- There is a close relationship between quality and price- higher the quality, higher is the price.
- A company sells different brands at different prices.
- In a modern quality-conscious world, the price policy has to consider the quality of the products.

### Price quality strategies

Product Quality	Price			
		High	Medium	Low
	High	Premium Strategy	Premium Strategy	Premium Strategy
	Medium	Overcharging Strategy	Medium Value Strategy	Good Value Strategy
	Low	Rip Off Strategy	False Economy Strategy	Economy Strategy

**Table 5.3 Price quality strategies**

The table shows nine price quality strategies. Strategy numbers 1, 5 and 9 can exist in the same market. Where one firm offers a high quality product at a high price, another firm offers an average quality product at average price and other firms can offer a low quality product at low price. Thus, all the three competitors can exist as long as the market consists of three groups of buyers.

Some insisting on quality, others insisting on price, still others insisting on the balance between the price and quality. Strategies 2, 3, and 6 indicate the ways to attack diagonal strategies 1, 5, 9. For example, strategy 2 says- the product is of the same high quality as product 1 but we charge less. Strategy 3 says - the same things and offers greater savings. If quality sensitive customers believe in these competitors, then they will buy from them and save money. Strategies 4, 7, and 8 amount to overpricing the product in relation to its quality then customers will complain or spread bad publicity about the company.

The company must fix its price by taking into consideration the value delivered and perceived by the customers. If it is higher than the value received, the company will not get the benefit of potential profits. If the price is lower than the value received, the company loses the opportunity to harvest potential profits.

## Summary

- Traditionally the function of packaging is to protect the product.
- Packaging includes all the activities of designing and producing the container for a product.
- Package design is the unique combination of colors, graphics and symbols used for distinguishing products
- The primary objective of packaging is protection of the contents or products.
- Packaging enables people to identify the product.
- In the modern dynamic, complex and competitive environment, the role and purpose of packaging has been steadily increasing.
- Packaging also performs the purpose of communication by becoming an important element of communication mix especially in advertising and sales promotion.
- Consumers that assign a higher value to the package are prepared to pay higher for its product attribute.
- Packaging creates the problem of solid waste disposal which is costly; hence most companies prefer to go “Green” with less emphasis on packaging and using material which is desirable.
- Packaging is in the socio-economic forefront because of its relationship to environmental pollution issues.
- Vast and significant changes have taken place all over the world in respect of packaging.
- New materials and new technologies of production have totally revolutionised packaging practices.
- Price is the amount for which a product or service or idea is exchanged or offered for sale, regardless of its worth or value to the purchaser.
- Price is a complex and dynamic process because producers, middlemen, consumers and government influence it.
- Prices may encourage or discourage production and consumption.

## References

- Futherwengler, D., 2009. *Pricing For Profit: How to Command Higher Prices for Your Product and Services*. AMACOM.
- Baker, W. L., 2010. *The Price Advantage*. 2nd ed., Wiley.
- *Marketing Concepts*, [Online] Available at: < <http://www.agecon.ksu.edu/accc/kcdc/PDF%20Files/marketing.pdf> > [Accessed 27 August 2012].
- De luca.P. *The Role of Packaging in Marketing Communication: an Explorative Study of the Italian Wine Business*, [Online] Available at: < <http://academyofwinebusiness.com/wp-content/uploads/2010/05/De-Luca.pdf> > [Accessed 27 august 2012].
- 2011. *Pricing Strategies in Marketing*, [Video Online] Available at: <<http://www.youtube.com/watch?v=H8aZr-Ula1w>> [Accessed 27 August 2012].
- 2008. *Packaging A Tool For Market Cultivation*, [Video Online] Available at: <<http://www.youtube.com/watch?v=hjnic0iZ37w>> [Accessed 27 August 2012].

## Recommended Reading

- Pearson, A. M. & Dotson, T. R., 1997. *Healthy Production and Processing of Meat, Poultry and Fish Product*, 1st ed., Springer.
- Farber, J. M. & Dodds, K. L., 1995. *Principle Of Modified-Atmosphere And Sous Vide Product Packing*. Technomic.
- Roth, L. & Wybenga, G. L., 2005. *The Packaging Designer's Book of Patterns*. 3rd ed., Wiley.

## Self Assessment

1. Packaging includes all the activities of \_\_\_\_\_ the container of the product.
  - a. designing and producing
  - b. shipping
  - c. exporting
  - d. advertising
2. \_\_\_\_\_ contains the required volume of a product for household consumption.
  - a. Ecological Package
  - b. Re-use package
  - c. Consumer package
  - d. Flexible package
3. \_\_\_\_\_ is the unique combination of colors, graphics and symbols used for distinguishing products.
  - a. Package pricing
  - b. Product developing
  - c. Package design
  - d. Product manufacturing
4. \_\_\_\_\_ of the sachet makes the product affordable.
  - a. Appearance
  - b. Quality
  - c. Low unit price
  - d. Availability
5. \_\_\_\_\_ are tiny packs of products.
  - a. Sachets
  - b. Jute bags
  - c. Wooden boxes
  - d. Family packs
6. The pricing policy is worked out according to the stage of the product in its \_\_\_\_\_.
  - a. packing
  - b. life cycle
  - c. market
  - d. shop

7. Match the following.

I	II
1. Utilisation Purpose	a. Packaging also performs the purpose of communication by becoming an important element of communication mix especially in advertising and sales promotion
2. Communication Purpose	b. Packaging also serves to earn the maximum profit for the producers
3. Profit Purpose	c. Packaging serves by way of enhancing and retaining the product value to the consumers in several ways.
4. Packaging product.	d. It includes all the activities of designing and producing the container for a

- a. 1-a,2-c,3-b,4-d
- b. 1-c,2-b,3-d,4-d
- c. 1-b,2-a,3-c,4-d
- d. 1-c,2-a,3-b,4-d

8. Packaging is in the \_\_\_\_\_ forefront because of its relationship to environmental pollution issues.

- a. social
- b. socio-economic
- c. traditional
- d. economics

9. Packaging has been considered as an \_\_\_\_\_ part of the core product.

- a. basic
- b. external
- c. internal
- d. domestic

10. \_\_\_\_\_ is the main factor that determines the efficiency of the organisation.

- a. Price
- b. Package
- c. Market
- d. Buyers

## Chapter VI

### Setting the Price of Product

#### Aim

The aim of this chapter is to:

- explain the complexity of pricing
- evaluate various methods in pricing
- highlight significance of pricing

#### Objectives

The objectives of this chapter are to:

- explain the procedure for setting the price
- compare different methods of pricing
- explain the concept of discounts while pricing

#### Learning outcome

At the end of this chapter, you will be able to:

- understand the importance of pricing in gaining profits
- evaluate various types of pricing
- understand demand-based pricing

## 6.1 Introduction

When a company develops a new product, introduces its regular product in a new market or it enters into a new contract, it sets a price for the first time. The company has to decide about the quality of the product and the corresponding price.

A company should set the price taking into consideration the value delivered by it and perceived by the consumer. If the price is set lower than the value received, the company will fail to achieve the objective of profit maximisation.

## 6.2 Steps in Fixing the Price of a Product

There are six steps involved in fixing the price.

### 6.2.1 Setting the Pricing Objectives

- The company has to decide where it should position its market offering.
- If the company's objectives are clear, it becomes easier to set the price.
- Generally, a company has to pursue five objectives. These are as follows:
  - survival
  - maximisation of the current profits
  - maximum market share
  - maximum market skimming
  - product quality leadership
- The company adopts a survival objective when
  - there is excess capacity
  - there exists an intense competition
  - the wants of the consumers are changing rapidly
- So long as the economics is able to cover variable costs and a part of fixed costs, it stays in business.
- Survival is a short term objective and in the long run, a firm must add value, otherwise it goes out of the industry.
- When the objective is maximisation of current profit through price setting, they estimate the demand and the costs associated with the alternative prices and select that price which results in a maximum Return On Investment (ROI).
- Some companies aim at maximising their market share and they believe that if sales are higher, then the cost per unit will be less and in the long run profits can be earned.
- They assume that the market is price sensitive and set the price at the lowest level. For example, they adopt a market penetrating policy. But companies introducing a new technology prefer to set a higher price to skim the market. For example, Sony usually adopts the market skimming price policy.

### 6.2.2 Estimating the Demand

- Each price tends to have a different level of demand and hence a different impact on the marketing objectives of the company.
- Generally customers are more price sensitive to costly products or those products that are purchased frequently i.e., the demand tends to be elastic.
- The seller can change to a higher price than the competitor if he is able to convince that it offers the "lowest total cost of ownership" (TCO).
- Companies prefer those customers who are low price sensitive. Recent developments on the internet have been used to increase customer price sensitivity.

- Companies should try to know the price sensitivity of their customers and prospects and the trade-offs people are willing to make between the price and the product characteristics.
- They should consider the elasticity of demand for their products and the needs of the customers on the other and then set the price accordingly.
- It may be noted that long run elasticity differs from short run elasticity.
- Buyers may continue to buy from the same seller inspite of the increase in price.
- They may switch suppliers if the demand is more elastic in the long run.
- Sometimes the opposite may happen so that the buyers switch in the short run, only to return to the original seller in the long run. This enables the seller know the total effect in the short run as well as the long run.

### **6.2.3 Estimating the Costs**

- The demand sets a ceiling on the price charged by the company for its product.
- The cost sets the floor level for the price of the product.
- The company aims at charging a price that covers its cost of production, distribution and sells the product to get a fair return on its efforts and risks.
- In order to arrive at a rational price policy, the producer should know how the cost varies with the different levels of output.
- As the costs vary with the scale of production, experience and efforts of various departments which aim at reducing them.
- The Japanese use a method known as Target costing.
- They use market research to establish a new product's desired functions. Then they determine the price at which the product will sell.
- They deduct the profit margin from this price, which leaves the target cost that they must achieve. Then they examine each cost element which includes design, engineering, manufacturing and sales to re-engineer components, eliminate functions and bring down supplier costs so that the final cost projections are brought into the target cost range.

### **6.2.4 Analysing Competitors' Costs, Prices and Offers**

- The next step is to analyse the cost prices and offers by the competitors and compare these with the company's price range determined by the market demand and the cost of production.
- Taking into consideration the offers of the competitors, the company sets the price for its products.
- It may be remembered that the competitors may react to the changes in the prices of the company and revise their prices.

### **6.2.5 Selecting a Pricing Method**

- Given the three C's, company can set a price for its product.
  - the customer's demand schedule
  - the cost function
  - the competitors' price
- The cost sets the floor price, competitor's price and the prices of substitutes provide an orienting point.
- The customers' assessment of the uniqueness of the product decides the ceiling price.
- There are several methods of price setting and a company may select the most suitable method.
- These methods of price setting are discussed in the following section.



### 6.2.6 Selecting the final price

- While selecting a suitable method or pricing, the company has to consider additional factors such as
  - The psychology of the customers
  - Consumer preparedness to bear the risk
  - Effects of other marketing mix elements
  - Company pricing policies
  - The effect of price on the other parties
- Companies usually do not set a single price, but select
  - A pricing structure that reflects differences in geographical demand and costs
  - Market segment requirements
  - Purchase timing
  - Frequency of delivery
  - Guarantees
  - Service contracts, etc.

## 6.3 Methods of Pricing

The method or strategy of pricing means the procedure adopted for fixing the price. There are several methods of pricing; each one is suitable to achieve a particular objective or a set of objectives.

### Cost based pricing methods

Costs provide the floor for the range of prices. Under this head, the following may be considered

Sr. No	Cost Pricing method	Description
1.	Cost plus pricing or mark up pricing	<ul style="list-style-type: none"><li>• Under these methods, the selling price of the product is fixed by adding a certain margin to the cost price</li><li>• The mark- ups depend on the nature of the product and the demand in the markets</li><li>• Generally, the higher the mark-up, the higher is the price and vice versa</li><li>• It is assumed that the demand cannot be known accurately but the costs are known, so a reasonable mark- up is added to the costs and although an error a mark-up price is adjusted</li><li>• The objective is to maximise profits in the short run without affecting the sales due to higher prices</li><li>• Firms dealing with distributive trade adopt this method because they do not manufacture the products on their own</li></ul>
2.	Absorption cost pricing or full cost pricing method	<ul style="list-style-type: none"><li>• The method uses a standard costing technique to work out the fixed and variable costs of production, selling and administration of the product</li><li>• Then the required margin is added for profit and the total becomes the selling price of the product</li></ul>

3.	Rate of return pricing target profit pricing method	<ul style="list-style-type: none"> <li>• It is a popular method and is based upon the break-even analysis</li> <li>• It sets the price at a certain percentage, returns overheads above the break-even point</li> <li>• Thus, the costs of production distribution and administration of the products are determined and a target percentage return is added to these costs at a standard output level</li> </ul>
4	Marginal cost pricing	<ul style="list-style-type: none"> <li>• This method aims at maximising the contribution towards fixed costs</li> <li>• In the marginal costing technique, all the direct variable costs are recovered and a part of the fixed cost is realised</li> </ul>

**Table 6.1 Cost pricing method****Advantages of cost based pricing methods**

- It is a simple and easier method because ascertainment of cost is much easier than the demand and it is an internal decision and so there is no problem of estimation of cost.
- It is socially desirable because the rate of return remains the same even if demand varies.
- Healthy Competition: As there are fewer chances of firms entering into a price war between competitors, it provides stability in competition.
- It is a safe and sure method as cost based methods provide guarantee of recovery of cost of production and distribution and do not allow the management to play with seasonal or cyclical fluctuations in business activities.
- It is a dynamic method because it moves ahead with new technology. It is a dependable method where production problems and long run cost conditions cannot be accurately predicted.

**Disadvantages of cost based pricing methods**

- Cost based methods neglect demand and competition completely hence, they have less practical utility.
- There is a great possibility of a large degree of arbitrariness involved in it. This is true in case of multiple product portfolios where the allocation of joint costs is a permanent problem.
- Sometimes the costs are irrelevant, for example, where opportunity or incremental costs are more relevant than full costs. Even during inflation, future costs are more relevant.
- Pricing new products is a problem because the firm has no experience. It is possible to estimate only the accurate unit cost when the market is tested and the sales volume is known.
- Protection of inefficiency is the main limitation of the cost plus pricing, as it does not penalise inefficiency but protects and rewards it.
- Profitability of every product ceases initiation in further developments.

**Demand based pricing methods**

There is a close inter-relationship between the price and demand because whenever price is low, the demand is high and vice versa. Under this head, the following methods may be discussed

<b>“What the Traffic Can Bear” Pricing</b>	<b>Advantages of Demand Based Pricing Methods</b>	<b>Disadvantages of Demand Based Pricing Methods</b>
<ul style="list-style-type: none"> <li>• The seller takes the highest price that the consumers are willing to pay for the product.</li> <li>• It is used in retail trade as it brings maximum profits in the short run, but in the long run it is not desirable because chances of errors in judgment are very high.</li> <li>• In addition, it involves a trial and error procedure, which can be applied only under monopoly or oligopolistic conditions, where demand tends to be inelastic. Later on, buyers’ resistance may rise.</li> </ul>	<ul style="list-style-type: none"> <li>• Consumers Price, elasticity, tastes and preferences are taken into consideration.</li> <li>• Inefficiency in production is penalised.</li> <li>• New product pricing is facilitated</li> </ul>	<ul style="list-style-type: none"> <li>• It is not socially just and fair.</li> <li>• It does not ensure competitive harmony.</li> <li>• Consumers are usually at disadvantage.</li> </ul>

**Table 6.2 Demand based on pricing method**

In order to arrive at rational price, both demand and cost have to be taken into consideration. Because cost serves as a floor while demand serves as ceiling, the actual price should lie between these two ends.

### **Skimming pricing**

- It aims at earning more profits through higher prices in the early stages of the marketing of the product. Later on, the price is lowered.
- Hence, firms are able to enjoy the opportunity of selling at higher prices to those market segments, which do not bother about prices.
- This method is common in case of new products, specially the luxury goods.
- As the product is new, people may purchase it at higher prices.
- Skimming also helps the firm in knowing the pulse of the market demand for the product and then takes the appropriate pricing decision.

### **Penetration pricing**

- Some firms aim at greater penetration in the market by charging very low prices for their products. This is opposite of the skimming price policy.
- It is useful for new products, especially when the sales are sensitive to the price level.
- It helps the firms obtain good coverage of the markets and keep the competition away for some time.
- Large sales also help in reaching the break even level during the early stages of the product’s life cycle.

### **Perceived value pricing**

- Now-a-days, developed companies prefer to set their product price.
- It is assumed that the buyer’s perception of value is more important than the cost of production for setting the prices.

- So the marketing manager uses non-price variables of the market mix to build up perceived value in the minds of the buyer so that the prices can be set to capture the perceived values. This policy is suitable for product positioning.

### Competition oriented pricing

- Some firms prefer to set prices in relation to the prices of their competitors. Although cost and demand features are important determinants of prices, it is necessary to consider price changes by the competitors while setting prices of the products.

Sr. no	Type of pricing	Description
1.	Going rate pricing or parity pricing	<ul style="list-style-type: none"> <li>• This is the method of setting the prices in relation to the prices charged by the competition</li> <li>• The firms set the prices in relation to the prices of the competition, neglecting their own cost and demand variation</li> <li>• This pricing is common in oligopolistic industries like fertilisers, Iron and steel, paper, heavy chemicals, etc</li> <li>• The firms prefer to accept the established price in the market by the market leader so as to maintain stability of price</li> <li>• In other words, the smaller firms in the industry have to prefer parity pricing</li> <li>• This method is popular in industries where it is difficult to estimate the cost of production and the competitive response is also uncertain</li> </ul>
2..	Premium pricing	It is the method of setting the price above the level of competition
3.	Discount pricing	<ul style="list-style-type: none"> <li>• Under this method, prices are set at a lower level than the competition. But these may need to be raised</li> <li>• The objective of lower price policy may not be achieved in the long term</li> </ul>
4.	Product line oriented pricing	<ul style="list-style-type: none"> <li>• Multi product firms that produce and market a large variety of products that can be grouped into a few homogenous product lines present a special case for pricing.</li> <li>• In a given product line of personal products, the entire product line can be optimally priced to attain maximum sales of each product in the product line. Thus, total costs of the entire product line are considered to achieve optimum profit for the product line Then the tentative prices for each product in the line are worked out based on the competition prices for the product and demand reactions at various prices. Any change in the price of the product in the product line cannot be carried out without considering its effect on the product line. Hence this method is also called “The product line promotion method of pricing”</li> </ul>

5.	Tender pricing method	<ul style="list-style-type: none"> <li>• This method is common in case of industrial products which are purchased and contracted by institutional customers</li> <li>• Such customers follow the practice of competitive bidding through sealed tenders or quotations</li> <li>• They select the lowest price given a minimum quality specification</li> <li>• The producer under these circumstances aims at getting the best possible price under the prevailing conditions and gets the order</li> <li>• In this type of a pricing method, a producer has to estimate the price, which is consistent with cost, profile and the company's objectives and which is the lowest as compared to the competition</li> </ul>
6.	Differential pricing method	<ul style="list-style-type: none"> <li>• Some organisations prefer to charge different prices for the same product in different markets, or on the basis of the class of consumer rather than market</li> <li>• Even the volume and quantity of the purchaser can be taken as a basis for differentiation</li> </ul>
7.	Value pricing	<ul style="list-style-type: none"> <li>• Some companies adopt the method of value pricing to win loyal customers by charging low price for a high quality offering</li> <li>• For example, Southwest Airline and Wall Mart preferred this method of pricing to make rapid progress</li> </ul>
8.	Auction type pricing	<ul style="list-style-type: none"> <li>• Since the growth of the Internet, this method has become popular</li> <li>• There are about 2000 electronic market places selling everything from</li> <li>• figs to used vehicles to chemicals</li> <li>• The main objective is to dispose off excess inventories on used goods at the same profit</li> </ul>
9.	Group pricing methods	<ul style="list-style-type: none"> <li>• Because of the internet facility, a new pricing method is arising where consumers and business buyers can join groups to buy at the lowest price</li> <li>• Consumers can go for a volume buy</li> <li>• When a consumer finds a desired product, he will see the current pool price</li> <li>• The web page may also indicate that if three or more orders are received, the price will fall by a specified amount</li> <li>• However, some customers do not wait for volume orders to be executed</li> </ul>

**Table 6.3 Type of pricing**

## 6.4 Approaches to Pricing

While setting a price, companies do not set a single price but develop a price structure that reflects

- Variations in geographical demand and costs
- Requirements of market segments
- Timing of purchase
- Order levels
- Guarantees
- Service contract frequency of delivery and other factors

With the discounts, allowances and promotional support, a company may not be able to realise the same profit for each unit of a product that is sold; hence, we will discuss a few price adaptation strategies or approaches to pricing.

### Geographical pricing

- The Geographical pricing approach tells a firm how to price its product to different customers in different places in different countries.
- If goods are exported to underdeveloped countries with soft currency and have severe shortage of hard currency, like dollars, then how do they pay back.
- Many buyers are ready to offer their items in a payment practice called counter trade.
- Around 15 to 25 percentage of the world trade is of the nature of counter trade.
- It takes several forms like
  - barter, involving direct exchange of goods
  - compensation deal, where the seller receives some part of payment in cash and the rest in goods
  - buy back arrangement, where the seller sells equipment or technology to another country and agrees to accept the products manufactured with the supplied equipment or technology
  - offset deals: where the seller receives full payment in cash but agrees to spend a substantial amount of money in that country within agreed time period. For example, Pepsi, Coke in Russia. More complex counter trade takes place when more than two parties are involved in the deal. In a large country like India where transportation costs are very high, the pricing approach adopted is as follows:

### Point of origin price approach

Under this approach, a firm quotes the ex-factory price and there is no allowance for transportation costs.

Then two alternatives are available

Ex-factory	Free on Rail (FOR)
Ex-factory is where the buyer is held responsible for all the transportation costs from the factory point.	<ul style="list-style-type: none"> <li>• The company pays for carriage until the railway station or the transport agency</li> <li>• The buyer has to bear the rest of the transport cost. This approach tends to establish geographical monopoly for the firm</li> <li>• Transportation costs separate that firm located at a long distance from the competition due to the local producers</li> <li>• As the demand tends to be inelastic in the local market, it can enjoy the advantage of a relatively higher price.</li> </ul>

**Table 6.4 Origin price approach**

### Freight Absorption Policy

- Under this approach, the price quoted is inclusive of transportation costs. It can be
  - a uniform delivered price
  - a zonal price
  - a base point price
- In uniform delivered price or destination price approach, the manufacturing firm absorbs the full transportation costs and delivers goods to the buyer at a uniform price irrespective of the location, for example, Bata shoes in India.
- This approach is useful to expand markets through the noncompetitive method and it helps in capturing distant markets.
- Under the zonal price approach, the firm price divides its markets into different zones and changes the price for all the buyers located in the particular zone.
- The price charged is the additional average transportation cost to the basic price.
- Then the buyer located in distant zones is benefited. Under the “Base Point Price Approach”, a buyer has to pay the ex- factory price plus the freight from nearest base point irrespective of the actual freight incurred by the firm.
- This approach encourages price rigidities and discriminates against local buyers.

### Price discounts and allowances

Several firms give discounts and allowances for early payment, volume purchases, off-season buying, etc. Discount in the price differential reduces the quoted price, hence buyer pays much less.

Sr. No	Type of Discount	Description
1.	Trade discount or functional discount	<ul style="list-style-type: none"><li>• Trade discount is the deduction in the quoted price according to the position of the buyers in the channel of distribution</li><li>• The aim is to provide compensation to middlemen for their price</li></ul>
2.	Quantity discount	<ul style="list-style-type: none"><li>• Quantity discount is the deduction in the quoted price to the buyer on the basis of the quotation purchased by them</li><li>• Such a discount may be on a single purchase or on cumulative purchases made over a period</li><li>• The rates of discount indicate that the prices quoted are reduced with the increase in the quantity purchased</li></ul>

3.	Cash discount	<ul style="list-style-type: none"> <li>• Cash discount is the deduction from the invoice price to the buyer who clears the bill within the designated deadline</li> <li>• It is a reward for paying in time. Some firms give a rebate, which is reduction in the quoted price</li> <li>• Sometimes the buyer may not get value satisfaction due to the delivery of defective goods, delays in delivery, damage of goods in transit, etc</li> <li>• To accommodate such genuine claims, concessions are given in the form of rebate</li> <li>• Rebate is calculated before calculating the discounts</li> </ul>
4.	Premiums	<ul style="list-style-type: none"> <li>• Premiums are extra charges over and above the quoted price for providing warranties, after sales service, etc</li> </ul>
5.	Allowances	<ul style="list-style-type: none"> <li>• Allowances are an extra payment designed to gain reseller participation in special programmes, i.e., promotional allowance is given to the dealers for their participation in advertising and sales support programmes</li> </ul>

**Table 6.5 Type of discount****Discriminatory pricing approach**

Companies sometimes adjust their price to accommodate differences in customers, products, location, etc. When a company sells the same product at different prices to different customers, then price discrimination takes place. It may take various forms such as:

Sr. no	Discriminatory Pricing Approach	Description
1	Customer segment pricing	<ul style="list-style-type: none"> <li>• Different prices are charged to different customers for the same service of bus transport.</li> </ul>
2	Product form pricing	<ul style="list-style-type: none"> <li>• Different versions of the product are charged differently but these are not proportionate to their respective costs, i.e., big sized mineral water bottles cheaper than the smaller size.</li> </ul>
3	Image pricing	<ul style="list-style-type: none"> <li>• It is a practice of pricing the same product at two different levels based on image difference of perfume on the shampoo bottles.</li> </ul>
4	Channel pricing	<ul style="list-style-type: none"> <li>• Coca-Cola has different prices depending upon whether it is purchased in a fine restaurant or a vending machine.</li> </ul>
5	Location Pricing	<ul style="list-style-type: none"> <li>• The same product is priced differently at different locations although the cost of offering at each location may be the same, for example, seat prices in a theatre vary according to the references of the audience for different locations</li> </ul>



6	Time Pricing	<ul style="list-style-type: none"> <li>Prices may vary over time such as season, month, day or hour, for example, Hotels and Airlines use yield pricing by which they offer lower rates on unsold inventory just before it expires</li> <li>Computer technology is making it easier for the seller to practice discriminatory pricing, for example, new software application is allowing buyers to discriminate between sellers by comparing prices</li> </ul>
---	--------------	--

**Table 6.6 Discriminatory pricing approach**

### Product mix pricing approach

It is used for the product which is a part of the product mix where decisions are taken for the product mix as a whole and not for the individual product. It includes the following situations

Sr.no	Product Mix Pricing Approach	Description
1.	Product Line Pricing	Many products belonging to the same class are manufactures by the company. The individual pricing of such products is done so a price range becomes convenient to the class
2.	Optional Feature Pricing	Many companies offer optional products, features and services along with the main product, for example., many restaurants price their liquor high and their food low where food revenue covers the costs and the liquor produces the profit.
3.	Captive Product Pricing	Some products require the use of ancillary or captive products. The manufacturers of cameras price them low but make up by a high charge for the film.
4.	Two Part Pricing	Companies providing Services use it, for example, telephone users pay a minimum monthly fee plus charges for calls beyond a certain limit.
5.	By-product Pricing	Petroleum production often gives rise to a number of by-products. If the byproducts are valuable, they can be charged at a higher rate and the price of the main product may be reduced if competition compels it to do so.

**Table 6.7 Product mix pricing approach**

### Product bundling pricing

- Sellers often bundle the products and features to offer for a sale
- Pure bundling takes place when a company offers its products only as a bundle
- In mixed bundling, the seller offers goods both individually in bundles, where he charges less for the bundle than items purchased separately
- Thus, there are several approaches to pricing, and a company has to choose a simple or a combination of approaches in order to achieve both marketing and organisational goals efficiently and effectively

### Management of price changes

Companies have to reduce prices or raise prices because of several reasons. These reasons could be

**Initiating price cuts**

There are several circumstances which may lead to cuts in prices. These are

Sr. no	Initial Price Cuts	Description
1	Excess plant capacity	<ul style="list-style-type: none"> <li>In order to utilise the installed capacity fully, the company needs more business but it cannot achieve it through an increase in sales, advertisements or product improvements etc. It thus may adopt the policy of aggressive pricing.</li> </ul>
2	Declining market share	<ul style="list-style-type: none"> <li>General Motors cut its car prices by 10% to face the Japanese competition.</li> </ul>
3	Dominating the market	<ul style="list-style-type: none"> <li>Companies may initiate a price cut to dominate the market through lowered prices. The company then enters into possible traps.</li> <li>Low quality trap</li> <li>Consumers will realise that the quality of the product is poor.</li> <li>Fragile market share trap</li> <li>The low price may increase the market share in the short run but later on consumers may shift to any new low priced firm that may enter the industry</li> <li>Shallow pockets trap</li> <li>Higher pricing companies may cut their prices. They lower their prices to maintain their staying power due to a huge cash reserve. They may not be able to increase their prices once again</li> <li>Economic recession</li> <li>During the period of depression, companies have to reduce prices to increase sales. However, consumers have less purchasing power, hence sales may not increase</li> </ul>

**Table 6.8 Initial price cuts**

**Initiating price increases**

Increasing the price at the right time may be successful in raising profits significantly. The price increase strategy is adopted during the following circumstances

**Cost inflation**

When the cost is rising and productivity does not increase, then the profit margin decreases rapidly. So companies are forced to raise prices over and above the increasing costs and anticipating that inflation may continue or government controls may be imposed. This is known as “Anticipatory Pricing”.

**Over demand**

When demand increases rapidly, the company is not able to supply all the customers, so it has to raise its prices or ration supplies to customers or both. The price may be increased by way as follows:

Sr. no	Types of increase in the price	Description
1	Delayed quotation pricing	<ul style="list-style-type: none"> <li>The company sets the final price only when product is finished and delivered</li> <li>This is done in industries where there is a long production lead-time such as construction of heavy equipment</li> </ul>
2	Escalatory clauses	<ul style="list-style-type: none"> <li>Under this system the customer has today's price and all or part of any price increase taking place before delivery. Such clauses are common in contracts of major projects.</li> </ul>
3	Unbundling	<ul style="list-style-type: none"> <li>The company maintains its prices but removes one or more elements, which were a part of the former offer such as free delivery or installation.</li> </ul>
4	Reduction in discounts	<ul style="list-style-type: none"> <li>A company may tell the salesman not to offer any discounts</li> <li>A company has to decide whether the price rise is to be done at one stroke or in steps</li> <li>Consumers prefer a price rise in small amounts at a time on a regular basis rather than a sudden increase</li> <li>It should be ensured that the customer should not feel that the price rise is unreasonable and unjustifiable</li> <li>Otherwise, they will turn to the competitor and may stick to them</li> <li>Companies can respond to higher costs or excess demand without reducing the price by: <ul style="list-style-type: none"> <li>reducing amount of the product</li> <li>substituting cheaper material</li> <li>reducing product features, for example, reducing number of accessories</li> <li>reducing product services</li> <li>using cheaper packaging materials</li> <li>reducing sizes</li> <li>creating new economy brands, etc</li> </ul> </li> </ul>

**Table 6.9 Over demand**

### **Managing price changes**

Any price change can generate a response from customers, competitors, distributors, suppliers and the government.

### **Customer reactions**

Customers usually question the motivation behind price changes. A price cut may be interpreted in various ways such as

- The product is to be replaced by a new model
- Item is faulty hence not in demand
- Financial problems of the firm
- Price may decrease yet further
- Quality may have been maintained, etc.

A price rise, which normally reduces sales, may be positively interpreted such as - the product quality has been enhanced or the product has good value. For the propose of managing price change in the context of customers, it is desirable that

- The price change should not be sudden but it has to be in small doses taking into consideration the reaction of the customers.
- Consumers should not feel that the producer is exploiting them through the price rise.
- Before making any price changes, it is better to think about who is going to be bear the burden of the price rise.
- Customer memories last long, once they turn their backs they rarely return.
- It is better to inform the customers about the real facts and circumstances, which compel prices to rise.
- An assurance that as soon as the circumstances change, the original price will be re-established.
- The seller - customer relation should be based on mutual trust and should be maintained at any cost by companies especially where the consumer's sovereignty prevails.

### **Competition reactions**

When there are few firms in the industry, competition will cause immediate reactions. Similarly, when the product is homogenous and buyers are highly informed, reactions will be immediate. Under such conditions, the competition will interpret the price cut in different ways.

- The company is trying to steal the market
- The company is doing poorly or
- It is trying to raise sales rapidly
- The company wants the entire industry to reduce prices so that demand will increase

### **Management of competition price changes**

When a competing firm initiates a price cut under conditions of homogenous products in the market, then

- The firm should find ways to enhance its augmented product
- Meet the price reduction:
  - If the competition raises the price in a homogenous market, then the other firms might not be able to match unless the increase benefits the industry as a whole
  - Then the leader will have to reduce the increase in price
  - In non-homogenous product markets, the firm has more freedom
  - The firm should study the reason of price change of the competition and take action or neglect it depending upon the prevailing circumstances
  - Market leaders have to face aggressive price-cutting by small firms trying to build a market share
- The leader can respond in various ways
  - Maintain the price and profit margin
  - Maintain price and add value through improving perceived quality
  - Reduce price to match the competition's price
  - Increase price and improve quality
  - Add a lower priced item to the line or create a separate lower priced bond
  - The best response varies with the situation
- The company has to take into consideration:
  - The stages of the product's life cycle
  - Importance of production in company's profit ratio
  - The competitor's resources
  - The price prevailing in the market

- Quality
- Sensitivity
- The behaviour of cost with volume and company's alternative opportunities.
- It is desirable to anticipate possible price changes of the competition well in advance and prepare for the responses.

## Summary

- When a company develops a new product, introduces its regular product in a new market or it enters into a new contract, it sets a price for the first time.
- Survival is a short term objective and in the long run, a firm must add value, otherwise it goes out of the industry.
- The seller can change to a higher price than the competitor if he is able to convince that it offers the “lowest total cost of ownership” (TCO).
- Companies should try to know the price sensitivity of their customers and prospects and the trade-offs people are willing to make between the price and the product characteristics.
- Buyers may continue to buy from the same seller inspite of the increase in price.
- Skimming pricing aims at earning more profits through higher prices in the early stages of the marketing of the product. Later on, the price is lowered.
- Skimming also helps the firm in knowing the pulse of the market demand for the product and then takes the appropriate pricing decision.
- Some firms aim at greater penetration in the market by charging very low prices for their products. This is opposite of the skimming price policy.
- Service contract frequency of delivery and other factors.
- The Geographical pricing approach tells a firm how to price its product to different customers in different places in different countries.

## References

- Nagle, T.Y. & Hogan, J.E., 2006. *The Strategy and Tactics of Pricing: A Guide to Growing More Profitably*. 4th ed., Pearson Prentice Hall.
- Arnold, N.B. & Stahlecker, H.P., 2004. *Monopolistic price setting under fuzzy information*. Elsevier
- *Understanding Pricing Objectives and strategies*, [Online] Available at: <<http://pubs.cas.psu.edu/freepubs/pdfs/ua441.pdf>> [Accessed 27 August 2012].
- *Product and Pricing Strategies*, [Online] Available at: <<http://faculty.piercecollege.edu/rskidmore/Ghost/library/Chapters/CHPT12-04.pdf>> [Accessed 27 August 2012].
- 2011. *Seller Pricing Strategies - Part 1*, [Video Online] Available at: <<http://www.youtube.com/watch?v=BdA2PLLjMJk>> [Accessed 27 August 2012].
- 2011. *Seller Pricing Strategies - Part 2*, [Video Online] Available at: <<http://www.youtube.com/watch?v=bxh4m57G-D0>> [Accessed 27 August 2012].

## Recommended Reading

- Cottrill, L., 2009. *Precision Pricing*. 5th ed., Cottrill Cyclodyne Corporation.
- Harris, T., 2009. *Red Dragon*. Publisher: Dell; Later Printing Edition.
- Ross, S.A., Westerfeild, R. & Jordan, B.D., 2008. *Fundamentals of Corporate Finance*. McGraw- Hill.

## Self Assessment

1. Some companies adopt a method of \_\_\_\_\_ to win loyal customers by charging a low price for high quality offering.
  - a. unfair pricing
  - b. value pricing
  - c. auction
  - d. tender
2. \_\_\_\_\_ in the price differential reduces the quoted price, hence buyer pays much less.
  - a. Discount
  - b. concession
  - c. Tax
  - d. Benefit
3. Which of the sentences is true?
  - a. Each price tends to have a special level of demand and hence a similar impact on the marketing objectives of the company.
  - b. Each profit tends to have a different level of demand and hence a different impact on the marketing intentions of the company.
  - c. Each price tends to have a different stages of demand and hence a different outcomes on the marketing objectives of the company.
  - d. Each price tends to have a different level of demand and hence a different impact on the marketing objectives of the company.
4. The seller can change to a higher price than the competitor if he is able to convince that it offers \_\_\_\_\_.
  - a. same cost of ownership
  - b. highest total cost of ownership
  - c. lowest time cost of ownership
  - d. lowest total cost of ownership
5. The \_\_\_\_\_ pricing approach tells a firm how to price its product to different customers in different places in different countries.
  - a. geographical
  - b. biological
  - c. environmental
  - d. ecological
6. The cost sets the \_\_\_\_\_, competitor's price and the prices of substitutes provide an orienting point.
  - a. bottom price
  - b. ground price
  - c. floor price
  - d. final price

7. Under which of these methods is the selling price of the product fixed by adding a certain margin to the cost price?
- Cost plus profits
  - Cost plus pricing
  - Full cost method
  - Margin cost pricing
8. \_\_\_\_\_ is a simple and easier method because ascertainment of cost is much easier than the demand and it is an internal decision and so there is no problem of estimation of cost.
- Cost based pricing method
  - Estimation of pricing method
  - Demand based method
  - Skimming pricing
9. \_\_\_\_\_ aims at earning more profits through higher prices in the early stages of the marketing of the product.
- Skimming pricing
  - Penetration pricing
  - Perceived value pricing
  - Competition orientation
10. \_\_\_\_\_ is the method of setting the price above the level of competition
- Discount pricing
  - Premium pricing
  - Parity pricing
  - Product line orientation



## **Chapter VII**

### **Physical Distribution of Products**

#### **Aim**

The aim of this chapter is to:

- explain the meaning of physical distribution of products
- evaluate the importance and role of physical distribution
- evaluate various inter-related activities in physical distribution

#### **Objectives**

The objectives of this chapter are to:

- highlight the significance of channels of distribution
- evaluate the different types of channels of distribution
- explain various principles of channels distribution

#### **Learning outcome**

At the end of this chapter, you will be able to:

- understand the meaning of physical distribution of product
- recognise the importance and role of physical distribution
- comprehend the concept of channels of distribution

## 7.1 Introduction to Physical Distribution

Delivering goods to the customer is a critical task. If the product is not made available when and where the customer wants it (that is time and place utilities), then, in spite of the good quality and fair price, the product is likely to fail in the market.

In order to achieve this value adding function, manufacturing firms have to carry out the distribution activity as an integrated part of the organisational structure which is also known as 'Public Distribution System', 'Traffic Management', 'Marketing Logistics' 'Value Network'. Physical distribution is an important factor in the selling process.

A higher efficiency and effectiveness in the physical distribution system contributes significantly towards the achievement of marketing objectives. Physical distribution has remained a 'dark continent' as we know little about it as a major branch of marketing management.

## 7.2 Definition of Physical Distribution

- Physical distribution comprises the tasks involved in planning and implementing the physical flows of materials and final goods from the point of origin to the point of use or consumption to meet the needs of customers.
- Physical distribution is the science of business logistics whereby the proper amount of the right kind of produce is made available at the place where demand for it exists.
- It is the key link between manufacturing and the creation of demand.
- It includes various inter-related activities such as
  - Inventory control
  - Storage
  - Transportation
  - Material handling
  - Packaging
  - Order processing
  - Marketing forecasting
  - Customer services

## 7.3 Objectives of Physical Distribution

The main objectives are as follows:

Sr. no	Objective	Description
1.	Consumer Satisfaction	<ul style="list-style-type: none"> <li>• Physical distribution is the activity of making the product available to the customer at the right place, at the right time and at the right price.</li> <li>• It helps in retaining not only the existing customer but also attracting new customers.</li> </ul>
2.	Profit Maximisation	<ul style="list-style-type: none"> <li>• Increase in effectiveness and efficiency in physical distribution will bring in economy of operation and higher profit margins. Hence reducing distribution costs will serve two purposes               <ul style="list-style-type: none"> <li>▪ Increasing the profit margin</li> <li>▪ Reducing price for the consumers</li> </ul> </li> </ul>

3.	Other Objectives	<ul style="list-style-type: none"> <li>Physical distribution also aims at minimising the inventory level, providing speedy and cheap transportation, minimum handling, minimum trans-shipment, etc</li> <li>The physical distribution strategy mainly depends on the aims of the company and its given cost and revenue constraints</li> </ul>
----	------------------	--

**Table 7.1 Objective of physical distribution**

### Role and Importance of Physical Distribution

- An efficient physical distribution system helps the organisation in achieving marketing and company goals. It makes the marketing strategy of the company more effective and successful. Physical distribution which is an important element of the marketing mix is described as ‘the other half of marketing’.
- Its main contributions are described in table in given below

Sr. no	Contribution of Physical Distribution	Explanation
1.	Creation of Time and Place Utilities	<ul style="list-style-type: none"> <li>The physical distribution system of an organisation creates time and place utilities by storing products and moving them to the distribution centers in time so as to add value to the products</li> <li>It helps the organisation in ensuring maximum value satisfaction to the consumer and also to maximise its profits</li> </ul>
2.	Improvement in customer service	<ul style="list-style-type: none"> <li>The efficient management of physical distribution contributes towards improvement in customer service</li> <li>It is useful in maximising satisfaction and delight by way of providing dependable customer service</li> </ul>
3.	Reduction in distribution costs	<ul style="list-style-type: none"> <li>The efficient physical distribution system enables the organisation to reduce tangible and intangible costs, reducing the burden on the customers.</li> </ul>
4.	Increase in the market share	<ul style="list-style-type: none"> <li>A well-designed physical distribution system through decentralisation of its operations, efficient and economical combination of the means of transport, a proper inventory, planning, etc. enables the organisation to maximise profits and provide satisfactory service to the customers</li> <li>It helps in increasing the market share of the</li> </ul>
5.	Co-ordination of Demand and Supply	<ul style="list-style-type: none"> <li>Physical distribution enables the organisation to achieve and maintain coordination between the demands and supply</li> <li>The demand for products may vary according to the seasons but production is a continuous process</li> <li>Manufactured goods need to be safe and available so as to keep the balance between the supply and demand throughout the year</li> <li>Thus, storage facilities play an important role in maintaining balance between demand and supply</li> </ul>

6.	Price Stabilisation	<ul style="list-style-type: none"> <li>Control over the supply helps in stabilising the prices of several products in the market</li> <li>If the demand increases, the supply also can be increased by releasing stocks from the warehouse</li> <li>The excess production may be stored in warehouses to control the supply position and drastic fall in prices</li> <li>The transportation system helps in the stabilisation of prices</li> </ul>
7.	Product Planning	<ul style="list-style-type: none"> <li>The efficiency of the physical distribution system also affects the production and planning</li> <li>The type, nature and location of the transportation and storage facilities are taken into consideration during the process of product planning especially while taking decisions about size, weight, packaging, price, etc</li> </ul>
8.	Selection of Channel of Distribution	<ul style="list-style-type: none"> <li>Some products require storage facilities. Such products have to be sold through wholesalers who have their own godowns</li> <li>If a company decides to have its own warehouse, then its location and the type of transportation system required has to be decided</li> <li>These decisions affect the selection of the channel of distribution</li> </ul>
9.	Deciding the Size of Inventory	<ul style="list-style-type: none"> <li>When there are efficient and cheap transportation facilities then the size of the inventory can be kept at a low level because the goods can be quickly moved wherever required</li> <li>In cases where the storage and transportation facilities are not well developed, heavy stocks of inventories have to be maintained for a smooth distribution of the products</li> <li>In the Indian context, physical distribution stands out as the important element of the marketing mix on account of the following reasons -</li> <li>infrastructural constraints</li> <li>heavy costs of physical distributions which are</li> <li>distribution has remained the foremost fertile area for cost control</li> </ul>

**Table 7.2 Importance of physical distribution**

## 7.4 Introduction to Channel of Distribution

- In modern times, most manufacturers and producers do not sell their output directly to the final users and industrial users.
- The producer and final consumer are linked by a bridge consisting of several intermediaries that it make possible and profitable.
- They serve as a pipeline for the smooth flow of products from the producers to the consumers and are called the channels of distribution.
- The marketing system in any country constitutes of a large number of organisations and individuals linked by information, product negotiations, money and people.
- This channel is a live organ of marketing management

## 7.5 Definition of a Distribution Channel

- According to the American Marketing Association, a channel of distribution or marketing channel is the structure of intra-company organisation units and extra company agents and dealers, wholesale and retail through which a commodity product or service is marketed.
- Marketing channels are sets of independent organisations involved in the process of making a product or service available for use or consumption.
- The channel is an identifiable discrete, indispensable function of marketing, a pathway for ownership and possession of goods and services.

## 7.6 Objectives of the Channels of Distribution

- The primary objective of the distribution channel is to bridge the gap between the producers and consumers by way of resolving spatial (or geographical distance) and temporal (relating to time) discrepancies in supply and demand. It involves the following activities:
- the transfer of title to the goods involved in the marketing process
- the physical movement of goods from the point of production to the point of consumption
- the storage of goods
- communicating information regarding the availability, characteristics and price of the goods in transit, inventory and on purchase

## 7.7 Role and Significance of Distribution Channels in Marketing

- Distribution channels play a crucial role in achieving the marketing objectives of a company.
- Production creates value utility; the distribution channels create time and place utilities.
- In a developing country like India, where marginal shortages lead to disproportionate distortion in prices, a dependable and efficient distribution system is most essential, because it creates an added value to all the products.
- The principles of the distribution channel are enumerated below:

Sr. no	Principal	Explanation
1.	The Principle of Minimum Total Transactions	<ul style="list-style-type: none"><li>• In order to carry out the process of exchange efficiently, a number of channels and intermediaries are necessary</li><li>• It is economical and simple to deal with the final consumer indirectly rather than directly</li><li>• However, as the number of intermediaries increase, there are more contact points and the efficiency of exchange may decrease</li><li>• There is a need to reduce these contacts by way of appointing the minimum number of intermediaries</li></ul>
2	The Principle of Routine	<ul style="list-style-type: none"><li>• The cost of transactions can be minimised by making it a routine in terms of a product or service valuation, mode and time of payment</li><li>• If the routine is neglected, then it may result into reduction in efficiency. Creating a routine helps in</li><li>• Promoting the standardization of goods that facilitates comparison and helps in the evaluation of performance<ul style="list-style-type: none"><li>, It encourages the production of goods which are more valued by the consumer</li><li>, It encourages a segmented flow of goods and services</li></ul></li></ul>

3	Principle of Smothering Gaps in the Assortment and Sorting	<ul style="list-style-type: none"> <li>• The intermediaries sort out the goods and services as required by the consumers</li> <li>• They are useful for the smooth flow of products and services from</li> <li>• Thus, they help in reducing the gap between the assortments of goods offered and the consumer demand</li> </ul>
4	The Principle of Searching	<ul style="list-style-type: none"> <li>• In the market, both sellers and buyers are in search of appropriate partners for their products</li> <li>• Both reach each other under an atmosphere of uncertainty</li> <li>• The distribution channels reduce this search process as the intermediaries specialise in products and services, customers can now approach the intermediary specialising in those products</li> </ul>
5	The Principle of Amassed Reserves	<ul style="list-style-type: none"> <li>• For the purpose of distribution, goods have to move from producers to customers and stocks have to be maintained at various points in the pipeline</li> <li>• With the intermediaries, the stocks with the producer can be reduced</li> <li>• The intermediaries hence help the organisation in reducing the burden of stocks and inventories to meet the needs of prospective buyers</li> </ul>
6	The Principle of Proximity	<ul style="list-style-type: none"> <li>• This principle states that the intermediaries are in closer contact with the customer as compared to the producers</li> <li>• They have more information about changing consumer needs and expectations</li> <li>• This information is useful for the producers to modify the product or to develop new products</li> <li>• Thus, distribution channels play a very important role for the produces and customers</li> </ul>

**Table 7.3 Principles of the distribution channel**

## 7.8 Functions of the Distribution Channel

The distribution channels carry out several important functions

Sr. no	Functions	Explanation
1.	Matching the Demand and Supply	<ul style="list-style-type: none"> <li>The intermediaries assemble goods from different producers to make them easily available for customers</li> <li>The goal of marketing is to match the segments of supply and demand</li> <li>The matching process involves the following <ul style="list-style-type: none"> <li>Contractual function Matching buyers with the sellers.</li> <li>Merchandising function Supplying goods to meet the market requirements.</li> <li>Pricing function The process of attaching monetary value to the product.</li> <li>Propaganda function Sales promotion activities.</li> <li>Physical distribution Distribution of products.</li> <li>Termination Settlement contract, i.e., paying the price and receiving goods</li> </ul> </li> </ul>
2	Helping the Producers	<ul style="list-style-type: none"> <li>The intermediaries specialise in the function of marketing products. This reduces the burden on the Producers</li> <li>They can hence concentrate on the production and development activities more effectively</li> <li>As the producers' financial involvement in marketing is reduced, the producers' can use this finance for better production</li> </ul>
3	Help in Financing the Producers	<ul style="list-style-type: none"> <li>The middlemen collect orders, purchase products in large quantities from the producers, and pay them in time</li> <li>It helps producers to go for large scale production by using better technology, achieving economies of scale of production, etc without any financial problems.</li> <li>Some producers collect deposits from stockiest and distributors as a security</li> </ul>
4	Stabilising Prices	<ul style="list-style-type: none"> <li>The middlemen help in stabilising prices of the products by stocking large quantities of goods to assure a steady flow of goods to the market</li> <li>This helps in creating time, place and possession utilities for products and maintains the stability of prices</li> </ul>
5	As a Means of Two-way Communication	<ul style="list-style-type: none"> <li>As a connection link between the producers and the consumers, they communicate about the product's features</li> <li>They are in close contact with customers, so they are aware about changes in the consumer needs and preferences</li> <li>They pass on this information to the producers upwards so that product modification can take place</li> </ul>

6	Creating a Route in Selling	<ul style="list-style-type: none"> <li>• Middlemen make a sales route for the producers</li> <li>• Once the route for reaching the customer with goods is established, the problem of selling the products becomes economical, easier and faster</li> </ul>
7	Undertaking Promotional Activities	<ul style="list-style-type: none"> <li>• Promotional activities such as advertising, personal selling, sales promotion, etc. are undertaken by the middlemen</li> <li>• Retailers also display the products in their windows to attract customers</li> </ul>
8	Forecasting the Demand	<ul style="list-style-type: none"> <li>• The middlemen help the marketing managers by supplying their estimates of demand and sales in the immediate future. This helps in forecasting the demand</li> </ul>
9	Pricing Decision	<ul style="list-style-type: none"> <li>• The middlemen are in close contact with customers and hence they know the prices which consumers prefer</li> <li>• Many a times a producer invites suggestions from the intermediaries, while taking decisions about pricing the product</li> <li>• It helps the producers in arriving at a rational price policy</li> </ul>
10	Source of Market Research	<ul style="list-style-type: none"> <li>• The middlemen are the most reliable source of information required for market research</li> </ul>
11	Negotiating	<ul style="list-style-type: none"> <li>• Active participation of the middlemen helps in negotiating with customers so that a final agreement regarding the price of the product and other terms in the offer can be made</li> <li>• This negotiation is facilitated by the middlemen</li> </ul>
12	Risk Taking	<ul style="list-style-type: none"> <li>• Middlemen can take risks related to maintaining the</li> <li>• channels of distribution efficiently</li> </ul>

**Table 7.4 Functions of the distribution channel**

## 7.9 Intermediaries Involved in the Channel of Distribution

- Intermediaries or middlemen act as a connecting link between producers and consumers and help in maintaining the flow of goods into the market, thus reducing the gap between the producers and consumers. They specialise in carrying out the transfer of title between the producers and consumers.
- In the distribution channel, producers and consumers are two ends of the process and the traders and retailers are the middlemen.
- The advertising agencies, warehouses, insurance companies, banks etc. facilitate the function of marketing but they are not intermediaries.
- The middlemen perform the marketing function more efficiently and economically than producers themselves.
- According to the American Marketing Association, a middleman is one who specialises in performing operations of rendering services that are directly involved in the purchase and sale of goods in the process of their flow from producers to the final buyer.
- All middlemen fall into two broad categories - merchants and agents.



- A merchant as a middleman takes title to (buys) and re-sells merchandise.
- An agent as a middleman negotiates sales or purchases or both but does not take title to the goods. Thus, the merchant is one who buys and sells, but the agent specialises in negotiating on buying or selling transactions.
- There are two types of middlemen in the distribution channel
  - Functional middlemen or mercantile agent or agent middlemen
  - Merchant Middlemen

## Agent Middlemen

The agent middlemen are engaged in wholesale trading. They do not take title to the goods which they are dealing with. Their main characteristics are:

- They mainly serve industrial users.
- They carry out the function of the salesmen.
- They work on commission basis.
- They mainly work for the buyers.

To function as an agent, a person can take on different roles:

Sr.no	Function of agent	Description
1	Broker	<ul style="list-style-type: none"> <li>• He acts as an agent for the buyer or seller and takes part in the negotiating in purchases or sales without having any physical control over the goods involved</li> <li>• His main job is to bring the buyer and the seller together</li> <li>• He has no power over the terms of sale and the price and sells goods by description or samples</li> <li>• The job of the broker is over as soon as the transaction is over</li> </ul>
2	Commission Agent	<ul style="list-style-type: none"> <li>• A commission agent may be a person, firm or a company</li> <li>• It negotiates the sale of goods and may exercise physical control over the sale of goods</li> <li>• The commission agent can control prices and terms of sales as permitted by the producers</li> <li>• He may arrange for the delivery, may give credit and standardise products as required</li> <li>• He can collect credit and after deducting his commission, remit the balance to the producer</li> <li>• He is very useful in the rapid sale of perishable goods like fish, flowers, vegetables, etc</li> </ul>

3	Manufacturer's Agent	<ul style="list-style-type: none"> <li>• He is employed by the manufacturer to sell products and has a contractual relationship with the principal producer</li> <li>• He handles the sales in his territory and has a limited authority over the price and terms of sales</li> <li>• He receives a percentage commission on the sales and employs assistants and tries to increase sales</li> <li>• He is more useful for the marketing of industrial goods and gives suggestions to the producers about designing, pricing, etc. of the products as he is in close contact with consumers</li> </ul>
4	Selling Agent	<ul style="list-style-type: none"> <li>• A selling agent is an independent middleman operating on a contractual basis</li> <li>• He negotiates all the sales of a particular product on all the output produced</li> <li>• He exercises authority over price and the other conditions for sale</li> <li>• He can extend financial support to the producers and can help producers in sales promotion, advertising etc. Products related to textiles, food products, timber and metal industries, etc. use his services</li> </ul>
5	Resident Buyer	<ul style="list-style-type: none"> <li>• He is an independent agent appointed for buying for retailers and operates in trading products like garments, furniture, etc. and gets commission or fees for his services</li> <li>• His office is located in market places</li> </ul>
6	Auctioneer	<ul style="list-style-type: none"> <li>• He is appointed by the business firms to receive goods</li> <li>• and invites bids for the goods</li> <li>• The highest bidder gets the goods</li> <li>• The auctioneer collects his charges from the business firm</li> <li>• The goods cannot be sold below the price fixed by the seller</li> <li>• This is a common practice in agricultural marketing</li> </ul>
7	Other Agents	<ul style="list-style-type: none"> <li>• In addition, there are other types of agents which include <ul style="list-style-type: none"> <li>, packing and forwarding agents</li> <li>, warehouses agents</li> <li>, export and import agents</li> <li>, purchasing Agents</li> </ul> </li> </ul>

Table 7.5 Functions of the wholesaler

### Merchant Middlemen

- They buy and sell goods on their own account and take the risks.
- They get the title to the goods and take part in the distribution of the goods from one place to the other. Thus merchant middlemen buy and sell goods by taking possession of the goods, bear the risks and charge the price for their efforts.
- They also undertake auxiliary functions and provide services to the required participants in the channel.
- They can be classified as wholesalers and retailers.

### Wholesalers

- A wholesaler is a businessman who carries out all the activities involved in the selling of goods. They acquire title to the goods that they handle.
- According to the American Marketing Association, wholesalers buy and resell merchandise to the retailers and the other merchants and to industrial institutions and commercial users but do not sell in significant amount to the final consumers.

Srno	Function of Wholesaler	Description
1	Assembling and buying	He collects small quantities of products produced by several producers of the same commodity.
2	Warehousing	He stores goods to maintain a steady flow in the market to meet the demand, especially for the seasonal products.
3	Transporting	He transports goods from the producers to the warehouses and also delivers goods to the retailers.
4	Financing	He undertakes market financing. He gives credit to the retailers and reduces the financial burden on the producers by taking an early delivery of the stocks.
5	Risk Taking	He bears the risks of loss due to price changes, damages, deterioration in quality, theft, fire, etc. on the goods stored by him.
6	Grading, Packaging and Packing	He sends out goods of different sizes, quality, shapes, etc. He divides the whole stocks into small lots as required by retailers. He may re-pack goods for the consumers as per their requirements.
7	Providing Market Information	They provide up-to-date information to the producers about the views of the retailers and also to retailers about the recent developments relating to the production of the goods sold by him.

**Table 7.6 Objectives of physical distribution**

### Services provided by the wholesalers

Wholesalers provide valuable services to both, the retailers and producers while performing the above stated functions.

Services to the Retailers	Service to Manufacturers
<ul style="list-style-type: none"> <li>• Holding stocks of varied goods to be stored in warehouses to supply retailers on demand</li> <li>• Facilitating small-scale purchases :</li> <li>• Retailers need small quantities to meet smaller demands of consumers</li> <li>• Prompt and Quick delivery of goods from the stocks held</li> <li>• Financial assistance through credit facilities</li> <li>• Announcement of new products</li> <li>• Advice to retailers on the market conditions of different products</li> <li>• Taking risks involved in marketing functions</li> <li>• Helping retailers in maintaining price stability</li> <li>• Providing management services and counseling wherever required</li> </ul>	<ul style="list-style-type: none"> <li>• Acting as an intermediary between manufacturers and retailers</li> <li>• Selling assistance to manufacturers</li> <li>• Storage and Transportation of goods for retailers</li> <li>• Providing financial assistance to the manufacturers</li> <li>• Price Stability - by way of holding stocks when prices are low and selling when prices rise, help in maintaining price stability</li> <li>• Financial Assistance -Wholesalers give credit to the retailers so that sales can be increased</li> <li>• Adviser - He provides advice to the manufacturer on product features, packaging, advertising, etc</li> <li>• Providing market information about market conditions</li> <li>• Large purchases to relieve producers from selling small quantities</li> <li>• Risk bearing on behalf of the manufacturer in storing and transporting goods</li> <li>• Maintaining a sales force to sell products</li> <li>• Time utilities - He helps in creating time and place utility through storing facilities</li> </ul>

Table 7.7 Services Provided by the wholesalers

### 7.10 Types of Wholesalers

Wholesalers can be classified into different ways

Sr. no	Classified on the Basis of the following	Types
1.	According to the range of merchandise handled by them	<ul style="list-style-type: none"> <li>• General merchandise wholesalers</li> <li>• General line wholesaler</li> <li>• Specialty wholesaler</li> </ul>
2.	By the Method of Operation	<ul style="list-style-type: none"> <li>• Service wholesaler</li> <li>• Limited function wholesaler</li> </ul>
3.	By Area Served	<ul style="list-style-type: none"> <li>• Local wholesalers</li> <li>• State wholesalers</li> <li>• National wholesalers</li> </ul>
4.	By Method of Operation	<ul style="list-style-type: none"> <li>• Full service wholesalers</li> <li>• Limited Function wholesalers</li> </ul>

Table 7.8 Types of wholesalers

## 7.11 Retailers

- The term Retailer is derived from a French word “retailer” which means to cut again. Thus, retailer trade implies trading in small quantities.
- Retailing is the activity of direct re-selling of small quantities of the product to the final consumers. So they deal in a large variety of goods.
- A retailer is the last middleman in the channel of distribution. According to the American Marketing Association, retailing consists of the activities involved in selling directly to the ultimate consumer for personal, non-business use.
- It embraces the direct to customer sales activity of the producer whether through his own stores by house to house canvassing or by mail order business.

### Function of the Retailer

- To provide personal services to customers
- To provide two-way information
- To facilitate standardization and grading
- To undertake physical movement and storage of goods
- To assemble goods from various sources
- To stock goods for ready supply to buyers
- To extend credit facilities to the customer
- To create demand by window display, etc
- To undertake sales promotion activities
- To assume risks of retail trading

### Services Provided by Retailers

Retailers play a key role in the physical flow of goods, storing them and providing two-way communication between producers and consumers. They provide several services to the retailers as follows

- To assemble goods at convenient points from various sources
- To create place utility by way of making available goods required by consumers at a place convenient to them
- To keep a large variety of goods of different manufacturers for consumers to select the goods of their choice
- To create demand for the products by window display, demonstration, etc
- To provide storage facilities to store a large variety of goods
- To render services to customers to establish a close relationship with customers
- To provide the necessary information about market conditions, common tastes and preferences, etc. To producers and wholesalers
- To provide credit facilities to consumers to increase their purchasing power
- To carry out make up functions like sales and promotion, advertising, etc. For the products to attract customers
- To function as a connecting link between the wholesaler and the final consumer
- To meet the daily demands of consumers for various goods to keep the customer happy and satisfied

## 7.12 Classification of Retailers

Retailers may broadly be classified into small-scale retailers and large-scale retailers

Small-Scale Retailers	Large Scale Retailers
<ul style="list-style-type: none"> <li>• Unit Stores on single line stores of drugs, cloth, etc.</li> <li>• Street Trades:</li> <li>• Footpath sellers.</li> <li>• Market Traders:</li> <li>• Who open their shop on market days at different places on different bazaar days.</li> <li>• Hawkers and Peddlers:</li> <li>• They carry goods from place to place in hand-carts to sell at the doors of customers.</li> <li>• Cheap Jacks:</li> <li>• They own shops in business localities. They sell household articles, readymade clothes, etc. of inferior quality at lower prices. They shift their shop where it is profitable to sell goods.</li> <li>• Syndicate Stores:</li> <li>• They keep a large variety of goods of known brands. They buy unbranded goods to sell under well-known brands. They deal with toys, military items, readymade garments, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Departmental Stores: <ul style="list-style-type: none"> <li>▪ It is a large retailing shop, having wide varieties of goods kept in different departments dealing in special lines of products.</li> <li>▪ It is organised into separate departments for the purpose of promotion, service and control.</li> <li>▪ It brings together under one roof, a wide variety of products needed by consumers.</li> </ul> </li> <li>• Multiple Shops : <ul style="list-style-type: none"> <li>▪ It is a system of chain stores or branches operating under a centralised management dealing in similar lines of products or restricted range of articles.</li> <li>▪ They operate in different localities. For example, Bata, Shoes, Flex Shoes, etc.</li> </ul> </li> <li>• Mail Order Houses: <ul style="list-style-type: none"> <li>▪ The seller contacts buyers through advertising and the goods are sent by VPP or Registered post.</li> <li>▪ Patented medicines, chemicals, etc. are sold this way.</li> <li>▪ They are located only in big cities.</li> </ul> </li> <li>• Consumer Co-operative Stores: <ul style="list-style-type: none"> <li>▪ It is a retail business owned and operated by consumers to purchase and sell goods to its members.</li> <li>▪ The member in the form of share capital, finances their stores and the small denomination of the profits are distributed to all the members.</li> <li>▪ They are run on the basis of co-operative principles.</li> </ul> </li> <li>• Fair Price Shops: <ul style="list-style-type: none"> <li>▪ These are the retail shops run by manufacturers in different cities and towns to sell goods at fair prices.</li> <li>▪ The government also uses this method for public distribution.</li> <li>▪ The main objective is to meet the basic needs of the weaker sections of the society.</li> </ul> </li> </ul>

**Table 7.9 Classification of retailers**

## **Types of distribution channels**

Marketing channels are classified into

- conventional or individualistic channels or non-integrated channels
- non-conventional or integrated channels

### **Conventional channels**

- There are fragmented networks with separately owned enterprises, where intermediaries in the process of exchange loosely link manufacturers and consumers.
- The producers, wholesalers and retailers bargain with each other, negotiate over terms of sale, etc. and behave as autonomous entities.
- Under conventional marketing channels, there are two types of channels called direct and indirect channels.
- In the Direct or short channel, the company sells its products directly to the consumers and there are no intermediaries.
- In the Indirect Channel or Long Channel, there are intermediaries between the company and the consumers.
- A company has several choices depending upon the length of the sequence in the channel.

### **The channel choices include**

- Manufacturer to Consumer - (MC route)
- This is the direct channel, as producer himself sells the goods directly to the final consumers.
- This is the shortest and simplest channel and there are no middlemen.
- This channel is suitable for perishable goods, fashion goods, new products, technical articles, etc.
- It aims to reach the specific target markets or to have control over price and when output produced is in small quantities.
- However, the direct channel is not suitable where the number of consumers is very large and scattered over a wide area.
- The manufacturers may not have the necessary skills to market the products.

### **Direct marketing includes**

- opening a sales counter at the plant
- door to door sales
- sales by mail order
- sales through own shops
- sales with the help of mechanical devices

### **Manufacturer - Retailer - Consumer (MRC Route)**

- In this channel, the manufacturer sells goods to consumers through retailers. Retailers are the middlemen between producers and consumers. This channel is preferable where the number of buyers is very large and the commodity is perishable in nature.
- Retailers include departmental stores, supermarkets, co-operative stores, retail shops, etc.
- The manufacturer also functions as a wholesaler and looks after storage, insurance, transport, financing, etc. This channel is common in case of automobile appliances, shoes, clothing, etc.

### **Manufacturer - Wholesaler - Retailer - Consumer (MWRC Route)**

- In this channel, the wholesaler and retailer are the intermediaries. As a result, the gap between the manufacturer and consumer is widened significantly.
- This is the most popular form of channel used widely by both small and large companies.

**Manufacturer - Wholesaler - Consumer (MWC Route)**

- This channel is popular where there are few institutional buyers such as colleges, hospitals, schools, govt. agencies, etc.
- It is also used in the marketing of consumer durable goods.

**Manufacturer - Agent - Retailer - Consumer (MARC Route)**

This is the longest indirect channel used by many manufacturers having multiple product portfolios and producing consumer durables on a large scale covering national and international markets. In case of industrial goods, the channels are

- Manufacturer To Industrial Users (M U channel)
- Manufacturer - Wholesaler - Industrial User (MWU channel)
- Manufacturer -Agent - Industrial User (MAU channel)
- Manufacturer - Agent - Wholesaler - Industrial User (MAWU channel)

**Integrated Channels**

- These are networks where channel components function in a co-ordinate way rather than working loosely.
- They may be further divided into vertical or horizontal channels.
- The vertical distribution channels are professionally managed and have centrally programmed networks to achieve operating economies and maximum marketing impact.
- There are three types of vertical channels known as administered, contractual and corporate vertical channels.
- The horizontal channel is an alignment of two or more companies who jointly exploit the market opportunity either by themselves or by creating a third party. Therefore, it is also called symbiotic marketing.

**7.13 Factors Governing the Choice of a Channel of Distribution**

The choice of distribution channel is affected by various factors, which can be grouped under five categories

- Market related factors
- Product related factors
- Company related factors
- Middlemen related factors
- Consumer related factors
- Environment related factors

**Market Related Factors**

Sr.no	Market Related Factor	Description
1	The existing market structure	For consumer products, retailers have to be employed and the long channel is inevitable.
2	The number of potential customers	If the number is small, then direct marketing is suitable but if the number is very large, middlemen will be necessary.
3	Geographic concentration of the market	If customers are concentrated, direct marketing is useful but if they are scattered, middlemen have to be employed



4	Order size	If it is large, direct selling unsuitable.
5	Customer buying habit	In case of frequent purchases of small size, an indirect channel is desirable.

**Table 7.10 Market related factors**

#### Product Related Factors

Sr. no	Product Related	Description
	Physical Characteristics	<ul style="list-style-type: none"> <li>If the products are perishable, a direct marketing channel is desirable</li> <li>If the unit value of the product (price) is low, then an intensive distribution or indirect channel is used</li> <li>Standardised products are sold through the indirect channel but products made to order may be directly sold</li> <li>Thus, long channels are useful if products are homogenous, lightweight, small in size, non-perishable and technically simple</li> </ul>
	Technical Characteristics	<ul style="list-style-type: none"> <li>In case of highly technical products, exclusive dealers are necessary to give proper advice but if products are non- technical, then intensive distribution is desirable.</li> </ul>
	The Length of Product Line	<ul style="list-style-type: none"> <li>In case of a short product line, products are sold through middlemen.</li> </ul>
	Market Acceptance	<ul style="list-style-type: none"> <li>For new products with a high degree of market acceptance, the indirect channel is desirable</li> </ul>
	Price Stability	<ul style="list-style-type: none"> <li>A direct channel is used when the price is stable</li> </ul>

**Table 7.11 Product related factors**

Sr. no	Company Related Factors	Description
1.	Financial Strength	Sound companies may prefer the direct channel
2.	Size of Company	Large companies prefers a direct channel
3.	Reputation	Travels faster than man. So companies with good reputation adopt indirect channels.
4.	Market Control	If a firm wants to exercise market control over price, a direct channel is desirable.
5.	Product Mix	If the product mix is wider, a direct channel is used.

6.	Attitude of Company Executives	Their experience of working with certain types of middlemen may tend to develop channel preferences or prejudices.
7.	Marketing Policies	If a company believes that the intermediaries can provide service to customers according to the marketing policies, middlemen may be used.

**Table 7.12 Company related factors**

Sr. no	Middlemen Related Factors	Description
	Services Provided	<ul style="list-style-type: none"> <li>If middlemen can provide services to the customer as the company requires, middlemen may be appointed.</li> </ul>
	Attitudes	<ul style="list-style-type: none"> <li>If a company allows middlemen to fix their own price, they can be appointed to sell the products. In the case of re-sale price, a maintenance policy is adopted and the choice is then limited.</li> </ul>
	Availability	<ul style="list-style-type: none"> <li>If a company enters late in the industry and competition is strong, and then the services of the middlemen are necessary. For aggressive marketing, the company has to have its own channels.</li> </ul>
	Sale Volume Potential Cost of Channel Used	<ul style="list-style-type: none"> <li>If this is large, then more than one channel can be used.</li> <li>The channel should be cheap and efficient in achieving maximum sales</li> </ul>

**Table 7.13 Middlemen related factors****Consumer related factors**

If the consumers are scattered geographically, then long channels of distribution are useful.

**Environment related factors economic environment**

When economic conditions are in depression, then direct or shorter channels are preferred to reduce costs of distribution

**Legal restrictions**

In the case of controlled items, the channels used should be strictly according to Government policy. The MRTP Act prevents channel arrangement that promotes monopoly. The Companies Act forbids sole selling agency in case of cement, paper vanaspati, etc. Public distribution system refers to the fair price shops.

**Fiscal policies of the Government**

In case of multi-point sales tax it is desirable to have a shorter line of distribution to avoid the tax burden on the customers. Hence selling directly to the retailers or consumers is desirable.

**Factors Governing the Selection of Middlemen**

- While selecting middlemen, the factors considered are
- The kind of market served by the intermediary.
- The market reputation or market standing of the intermediary.
- The specialization of the intermediary in selling.
- Continued existence of intermediaries, i.e., companies may be preferred to partnership firms or individuals.
- The sales policies followed by intermediaries have to be compatible with the policies of the company.
- The financial position of the intermediary.
- Facilities available with the intermediary such as go down, delivery van, parking places, skilled staff etc.
- The selection of the intermediary should be done with great care and should be based upon sufficient reliable information about intermediates.

## Summary

- Delivering goods to the customer created is a critical task.
- In order to achieve this value adding function, manufacturing firms have to carry out the distribution activity as an integrated part of the organisational structure which is also known as 'Public Distribution System', 'Traffic Management', 'Marketing Logistics' 'Value Network'. Physical distribution is an important factor in the selling process.
- Physical distribution is the science of business logistics whereby the proper amount of the right kind of produce is made available at the place where demand for it exists.
- Physical distribution is the activity of making the product available to the customer at the right place, at the right time and at the right price. It helps in retaining not only the existing customer but also attracting new customers.
- Physical distribution which is an important element of the marketing mix is described as 'the other half of marketing'
- The producer and final consumer are linked by a bridge consisting of several intermediaries that it make possible and profitable.
- The marketing system in any country constitutes of a large number of organisations and individuals linked by information, product negotiations, money and people.
- Communicating information regarding the availability, characteristics and price of the goods in transit, inventory and on purchase
- Distribution channels play a crucial role in achieving the marketing objectives of a company.
- Production creates value utility; the distribution channels create time and place utilities.
- The cost of transactions can be minimised by making it a routine in terms of a product or service valuation, mode and time of payment. If the routine is neglected, then it may result into reduction in efficiency.

## References

- Dasm D., Ghosh, A., Sadhukhan, E., Majumdar, P., Ghosh, S. & Sahoo, T., *Physical Distribution System*. Available at: <<http://www.scribd.com/doc/35267667/Physical-Distribution>> [Accessed 22 November 2010].
- *Distributing Products*. [Online] Available at: <<http://www.scribd.com/doc/21975188/Distributing-Product>> [Accessed 22 November 2010].
- Silvia.M., *Physical Distribution, Logistics, Supply Chain Management*, [Online] Available at: <<http://steconomice.uoradea.ro/anale/volume/2007/v1-management-and-marketing/79.pdf>> [Accessed 27 August 2012].
- *Physical Distribution*, [Online] Available at: < <http://tutor2u.net/business/presentations/marketing/physicaldistribution/default.html>> [Accessed 27 August 2012].
- 2010. *Marketing: Channels of Distribution*, [Video Online] Available at: <<http://www.youtube.com/watch?v=Tb8bF2hCyLw>> [Accessed 27 August 2012].
- 2011. *International Journal of Physical Distribution and Logistics Management: Editor interview*, [Video Online] Available at: <<http://www.youtube.com/watch?v=SPEKGEV8PL0>> [Accessed 27 August 2012].

## Recommended Reading

- Kotler, P. & Armstrong, G., 2010. *Principle of Marketing*. Pearson Publication.
- Skjott-Larsen, T., 2007. *Managing the Global Supply Chain*, 3rd ed., Copenhagen Business School Press DK.
- Boone, L.E. & Kurtz, D.L., 2009. *Contemporary Business*. 13th ed., Wiley.

## Self Assessment

1. Who can be classified as wholesalers and retailers?
  - a. Wholesalers
  - b. Merchant middlemen
  - c. Seller
  - d. d. Marketer
2. A \_\_\_\_\_ is a businessman who carries out all the activities involved in the selling of goods.
  - a. Wholesaler
  - b. Manager
  - c. Retailer
  - d. Merchant
3. Which of the following is true?
  - a. MWRC route is the shortest and simplest channel and there are no middlemen.
  - b. MRC route is the shortest and simplest channel and there are no middlemen.
  - c. MC route is the shortest and simplest channel and there are no middlemen.
  - d. MARC route is the shortest and simplest channel and there are no middlemen.
4. \_\_\_\_\_ is also used in the marketing of consumer durable goods.
  - a. MC route
  - b. MWC route
  - c. MARC route
  - d. MWRC route
5. \_\_\_\_\_ channels play a crucial role in achieving the marketing objectives of a company.
  - a. Integrated
  - b. Distributed
  - c. Vertical
  - d. Horizontal
6. Which of the following is true?
  - a. There are three types of horizontal channels known as administered, contractual and corporate vertical channels.
  - b. There are two types of vertical channels known as contractual and corporate vertical channels.
  - c. There are three types of vertical channels known as administered, contractual and corporate vertical channels.
  - d. There are three types of distributed channels known as administered, contractual and corporate vertical channels.
7. \_\_\_\_\_ includes departmental stores, supermarkets, co-operative stores, retail shops, etc.
  - a. Wholesalers
  - b. Retailers
  - c. Marketer
  - d. Sellers

8. Which of the following is true?
- a. Under direct marketing channels, there are two types of channels called direct and indirect channels.
  - b. Under indirect marketing channels, there are two types of channels called direct and indirect channels.
  - c. Under integrated marketing channels, there are two types of channels called direct and indirect channels
  - d. Under conventional marketing channels, there are two types of channels called direct and indirect channels
9. Who shifts their shop where it is profitable to sell goods?
- a. Hawkers
  - b. Cheap jacks
  - c. Street traders
  - d. Market traders
10. \_\_\_\_\_ is the activity of direct re-selling of small quantities of the product to the final consumers
- a. Selling
  - b. Advertising
  - c. Retailing
  - d. Marketing

## **Chapter VIII**

### **Warehousing**

#### **Aim**

The aim of this chapter is to:

- explain the concept of warehousing
- state the value and importance of warehousing
- highlight the importance of sales promotion in marketing

#### **Objectives**

The objectives of this chapter are to:

- state the principles of inventory management
- illustrate the meaning of sales promotion
- explain the various features of warehousing

#### **Learning outcome**

At the end of this chapter, you will be able to:

- comprehend the concept of warehousing
- understand the significance of the warehousing
- identify the various type of warehousing

## 8.1 Introduction

Effective physical distribution systems are built around five interactive and inter-dependent subsystems.

These are:

- Inventory location and warehousing
- Material handling
- Inventory control
- Order processing
- Transportation

Warehousing is one of the important elements of the physical distribution system.

## 8.2 Definition of Warehousing

- Warehousing is the act of storing and assorting finished goods so as to create adequate time utility at a minimum possible cost.
- Warehousing is a process whereby the owner of the goods keeps and provides protection to the goods lodged in the warehouse on the payment of rent with the facility to move these out as and when required and with expectations that the service will gladly be rendered by the warehouse on due payment

## 8.3 Characteristics of Warehousing

The characteristics can be enumerated as follows:

- Warehousing is a place where goods are lodged by the owner on the payment of prescribed rent.
- Goods can be taken out as and when required by the owner or his agent.
- It not only stores the goods but also provides ancillary services such as sorting, packing, packaging, financing and even selling on behalf of the owner.
- It provides the service to all who need it. It does not provide personalised service as a storehouse of the organisation.
- Number Size and Location of Warehouses.
- The fewer the number of warehouses in the marketing territory, the lower would be the cost of warehousing per unit.
- When the number of warehouses increases, the sales also increase.
- In such a situation, the management has carry out a cost - benefit analysis and decide the optimum number of warehouses.
- The optimum number depends on the nature of the products, the size, the geographical spread of the market covered by each warehouse, the current and potential sales in the territory, seasonality of demand, number of distributors in the area, the cost of opening warehouses etc.
- The warehouse size and costs are inversely related.
- Small sized warehouses are uneconomical as compared to the large ones.
- Taking into consideration the volume of sales and designed market share in the area covered by the warehouse, transit time and peak season demand, the optimum capacity of a warehouse at a given location can be worked out.
- Decisions about location of a warehouse are taken on the basis of demand factors, market factors and competition factors.
- Availability of transport facility, commercial importance of location, tax implications and local levels, etc. have always to be considered.
- Warehouses may be centralised or decentralised in their location.



- The centralised warehouse is located near the manufacturing plant and only one dispatch unit is in charge of distributing all the production.
- As against this, decentralised warehouses are located near market places. Hence, there are many dispatch centres where the goods are sent.
- The number of dispatch centre's or distribution points depends on area to be covered, delivery time, speed of transport, distance to be covered, etc.

## 8.4 Centralised and Decentralised Warehousing

Warehousing may be centralised or decentralised. Each has its own merits and demerits.

Centralised Warehousing	Advantages	<ul style="list-style-type: none"> <li>• No need to have large stocks</li> <li>• Easier to meet changes in demand</li> <li>• Higher operating efficiency</li> <li>• optimum</li> </ul>
	Disadvantage	<ul style="list-style-type: none"> <li>• Higher transportation costs</li> <li>• Loss of customer service</li> </ul>
Decentralised Warehousing	Advantages	<ul style="list-style-type: none"> <li>• Better service to customers</li> <li>• Savings in freight charges</li> <li>• product</li> </ul>
	Disadvantage	<ul style="list-style-type: none"> <li>• A huge investment is required</li> <li>• The administration costs tend to be higher</li> </ul>

**Table 8.1 Devices use for promotion**

## 8.5 Inventory Management

- Inventory management refers to the management of products in the process of their movement.
- It includes planning and control of finished goods when they are moved out of the manufacturing centres but before they are delivered to the users.
- Production of goods and their demand may not take place at the same time and there may be a gap between the two.
- Hence, there is a need to have a sufficient level of inventory to meet the demand as and when it arises.

## 8.6 Goals of Inventory Management

- To provide adequate quantities of finished goods to serve consumer needs.
- To minimise the investment of the firm in inventory.

### Inventory control

- In order to achieve the objectives or goals of inventory management stated above, the management has to decide about the quantitative and qualitative control techniques to be used.
- The techniques generally used are as follows

### Setting stock levels

The quantity of inventory to be held is explained in terms of the stock levels. These levels are minimum, maximum and recorder level.

### Minimum level

The level below which the stock is not allowed falling to avoid the danger of stocks running out. It is calculated as follows:

Minimum stock level = Recorded level - (Average rate of consumption x Maximum lead time)

### Maximum stock level

It is that level beyond which the stock shall not exceed at any time.

Maximum stock level = Recorded level + Recorded quantity - (minimum rate of consumption x minimum lead time)

### The recorded point of level

It is that level at which the firm has to replenish the stock and maintain that level. Thus, the stock is not allowed to fall below this level.

However, some firms fix the danger level, which lies below the recorder point level. The fact is that the minimum stock level is the danger level.

Danger level = (Minimum rate of consumption x emergency lead period) or

Danger level = (Maximum rate of consumption x emergency lead period)

## 8.7 Determination of Economic Order Quantity (EOQ)

- EOQ is the most economical quantity to be ordered at a time.
- EOQ quantity is that recorded quantity to be ordered for replenishing the stock.
- EOQ is the volume at which the inventory carrying costs plus the order processing cost are at the minimum.
- $EOQ = \sqrt{2DS/H}$  Where D= Annual demand S= Cost of placing order  
H = Holding cost per unit of average inventory per annum

## 8.8 Exercising Control by Importance and Exception (ABC Analysis)

- The technique known as ABC analysis is used to identify those items which have the highest sales pay-off.
- Under this technique, the items are listed by sales volume in the descending order and classed into three categories- A, B and C for the purpose of control.
- Generally, it is observed that only a few 130 items in the inventory are costly.
- These are classified as category items, i.e., around 10 percent of the items account for 75 percent of the total capital invested in inventory. So they need closer control.
- The items of average usage value are classified as category B items.
- About 15 percent of the items amount to the total investment in the inventory.
- Although these items are less important as compared to the A category items, yet they need to be properly controlled.
- Low usage value items are classification C category items which may account for 75 percent of the items in the inventory that account for about 10 percent of the invested capital.
- These items are generally paid less attention and control as they are relatively cheap and easily available.
- Thus, the storing pattern shall be that, A class items shall be always stocked; B category items should be stocked in less quantity while minimum stocks should be kept of the C category items.
- Stock control thus follows the rule of management of exception.

## 8.9 Keeping Track of Inventory

- In order to maintain inventory at a desirable level, it is necessary to watch the movement of the stock and decide the level of the inventory to be held.
- For the purpose, we may use the techniques of Inventory Turnover Ratio and Perpetual Inventory.
- $\text{Inventory Turnover Ratio} = \text{Annual sales} / \text{Average inventory}$
- According to the perpetual inventory technique, up-to-date information of the items received by inventory, items that are discontinued and the total physical stock on a daily basis is maintained. This also helps in finding out any loss of items due to wastage, shop-lifting, etc.

## 8.10 Factors Governing Inventory Levels

The important factors are as follows:

### Customer service

- The level of customer service determines the level of inventory.
- It has been observed that inventory investment increases at an increasing rate as the consumer service standard approaches hundred percent.

### Sales forecasting

There is an inverse relationship between the accuracy of sales forecasts and inventory level, hence greater the accuracy of the sales forecasts, lower would be the level of inventory required.

### Responsiveness of the distribution system

- Responsiveness means the ability of the system to transmit inventory needs back to the factory and bring products to the market.
- Greater the responsiveness, greater would be the inventory adjustment relative to the demand changes in the market and consequent reduction in the amount of safety stock level.

### Cost of inventory

- The inventory cost is composed of holding cost, cost of shortages and the replenishment cost.
- All these costs do not behave the same way.
- For example, as the inventory level increases, the holding cost increases while cost of shortages and replenishment declines.
- The level of inventory also depends on the distance, mode of transport used, lead time for replenishment.

### The Role of Transportation in the distribution system

- Transportation is an important element of the distribution system.
- Transportation may be defined as a process of movement of goods from warehouses to the customer destinations.
- It involves loading and unloading of products and indirect channels of dispatch and places of arrival.
- Transportation plays many roles such as

### Role in marketing

- Transportation is an essential function of marketing, because the markets are located far away from the area of production.
- Transport is an important physical means for the movement of goods from the place of production to the place of their consumption.

### **Role in distribution**

- Transportation plays a key role in the process of distribution.
- It shapes the entire structure of the distribution system.
- It not only extends the area that can serve consumers but also affects the cost and retail prices.

### **Role in the growth of industries**

Transportation promotes development of industries rapidly by carrying men and material to and from the factories.

### **Role in the promotion of quick marketing**

Transportation carries perishable goods like fish, green vegetables, milk, etc. to various markets quickly.

### **Role in increasing the demand for goods**

Transportation plays a crucial role in increasing the demand for goods by making them available to a larger number of consumers.

### **Creation of place utility**

- Geographical and climatic conditions may favor the location of factories in particular places, which may be far away from the markets.
- Transportation bridges the gap between the production and consumption centres.

### **Creation of time utility**

Improvement in the means and speed of transportation enables firms to distribute goods to make them available at times when consumers need them.

### **Contribution to form utility**

Transporting raw materials in time enables the production process to run smoothly and efficiently. Thus transportation contributes towards creating form utilities.

### **Effecting possession utility**

Transportation makes goods available to consumers in the markets. They can satisfy their needs by possessing them.

### **Reduction in costs**

- Transportation management helps in reducing costs significantly.
- Generally, the cost of transportation accounts for 35 percent of total distribution costs and around 20 percent of the total price paid by the consumers.
- Selecting a suitable mode of transport helps in the reduction of costs.

### **Stabilisation of prices**

- Transportation affects prices of several commodities, especially those that are to be moved over longer distances.
- It helps in moving the goods from surplus regions to deficit areas which equalises the supply and demand conditions and helps in attaining and maintaining price stability in the economy.

### **Maintaining smooth flow of commodities**

Transport ensures smooth flow of commodities into the hands of consumers during the entire period of consumption.

### **Improvement in the Standard of Living**

- Transportation makes goods that are not locally available accessible to consumers. It may stimulate further development of marketing and the standard of living.
- Increase in the mobility of factors in production - Transport increases mobility of labor and capital and makes migration easier and cheaper.
- It enables the country to import new equipment and machinery to promote industrialization and economic development.
- Thus, transportation is a key element of infrastructure which plays a key role in developing economic activities in a country.

### **8.11 Modes of Transportation**

The main task in transportation management is to select an appropriate mode of transport or media mix and to schedule them to create maximum time utility at minimum cost. There are several modes of transport available for use. These may be classified as follows:

#### **Land ways**

- railways
- roadways
- pipelines

#### **Waterways**

- Inland waterways
  - canals
  - rivers
  - channels
  - lakes
- Ocean ways
  - coastal
  - overseas
- Airways
  - internal
  - international - Cargo flights, Passenger flights

Waterways are cheaper than land ways. Land ways are cheaper than airways. The major modes of transport generally used are as follows:

#### **Railways**

- The Indian Railway System is the largest in Asia and stands fourth in the world. The total route length of railways in 2000-2001 was 63,028 kms.
- It carried 4,864 million passengers and 473.5 million tons of freight traffic.

#### **Advantages**

- It is economical.
- Large carrying capacity.
- It is an all weather mode of transport.
- It helps in linking international markets.
- Container service is provided.

**Disadvantages**

- Costly on short routes.
- Slower mobility.
- Delays in transportation.
- Shortage of wagons.
- Damages during loading and unloading.

**Roadways**

The Indian road network is one of the largest in the world.

**Advantages of roadways**

- economical on short runs
- quicker delivery leading to price stabilisation
- availability of trucks at short notice
- can serve wide areas
- less damages in transit
- requires less of packaging

**Disadvantages**

- uneconomical on long runs
- not suitable for heavy and bulk transport
- road transport is a fair weather friend, for example, during monsoon season, trucks are off the roads

**Air Transport**

- Air transport is the modern, quickest and latest addition to the modes of transport. On account of speed, it is becoming widely popular.
- There has been a continuous increase in the volume of air traffic during the last two decades.
- Domestic air traffic is increasing.

**Advantages**

- fast mode of transport
- high speed resulting into holding fewer inventories
- maximum level of customer service

**Disadvantages**

- costliest mode of transport
- limited coverage
- limited cargo capacity
- some type of cargo cannot be carried. For example, explosives

### **Waterways**

- Inland waterways are still not well developed.
- Coastal shipping can serve as one of the cheapest ways.
- It is the most energy efficient and the cheapest mode to carry heavy cargo and bulky goods over longer distances.
- Overseas shipping plays a key role in international trade.
- India has the largest merchant and shipping fleet amongst developing countries and ranks 17th in the world in shipping tonnage.

### **Advantages**

- it is the cheapest mode of transport
- it is most suitable for heavy, bulky and fragile items
- loading and unloading facilities are well developed everywhere in the world
- there are problems of traffic congestion as in road transport

### **Disadvantages**

- it is the slowest mode of transport
- it needs expensive handling facilities
- it is suitable for the transport of low unit value goods
- it may be badly affected by the monsoons and hence is unreliable
- it provides limited service

## **8.12 Factors Governing the Choice of Transport Mix**

The relevant factors may be discussed as follows

### **Performance Criteria**

- Each mode of transport is known for its performance in terms of speed, reliability, safety, suitability, flexibility, etc.
- When speed criteria are applied, air transport stands first, followed by pipelines, roads, rails and waterways.
- Regarding reliability, pipelines are the best followed by rails, roads, airways and waterways.
- Considering availability, roadways are the best followed by waterways, railways, airways and pipelines.
- Taking safety as criteria, pipelines are most safe, followed by roadways, railways waterways and airways.
- Product suitability also needs to be catered for - heavy and bulky products are suitable for railway transport and waterways but for perishable and costly products, airways and roadways are more suitable.

## **8.13 Cost of Transport**

- Cost of transport depends upon the distance covered and volume or weight of goods to be moved.
- So, waterways are the cheapest mode followed by, roadways, railways, pipelines and airlines.
- It is desirable to select the mode that has the minimum cost.

## **8.14 Introduction to Sale Promotion**

- The term 'Promotion' originated from the Latin word "*Promoter*" which means, 'to move forward' or 'to push
- an idea'.
- Sales promotion aims at capturing the market and increasing the volume of sales.

- Promotion is one of the elements of marketing mix of an organisation.
- It is used to inform, persuade and remind the market of the products manufactured by the organisation.
- Promotion is an attempt to influence the consumers' feelings, beliefs or behaviour.

### 8.15 Definition

- The American Marketing Association defines sales promotion as those marketing activities other than personal selling, advertising and publicity that stimulate consumer purchasing and dealer effectiveness such as display shows, expositions, demonstrations and various non-recurrent selling efforts not in the ordinary routine.
- Sales promotion is a key ingredient in marketing management.
- The main function of sales promotion is to serve as a connecting link or a bridge between advertising and personal selling which are the two wings of promotion.
- Customers are highly selective in their process of purchasing; hence an effective promotional programme becomes necessary to influence them.
- The main purpose of promotion is to communicate information about the product to potential customers.
- Sales promotion yields a faster response in sales than advertisement, so it is considered a special selling effort.

### 8.16 The Objectives of Sales Promotion

The objectives of sales promotion are to:

- Inform the public about new products and its features
- Influence the consumers' buying choice in favor of the given product
- Promote the efforts of the dealers and the salesmen
- Attract new customers
- Capture a major share of the market
- Overcome competition from other firms
- Induce off-season sales
- Establish and maintain communications with large market segments
- Create a brand image
- Keep memory about the product alive in the minds of customers
- Induce middlemen to purchase more products for selling

#### The Importance of Sales Promotion Activities

- Sales promotion is important due to internal and external factors.
- The internal factors include.
- Increasing the support of top management
- The Product manager's efforts to promote sales.

#### The External Factors are

- The widespread use of branding which calls for promotional activities that are more effective than advertisements
- Competitors are becoming promotion minded
- The present stage of trade demands more deals from manufacturers.
- A decade ago the advertising to sales promotion ratio was 60:40 but today it is 75:25 in the sales budget in case of consumer packaged goods.



**The importance of sales promotion may be summarised as follows**

- Sales promotion is useful in overcoming the challenges of intense competition.
- It helps in selling goods in imperfect markets.
- It is useful in filling the gap between producers and consumers.
- To promote large-scale selling, sales promotion is necessary.
- It enables the consumers to enjoy a higher standard of living.
- It promotes more employment in the economy.
- The rapid increase in retailers has brought pressure on the manufacturers for support and more allowances.
- It provides a good support to personal and interpersonal salesmanship.
- It also increases the rate of product acceptance.

**Advantages of Sales Promotion**

- Sales promotion provides better incentives to consumers and thus creates a demand for the product.
- It modifies the consumers' attitude in favor of the product.
- It induces consumers to take immediate action.
- It is so flexible that it can be applied at any stage of a new product.
- It stimulates large-scale production and selling which reduces the unit cost of product.
- Its role as a supporter to sales is outstanding. It makes the effort of the sales force more effective and productive.
- It is a highly effective tool used for increasing sales.

**Sales Promotion is More Effective**

- when a new brand is to be introduced
- to communicate about the improvement in a product
- when the results of advertising are to be enlarged
- when the number of retail stores is to be increased to sell the product in wider markets
- when an aggressive sales campaign is to be employed

**Limitations of Sales Promotion**

- Sales promotion plays a supplementary role as it supplements selling efforts.
- It is non-recurring in its use.
- The brand image is adversely affected by excessive sales promotional activities as consumers start feeling that these sales promotion activities are carried out due to lack of popularity and overstocking of products.
- Consumers feel that sales promotion activity tools are used to sell poor quality products.
- It is an expensive tool and can lead to a rise in the prices of goods.

**8.17 Kinds of Sales Promotion****Sales promotion is of three kinds**

- consumer sales promotion
- dealer sales promotion
- sales force promotion

### 8.17.1 Consumer Sales Promotion

- It includes all those activities, which aim at reaching the consumer.
- It is aimed at informing or educating consumers and stimulates them to buy the product.
- It increases not only the use of the product but also attracts new customers.
- It helps in promoting new products, increase in sales of established products and enables the organisation to face competition.
- Several devices are used for sales promotion. These include:

Sr. no	Devices use for Promotion	Explanation
1.	Sampling	<ul style="list-style-type: none"> <li>• It is used to introduce a new product of daily use. It includes</li> <li>• free distribution of samples to the final consumers</li> </ul>
2.	Coupons	<ul style="list-style-type: none"> <li>• Coupons are supplied with the product</li> <li>• These activate the purchase of products at a reduced price</li> <li>• These may be sent by mail, inserted in advertisements or issued through retailers to attract customers</li> </ul>
3.	Money Refund offer	<ul style="list-style-type: none"> <li>• It is inserted in the advertisement</li> <li>• If a consumer is not satisfied with a product, a part or all the money will be refunded</li> <li>• It helps in creating new customers and to</li> <li>• strengthen brand loyalty</li> </ul>
4.	Demonstration	<ul style="list-style-type: none"> <li>• In order to educate consumers about its use, the product is demonstrated in stores, fairs, exhibitions or even on a door-to-door basis</li> <li>• These are employed mostly for household appliances</li> </ul>
5.	Contests	<ul style="list-style-type: none"> <li>• These are arranged to attract new customers or to promote new products</li> </ul>
6.	Premium or Bonus offer	<ul style="list-style-type: none"> <li>• It is a temporary price reduction to attract customers</li> <li>• Products may be offered free or with some accessories, for example, if two soaps are purchased, a soap box is given free</li> </ul>
7.	Price-off offer	<ul style="list-style-type: none"> <li>• During the slump season, a temporary discount is given and goods are sold at a lower price than the labeled price</li> </ul>
8.	Free Trials	<ul style="list-style-type: none"> <li>• Products are given to prospective consumers free to stimulate interest in purchases of the product</li> </ul>
9.	Buy back Allowance	<ul style="list-style-type: none"> <li>• A certain amount of money is paid back if new purchases are made in certain quantities, for example, if two soaps are purchased by giving coupons, the price is reduced by a certain amount</li> </ul>

**Table 8.2 Devices use for promotion**

### **8.17.2 Trade or Dealer Sales Promotion**

The manufacturer offers the dealers and other middlemen certain sales promotion to induce them to increase sales by keeping larger stocks. These include:

- buying allowance or discount
- buy back allowance
- display and advertising allowance
- price deals or special discount
- push money or alliance
- dealers sales contests
- dealer limited promotion - the company publishes dealers names in all advertisements
- dealer's gifts - gifts are given against orders from dealers such as television sets, clocks, watches, etc
- point of purchases or dealer displays - competition among dealers and retailers is encouraged by point of purchase advertising, for example, floor displays wall signs, posters, etc. used at retailers shops, where purchases take place.

### **8.17.3 Sales Force Promotion**

Successful sales promotional activities through salesmen should be effective. The role played by salesmen in the channel of distribution is very important. The idea is to induce the sales force to make intensive efforts to promote sales. The tools used for this purpose includes:

- Bonus to the sales force
- Sales force contests
- Conferences and meetings of salesmen

Sales promotion helps in encouraging the quick movement of products along distribution channels. Attempts are made to induce consumers, middlemen and the sales force to contribute towards increasing sales. Aggressive sales can be achieved by utilising various sales promotion measures discussed above.

In order to survive, aggressive selling through sales promotion activities is necessary for all manufacturing organisations.

## Summary

- Warehousing is the act of storing and assorting finished goods so as to create adequate time utility at a minimum possible cost
- Warehousing is a place where goods are lodged by the owner on the payment of prescribed rent.
- Decisions about location of a warehouse are taken on the basis of demand factors, market factors and competition factors.
- Warehousing may be centralised or decentralised. Each has its own merits and demerits.
- Inventory management refers to the management of products in the process of their movement.
- To provide adequate quantities of finished goods to serve consumer needs.
- The quantity of inventory to be held is explained in terms of the stock levels. These levels are minimum, maximum and reorder level.
- EOQ is the most economical quantity to be ordered at a time. EOQ quantity is that recorded quantity to be ordered for replenishing the stock.
- The technique known as ABC analysis is used to identify those items which have the highest sales pay-off.
- Low usage value items are classification C category items which may account for 75 percent of the items in the inventory that account for about 10 percent of the invested capital.
- In order to maintain inventory at a desirable level, it is necessary to watch the movement of the stock and decide the level of the inventory to be held.
- The level of customer service determines the level of inventory. It has been observed that inventory investment increases at an increasing rate as the consumer service standard approaches hundred percent.
- Responsiveness means the ability of the system to transmit inventory needs back to the factory and bring products to the market.
- The inventory cost is composed of holding cost, cost of shortages and the replenishment cost.
- Transportation is an important element of the distribution system.
- Transportation is an essential function of marketing, because the markets are located far away from the area of production.
- Transportation promotes development of industries rapidly by carrying men and material to and from the factories.

## References

- Baskhi, S., 2007. *Warehousing and Container Management*.
- Frazelle, E., 2001. *World-Class Warehousing and Material Handling*. 1st ed., McGraw-Hill.
- *Marketing Concepts*, [pdf] Available at: < <http://www.agecon.ksu.edu/accc/kcdc/PDF%20Files/marketing.pdf> > [Accessed 27 august 2012].
- *Warehouse Management Guide*, [pdf] Available at: < <http://help.sap.com/printdocu/core/print46c/en/data/pdf/lewm/mmwm.pdf> > [Accessed 27 august 2012].
- 2009. *Warehouse Management System*, [Video Online] Available at: <<http://www.youtube.com/watch?v=IYCx-K8MwDo>> [Accessed 27 August 2012].
- 2008. *Inventory Management - An Introduction*, [Video Online] Available at: < <http://www.youtube.com/watch?v=qkZQxXJuqKo> > [Accessed 27 August 2012].

## Recommended Reading

- Mulcahy, D., 1993. *Warehouse Distribution and Operations Handbook*. 1st ed., McGraw-Hill 1 Edition.
- Humphries, M., Hawkins, M.W. & Michelle, C. D., 1999. *Data Warehousing: Architecture and Implementation*. Prentice Hall.
- Nagabhushana, 2008. *Data warehousing Olap and Data Mining*. New Age Publications.

## Self Assessment

1. \_\_\_\_\_ is the act of storing and assorting finished goods so as to create adequate time utility at a minimum possible cost.
  - a. Warehousing
  - b. Transport
  - c. Transport mix
  - d. Airways
2. Which of the following is false?
  - a. Transportation is an important element of the distribution system.
  - b. Transportation is an essential function of marketing, because the markets are located far away from the area of production.
  - c. Transportation may be defined as a process of movement of goods from warehouses to the customer destinations.
  - d. Transportation is a place where goods are lodged by the owner on the payment of prescribed rent.
3. \_\_\_\_\_ is the most economical quantity to be ordered at a time.
  - a. C2C
  - b. Warehouse
  - c. Inventory
  - d. EOQ
4. Which of the following are uneconomical on long runs?
  - a. Railways
  - b. Roadways
  - c. Airways
  - d. Inventory
5. Which of the following is the most energy efficient and the cheapest mode to carry heavy cargo and bulky goods over longer distances?
  - a. Airways
  - b. Roadways
  - c. Waterways
  - d. Railways
6. Which of the following is true?
  - a. Sales promotion aims at capturing the market and increasing the volume of production.
  - b. Sales promotion aims at capturing the goods and increasing the volume of sales.
  - c. Sales promotion aims at capturing the market and increasing the volume of sales.
  - d. Sales promotion does not aims at capturing the market and increasing the volume of sales.
7. The main purpose of \_\_\_\_\_ is to communicate information about the product to potential customers.
  - a. Warehouse
  - b. Promotion
  - c. Selling
  - d. Goods

8. Which of the following is true?
- a. The technique known as ABC analysis is used to identify those items which have the highest sales pay-off.
  - b. The technique known as EOQ analysis is used to identify those items which have the highest sales pay-off
  - c. The technique known as ABC analysis is used to identify those items which have the lowest sales pay-off.
  - d. The technique known as ABC analysis is used to identify those sales which have the highest sales pay-off
9. The \_\_\_\_\_ cost is composed of holding cost, cost of shortages and the replenishment cost.
- a. Marketing
  - b. Production
  - c. Inventory
  - d. Sales
10. Which of the following shapes the entire structure of the distribution system?
- a. Transportation
  - b. Marketing
  - c. Sales
  - d. Warehousing

## Chapter IX

### Advertising, Personal Selling and Direct Marketing

#### Aim

The aim of this chapter is to:

- explain the roles and objectives of advertising in the marketing strategy
- evaluate various factors that influence the pricing decision
- introduce the concept and meaning of direct marketing

#### Objectives

The objectives of this chapter are to:

- elucidate the significance of personal selling
- evaluate the advantages and disadvantages of personal selling promotion
- explain the concept and meaning of direct marketing

#### Learning outcome

At the end of this chapter, you will be able to:

- understand the concept and complexity of the advertising, pricing decision and personal selling
- comprehend the importance of direct marketing
- identify limitations of direct marketing



## 9.1 Introduction

The modern world is characterised by mass production and mass distribution. Similar products are brought to the market places which result into stiff competition amongst the different producers. A firm has to adopt aggressive marketing policies in order to survive and grow.

The products produced have to be known to the public and communication becomes necessary because a larger population and wider market have to be addressed. Hence, advertising is widely applied as a tool to mobilise the marketing machinery. Advertising is not a new technique because in the early days, signboards, writing on stones, buildings, rocks, and so on, were common. The development of printing technology has stimulated rapid development of advertising. Firms now prefer advertising to make the public aware about the organisation and its products.

## 9.2 Definition of Advertising

- Advertising is any paid form of non-personal presentation and promotion of ideas, goods or service by an identified sponsor.
- It consists of all activities involved in presenting to a group, a non-personal, sponsored identified message about the product or organisation.
- This message, called an advertisement, can be verbal or visual and is disseminated through one or more media.

### **Thus an advertisement is**

- a message to large groups of people
- a form of non-personal communication
- paid for by the advertiser to the publisher
- meant to persuade the public to purchase goods or services

## 9.3 The Objectives of Advertising

The objectives of advertising are to:

- Introduce a new product in the market
- Create demand for the product by attracting customers
- Survive in competitive conditions
- Communicate customers about changes in the products, prices, channels of distribution etc
- Create and enhance goodwill of the organisation
- Keep new firms away from entering into the industry
- Neutralise the efforts of advertisements of competitors
- Bridge the gap between the producer and the consumer
- Build a brand preference
- Convince users to buy the product
- Force the middlemen to handle the product and to improve their morale
- Communicate the new uses of a product

## 9.4 The Role of Advertising

- Advertising plays an important role in a developing economy like India both, in promoting economic development and marketing activities.
- As a major component of the communication mix, advertising makes a significant contribution to the sales revenue and profitability of the organisation.
- Hence, marketing executives all over the world assign an important role to advertising in their marketing strategies.
- The main contributions of advertising are tabulated below:

Sr. no	Role of Advertising	Description
1.	Stimulation of Demand	<ul style="list-style-type: none"> <li>• Advertising is an effective communication medium that informs the public about the product and its characteristics</li> <li>• This information through advertisement, serves two purposes</li> <li>• Firstly, it creates a need for the product and secondly, it reinforces and strengthens their needs</li> <li>• It may result into a demand for other related products or different varieties of the same product</li> </ul>
2.	Strengthens the other components of the communication mix	<ul style="list-style-type: none"> <li>• The marketing communication mix includes five major modes of communication which are               <ul style="list-style-type: none"> <li>▪ Advertising</li> <li>▪ Sales promotion</li> <li>▪ Public relations and publicity</li> <li>▪ Personal selling</li> <li>▪ Direct marketing</li> </ul> </li> <li>• Personal selling and sales promotion and product and price of the marketing mix aim at attracting consumers and affect their purchase decisions</li> <li>• Advertising supports the process of affecting consumer purchases, the efforts of advertising increases the effectiveness of other components of marketing mix</li> </ul>
3.	Increase in the sales volume	<ul style="list-style-type: none"> <li>• Advertising effectively influences the growth of the sales volume of the product by               <ul style="list-style-type: none"> <li>▪ Stimulating demand</li> <li>▪ Supplementing other selling efforts</li> <li>▪ Creating a brand preference, etc</li> </ul> </li> <li>• When a company adopts a 'pull strategy' and attempts to take the products with the intermediates, it motivates the middlemen to buy larger quantities of the product from the company</li> </ul>

4.	Developing a brand preference	<ul style="list-style-type: none"> <li>• Consistent advertising supported with the other selling efforts results into a higher buying product.</li> <li>• When products are successful in delivering the expected value satisfaction to the consumer or are able to delight the consumers, they develop a brand preference</li> <li>• This is reinforced by consistent advertising</li> <li>• In addition to the brand pReferences being developed, advertising helps in reducing the post-purchase consumer dissonance and the effects of competitive advertisements and helps to maintain the consumer brand preference</li> </ul>
5.	Reduction in costs	<ul style="list-style-type: none"> <li>• Advertising helps the organisation in cutting down the production and selling costs because with advertising, sales tend to rise and the overhead production cost gets spread over a larger volume, so the unit cost decreases significantly</li> <li>• Advertising also reduces strain on the middlemen and the sales force and makes them more effective.</li> <li>• This decreases the selling costs because the sales volume expands substantially</li> </ul>
6.	Reduction in prices	<ul style="list-style-type: none"> <li>• In a competitive and developing economy, when the unit cost of a product starts declining, there arise both internal and external environmental pressures to compel the companies to reduce their prices for the benefit of the society at large</li> </ul>
7.	Maximisation of consumer satisfaction	<ul style="list-style-type: none"> <li>• Advertising enables the consumers to maximise their satisfaction by delivering psychological satisfaction</li> </ul>
8.	Effective competitive weapon	<ul style="list-style-type: none"> <li>• Advertising along with the other elements of the marketing mix, is an effective and strong weapon to overcome the competitive activities of the competing firms</li> <li>• On the defensive side, it maintains the brand loyalty of the consumers by promoting the habit of repurchasing and reducing post purchase dissonance</li> <li>• On the offensive front, it loosens the hold of the competitors over consumers by appealing to their needs, driving motives and by generating post purchase dissonance for the competitors' products</li> </ul>
9.	Demarcating weapon	<ul style="list-style-type: none"> <li>• An advertisement can work as the prime weapon, as a demarcating strategy for a company</li> <li>• In a country like India, where there is a need to control demand for certain products to maintain a balance between demand and supply, advertising helps in discouraging demand for certain products while encouraging the demand for other products</li> </ul>
10.	Generation of employment	<ul style="list-style-type: none"> <li>• Advertising generates gainful employment opportunities both directly and indirectly for those persons having necessary talents and skills</li> </ul>
11.	A great education	<ul style="list-style-type: none"> <li>• Advertising serves the purpose of educating the public. Each meaningful advertisement is a piece of information</li> </ul>

12.	Upholding National Culture	<ul style="list-style-type: none"> <li>Advertising is useful in creating new expectations for consumers.</li> <li>Consumer habits, beliefs, fashions, behaviour, etc. are deeply affected by advertising</li> </ul>
-----	----------------------------	---

**Table 9.1 Contribution of advertising**

## 9.5 Limitations of Advertising

Although advertising has sufficient strength as a medium of communication, it suffers from certain limitations.

These are discussed below

Sr. no	Limitation	Explanation
1.	Wastage of efforts	<ul style="list-style-type: none"> <li>Advertising is directed towards a large number of people at the same time, its message gets diffused giving rise to wastages</li> <li>It is difficult to know whether the message has reached them or not.</li> <li>A majority of the people may even neglect it</li> </ul>
2.	Absence of individual adaptation	<ul style="list-style-type: none"> <li>With advertising, it is not possible to appeal to a particular individual or a small group of individuals. Thus, matching the message and with the individual's self-image is rarely possible.</li> </ul>
3.	Consumers may lose interest	<ul style="list-style-type: none"> <li>During the process of advertising, the target consumer may lose interest and the advertisement may not be able to regenerate this interest. Hence the purpose of advertising may not be served</li> </ul>
4.	Costly affair	<ul style="list-style-type: none"> <li>To maintain consumer attachment to the product, advertising has to be consistent and effective, which is very costly and it may be beyond the financial capacities of small firms</li> </ul>
5.	Limited product differentiation	<ul style="list-style-type: none"> <li>Advertising is a means of product differentiation from the competitive brands</li> <li>Beyond certain limits when price and quality differences cease, it does not remain effective</li> </ul>
6.	Limited impact	<ul style="list-style-type: none"> <li>Although there is positive correlation between advertising and sales volume, its purpose is limited in increasing sales, especially in the short run</li> <li>It has been concluded that, one percent increase in advertising expenditure results in an average short run increase of the order of only 0.1 percent in sales or market share, and even in the long run, the average increase is hardly 0.25 percent</li> <li>Generally, sales volume and profits are considered to be indicators of advertising. But there are also other factors that affect the output</li> <li>To isolate the contribution of advertising is a very difficult task</li> <li>Secondly, the effect of advertising is long-term and its cumulative effect creates problems in its measurement]</li> </ul>

7.	Rigidity of advertisement	<ul style="list-style-type: none"> <li>The advertising message once set, cannot be adjusted to the reactions of consumers, nor can it answer the objections raised about the product or service</li> <li>The same message repeated again and again becomes boring and people feel nauseated</li> </ul>
8	Advertisements are unbelievable	<ul style="list-style-type: none"> <li>People do not believe in advertising fully as they are aware that the messages are designed to influence the public at large</li> <li>Many a times, defects in the products are not made public</li> <li>In spite of the limitations, advertising plays a crucial role as an element of communication mix in making the marketing strategy more efficient and effective</li> </ul>

**Table 9.2 Limitations of advertising**

## 9.6 Introduction to Selling

Selling is as important to society as metabolism is to human life. Selling is as old as human civilisation, but the techniques of selling have undergone substantial changes.

## 9.7 Definition of Personal Selling

- The American Marketing Association defines it as follows “Personal selling is the oral presentation, in a conversation with one or more prospective purchases, for the purpose of making sales. It is the ability to persuade the people to buy goods and services at a profit to the seller and benefit to the buyer.”
- Personal selling is the art of convincing the prospects. It is the science and art of understanding human desire and pointing ways to their fulfillment.
- It is the ability to convert human needs into wants.
- In personal selling, the salesmen or sales representatives of the company communicate with the target customers so as to make them motivated to respond positively and finally conclude the deal.

## 9.8 Objectives of Personal Selling

The short term or quantitative objectives are to:

- Obtain a specified sales volume and take steps to raise it, so as to maximise the profits
- Minimise personal selling expenses
- Secure, retain and plan for increase in the market share

The long term or qualitative objectives are relatively broader and include:

- To search for new customers with a view to making them permanent customers
- To achieve and maintain co-operation of the customers in stocking and promoting the product line
- To keep customers well informed about the changes in the products and product line
- To provide technical advice and assistance to customers
- To provide advice and assistance to middlemen whenever needed
- To collect and report market information on important matters to the company management

## 9.9 Advantages of Personal Selling

Sr. No	Advantages	Advantages
1.	Effective medium of selling	<ul style="list-style-type: none"> <li>Unlike advertising, personal selling has a role in all the three phases of buying namely, pre-transactional, transactional and post- transactional. As it is a two-way communication process, it cultivates the market, negotiates the transactions and also reduces post purchase dissonance</li> <li>It is the negotiation of transactions that makes personal selling more effective</li> </ul>
2.	Flexible and easily adaptable medium	<ul style="list-style-type: none"> <li>It is possible for the salesman to adjust himself to the needs, motives, impulses etc. of the prospective consumers with a view to communicating message effectively and in finalising the deal.</li> </ul>
3.	Minimum wastage of efforts	<ul style="list-style-type: none"> <li>As compared to advertising, there is minimum wastage of efforts because the focus is on the target customers. There is no possibility of message diffusion and distortion.</li> </ul>
4.	Attracting and maintaining consumer interest	<ul style="list-style-type: none"> <li>The salesman can easily detect loss of consumer attention and interest so that he can take the necessary steps to maintain consumer interest and attention by describing product characteristics.</li> </ul>
5.	To attain the desired sales level	<ul style="list-style-type: none"> <li>Through personal selling the salesman can achieve a targeted level of sales by way of a logical and persuasive reasoning process.</li> </ul>
6.	Maintaining a desirable relationship	<ul style="list-style-type: none"> <li>Personal selling is an effective means to maintain a close and durable relationship between the salesman and the consumers, which makes future sales possible and easier</li> </ul>
7.	The salesman acts as market researcher	<ul style="list-style-type: none"> <li>The salesman being in close contact with the final consumer can collect the relevant market information quickly and send it to the company. With this, the company can make strategic and tactical adjustments in time</li> </ul>

**Table 9.3 Advantages of personnel selling**

## 9.10 Limitations of Personal Selling

Some of the major limitations of personal selling are as follows:

- Personal selling is expensive because the cost of maintaining the sales force is high and fixed. The company has to bear it irrespective of the level of sales. There is a close correlation between the cost incurred for salesmen and the volume of sales generated by them.
- It is difficult to get the right type of salesman having both skill and ability to sell under competitive conditions and yet remain loyal to the company.
- Customer loyalty built around the salesman may be lost with the retirement or exit of the salesman.
- Due to increased responsibility, the salesmen may face the problem of role ambiguity and role conflict.
- In spite of the limitations, personal selling is an important promotional tool.
- According to Kotler, “Personal selling is the most effective tool in the later stages of the buying process, particularly in building up buyer preference, conviction and action.” The three distinctive qualities of personal selling are personal confrontation, cultivation of close relationships and response, which makes it an important promotional tool.

## 9.11 Introduction to Direct Marketing

- Modern companies search for ways to gain efficiency by replacing one promotional tool with another, and many companies are replacing field sales activity with advertisements, direct mail and telemarketing. The substitutability among promotional tools explains the need to co-ordinate marketing functions.
- The five promotional tools
  - Advertising
  - Sales promotion
  - Public relations and publicity
  - Sales for or personal selling
  - Direct marketing are in operation

Let us discuss the direct marketing tool in detail:

## 9.12 Definition Direct Marketing

- Direct marketing is the use of consumer - directed channels to reach and deliver goods and services to customers without using marketing middlemen.
- These channels include direct mail catalogues, telemarketing, interactive TV, kiosks, websites and mobile devices.
- Consumers place orders by telephone or mail. Direct marketing is one of the fastest growing fields of serving the customers.
- Direct marketers expect a measurable response in the form of consumer orders, so it is called direct order marketing. It has been extensively used to develop a long term relationship with the customers. So it is also known as “Customer Relationship Marketing”.
- In order to develop and maintain a permanent relationship with customers, some companies spend on birthday cards, information materials or small premiums to selected customers.
- Airlines, hotels and other companies aim at building strong customer relationships through award programmes and club programmes.
- The fast growth of direct marketing is the result of several factors.
  - Market dissemination has resulted into an increasing number of market niches
  - Higher costs of driving
  - Traffic congestion
  - Packing problems
  - Lack of time
  - Shortages of retail sales help, etc. have encouraged home shopping
- Consumers are happy with direct marketers who are available for 24 hours, all the days of the week and with their promptness of customer service.
- The growth of the internet, e-mail, mobile phones, fax machines, etc. have made product selection and ordering very easy. Thus, telemarketing and direct mail are becoming popular between both, consumers and sellers.

## 9.13 Advantages of Direct Marketing

Direct marketing provides several benefits to the consumers

- Home shopping is fun, most convenient to be carried out at ease
- It saves time
- It provides consumer an opportunity of a larger selection of merchandise
- They can shop by browsing through mail catalogues and online shopping services
- They can order goods for themselves or for others



- Business customers also benefit by knowing about the availability of various products and services without wasting time, energy and money and meet the sellers of the commodities and services concerned
- Sellers also benefit on account of direct marketing because of the following reasons:
- They may obtain a mailing list of potential buyers such as deaf people, overweight persons, millionaires, etc. And customise and personalise their messages.
- They can develop continuous relationships with each customer.
- The parents of newborn babies can receive periodic tips giving details about new clothes, toys, baby food, tonics, cosmetics, etc. For babies.
- For example, nestlé's baby food division continuously builds a database of new mothers and mails six personalised packages of gifts and advice at key stages in the baby's life.
- Direct marketing can be adjusted to reach the prospects at the right time.
- Direct marketing material usually receives higher readership as it is sent only to the interested prospects.
- It helps in testing out alternative media and messages that are cost effective.
- It enables the direct marketers to keep their strategy less visible to competitors.

### 9.14 Demerits of Direct Marketing

Although direct marketers and their customers enjoy mutually rewarding relationships, sometimes certain limitations do arise. These are as follows:

Sr. no	Demerits Of Direct Marketing	Explanation
1.	Consumer Irritation	<ul style="list-style-type: none"> <li>• Many people do not like repeated hard selling and direct marketing approaches especially at dinner time or late night phone calls from poorly trained callers or computerised calls</li> </ul>
2.	Unfair Appeals	<ul style="list-style-type: none"> <li>• Some of the direct marketers tend to take advantage of the less sophisticated buyers</li> <li>• T.V. shopping shows adopt the strategy of smooth talking and claims of drastic price reduction and insist on accepting the offer by the customers</li> </ul>
3.	Deceptive and Frugal	<ul style="list-style-type: none"> <li>• Many times, direct marketers design mailers and write copies with an intention to mislead buyers, either by exaggerating the size, performance claims or the retail price.</li> </ul>
4.	Invasion of Privacy	<ul style="list-style-type: none"> <li>• Direct markets may get their list of customers from the subscription lists of magazines or newspapers, bank accounts, company databases, etc. and use these for their own purposes. But in the process, they may know more details about consumer lifestyles, habits, etc</li> <li>• This may be used for taking unfair advantages</li> <li>• Direct marketers are aware about these issues and they usually do take note of these They also know that if such practices are continued, they may adversely affect consumer attitudes, reduce response rates and may call for overnment intervention</li> <li>• Most of the direct marketers now aim at establishing practices of honest and well designed marketing offers targeted to the right type of customers who would like to appreciate hearing about offers and respond favorably wherever suitable</li> </ul>

**Table 9.4 Demerits of direct marketing**



## 9.15 Integrated Direct Marketing

- Although direct and on-line marketing are developing rapidly, many companies do not give them due importance in their communication mix or promotion mix.
- Advertising and sales promotion activities are given more weight age in their budgets.
- The sales force may consider direct marketing as a threat when it has to take over smaller customers and prospects to direct mailers and tele-marketers.
- Companies are increasingly recognising the role of integrating their marketing approach with a chief communication officer.
- He has to supervise specialists in advertising, sales promotion, public relations and direct marketing.
- He allocates the right amount of funds to budget each communication tool. It is also called maxi marketing or integrated marketing communication.

## 9.16 Channels of Direct Marketing

Direct marketers can use several channels to reach prospective customers. Some of the channels used by them are discussed below.

### Face to Face selling

- It is the original and oldest form of direct marketing.
- Most companies prefer a professional sales force to locate prospects, develop them into customers and attain the growth of business.
- This method is useful in getting a quick response and in clearing doubts or problems about the products.
- This method seems likely to remain in use over a long period of time.

### Direct Mail Marketing

- It involves sending an offer, announcement reminder or other items to a person.
- Direct marketers select a mailing list very carefully and send them thousands of mail each year in the form of letters flyers, foldouts, etc. They are described as “Sales people with wings”.
- Sometimes audio tapes, videotapes, CDs and computer diskettes are sent to potential customers. Also magazines full of advertisements are sent to the prospects.
- Direct mail has become popular because it helps in target market selectivity, can be personalised, and is flexible, allowing early testing and response measurement.
- Although it is costlier than mass media, the people reached are better prospects.

### Catalogue Marketing

- Companies send their full merchandise catalogues, especially consumer catalogues and business catalogues mostly in print form, sometimes as CDs, videos or on-line information.
- The efficiency of catalogue marketing depends upon the company’s ability to manage its customer list carefully so as to avoid duplication, to control its inventory, to offer quality merchandise to keep returns very low, and to project a distinctive image.
- Some companies send gifts to good customers.

### Tele Marketing and e-commerce

- Telemarketing makes use of telephones and call centre’s to attract customers, satisfy existing customers and provide services by taking orders and answering questions.
- It is the most convenient channel used by companies to increase sales revenue, reduce selling costs and promote consumer satisfaction.

- Companies use the call centre for in-bound telemarketing (receiving calls from customers) and out bound telemarketing (initiating calls to prospects and customers).
- There are four types of telemarketing systems in operation:
  - Telesales - Taking orders from catalogues or ads and doing out-bound calling.
  - Tele-coverage - calling customers to maintain and nurture key account relationships.
  - Tele-prospecting - Generating and qualifying new leads for closure by another sales channel.
  - Customer service and Technical support - Answers service and technical questions.
- Telemarketing has become a major direct marketing tool. It is increasingly used in business and consumer marketing.
- Telemarketing will improve with the use of videophones and will definitely replace more costly field sales calls.
- Some of the expert salesmen have made six figure sales without meeting any customer directly.
- Effectiveness of telemarketing depends on choosing the right type of telemarketers, training them well, and providing performance incentives.
- Telemarketers must have a pleasant voice and project enthusiasm.
- Women are more effective than men in selling many products. Basically, it calls for a special type of communication skill and practice.
- Direct Response Marketing Direct marketers use all the major media for making direct offers to potential buyers.
- Newspapers and magazines carry several print advertisements offering several products and services than individuals and can order by dialing a toll free number.
- Radio and T.V. advertisements are flashed every day. Television is used for direct marketing in three ways.

### **Direct - Response – Advertising**

- Companies prepare 3-6 minute information commercials similar to documentaries and carry testimonies from satisfied users of the product or service.
- It provides a toll free number for getting further information and ordering.

### **At-home Shopping Channels**

- Some T.V. Channels specialise in selling goods and services.
- Home Shopping networks broadcast round-the-clock with programme hosts offering bargain prices for products like jewelers, lamps, power tools, etc.
- Viewers call in their orders on a toll free number and receive delivery within 48 hours.

### **Video text and interactive T.V.**

In this case, the consumer's TV set is linked with a seller's catalogue by cable or telephone line. The consumer can place orders via a special keyboard device connected to the system.

### **Kiosk Marketing**

- A Kiosk is a small building where selling or an information unit is located. The term kiosk describes newsstands; refreshment stands and free standing carts where watches, jewellery and other items are sold.
- The term also includes computer linked vending machines and customer order placing machines that we seen in stores, at airports, etc.

## **E-marketing**

- Electronic Marketing is the most recent channel for direct marketing. E-Business describes a wide variety of electronic platforms such as sending of purchase orders to suppliers via electronic data interchange or extranets, the use of fax and e-mail to conduct transactions.
- It uses ATM and smart cards to facilitate payment and obtain digital cash and the internet and on-line services.
- All these are involved in doing business in a virtual “market space” as compared to the traditional physical “market place”.
- Today the internet is functioning as an information source, entertainment, a communication channel, a transactions channel and also a distribution channel.
- We can use it as a shopping mall, a T.V. set, a newspaper, a library, a book or a phone.
- Users can send emails, exchange views, shop for products, access news, receive business information, etc.
- The internet provides opportunities to marketers and consumers for greater interaction and individualisation and companies can interact and have a dialogue with much larger groups than ever in the past.

## **9.17 On-line Marketing**

- The process of “doing business on-line” is known as E-commerce. E-commerce may be defined as any form of business transaction in which the parties interact electronically rather than by physical exchanges of documents or direct meetings amongst their officials.
- It implies utilising the internet as an alternative marketing channel; the entire transaction can take place with no human intervention on the merchant’s side.
- The coverage of e-commerce is highly flexible.
- Anybody with a business, or an idea to set up business and has money can set up his own business through e-commerce.
- The growth of the internet has been the biggest event of the century.
- Most of the companies are represented over the net. Their product range and services are accessible to the global market.

## **Electronic Market**

- The electronic market is similar to an ordinary store or shop.
- It is a virtual trading area where deals are settled on a computer screen over a network.
- The shop front is the set of web pages, the shelves are equal to catalogues where products are stored and displayed. The server is the warehouse.
- An electronic catalogue tells us about the entire list of items that are available in the shop.
- There are mechanisms to receive cash, make payments and for the delivery of goods.
- E-business and E-commerce take place over four major internet domains. These include:
  - B2C - business to commerce - Internet Domains.
  - B2B - business to business.
  - C2C - Consumers to consumer.
  - C2B - Consumer to business.

## **B2C - (Business to Consumer)**

- The internet is more useful for products and services when the shopper’s aim is greater convenience, lower cost and when buyers are in need of information about product features and prices. However, the internet is not useful when the products need to be touched or examined before purchasing.

- Companies that are famous for their quality of products, get an advantage as customers are prepared to buy such products without prior examination.
- Generally on-line customers use youngsters who are ready to experiment with new products.
- The cyberspace is increasing and the majority of customers whether adult or old, are taking advantage of the internet for on-line purchasing.
- The exchange process has become more customer initiated and customer controlled.
- So marketers have to wait until customers invite them to participate in the process of exchange.
- Although marketers enter the exchange process, customers enjoy the authority to make the rules of engagement and insulate themselves with the help of agents and intermediaries.
- Now a full-fledged consumer sovereignty dominates internet marketing.

### **B2B - (Business to Business) - Internet Domains**

- As a compared to B2C, the activities conducted on B2B sites are higher by 15-20 times.
- The B2B sites are steadily changing the supplier- customer relationships in several ways.
- Several firms are using B2B auction sites, spot exchanges, on-line product catalogues, barter sites and other on-line resources to get better prices.
- The purchasing agents of companies initially prefer shifting their commodity purchases to physical market place, which bring together many buyers and sellers.
- They do not finalise online transactions with unknown companies and prefer to go into off-line negotiations rather than place an order on-line.
- A majority of the purchasing groups prefer to set up their own portals with extranet connections to trusted and preferable suppliers.
- In some industries, companies have formed “buying alliances” to secure more discounts from suppliers.
- The main impact of B2B sites is to increase the efficiency of markets.
- On their part, buyers have to make more efforts to collect information about worldwide suppliers.
- With the internet, buyers have a greater access to more information and this has also made the prices more transparent.

### **C2C - (Consumer to Consumer)**

- There is considerable customer-to-customer communication on the web and on various subjects.
- They join internet interest groups to share information.
- The “word of web” is replacing the “word of mouth” as a dominant buying influence.

### **C2B - (Consumer to Business) Internet Domains**

- It has become easier for consumers to communicate with companies.
- Such communication is encouraged by companies by inviting prospects and customers to send their questions, suggestions or complaints by e-mail.
- Some sites have a call me button which a customer clicks on and his phone rings, on which a customer representative is ready to answer questions.

### **Role of the Internet in Promotion**

- It has been observed that the internet will not become a major medium like T.V., radio, print media, etc. because internet users do not like advertising.
- Yet advertising is common on the internet. Companies have to select a cheaper form of advertising. On the internet these include

<b>Sr. no</b>	<b>Role of the Internet in Promotion</b>	<b>Explanation</b>
1.	Banner Ads	<ul style="list-style-type: none"> <li>Banner Ads has small boxes containing text and a picture which are a common form of internet advertising tool. However, viewers are not interested in clicking of banner advertisements.</li> </ul>
2.	Sponsorship	<ul style="list-style-type: none"> <li>Many companies get their name on the internet by sponsoring some special content on websites that carry news, financial information, etc.</li> </ul>
3.	Micro Site	<ul style="list-style-type: none"> <li>Micro site is a limited area on the web, managed and paid for by an external advertiser or company</li> <li>Micro sites are suitable for those companies that sell low interest products like insurance</li> <li>People rarely visit a website of an insurance company</li> <li>So the insurance company can create a micro site on used car sites, offering advice for buyers for used cars and at the same time offering an alternative insurance deal</li> </ul>
4.	Interstitial	<ul style="list-style-type: none"> <li>Interstitials are advertisements that pop up between changes on a website.</li> </ul>
5.	Browser Advertisements	<ul style="list-style-type: none"> <li>It pays the viewer to watch them.</li> </ul>
6.	Alliances and Affiliate Programmes	<ul style="list-style-type: none"> <li>When an internet company works with another company, they can advertise for each other</li> <li>Web advertising is increasing at a double-digit growth rate and the costs are comparable with other advertisement media</li> </ul>

**Table 9.5 Role of the internet in promotion**

## Summary

- The modern world is characterised by mass production and mass distribution.
- Advertising is any paid form of non-personal presentation and promotion of ideas, goods or service by an identified sponsor
- Advertisement is a message to large groups of people. A form of non-personal communication. Paid for by the advertiser to the publisher. Meant to persuade the public to purchase goods or services
- Advertising plays an important role in a developing economy like India both, in promoting economic development and marketing activities.
- As a major component of the communication mix, advertising makes a significant contribution to the sales revenue and profitability of the organisation.
- With advertising, it is not possible to appeal to a particular individual or a small group of individuals. Thus, matching the message and with the individual's self-image is rarely possible.
- During the process of advertising, the target consumer may lose interest and the advertisement may not be able to regenerate this interest. Hence the purpose of advertising may not be served.
- To maintain consumer attachment to the product, advertising has to be consistent and effective, which is very costly and it may be beyond the financial capacities of small firms.
- Selling is as important to society as metabolism is to human life. Selling is as old as human civilisation, but the techniques of selling have undergone substantial changes.
- As compared to advertising, there is minimum wastage of efforts because the focus is on the target customers. There is no possibility of message diffusion and distortion
- Modern companies search for ways to gain efficiency by replacing one promotional tool with another, and many companies are replacing field sales activity with advertisements, direct mail and telemarketing. The substitutability among promotional tools explains the need to co-ordinate marketing functions
- Direct marketing is the use of consumer - directed channels to reach and deliver goods and services to customers without using marketing middlemen.

## References

- Nash, E. L., 1993. *Direct marketing: Strategy, Planning, Execution*. 4th ed., McGraw-Hill.
- Mullin, R., 2002. *Direct marketing: a step-by-step guide to effective planning and targeting*. British Library Cataloguing.
- Beelen.P. *Advertising 2.0*, [pdf] Available at: <<http://www.paulbeelen.com/whitepaper/Advertising20.pdf> > [Accessed 27 august 2012].
- Witt, A.G, *High Impact: How You Can Create Advertising That Sells*, [Online] Available at: <<http://www.marketingpsychology.com/advertisingbook.pdf> > [Accessed 27 august 2012].
- 2012. *Advertising: The Good, The Bad and The Ugly*, [Video Online] Available at: <<http://www.youtube.com/watch?v=VJq2UHxzGA8>> [Accessed 27 August 2012].
- 2011. *Lecture Review on Advertising*, [Video Online] Available at: <<http://www.youtube.com/watch?v=pzYBR5hFoZI>> [Accessed 27 August 2012].

## Recommended Reading

- Sullivan, L., 2008. *Hey, Whipple, Squeeze This: A Guide to Creating Great Advertising*. 3rd ed., Wiley.
- Anderson, R.E., Dubinsky, A. & Mehta, R., 2006. *Personal selling: Building Customer Relationships and Partnerships*. 2nd ed., Houghton Mifflin Company.
- Marks, R., 2005. *Personal Selling: A Relationship Approach*. 7th ed., Atomic Dog Publishing.

## Self Assessment

1. Which is the original and oldest form of direct marketing?
  - a. Face to face selling
  - b. Direct mail marketing
  - c. Telemarketing
  - d. Advertising
2. \_\_\_\_\_ Marketing is the most recent channel for direct marketing.
  - a. Electronic
  - b. Kiosk
  - c. Tele
  - d. Catalogue
3. A \_\_\_\_\_ is a small building where selling or an information unit is located.
  - a. Shopping
  - b. Kiosk
  - c. Catalogue
  - d. C2C
4. Which of the following is false?
  - a. Advertising enables the consumers to maximise their satisfaction by delivering psychological satisfaction
  - b. Advertising along with the other elements of the marketing mix, is an effective and strong weapon to overcome the competitive activities of the competing firms
  - c. An advertisement cannot work as the prime weapon, as a demarcating strategy for a company.
  - d. Advertising serves the purpose of educating the public
5. Which of the following is the science and art of understanding human desire and pointing ways to their fulfilment?
  - a. Telemarketing
  - b. Direct mail method
  - c. Electronic market
  - d. Personal selling
6. Which of the following is true?
  - a. Effectiveness of direct marketing depends on choosing the right type of telemarketers, training them well, and providing performance incentives.
  - b. Effectiveness of personal selling depends on choosing the right type of telemarketers, training them well, and providing performance incentives.
  - c. Effectiveness of telemarketing does not depend on choosing the right type of telemarketers, training them well, and providing performance incentives.
  - d. Effectiveness of telemarketing depends on choosing the right type of telemarketers, training them well, and providing performance incentives.
7. \_\_\_\_\_ is calling customers to maintain and nurture key account relationships.
  - a. Telesales
  - b. Tele-coverage
  - c. Tele-prospecting
  - d. Teleconferencing

8. Which of the following is true?
- a. Direct mail has become popular because it does not helps in target market selectivity, can be personalised, and is flexible, allowing early testing and response measurement.
  - b. Direct mail has become popular because it helps in target market selectivity, can be personalised, and is flexible, allowing early testing and response measurement.
  - c. Direct mail has become popular because it helps in target market selectivity, can be personalised, and inflexible, allowing early testing and response measurement.
  - d. Direct mail has become popular because it helps in target market selectivity, cannot be personalised, and is flexible, allowing early testing and response measurement.
9. The \_\_\_\_\_ sites are steadily changing the supplier- customer relationships in several ways.
- a. B2B
  - b. B2C
  - c. C2C
  - d. C2B
10. The \_\_\_\_\_ market is similar to an ordinary store or shop.
- a. virtual
  - b. electronic
  - c. advertising
  - d. selling



## Case Study I

### Pricing of Innovative Product

Sameer Malhotra completed his MBA after his graduation in commerce. He did MBA in Marketing from USA. After he returned to India, he started Cool Cream Pvt. Ltd., a company recognised as the manufacturer of finest ice-creams throughout the country.

Sameer used to love eating ice-creams. Once he had cough, and he still wanted to eat ice-cream. His sister poured ginger juice on the ice-cream and forced him to eat it. Sameer really liked it, and thought of introducing a new ginger ice-cream. Sameer instructed the R&D centre at Cool Cream to develop a ginger ice-cream. The product was named as Adrak Ice-cream and was tested in the market. The marketing strategy was to emphasise on the benefits of the ginger ice-cream. It will protect the throats and people can enjoy the ice-cream. The test marketing was carried out and there was tremendous response by the old people and teenagers for this Adrak Ice-cream.

However, the pricing strategy was not yet decided by Sameer. So, Sameer called a conference of various departments' to work out a pricing strategy of Adrak Ice-cream. The finance manager Raj Arora decided to keep a low introductory price and increase it as the sales build up. Stabilise the price as sales growth levels off. Reintroduce low prices when the sales decline till the product has to be withdrawn or cloned.

However, the cost of production was higher than the profits. That is why, other finance manager Ram Deshmukh insisted on market skimming price at the time of launch. The price of Adrak ice-cream should be fixed or slightly higher than the other ice –creams.

Sameer selected the pricing strategy decided by Ram and earned huge profits.

### Questions:

1. Sameer has selected the pricing strategy decided by Ram. Was it a wise decision? What are the advantages of the skimming price strategy?

#### Answer

Sameer has taken a wise decision. The advantages of skimming price strategy are as follows:

- This pricing strategy will help the company to recover a majority of its initial development and launching costs quickly. It should be planned so that these costs are recovered before competition materialises. This strategy is also expected to maximise returns before competition can catch up.
- A high price at the time of its launch would make the customers believe that Adrak ice-cream is a high quality product developed after a lot of research.
- Prices for skimming the market are likely to enhance returns from every ice-cream sold, thereby reducing liabilities.
- During the competition, when the price is lowered the competitors would have to match the lowered price at the time when their own costs are higher. Thus, the competitors can be attacked when they are most vulnerable, i.e., the introductory phase of their product launch.

2. Why didn't Sameer select the pricing strategy decided by Raj?

#### Answer

Raj had decided to fix low price at the time of launching the item. Sameer did not select this pricing strategy because of the following reasons:

- This policy does not take into account the fact that the product can be easily copied.
- Low price for a product like innovative ice-cream could create doubts about the quality of the product.

- The strategy does not cater to the effects of competition.
- It will take a long time to recover the expenses of initial R&D, production of the new product, etc. It is possible that these expenses may never be recovered.

3. If you were in place of Sameer which pricing strategy will you select? Why?

**Answer**

If I was in place of Sameer, I would have selected the pricing strategy decided by Raj.

If the initial price of the Adrak Ice-cream is higher than the other ice-creams, it will attract the customers as it should be of good quality. As the Adrak ice-cream involves more cost of production and preservation, the cost should be recovered by setting the price higher at the time of launch. Liabilities due to product development, setting up of the production lines, advertising expenses, uneconomical levels of production, etc are the maximum in the initial stages of the product life cycle. Skimming price will help to get maximum returns, on every Adrak ice-cream sold.

4. Why is pricing so important when introducing a new product in the market?

**Answer**

Pricing is one of the four P's of marketing mix. The pricing strategy must be correlated to the product's life cycle. In this case, the price and promotion have close relationship with each other. Determining the best pricing strategy for a product depends on the product itself, the place and the promotion. The pricing at the time of the launch of the product is important from the point of growth or facing the competition at any point.

## Case Study II

### **The Gillette Co. - The Best a Man can Get**

Gillette is known world over for its razor blades. Its manufacturing operations are conducted in more than 50 locations in 26 countries and its products are distributed in over 200 countries. In 1901, King C. Gillette and William Nickerson started the American Razor Company in Boston to produce Gillette razor sets. They could sell only 51 razor sets in the first year. However, in the next year they sold 90,844 sets. Within four years, in 1905, Gillette established its first overseas operations. It developed sales by distributing free razor blades and with boxes of Wrigley's chewing gum.

During 1960s and 1970s the company expanded its product range by introducing Right Guard (deodorant), Trace 2 (twin blade razor), Cricket (disposable lighter), Good News (disposable razor), and Erase Mate (Erasable pens). It also acquired Braun (electric shavers and appliances). In 1984 it even branched into dental products.

The different marketing strategies adopted by the company are as follows:

- Identifying a product for which there was need and developing from the beginning a high quality product and convincing the customers to buy the products. This enabled the company to sell more expensive product at a higher margin of profit.
- They carried out market research, studied the needs of the customers and produced new products as demand arose. The company always did considerable market research and design engineering. From the data obtained after the research, it launched a new razor in 1990, known as 'Sevor'. Researchers have stated that this is the most successful product launched in Gillette's history and has helped it grab 9 per cent of the US market share in the year it was launched.
- They carried out test marketing and sales wave's research.
- After the research, they implemented pricing strategies that made huge profits.
- They studied product life cycle and carried out effective product planning.

Thus, Gillette has made remarkable profits and established as the most successful organisation.

### **Questions**

1. What are the different marketing strategies carried out by Gillette Co.?
2. What are the stages of product life cycle?
3. What are the advantages of test marketing?

## Case Study III

Pricing Strategies of premium product. Pravin Mehta is a chemical engineer who has successfully completed his M.Tech. course. He had a passion to study the characteristics of different chemicals and prepare a unique product from the chemicals. He was interested in developing new detergents. That is why, after his course he invested a small capital to start manufacturing and selling the detergent under the brand name Nippo. Coming up from a middle-class family, Mehta decided to set the price of the detergents much lesser than the other detergents available in the market. His pricing strategy worked out in the market. Thus, this paid rich dividends and Nippo became an instant success.

Using his newly acquired financial strengths, Pravin developed a high quality unique soap with unique fragrance and sizes. However, Pravin did not consider customers needs and did not carried out any prior market research. Although the cost of production for this soap was high, Pravin decided to set lower prices for marketing. Thus, he decided to gain low profit margin by maintaining comfortable product in the market. Therefore, there was no profit gained and Pravin had to face losses, as the cost of production was higher than the profits gained.

### Questions

1. What marketing strategies should Pravin had followed to get good profits??
2. Do you feel that pricing strategy decided by Pravin was incorrect? Give reasons
3. Why is consumer needs and market research important before setting price?
4. If you are in place of Pravin what type of pricing strategies will you implement to get considerable profits?

## Bibliography

### References

- 2005. *Consumer- Centric Category Management: How to Increase Profits By managing Categories Based on the Consumer Needs*. Wiley.
- 2008. *Introduction to Marketing Mix part-1* [Video Online] Available at: <<http://www.youtube.com/watch?v=owHpvLmyQIE>> [Accessed 21 August 2012].
- 2008. *Inventory Management - An Introduction*, [Video Online] Available at: < <http://www.youtube.com/watch?v=qkZQxXJuqKo> > [Accessed 27 August 2012].
- 2008. *Packaging A Tool For Market Cultivation*, [Video Online] Available at: <<http://www.youtube.com/watch?v=hjnic0iZ37w>> [Accessed 27 August 2012].
- 2009. *Warehouse Management System*, [Video Online] Available at: <<http://www.youtube.com/watch?v=IYCx-K8MwDo>> [Accessed 27 August 2012].
- 2010. *Marketing: Channels of Distribution*, [Video Online] Available at: <<http://www.youtube.com/watch?v=Tb8bF2hCyLw>> [Accessed 27 August 2012].
- 2010. *Marketing: Channels of Distribution*, [Video Online] Available at: <<http://www.youtube.com/watch?v=Tb8bF2hCyLw>> [Accessed 27 August 2012].
- 2011. *International Journal of Physical Distribution and Logistics Management: Editor interview*, [Video Online] Available at: <<http://www.youtube.com/watch?v=SPEKGEV8PL0>> [Accessed 27 August 2012].
- 2011. *Lecture Review on Advertising*, [Video Online] Available at: <<http://www.youtube.com/watch?v=pzYBR5hFoZI>> [Accessed 27 August 2012]
- 2011. *Managerial Finance: Lecture 1a*, [Video Online] Available at: <<http://www.youtube.com/watch?v=bXo2M6BX2LA>> [Accessed 21 August 2012].
- 2011. *Pricing Strategies in Marketing*, [Video Online] Available at: <<http://www.youtube.com/watch?v=H8aZr-Ula1w>> [Accessed 27 August 2012].
- 2011. *Pricing Strategies in Marketing*, [Video Online] Available at: <<http://www.youtube.com/watch?v=H8aZr-Ula1w>> [Accessed 27 August 2012].
- 2011. *Seller Pricing Strategies - Part 1*, [Video Online] Available at: <<http://www.youtube.com/watch?v=BdA2PLLjMJk>> [Accessed 27 August 2012].
- 2011. *Seller Pricing Strategies - Part 1*, [Video Online] Available at: <<http://www.youtube.com/watch?v=BdA2PLLjMJk>> [Accessed 27 August 2012].
- 2011. *Seller Pricing Strategies - Part 2*, [Video Online] Available at: <<http://www.youtube.com/watch?v=bxh4m57G-D0>> [Accessed 27 August 2012].
- 2012. *Advertising: The Good, The Bad and The Ugly*, [Video Online] Available at: <<http://www.youtube.com/watch?v=VJq2UHxzGA8>> [Accessed 27 August 2012].
- 2012. *Logo and Product Branding* [Video Online] Available at: <[http://www.youtube.com/watch?v=b\\_KAJk9RXi0](http://www.youtube.com/watch?v=b_KAJk9RXi0)> [Accessed 27 August 2012].
- 2012. *What Your Customers Want* [Video Online] Available at: <<http://www.youtube.com/watch?v=DxlDT-f7U1Q>> [Accessed 27 August 2012].
- 2012. *What Your Customers Want* [Video Online] Available at: <<http://www.youtube.com/watch?v=DxlDT-f7U1Q>> [Accessed 27 August 2012].
- Arnold, N.B. & Stahlecker, H.P., 2004. *Monopolistic price setting under fuzzy information*. Elsevier
- Baker, W. L., 2010. *The Price Advantage*. 2nd ed., Wiley.
- Baskhi, S., 2007. *Warehousing and Container Management*.
- Beelen.P. *Advertising 2.0*, [pdf] Available at: <<http://www.paulbeelen.com/whitepaper/Advertising20.pdf> > [Accessed 27 august 2012].
- Dasgupta, D. *Tourism Marketing*. Publication Dorling Kindersley Pvt. Ltd.

- Dasm D., Ghosh, A., Sadhukhan, E., Majumdar, P., Ghosh, S. & Sahoo, T., *Physical Distribution System*. Available at: <<http://www.scribd.com/doc/35267667/Physical-Distribution>> [Accessed 22 November 2010].
- De luca.P. *The Role of Packaging in Marketing Communication: an Explorative Study of the Italian Wine Business*, [Online] Available at: < <http://academyofwinebusiness.com/wp-content/uploads/2010/05/De-Luca.pdf>> [Accessed 27 august 2012].
- *Distributing Products*. [Online] Available at: <<http://www.scribd.com/doc/21975188/Distributing-Product>> [Accessed 22 November 2010].
- Dr. Chopra. S., *Basic Concepts in Marketing* Available at: <[http://www.du.ac.in/fileadmin/DU/Academics/course\\_material/EP\\_16.pdf](http://www.du.ac.in/fileadmin/DU/Academics/course_material/EP_16.pdf)> [Accessed 27 august 2012].
- Dr. Mishra, P., *Product Management and Strategy*. . Available at: <<http://www.scribd.com/doc/6655796/Product-Management-and-Strategy>> [Accessed 10 November 2010].
- Dr. Chopra. S. *Basic Concepts in Marketing* Available at: <[http://www.du.ac.in/fileadmin/DU/Academics/course\\_material/EP\\_16.pdf](http://www.du.ac.in/fileadmin/DU/Academics/course_material/EP_16.pdf)> [Accessed 27 august 2012].
- Frazelle, E., 2001. *World-Class Warehousing and Material Handling*. 1st ed., McGraw-Hill.
- Futherwengler, D., 2009. *Pricing For Profit: How to Command Higher Prices for Your Product and Services*. AMACOM.
- *Importance of Marketing Mix*, [Online] Available at: <<http://www.streetdirectory.com/etoday/importance-of-marketing-mix-cffpoo.html>> [Accessed 21 August 2012].
- *MarketingMix*,[Online]Availableat:<<http://www.streetdirectory.com/etoday/importance-of-marketing-mix-cffpoo.html>> [Accessed 21 August 2012].
- Kaplan, S.R. & David, P., 2004. *Norton Strategy Maps: Converting Intangible Assets into Tangible Outcomes*. Publisher: Harvard Business Press; 1 Edition.
- Kotler, P., 2003. *Marketing Management*. Publisher Pearson Education, 11th ed.
- *Marketing Concepts*, [Online] Available at: <<http://www.agecon.ksu.edu/accc/kcdc/PDF%20Files/marketing.pdf>> [Accessed 27 August 2012].
- *Marketing Concepts*, [pdf] Available at: <<http://www.agecon.ksu.edu/accc/kcdc/PDF%20Files/marketing.pdf>> [Accessed 27 august 2012].
- Mullin, R., 2002. *Direct marketing: a step-by-step guide to effective planning and targeting*. British Library Cataloguing.
- Myant, M. R. & Cox, T., 2008. *Reinventing Poland: Economic and political Transformation and Evolving National Identity*. British Library Cataloguing Publication.
- Nagle,T.Y. & Hogan,J.E., 2006. *The Strategy and Tactics of Pricing: A Guide to Growing More Profitably*. 4th ed., Pearson Prentice Hall.
- Nash, E. L., 1993. *Direct marketing: Strategy, Planning, Execution*. 4th ed., McGraw-Hill.
- *Physical Distribution*, [Online] Available at: < <http://tutor2u.net/business/presentations/marketing/physicaldistribution/default.html>> [Accessed 27 august 2012].
- *Physical Distribution*, [Online] Available at: <<http://tutor2u.net/business/presentations/marketing/physicaldistribution/default.html>> [Accessed 27 August 2012].
- *Product and Pricing Strategies*,[Online] Available at: <<http://faculty.piercecollege.edu/rskidmore/Ghost/library/Chapters/CHPT12-04.pdf>> [Accessed 27 August 2012].
- Silvia, M., *Physical Distribution, Logistics, Supply Chain Management*, [Online] Available at: <<http://steconomice.uoradea.ro/anale/volume/2007/v1-management-and-marketing/79.pdf>> [Accessed 27 August 2012].
- *Test Marketing* [Online] Available at: < <http://www.businessdictionary.com/definition/test-marketing.html>> [Accessed 27 august 2012].
- *Understanding Pricing Objectives and strategies*, [Online] Available at: <<http://pubs.cas.psu.edu/freepubs/pdfs/ua441.pdf>> [Accessed 27 august 2012].



- *Understanding Pricing Objectives and strategies*, [Online] Available at: <<http://pubs.cas.psu.edu/freepubs/pdfs/ua441.pdf>> [Accessed 27 august 2012].
- *Understanding Pricing Objectives and strategies*, [Online] Available at: <<http://pubs.cas.psu.edu/freepubs/pdfs/ua441.pdf>> [Accessed 27 August 2012].
- *Warehouse Management Guide*, [pdf] Available at: <<http://help.sap.com/printdocu/core/print46c/en/data/pdf/lewm/mmwm.pdf>> [Accessed 27 august 2012].
- Witt, A.G, *High Impact: How You Can Create Advertising That Sells*, [Online] Available at: <<http://www.marketingpsychology.com/advertisingbook.pdf>> [Accessed 27 august 2012].
- Zikmund, W. G. *Exploring Marketing Research*. Available at: <<http://www.scribd.com/doc/14520940/ch12-test-marketing>> [Accessed 15 November 2010].

## Recommended Reading

- Anderson, R.E., Dubinsky, A. & Mehta, R., 2006. *Personal selling: Building Customer Relationships and Partnerships*. 2nd ed., Houghton Mifflin Company.
- Bidgoli, H., *The Handbook of Technology Management: Supply Chain Management, Marketing and Advertising, and Global Management*. Publication John Wiley and Sons.
- Blattberg, R.C., Getz, G. & Thomas, J.S., 2009. *The Marketing Mix*. Harvard Business School Press publication.
- Boone, L.E. & Kurtz, D.L., 2009. *Contemporary Business*. 13th ed., Wiley.
- Chernev, A., 2007. *Strategic Marketing Analysis*. Brightstar Media, Inc publication 2nd edition.
- Cottrill, L., 2009. *Precision Pricing*. 5th ed., Cottrill Cyclodyne Corporation.
- Day, G. S., 2006. *Peripheral Vision: Detecting the weak signals that will make or break your company*. 1st ed., Harvard Business Press.
- Farber, J. M. & Dodds, K. L., 1995. *Principle Of Modified-Atmosphere And Sous Vide Product Packing*. Technomic.
- Farris, P. W., Bendle, N.T, Pfeifer, P. E. & Reibstein, D. J., 2007. *Marketing Metrics: Managing Your Product Mix, Pricing, Sales Channels and Promotions*. 1st ed., Prentice Hall.
- Harris, T., 2009. *Red Dragon*. Publisher: Dell; Later Printing Edition.
- Humphries, M., Hawkins, M.W. & Michelle, C. D., 1999. *Data Warehousing: Architecture and Implementation*. Prentice Hall.
- Kavartzis, A. G., 2010. *Toward effective place Brand Management: Branding European Cities and Regions*. Edward Elgar.
- Kotler, P. & Armstrong, G., 2010. *Principle of Marketing*. Pearson Publication.
- Kotler, P., 1999. *Kotler on marketing: how to Create, Win and Dominate Markets*. 1 ed., Free Press.
- Kotler, P., Armstrong, G., 2010. *Principle of Marketing*. 13th ed., Pearson.
- Marks, R., 2005. *Personal Selling: A Relationship Approach*. 7th ed., Atomic Dog Publishing.
- Mulcahy, D., 1993. *Warehouse Distribution and Operations Handbook*. 1st ed., McGraw-Hill 1 Edition.
- Nagabhushana, 2008. *Data warehousing Olap and Data Mining*. New Age Publications.
- Onkvisit, S. & Shaw, J., 1989. *Product Life Cycle and Product Management*. Publication: Quorum Books.
- Pearson, A. M. & Dotson, T. R., 1997. *Healthy Production and Processing of Meat, Poultry and Fish Product*, 1st ed., Springer.
- Roam, D., 2009. *The back of the Napkin: Solving problem and selling Idea with Pictures*. Portfolio Hardcover; 1st ed.

- Ross, S.A., Westerfeild, R. & Jordan, B.D., 2008. *Fundamentals of Corporate Finance*. McGraw- Hill.
- Roth, L. & Wybenga, G. L., 2005. *The Packaging Designer's Book of Patterns*. 3rd ed., Wiley.
- Skjott-Larsen, T., 2007. *Managing the Global Supply Chain*, 3rd ed., Copenhagen Business School Press DK.
- Sullivan, L., 2008. *Hey, Whipple, Squeeze This: A Guide to Creating Great Advertising*. 3rd ed., Wiley.
- Tybout, C. T. & Kotler, A., 2005. *Kellogg on Branding, The marketing faculty of the Kellogg school of management*. 1st ed., Willey.
- Uijttenbroek, A. A., 2007. *BDM Business Development Methodology*, Core Processes. Assign, Inc.



## SelfAssessment Answers

### Chapter I

1. a
2. c
3. a
4. a
5. d
6. c
7. a
8. a
9. b
10. a

### Chapter II

1. c
2. a
3. b
4. a
5. b
6. c
7. a
8. b
9. d
10. a

### Chapter III

1. b
2. c
3. a
4. d
5. a
6. b
7. a
8. b
9. d
10. d

### Chapter IV

1. c
2. a
3. b
4. c
5. a
6. b
7. c
8. d
9. a
10. a

## **Chapter V**

1. a
2. c
3. c
4. c
5. a
6. b
7. d
8. b
9. c
10. a

## **Chapter VI**

1. b
2. a
3. d
4. d
5. a
6. c
7. b
8. a
9. a
10. b

## **Chapter VII**

1. b
2. a
3. c
4. b
5. b
6. c
7. b
8. d
9. b
10. c

## **Chapter VIII**

1. a
2. d
3. d
4. b
5. c
6. c
7. b
8. a
9. c
10. a

## **Chapter IX**

1. a
2. a
3. b
4. c
5. d
6. d
7. b
8. b
9. a
10. b