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Marketing (Birla Institute of Technology and Science, Pilani)

MARKETING

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CH 1 – DEFINING MARKETING FOR THE NEW REALITIES

Marketing *is the profitable management of the interface between the market and its needs, and an organisation's ability to meet those needs for the purpose of producing mutual benefit.*
Marketing*, the discipline, is all about understanding the market at an intimate level and using that information to guide marketing strategy, which is indistinct from business strategy. Marketing, the function, is operational in nature and supports the company's ability to meet the objective of marketing, the discipline: delivering value to customers*

WHAT IS MARKETING?

Marketing is the science and art of exploring, creating, and delivering value to satisfy the needs of a target market at a profit.

- Marketing identifies unfulfilled needs and desires. It defines, measures and quantifies the size of the identified market and the profit potential. It pinpoints which segments the company is capable of serving best and it designs and promotes the appropriate products and services.
- Important concepts of marketing are: segmentation, targeting, positioning, needs, wants, demand, offerings, brands, value and satisfaction, exchange, transactions, relationships and networks, marketing channels, supply chain, competition, the marketing environment, and marketing programs.
- Marketing's key processes are:
  - opportunity identification,
  - new product development
  - customer attraction,
  - customer retention and loyalty building, and
  - order fulfilment
- A company that handles all of these processes well will normally enjoy success. But when a company fails at any one of these processes, it will not survive.

THE VALUE OF MARKETING

- Marketing works in conjunction with other departments like finance, operations, accounts and other business activities to generate demand for products and services so that the firm can earn a profit.
- The goal of marketing is to build brands and a loyal customer base for the company; intangible assets which contribute heavily to the value of a firm.
- Skilled marketing is a never ending pursuit. It involves the art of adaptability as companies and organizations need to navigate their ways through changing customer needs, technology and environmental factors among other things.

THE SCOPE OF MARKETING

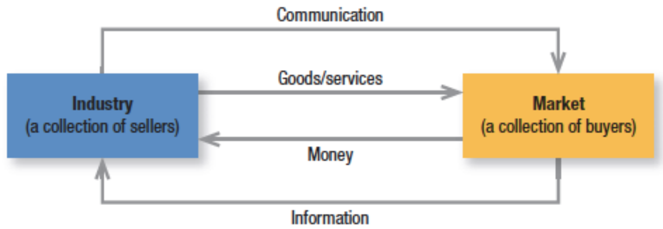
- Marketing is about identifying and meeting human and social needs in a profitable manner for the firm.
- Marketing is the activity, set of institutions and processed for creating, communicating, delivering and exchanging offerings that have value for customers, clients, partners and society at large.
- Marketing is the art and science of choosing target markets and getting, keeping and growing customers through creating, delivering and communicating superior customer value.
- Marketing is a societal process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value with others.

What is Marketed?

- Goods (Cars, cosmetics, medicines)
- Services (Education, Healthcare)
- Events (FIFA, A concert, IPL)
- Person (a politician, an author)
- Properties (Real Estate, Gold)
- Information (Big Data, News)
- Experiences (Vipassana, Adventure)
- Places (Kerala, Goa)
- Organization
- Ideas

Who markets?

- Marketers and prospects
- A marketer is someone who seeks a response – attention, purchase, vote or a donation – from another party called prospect.



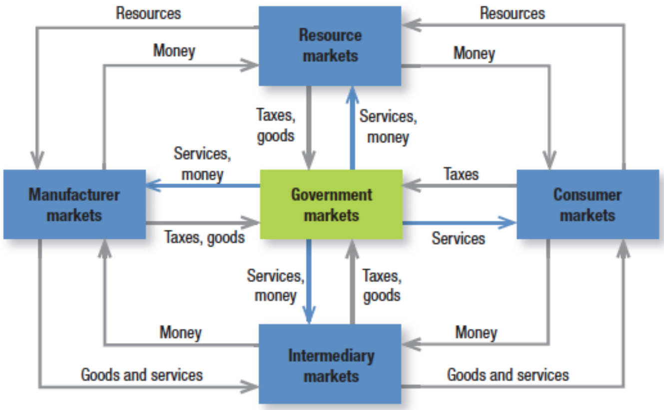
Demand States

1. **Negative demand**—Consumers dislike the product and may even pay to avoid it.
2. **Non-existent demand**—Consumers may be unaware of or uninterested in the product.
3. **Latent demand**—Consumers may share a strong need that cannot be satisfied by an existing product.
4. **Declining demand**—Consumers begin to buy the product less frequently or not at all.

5. **Irregular demand**—Consumer purchases vary on a seasonal, monthly, weekly, daily, or even hourly basis.
6. **Full demand**—Consumers are adequately buying all products put into the marketplace.
7. **Overfull demand**—More consumers would like to buy the product than can be satisfied.
8. **Unwholesome demand**—Consumers may be attracted to products that have undesirable social consequences.

What is a market?

- The word market traditionally refers to the market place – the location or area where buyers and sellers meet.
- In economics, market is described as a collection of buyers and sellers who transact over a particular product or product class.
- In marketing the word "market" is used to describe various grouping of customers. For example while referring to the automobile market we mean the set of people interested in buying an automobile.



Key Customer Markets

- **Consumer Markets** – Companies selling mass consumer goods and services such as juices, cosmetics, athletic shoes, and air travel
- **Business Markets** – Companies selling business goods and services often face well-informed professional buyers skilled at evaluating competitive offerings.
- **Global Markets** – Companies in the global marketplace navigate cultural, language, legal, and political differences
- **Non-profit and Governmental Markets** – Companies in the global marketplace navigate cultural, language, legal, and political differences

CORE MARKETING CONCEPTS

- Needs , Wants and Demands
- Target Markets, Positioning and Segmentation
- Offerings and Brands
- Marketing Channels
- Paid, Owned, Earned Media
- Impressions and Engagement
- Values and Satisfaction
- Supply Chain
- Competition
- Marketing Environment

Needs, Wants and Demands

- Needs
  - Needs are the basic human requirements such as for air, food, water, clothing, and shelter.
  - E.g.: I need food
  - Types of needs:
    - Stated Needs (want an inexpensive car)
    - Real Needs (wants a car whose operating cost is low)
    - Unstated Needs (expects good service from dealer)
    - Delight Needs (would like the dealer to include an onboard GPS system)
    - Secret Needs (wants friends to see him or her as a savvy consumer. Or Am I getting a good deal?)
- Wants
  - Needs become wants when directed to specific objects that might satisfy the need.
  - Desire
  - E.g.: I would like to have biriyani
- Demands
  - Demands are wants for specific products backed by an ability to pay.
  - What I actually buy.
  - E.g.: Please get me two roti's

Target Markets, Positioning and Segmentation

- Segmentation, Targeting, Positioning (STP)
- Marketers identify distinct segments of buyers by identifying demographic, psychographic, and behavioural differences between them.
- For each of these target markets, the firm develops a market offering that it positions in target buyers' minds as delivering some key benefit(s).
- E.g.: Volvo develops its cars for the buyer to whom safety is a major concern, positioning them as the safest a customer can buy.
- E.g.: Porsche targets buyers who seek pleasure and excitement in driving and want to make a statement about their wheels.

Offering and brands

- Value proposition
  - A set of benefits which satisfy needs of the customer
- Offering
  - A combination of products, services, information and experiences
  - Offering gives a 'physical shape' to the value proposition
- Brand
  - Brand is an offering from a known source.

Marketing Channels

- Channel of Distribution
  - Dealers, Distributors, Retailers
  - Help display, sell, deliver physical goods and services
- Channel of Service
  - Warehouses, Transportation companies. Banks, insurance companies
- Channel of communication
  - Deliver and Receive messages to/from customers
  - Print media, electronic media, digital media, stores

Classification of Media

- Paid Media
  - Advertisements, TV, Newspaper, Magazine, SEM, Social Media Marketing
- Owned media
  - Company's brochures, web site, SEO, Face book, Twitter.
- Earned media
  - Word of Mouth, Viral Marketing

Impression and Engagement

Three screens to reach the customer

- TV, Internet, Mobile, (Print)
- An impression occurs when a consumer views a communication.
- Engagement is the extent of a customer's attention and action involvement in a communication.

Value and Satisfaction

- Value of a product is a combination of features, quality, service and price.
- Satisfaction reflects a person's judgment of a product's perceived performance in relationship to expectation.

Supply Chain

- Supply Chain is the channel from raw material to component to finished product to final buyer.

SUPPLY CHAIN FOR STEEL INDUSTRY

Competition

- All actual and potential rival offerings or substitutes a buyer might consider.
  - Car Industry faces a challenge from Uber and the rapid induction of Metro Services.
  - Would you see eCommerce emerging as a potential competition for the car industry?
  - Qn: Is ecommerce popularity a competitor for car companies, Michelin tyre manufacturing company rating restaurants? Car customers encouraged to try the restaurants consuming tyres ☺

  For Example:
  - Toyota is a rival of Honda
  - Tesla is a potential rival of Honda in India
  - Metro Rail is a substitute for both.
  - The internet is a potential substitute.

Marketing Environment

New Realities of Marketing

- Technology – eCommerce technology on manufactures and distributors, people go to shop and check it out but buy online
- Globalization – Cheap Chinese products flooding the markets, environmental norms – Volkswagen lawsuits
- Social Responsibility

New consumer capabilities

- Can use the internet as a powerful information and purchasing aid
- Can search, communicate, and purchase on the move
- Can tap into social media o share opinions and express loyalty
- Can actively interact with companies
- Can reject marketing they find inappropriate

New Company Capabilities

- Can use the Internet as a powerful information and sales channel, including for individually differentiated goods
- Can collect fuller and richer information about markets, customers, prospects, and competitors
- Can reach customers quickly and efficiently via social media and mobile marketing, sending targeted ads, coupons, and information
- Can improve purchasing, recruiting, training, and internal and external communications
- Can improve cost efficiency

Changing channels

- Retail Transformation – Malls in place instead of shops
- Disintermediation – Number of intermediaries is reduce in supply chain, increasing efficiency.

FOUR P'S OF MARKETING

People, Processes Physical Evidence – parts of Service Marketing.

FOUR CONCEPTS OF MARKETING

Company Orientation towards the Marketplace

- Production Concept
    - Consumer prefer the most inexpensive and widely available product.
    - Such companies focus on high production efficiency, low costs, mass distribution
    - Steel Industry, Chinese Companies
- Product Concept
    - Consumer prefers quality and variety
    - Apple
- Selling Concept
    - Consumers need hard selling to buy a product
    - Insurance sector
- Marketing Concept
    - Right product for the customer
    - Creating, communicating and delivering a superior value to a customer

The Holistic Marketing Concept

Relationship Marketing

- Relationship marketing aims to build mutually satisfying long-term relationships with key constituents in order to earn and retain their business.
- Includes customers, employees, marketing partners, financial community.

Integrated Marketing

- Devise marketing activities and programs that create, communicate, and deliver value such that "the whole is greater than the sum of its parts"

Internal Marketing

- The task of hiring, training and motivating able employees who what to serve customers well

Performance Marketing

- Financial Accountability, Environmental Impact, Social Impact

MARKETING AND CUSTOMER VALUE

- The value delivery process
    - Value is the sum total of a products features, quality, service and price. Value =benefit – cost (price). (QSP – quality, service, price)
- The value chains
    - Set of activities performed by a firm to deliver a valuable good or service.
    - E.g.: manufacturing car from design till after sales service/feedback
- Core competencies
    - A defining ability or advantage that distinguishes a firm from its competitors.
    - E.g.: hospital – deliver quality healthcare service at minimum cost (Maruti Suzuki held 90% market but Honda came in with Honda city – sedan with boot, Maruti did not have any similar product)
- The central role of strategic planning

The Value Delivery Process

We can divide the value creation and delivery sequence into three phases.

- First, **choosing the value** is the "homework" marketers must do before any product exists. They must segment the market, select the appropriate target, and develop the offering's value positioning. The formula "segmentation, targeting, positioning (STP)" is the essence of strategic marketing.
  E.g.: Volvo offers a "SAFE CAR",
  Coaching Centre – Efficient Education, Less effort, Better outcome
- The second phase is **providing the value**. Marketing must identify specific product features, prices, and distribution.
  E.g.: Volvo – Safety Features (Air Bags, ABS, etc). Nearly zero manufacturing defects Quick Service.
  Coaching Centre – Good Teachers, Study material Streamlined systems
- The task in the third phase is **communicating the value** by utilizing the Internet, advertising, sales force, and any other communication tools to announce and promote the product. The value delivery process begins before there is a product and continues through development and after launch.
  E.g.: Volva Ads carry message of Safety

The Value Chain

A tool for identifying ways to create more customer value

- Every firm is a <u>synthesis</u> of activities performed to <u>design</u>, <u>produce</u>, <u>market</u>, <u>deliver</u>, and <u>support</u> its product
- In-bound logistics, Operations, Outbound Logistics, Marketing, Service (Primary activities)
- Procurement, Technology development, Human resource Management, Firm Infrastructure (General Management, Planning, Finance, Accounting etc.)
- Nine strategically relevant activities—five primary and four support activities— create value and cost in a specific business.
- The primary activities are
    1. inbound logistics or bringing materials into the business.
    2. operations, or converting materials into final products.
    3. outbound logistics or shipping out final products.
    4. marketing, which includes sales; and
    5. service.
- Specialized departments handle the support activities—
    1. procurement,
    2. technology development,
    3. human resource management, and
    4. firm infrastructure.
- Infrastructure covers the costs of general management, planning, finance, accounting, legal, and government affairs.

Core business processes

The firm's success depends not only on how well each department performs its work, but also on how well the company coordinates departmental activities to conduct core business processes.
These processes include:

Market-sensing process

- Understanding customer's needs, wants, desires and shifts within them; competition moves etc.
- Based on market sensing, firms move to new offering realization. gathering and acting upon information about the market

New-offering realization process

- Product or service development, manufacturing etc. design, produce, process—researching, developing, and launching new high-quality offerings quickly and within budget

Customer acquisition process

- Sales and marketing, process—defining target markets and prospecting for new customers

Customer relationship management process

- CRM, after sales, customer engagement, building deeper understanding, relationships, and offerings to individual customers

Fulfillment management process

- Receive/ approve orders, ship goods on time, accept payments – do all above activities in efficient and profiting manner

Activities and Processes

Business Process is defined as a set of linked tasks which find their end in the delivery of a service or a product to the Customer.
Selection → Admission → Education → Placement
Example:

1. BITSAT Exam
2. Receipt and vetting of applications
3. Placement of Ad
4. Setting of questions

Core Competencies

- A source of competitive advantage and makes a significant contribution to perceived customer benefits.
- *Core competency is a strength associated with a company which helps it deliver something that the customer values better than the competition.*
- Applications in a wide variety of markets
- Difficult for competitors to imitate
- Competitive advantage also accompanies distinctive capabilities or excellence in broader business processes.
- Wharton's George Day sees market-driven organizations as excelling in three distinctive capabilities: market sensing, customer linking, and channel bonding.
  E.g.: Hindustan Lever has a core competency in distribution and branding.
  E.g.: has a core competency in distribution which they are using to build a channel for non-cigarette products like stationery (Classmate)
  E.g.: What do you think is Bosch's core competency?

Maximizing Core Competencies

- **(Re)define the business concept**
  - Amazon and retailing. Amazon used its core competency in IT to redefine retailing by improving the overall customer experience.
  - ITC is redefining its business concept with falling demand in cigarette business.
- **(Re)shaping the business scope**
  - Apollo expanding business scope by getting into pharma retail.
  - Apollo used its core competency in healthcare management (the drugs commonly used for example) and its brand name in the sector to create Apollo pharmacies.
- **(Re)positioning the company's brand identity**
  - Bajaj as a motorcycle manufacturer, Bullet
  - Peabody Energy implemented a new global organizational structure—creating geographic business units in the Americas, Australia, and Asia—to reflect its growing global footprint. Changes in business fortunes often necessitate realignment and restructuring, as Panasonic and other Japanese technology and electronic companies found.

STRATEGIC PLANNING

Central role of Strategic Planning

- Managing the businesses as an investment portfolio – invest money where you will get max profits
- Assessing the market's growth rate and the company's position in that market
- Establishing a strategy.
- Most large companies consist of four organizational levels: (1) corporate, (2) division, (3) business unit, and (4) product.
  - **Corporate** headquarters is responsible for designing a corporate strategic plan to guide the whole enterprise; it makes decisions on the number of resources to allocate to each division as well as on which businesses to start or eliminate.
  - Each **division** establishes a plan covering the allocation of funds to each business unit within the division.
  - Each **business unit** develops a strategic plan to carry that business unit into a profitable future.
  - Finally, each **product** level (product line, brand) develops a marketing plan for achieving its objectives.

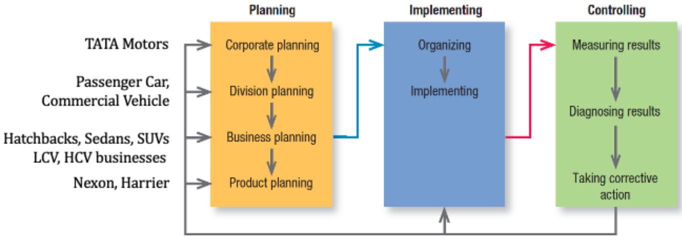
Marketing Plan

- The central instrument for directing and coordinating the marketing effort.
- The marketing plan operates at two levels: strategic and tactical.
- **Strategic**
  - The strategic marketing plan lays out the target markets and the firm's value proposition, based on an analysis of the best market opportunities.
  - Tata Motors getting to mini segment
- **Tactical**
  - The tactical marketing plan specifies the marketing tactics, including product features, promotion, merchandising, pricing, sales channels, and service.
  - Design, Make and market Nano

Strategic Planning, Implementation, and Control Processes

- Only a select group of companies have historically stood out as master marketers.
- These companies focus on the customer and are organized to respond effectively to changing needs.
- They all have well-staffed marketing departments, and their other departments accept that the customer is king.

- They also often have strong marketing leadership in the form of a successful CMO.



Corporate and Division Strategic Planning

- Defining the corporate mission
  - "Our mission is to bring healthcare of International standards within the reach of every individual. We are committed to the achievement and maintenance of excellence in education, research and healthcare for the benefit of humanity". - Apollo Hospital
- Establishing strategic business units
  - Apollo Medical Colleges, Apollo Labs, Apollo Hospitals, Apollo Clinics
- Assigning resources to each strategic business unit
- Assessing growth opportunities

Tata Motor – Mission

- To earn the affection of customers by offering superior experience and customer value, thereby making them ambassadors of the brand.
- Driving competitiveness by offering our business at benchmark levels.
- Executing businesses safely with predictable benchmark quality, cost and time….

Defining the corporate Mission

- What is our business?
  - Generic Healthcare
- Who is the customer?
  - Every individual
- What is of value to the customer?
  - Health care of international standards
- What will our business be?
  - Education, Research
- What should our business be?
  - Benefit of humanity

These simple-sounding questions are among the most difficult a company will ever face. Successful companies continuously ask and answer them.

Product Orientation v/s Market Orientation

- Companies often define themselves in terms of products: They are in the "auto business" or the "clothing business."
- Market definitions of a business, however, describe the business as a customer satisfying process.
- Products are transient; basic needs and customer groups endure forever.
- Transportation is a need: the horse and carriage, automobile, railroad, airline, ship, and truck are products that meet that need.
- A target market definition tends to focus on selling a product or service to a current market.
- A strategic market definition, however, also focuses on the potential market.
- Xerox lost it as they got stuck with their mission of making photocopiers (product). They would have evolved into an IBM, Microsoft or Apple had they defined their businesses in terms of the market (office productivity).

Company	**Product**	**Market**
Missouri-Pacific Railroad	We run a railroad	We are a people-and-goods mover
Xerox	We make copying equipment	We improve office productivity
Standard Oil	We sell gasoline	We supply energy
Columbia Pictures	We make movies	We market entertainment

Good Mission Statements

A clear, thoughtful mission statement developed collaboratively with and shared with managers, employees, and often customers, provides a shared sense of purpose, direction, and opportunity.
At its best it reflects a vision, an almost "impossible dream," that provides direction for the next 10 to 20 years.

- Focus on a limited number of goals
  - International standards in healthcare, excellence in education, research
- Stress the company's major policies and values
  - To reach individual, to maintain the above standards.
- Define the major competitive spheres within which the company will operate
  - Healthcare, education, research
- Take a long-term view
- Are as short, memorable, and meaningful as possible

ESTABLISHING STRATEGIC BUSINESS UNITS

Large companies normally manage quite different businesses, each requiring its own strategy.
The purpose of identifying the company's strategic business units is to develop separate strategies and assign appropriate funding.
Senior management knows its portfolio of businesses usually includes a number of "yesterday's has-beens" as well as "tomorrow's winners."

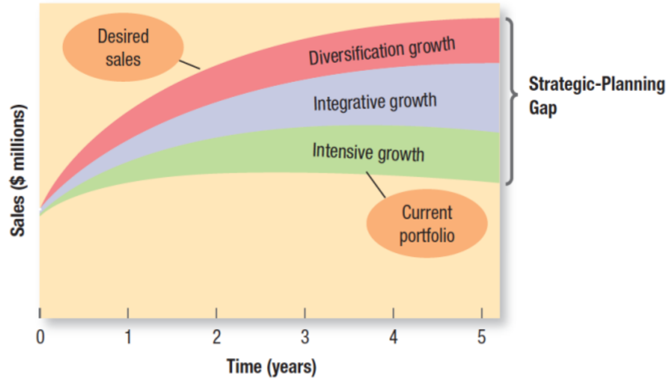
- A single business or collection of related businesses
- Has its own set of competitors
- Has a leader responsible for strategic planning and profitability
- LG: CTV, Refrigerator, Room Air Conditioner

Assigning Resources to Each SBU

Portfolio-planning models like these have largely fallen out of favor as oversimplified and subjective.
Newer methods rely on shareholder value analysis and on whether the market value of a company is greater with an SBU or without it.
These value calculations assess the potential of a business based on growth opportunities from global expansion, repositioning or retargeting, and strategic outsourcing.

- Management must decide how to allocate corporate resources to each SBU
    - Portfolio-planning models
    - Shareholder/market value analysis

ASSESSING GROUP OPPORTUNITIES



- Assessing growth opportunities includes planning new businesses, downsizing, and terminating older businesses.
- If there is a gap between future desired sales and projected sales, corporate management will need to develop or acquire new businesses to fill it.
- Above figure illustrates this strategic-planning gap for a hypothetical manufacturer of blank DVD discs called Cineview.
  The lowest curve projects expected sales from the current business portfolio over the next five years. The highest describes desired sales over the same period.
- Evidently, the company wants to grow much faster than its current businesses will permit. How can it fill the strategic planning gap?
    - The first option is to identify opportunities for growth within current businesses (**intensive opportunities**)
        - Current Product in current Markets – Market Penetration Strategy.
        - New Market for Current Products – Market Development Strategy.
        - New Product for Current Markets – Product Development Strategy
        - New Product for new Markets – Product/Market Diversification
    - The second is to identify opportunities to build or acquire businesses related to current businesses (**integrative opportunities**).
        - Backward Integration, Forward Integration, Horizontal Integration
    - The third is to identify opportunities to add attractive unrelated businesses (**diversification opportunities**)
        - Opportunities outside Present Businesses
    - **Downsizing and Divesting older Businesses**

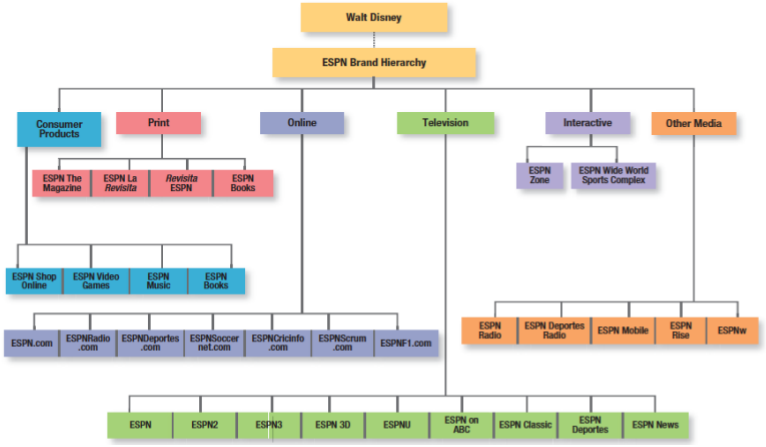
Intensive Growth

- Corporate management should first review opportunities for improving existing businesses
- One useful framework is a "*product-market expansion grid*," which considers the strategic growth opportunities for a firm in terms of current and new products and markets.

- The company first considers whether it could gain more market share with its current products in their current markets, using a market-penetration strategy.
- Next it considers whether it can find or develop new markets for its current products, in a market-development strategy.
- Then it considers whether it can develop new products for its current markets with a product-development strategy.
- Later the firm will also review opportunities to develop new products for new markets in a diversification strategy.

Example:

ESPN Growth Opportunities



- ESPN has pursued a variety of growth opportunities.
- Through its singular focus on sports programming and news, ESPN grew from a small regional broadcaster into the biggest name in sports.
- In the early 1990s, the company crafted a well-thought-out plan: Wherever sports fans watched, read, and discussed sports, ESPN would be there.
- It pursued this strategy by expanding its brand and now encompasses 10 cable channels, a Web site, a magazine, a few restaurants (ESPN Zone), more than 600 local radio affiliates, original movies and television series, book publishing, a sports merchandise catalog and online store, music and video games, and a mobile service.

Integrative Growth

- A business can increase sales and profits through backward, forward, or horizontal integration within its industry

Example:

- Merck formed joint ventures as far back as 1989 with Johnson & Johnson to sell over-the-counter pharmaceuticals and 1991 with DuPont to expand basic research.
- In 1997, Merck and Rhône-Poulenc S.A. (now Sanofi-Aventis S.A.) combined their animal health and poultry genetics businesses to form Merial Limited, a fully integrated animal health company. Finally, Merck acquired Schering-Plough in 2009.

Diversification Growth

- Diversification growth makes sense when good opportunities exist outside the present businesses.
- The industry is highly attractive, and the company has the right mix of business strengths to succeed

Example:

- From its origins as an animated film producer, The Walt Disney Company has moved into licensing characters for merchandised goods, publishing general interest fiction books under the Hyperion imprint, entering the broadcast industry with its own Disney Channel as well as ABC and ESPN, developing theme parks and vacation and resort properties, and offering cruise and commercial theatre experiences.

Downsizing and Divesting older Businesses

- Companies must carefully prune, harvest, or divest tired old businesses to release needed resources for other uses and reduce costs

Example:

- To focus on its travel and credit card operations, American Express spun off American Express Financial Advisors, which provided insurance, mutual funds, investment advice, and brokerage and asset management services (it was renamed Ameriprise Financial).
- American International Group (AIG) agreed to sell two of its subunits—American General Indemnity Co. and American General Property Insurance Co.—to White Mountains Insurance Group as part of a long-term growth strategy to discard redundant assets and focus on its core operations.

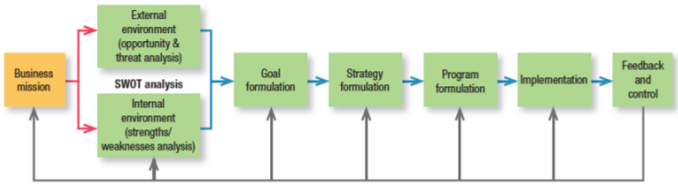
Organization and Organizational Culture

- A company's organization consists of its structures, policies, and corporate culture, all of which can become dysfunctional in a rapidly changing business environment
- Whereas managers can change structures and policies (though with difficulty), the company's culture is very hard to change. Yet adapting the culture is often the key to successfully implementing a new strategy.
- Corporate culture: "The shared experiences, stories, beliefs, and norms that characterize an organization"
- Walk into any company and the first thing that strikes you is the corporate culture—the way people dress, talk to one another, and greet customers.

Marketing Innovation

- Innovation in marketing is critical
  - Imaginative ideas on strategy exist in many places within a company.
- Employees can challenge company orthodoxy and stimulate new ideas
  - Senior management should identify and encourage fresh ideas from three generally underrepresented groups: employees with youthful or diverse perspectives, employees far removed from company headquarters, and employees new to the industry.
- Firms develop strategy by choosing their view of the future
  - Scenario analysis, which develops plausible representations of a firm's possible future using assumptions about forces driving the market and different uncertainties. Managers think through each scenario with the question, "What will we do if it happens?" adopt one scenario as the most probable and watch for signposts that might confirm or disconfirm it.

BUSINESS UNIT STRATEGIC PLANNING



SWOT Analysis

- The overall evaluation of a company's strengths, weaknesses, opportunities, and threats is called SWOT analysis.
- It's a way of monitoring the external and internal marketing environment.
- Internal – Strengths, Weaknesses
- External – Opportunities, Threats

External Environment

Marketing opportunity: an area of buyer needs and interest that a company has a high probability of profitably satisfying.

There are three main sources of market opportunities.

- The first is to offer something that is in short supply. This requires little marketing talent, as the need is fairly obvious.
- The second is to supply an existing product or service in a new or superior way. How?
- The problem detection method asks consumers for their suggestions, the ideal method has them imagine an ideal version of the product or service, and the consumption chain method asks them to chart their steps in acquiring, using, and disposing of a product.
- This last method can often lead to a totally new product or service, which is the third main source of market opportunities.

Environmental threat: challenge posed by an unfavorable trend or development that, in the absence of defensive marketing action, would lead to lower sales or profit. To deal with environmental threats, the company needs contingency plans.

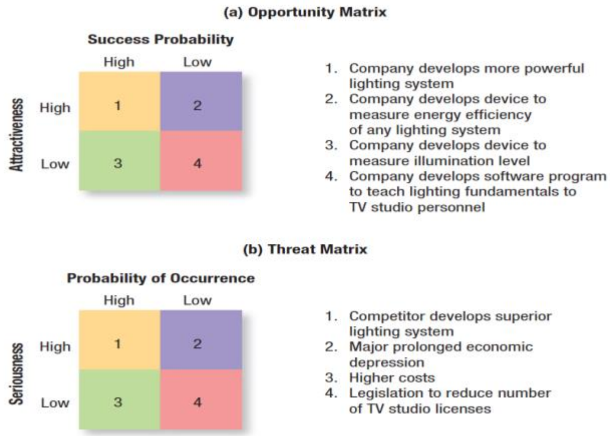
Market Opportunity Analysis (MOA)

To evaluate opportunities, companies can use market opportunity analysis (MOA) to ask questions like those posed on this slide and the next one.

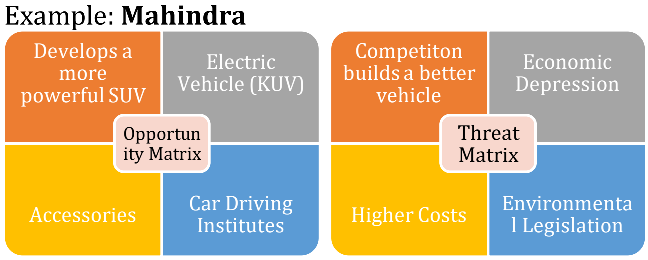
- Can we articulate the benefits convincingly to a defined target market(s)?
- Can we locate the target market(s) and reach them with cost-effective media and trade channels?
- Does our company possess or have access to the critical capabilities and resources we need to deliver the customer benefits?
- Can we deliver the benefits better than any actual or potential competitors?
- Will the financial rate of return meet or exceed our required threshold for investment?

Opportunity and Threat Matrices

- By using the SWOT analysis and market opportunity analysis, we can create opportunity and threat matrices.
- In the opportunity matrix in Figure, the best marketing opportunities facing the TV-lighting-equipment company appear in the upper-left cell (#1). The opportunities in the lower-right cell (#4) are too minor to consider. The opportunities in the upper-right cell (#2) and the lower-left cell (#3) are worth monitoring in the event that any improve in attractiveness and potential.



Example: **Mahindra**



Internal Environment

It's one thing to find attractive opportunities and another to be able to take advantage of them. Each business needs to evaluate its internal strengths and weaknesses.

Goal Formation (MBO)

Once the company has performed a SWOT analysis, it can proceed to goal formulation, developing specific goals for the planning period. Goals are objectives that are specific with respect to magnitude and time.

- Unit's objectives must be arranged hierarchically
- Objectives should be quantitative
- Goals should be realistic
- Objectives must be consistent

Smart Goals

- Specific Goals
  - We shall increase our market share from 10% to 12% in the SUV segment during the current financial year.
- Measurable
- Achievable
  - The three Targets at LG (Basic, Super Achiever, Tear Down Reengineering(TDR))
- Relevant
- Time Bound

Strategic Formulation: Porter's Generic Strategies

Michael Porter has proposed three generic strategies that provide a good starting point for strategic thinking: **overall cost leadership**, **differentiation**, and **focus**.

- With *overall cost leadership*, firms work to achieve the lowest production and distribution costs so they can underprice competitors and win market share.
  E.g.: Cheapest Burger in market
- With *differentiation*, the business concentrates on achieving superior performance in an important customer benefit area valued by a large part of the market.
  E.g.: Not cheap, but tasty/spicy
- With *focus*, the business focuses on one or more narrow market segments, gets to know them intimately, and pursues either cost leadership or differentiation within the target segment.
  E.g.: Vegetarian Burger

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

The firm that carries out the strategy best will make the most profits.

Strategic Formulation: Strategic Alliances

Even giant companies often cannot achieve leadership, either nationally or globally, without forming alliances with domestic or multinational companies that complement or leverage their capabilities and resources.

Many strategic alliances take the form of marketing alliances. These fall into four major categories.

1. **Product or service alliances**—One company license another to produce its product, or two companies jointly market their complementary products or a new product.
   - SBI-Visa card, PNB-MetLife insurance
   - Research Alliances in the Pharma Industry
2. **Promotional alliances**—One company agrees to carry a promotion for another company's product or service.
   - Airtel - Apple
3. **Logistics alliances**—One company offers logistical services for another company's product.
   - Tata Motors – Fiat collaboration, Maruti – Toyota collaboration
4. **Pricing collaborations**—One or more companies join in a special pricing collaboration.
   - Bundling Offers (Airline – Hotel offers)

Program Formulation and Implementation

McKinsey's Elements of Success (McKinsey 7S)

- According to McKinsey & Company, strategy is only one of seven elements—all of which start with the letter s—in successful business practice.
- The first three—*strategy, structure, and systems*—are considered the "hardware" of success.
  - Strategy – What to do?
  - Structure – Organization Structure (flat and horizontal, vertical and many layers)
  - Systems – Are all information available? Properly organized?
- The next four—*style, skills, staff, and shared values*—are the "software."
  - The first "soft" element, style, means company employees share a common way of thinking and behaving.
  - The second, skills, means employees have the skills needed to carry out the company's strategy.
  - Staffing means the company has hired able people, trained them well, and assigned them to the right jobs.
  - The fourth element, shared values, means employees share the same guiding values.
- When these elements are present, companies are usually more successful at strategy implementation.

Feedback and Control

- A company's strategic fit with the environment will inevitably erode because the market environment changes faster than the company's seven Ss.
- Thus, a company might remain efficient yet lose effectiveness. organizations can be changed through strong leadership, preferably in advance of a crisis.
- The key to organizational health is willingness to examine the changing environment and adopt new goals and behaviors.
- Peter Drucker: *it is more important to "do the right thing"—to be effective—than "to do things right"—to be efficient*
- The most successful companies, however, excel at both
- Effectiveness is judged in terms of goal or the end.
  - Coaching Centre is very effective if it could place my child in the top 1000 list of JEE, moderately effective if he/she gets a rank in the top 20,000.
- Efficiency is measured against the resources or means used to achieve the goal.
  - Coaching centre is efficient if it has done it with minimal cost and effort (on part of the student, parents etc.)

AN ILLUSTRATION

Goal: To achieve a 10% market share in the passenger car market in India during the current financial year. (market size=100,000)
Strategy: Differentiate with higher quality.
Program: 5 year free warranty on the car.
Implementation: Worker on the shop floor

- Manufacture 350 components in day.
- Ensure it is 99% defect free.
- Ensure less than 1% rework.
- Check the worker's performance daily.
- Prepare a performance chart and place it at the machine.
- Institute a reward, recognition scheme

Marketing Plan Contents

- Although the exact length and layout varies from company to company, most marketing plans cover one year in anywhere from 5 to 50 pages.
- Smaller businesses may create shorter or less formal marketing plans, whereas corporations generally require highly structured documents.
- A marketing plan usually contains the sections listed below
  - Executive Summary
  - Table of Contents
  - Situation Analysis
  - Marketing Strategy
  - Marketing Tactics
  - Financial Projections
  - Implementation controls

Evaluating a Marketing Plan

In the Marketing Memo, these questions are suggested for evaluating the quality of the marketing plan.

- Is the plan simple/succinct?
- Is the plan complete?
- Is the plan specific?
- Is the plan realistic?

Other Marketing Plan Contents

- The marketing plan should outline what **marketing research** will be conducted and when, as well as how the findings will be applied.
- Although the marketing plan shows how the company will establish and maintain profitable customer relationships, it also affects **both internal and external relationships**.
- The marketing plan typically outlines **budgets, schedules, and marketing metrics** for monitoring and evaluating results.

Consumer behavior *is the study of how individuals, groups, and organizations select, buy, use, and dispose of goods, services, ideas, or experiences to satisfy their needs and wants.*
A consumer's buying behavior is influenced by cultural, social, and personal factors.
Of these, cultural factors exert the broadest and deepest influence.

WHAT INFLUENCES CONSUMER BEHAVIOUR?

- **Culture**, **subculture**, and **social class** are particularly important influences on consumer buying behavior.
- Culture is the fundamental determinant of a person's wants and behavior.
- Culture – Ideas, customs and social behavior of a particular people of society.
- Each culture consists of smaller subcultures that provide more specific identification and socialization for their members.
- Subcultures include nationalities, religions, racial groups, and geographic regions.
- Virtually all human societies exhibit social stratification, most often in the form of social classes, relatively homogeneous and enduring divisions in a society, hierarchically ordered and with members who share similar values, interests, and behavior.

Social Classes

A division of society based on economic and social status
Lower, middle class, upper class, rich
Socio-economic classification

- Originally created by Indian Market Research Bureau (IMRB) in 1988
- **Urban Grid**
    - Education and Occupational criteria (old, 9 groups)
    - Education and ownership of consumer durables (new, 12 groups, govt. of India)
      Electricity, gas connection, ceiling fan, 2-wheeler, CTV, Ref, WM. Computer, Car, Air conditioner, Land
- **Rural Grid (4 groups)**
    - Education
    - Type of Dwelling (pucca, semi-pucca, Katcha)

Social Factors

In addition to cultural factors, social factors such as **reference groups**, **cliques**, **family**, and **social roles and** statuses affect our buying behavior.

- A person's *reference groups* are all the groups that have a direct (face-to-face) or indirect influence on their attitudes or behavior.
- *Cliques* are small groups whose members interact frequently.
- The *family* is the most important consumer buying organization in society, and family members constitute the most influential primary reference group.
- We each participate in many groups—family, clubs, organizations—and these are often an important source of information and help to define norms for behavior.
- We can define a person's position in each group in terms of role and status. A role consists of the activities a person is expected to perform. Each role in turn connotes a status.

Reference Groups

- Group with whom the individuals have face to face interaction.
- Groups having a direct influence are called **membership groups**.
- Some of these are *primary groups* with whom the person interacts fairly continuously and informally, such as family, friends, neighbors, and coworkers.
- People also belong to *secondary groups*, such as religious, professional, and trade-union groups, which tend to be more formal and require less continuous interaction.
- **Aspirational groups** are those a person hopes to join; **dissociative groups** are those whose values or behavior an individual reject.
- Where reference group influence is strong, marketers must determine how to reach and influence the group's opinion leaders.
- An **opinion leader** is the person who offers informal advice or information about a specific product or product category, such as which of several brands is best or how a particular product may be used.
  E.g.: Dentist for dental hygiene, IT professional for a PC, Painter for paints, Mason for cement, sanitary ware.

Cliques

Cliques are small groups whose members interact frequently.

- Professionals
- Mavens
    - People who are knowledgeable.
- Connectors
    - Connect with many people (press)
- Salesmen
    - Persuasive skills. (insurance salesmen)
- Stickiness of ideas

Family

- There are two families in the buyer's life.
- The **family of orientation** consists of parents and siblings. – *Inherited ideas.*
- From parents a person acquires an orientation toward religion, politics, and economics and a sense of personal ambition, self-worth, and love.
- A more direct influence on everyday buying behavior is the **family of procreation**—namely, the person's *spouse and children*.
- In the United States, in a traditional husband–wife relationship, engagement in purchases has varied widely by product category.
- The wife has usually acted as the family's main purchasing agent, especially for food, sundries, and staple clothing items.
- Now traditional purchasing roles are changing, and marketers would be wise to see both men and women as possible targets.
- Children as influencers – Mobile phones, PCs, movies, vacations.

Personal Factors

- Our taste in food, clothes, furniture, and recreation is often related to our *age*.
- Consumption is also *shaped by the family* life cycle and the number, age, and gender of people in the household at any point in time.
- In addition, psychological life-cycle stages may matter.
- Adults experience certain passages or transformations as they go through life.
- Marketers try to identify the *occupational groups* that have above-average interest in their products and services and even tailor products for certain occupational groups: Computer software companies,
  for example, design different products for brand managers, engineers, lawyers, and physicians.
- As the recent prolonged recession clearly indicated, both product and brand choice are greatly affected by economic circumstances like spendable income (level, stability, and pattern over time), savings and assets (including the percentage that is liquid), debts, borrowing power, and attitudes toward spending and saving.
- By *personality*, we mean a set of distinguishing human psychological traits that lead to relatively consistent and enduring responses to environmental stimuli including buying behavior. We often describe personality in terms of such traits as self-confidence, dominance, autonomy, deference, sociability, defensiveness, and adaptability.
- Consumers often choose and use brands with a brand personality consistent with their actual self-concept (how we view ourselves), though the match may instead be based on the consumer's ideal self-concept (how we would like to view ourselves) or even on others' self-concept (how we think others see us).
- People from the same subculture, social class, and occupation may adopt quite different *lifestyles*. A lifestyle is a person's pattern of living in the world as expressed in activities, interests, and opinions.

Personality and Self Concept

People choose brands which are consistent with their actual or ideal self-concept.

- **Personality**
  - A set of distinguishing human psychological characteristics that lead to relatively consistent and enduring responses to environmental stimuli.
- **Brand Personality**
  - The *sincere brand* – Peter England (the honest shirt)
  - *Excitement* – the adventure bike
  - *Competence* – The fuel efficient bike, Hero Honda
  - *Sophistication* – The complete man. Raymond
  - *Ruggedness* – ruf n' tuf jeans

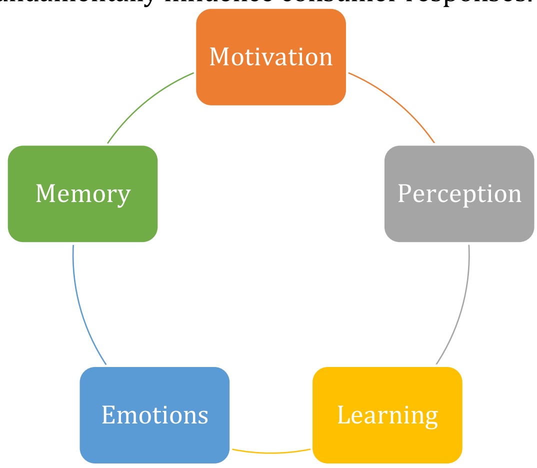
Lifestyle and Values

Lifestyle is a person's pattern of living in the world as expressed in activities, interests and opinions.

- Achievers
  - Personal computers
- Money constrained
- Time constrained
  - Packaged food industry

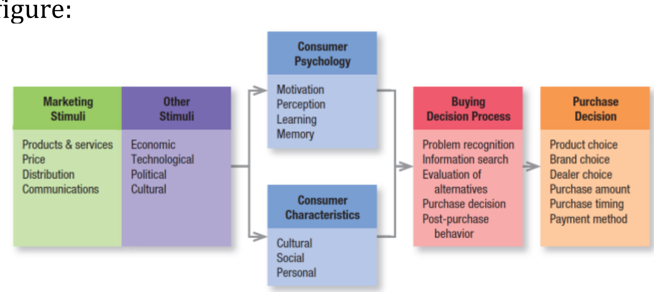
INFLUENCE OF PSYCHOLOGICAL PROCESSES

- Marketing and environmental stimuli enter the consumer's consciousness, and a set of psychological processes combine with certain consumer characteristics to result in decision processes and purchase decisions.
- The marketer's task is to understand what happens in the consumer's consciousness between the arrival of the outside marketing stimuli and the ultimate purchase decisions. Five key psychological processes—**motivation**, **perception**, **learning**, **emotions**, and **memory**—fundamentally influence consumer responses.



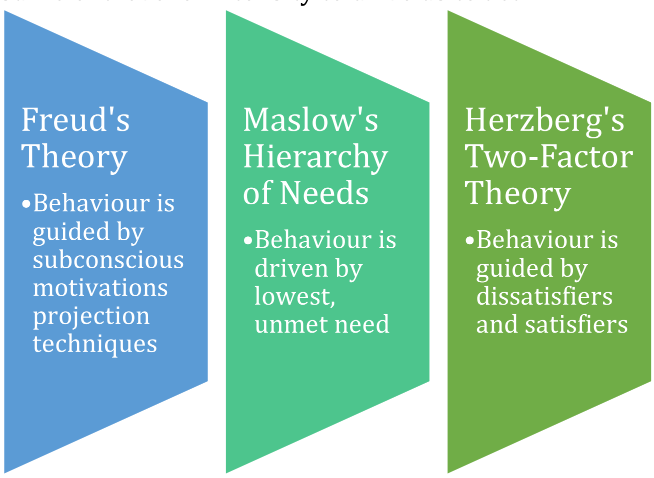
Model of Consumer Behavior

The starting point for understanding consumer behavior is the stimulus-response model shown in figure:

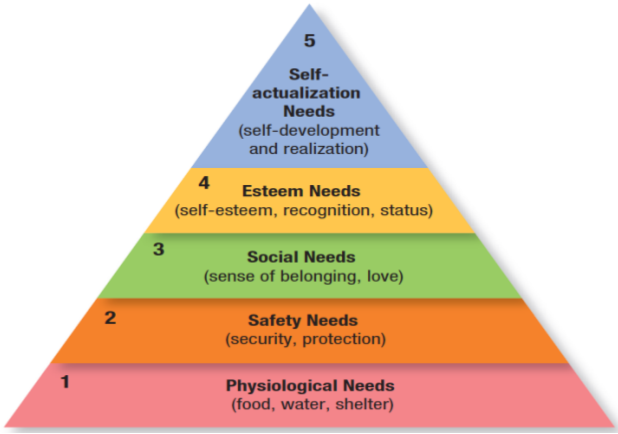


Motivation

A need becomes a motive when it is aroused to a sufficient level of intensity to drive us to act.



- **Sigmund Freud** assumed the psychological forces shaping people's behavior are largely unconscious and that a person cannot fully understand his or her own motivations.
- **Abraham Maslow** sought to explain why people are driven by particular needs at particular times. His answer is that human needs are arranged in a hierarchy from most to least pressing—from physiological needs to safety needs, social needs, esteem needs, and self-actualization needs.



- People will try to satisfy their most important need first and then move to the next.
  Example, *a starving man (need 1) will not take an interest in the latest happenings in the art world (need 5), nor in the way he is viewed by others (need 3 or 4), nor even in whether he is breathing clean air (need 2), but when he has enough food and water, the next most important need will become salient.*
- **Frederick Herzberg** developed a two-factor theory that distinguishes dissatisfiers (factors that cause dissatisfaction) from satisfiers (factors that cause satisfaction).
- The absence of dissatisfiers is not enough to motivate a purchase; satisfiers must be present. For example, a computer that does not come with a warranty is a dissatisfier.
- Yet the presence of a product warranty does not act as a satisfier or motivator of a purchase because it is not a source of intrinsic satisfaction.
- Ease of use is a satisfier.

Perception

The process by which we select, organize, and interpret information inputs to create a meaningful picture of the world.

- A motivated person is ready to act—how is influenced by his or her perception of the situation. In marketing, perceptions are more important than reality because they affect consumers' actual behavior.
- We screen most stimuli out—a process called selective attention.
- **Selective attention** means that marketers must work hard to attract consumers' notice.
  - *Relevance* - People are more likely to notice stimuli that relate to a current need.

- People are more likely to notice stimuli they *anticipate*.
  E.g.: A bar of chocolate would not be noticeable in a chemist shop.
- People are more likely to notice stimuli whose *deviations* are large in relationship to the normal size of the stimuli.
  E.g.: Kotak Mahindra Bank Ad.

- **Selective distortion** is the tendency to interpret information in a way that fits our preconceptions.
  - Consumers will often distort information to be consistent with prior *brand* and product beliefs and expectations.
  - Selective distortion can work to the advantage of marketers with strong brands when consumers distort neutral or ambiguous brand information to make it more positive.
  - In other words, coffee may seem to taste better, a car may seem to drive more smoothly, and the wait in a bank line may seem shorter, depending on the brand.
- **Selective Retention** – Most of us don't remember much of the information to which we're exposed, but we do retain information that supports our attitudes and beliefs.
  - Because of selective retention, we're likely to remember good points about a product we like and forget good points about competing products.
  - Like, Smart one liners or catchy jingles
- **Subliminal perception** has long fascinated armchair marketers, who argue that marketers embed covert, subliminal (*subconscious*) messages in ads or packaging. Consumers are not consciously aware of them, yet they affect behavior.

Learning

- Most human behavior is learned, though much learning is incidental.
- Learning theorists believe learning is produced through the interplay of drives, stimuli, cues, responses, and reinforcement.
- **Drive and Cues**
  - A drive is a strong internal stimulus impelling action.
  - Cues are minor stimuli that determine when, where, and how a person responds.
- **Generalization and Discrimination**
  - A new company can enter the market by appealing to the same drives' competitors use and providing similar cues because buyers are more likely to transfer loyalty to similar brands (generalization).
  - the company might design its brand to appeal to a different set of drives and offer strong cue inducements to switch (discrimination).

Emotions

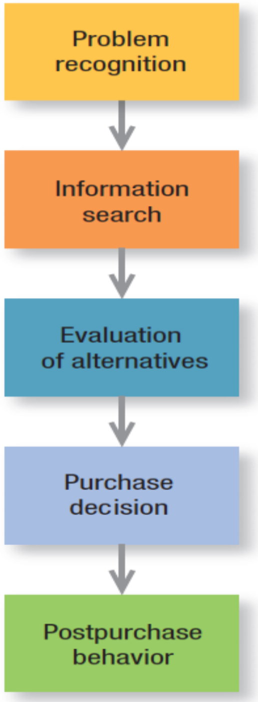
- Marketers are increasingly recognizing the power of emotional appeals—especially if these are rooted in some functional or rational aspects of the brand.
- An emotion-filled brand story has been shown to trigger's people desire to pass along things they hear about brands, through either word of mouth or online sharing.
- Firms are giving their communications a stronger human appeal to engage consumers in their brand stories.
- Many different kinds of emotions can be linked to brands.

Memory

- Cognitive psychologists distinguish between **short-term memory** (STM)—a temporary and limited repository of information—and **long-term memory** (LTM)—a more permanent, essentially unlimited repository.
- The **associative network memory model** views LTM as a set of nodes and links. Nodes are stored information connected by links that vary in strength. Any type of information can be stored in the memory network, including verbal, visual, abstract, and contextual.
  - A spreading activation process from node to node determines how much we retrieve and what information we can actually recall in any given situation.
- **Brand associations** consist of all brand-related thoughts, feelings, perceptions, images, experiences, beliefs, attitudes, and so on, that become linked to the brand node.
- **Memory encoding** describes how and where information gets into memory.
  - The strength of the resulting association depends on how much we process the information at encoding (how much we think about it, for instance) and in what way.
  - In general, the more attention we pay to the meaning of information during encoding, the stronger the resulting associations in memory will be.
- **Memory retrieval** is the way information gets out of memory.
  - The presence of other product information in memory can produce interference effects and cause us to either overlook or confuse new data.
  - The time between exposure to information and encoding has been shown generally to produce only gradual decay.
  - Information may be available in memory but not be accessible for recall without the proper retrieval cues or reminders.

THE BUYING DECISION PROCESS

- The buying process starts long before the actual purchase and has consequences long afterward.
- Some consumers passively shop and may decide to make a purchase from unsolicited information they encounter in the normal course of events.
- Consumers don't always pass through all *five stages*—they may skip or reverse some.
- The model in Figure provides a good frame of reference, however, because it captures the full range of considerations that arise when a consumer faces a highly involving or new purchase.



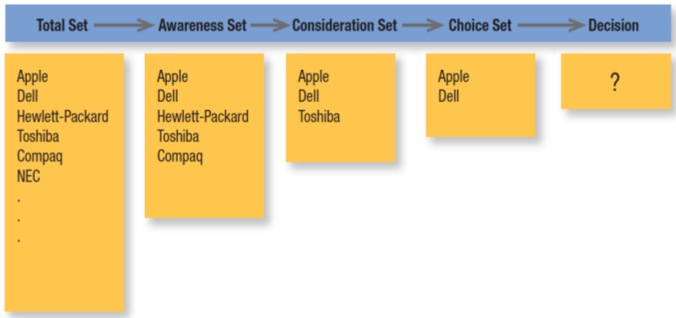
Problem Recognition

- The buyer recognizes a problem/need triggered by internal/external stimuli.
- With an internal stimulus, one of the person's normal needs—hunger, thirst, sex—rises to a threshold level and becomes a drive.
- A need can also be aroused by an external stimulus. Marketers need to identify the circumstances that trigger a particular need by gathering information from a number of consumers.
- They can then develop marketing strategies that spark consumer interest.

Information Search

- The relative amount of information and influence of these sources vary with the product category and the buyer's characteristics.
- Generally speaking, although consumers receive the greatest amount of information about a product from **commercial**—that is, marketer-dominated—sources, the most effective information often comes from **personal** or **experiential** sources or **public** sources that are independent authorities.
- Major information sources to which consumers will turn fall into four groups:
  - Personal – Family, friends, neighbours, acquaintances
  - Commercial – Advertising, Web sites, e-mails, salespersons, dealers, packaging, displays
  - Public – Mass media, social media, consumer-rating organizations
  - Experiential – Handling, examining, using the product

- *Sets Involved in Decision Making*:



- By gathering information, the consumer learns about competing brands and their features.
- The first box in above figure shows the total set of brands available.
- The individual consumer will come to know a subset of these, the awareness set.
- Only some, the consideration set, will meet initial buying criteria.
- As the consumer gathers more information, just a few, the choice set, will remain strong contenders.
- The consumer makes a final choice from these.
- Marketers need to identify the hierarchy of attributes that guide consumer decision making in order to understand different competitive forces and how these various sets get formed.
- This process of identifying the hierarchy is called market partitioning.

Evaluation of Alternatives

- How does the consumer process competitive brand information and make a final value judgment?
- Through experience and learning, people acquire beliefs and attitudes.
- These in turn influence buying behavior.
- A belief is a descriptive thought that a person holds about something.
- Just as important are attitudes, a person's enduring favorable or unfavorable evaluations, emotional feelings, and action tendencies toward some object or idea.
- The consumer arrives at attitudes toward various brands through an attribute-evaluation procedure, developing a set of beliefs about where each brand stands on each attribute.
- The *expectancy-value model* of attitude formation posits that consumers evaluate products and services by combining their brand beliefs—the positives and negatives—according to importance.

TABLE 6.3 A Consumer's Brand Beliefs about Laptop Computers

Laptop Computer	Attribute			
	Memory Capacity	Graphics Capability	Size and Weight	Price
A	8	9	6	9
B	7	7	7	7
C	10	4	3	2
D	5	3	8	5

Note: Each attribute is rated from 0 to 10, where 10 represents the highest level on that attribute. Price, however, is indexed in a reverse manner, with 10 representing the lowest price, because a consumer prefers a low price to a high price.

- To find Linda's perceived value for each laptop according to the expectancy-value model, we multiply her weights by her beliefs about each computer's attributes.
- This computation leads to the following perceived values:
  Laptop A = 0.4(8) + 0.3(9) + 0.2(6) + 0.1(9) = 8.0
  Laptop B = 0.4(7) + 0.3(7) + 0.2(7) + 0.1(7) = 7.0
  Laptop C = 0.4(10) + 0.3(4) + 0.2(3) + 0.1(2) = 6.0
  Laptop D = 0.4(5) + 0.3(3) + 0.2(8) + 0.1(5) = 5.0
- An expectancy-model formulation predicts that Linda will favor laptop A, which (at 8.0) has the highest perceived Value.

Purchase Decision

- The expectancy-value model is a **compensatory model**.
- With **non-compensatory models** of consumer choice, positive and negative attribute considerations don't necessarily net out.

Conjunctive heuristic

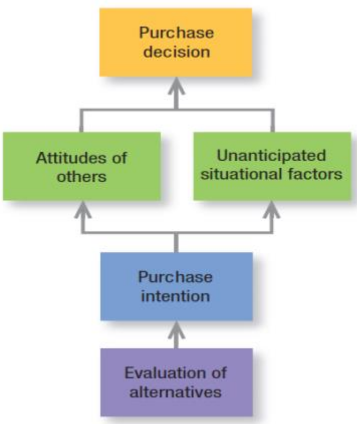
Lexicographic heuristic

Elimination-by-aspects heuristic

- Using the *conjunctive heuristic*, the consumer sets a minimum acceptable cutoff level for each attribute and chooses the first alternative that meets the minimum standard for all attributes.
- With the *lexicographic heuristic*, the consumer chooses the best brand on the basis of its perceived most important attribute.
- Using the *elimination-by-aspects heuristic*, the consumer compares brands on an attribute selected probabilistically—where the probability of choosing an attribute is positively related to its importance—and eliminates brands that do not meet minimum acceptable cutoffs.

Intervening Factors

- Even if consumers form brand evaluations, two general factors can intervene between the purchase intention and the purchase decision.



- The first factor is the attitudes of others.
- The influence on us of another person's attitude depends on two things:
  1. the intensity of the other person's negative attitude toward our preferred alternative and
  2. our motivation to comply with the other person's wishes.
- The more intense the other person's negativism and the closer he or she is to us, the more we will adjust our purchase intention.
- The converse is also true.
- The second factor is unanticipated situational factors that may erupt to change the purchase intention.

Types of perceived risk

A consumer's decision to modify, postpone, or avoid a purchase decision is heavily influenced by one or more types of perceived risk:

- *Functional risk*—The product does not perform to expectations.
- *Physical risk*—The product poses a threat to the physical well-being or health of the user or others.
- *Financial risk*—The product is not worth the price paid.
- *Social risk*—The product results in embarrassment in front of others.
- *Psychological risk*—The product affects the mental well-being of the user.
- *Time risk*—The failure of the product results in an opportunity cost of finding another satisfactory product.

Post-purchase Behaviour

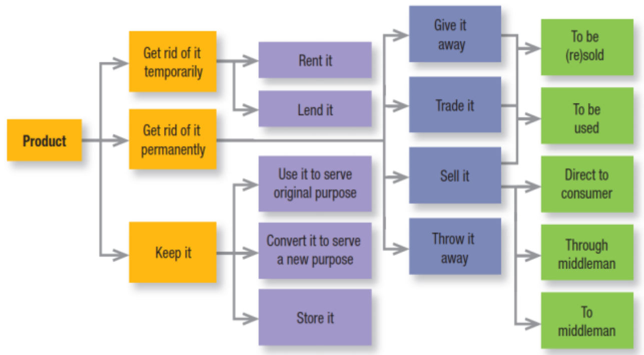
- Satisfaction is a function of the closeness between expectations and the product's perceived performance.
- If performance falls short of expectations, the consumer is disappointed; if it meets expectations, the consumer is satisfied; if it exceeds expectations, the consumer is delighted.
- A satisfied consumer is more likely to purchase the product again and will also tend to say good things about the brand to others.
- Dissatisfied consumers may abandon or return the product.
- They may seek information that confirms its high value.
- They may take public action by complaining to the company, going to a lawyer, or complaining directly to other groups (such as business, private, or government agencies) or to many others online.
- Private actions include deciding to stop buying the product (exit option) or warning friends (voice option).
- Marketers should also monitor how buyers use and dispose of the product.
- A key driver of sales frequency is product consumption rate—the more quickly buyers

consume a product, the sooner they may be back in the market to repurchase it.

- If consumers throw the product away, the marketer needs to know how they dispose of it, especially if—like batteries, beverage containers, electronic equipment, and disposable diapers—it can damage the environment.
- There also may be product opportunities in disposed products.

Customer Product Use/Disposal

Marketers should also monitor how buyers use and dispose of the product



Moderating Effects on Consumer Decision Making

- The expectancy-value model assumes a high level of consumer involvement, or engagement and active processing the consumer undertakes in responding to a marketing stimulus.
- We buy many products under conditions of *low involvement* and without significant brand differences. Consider salt.
- If consumers keep reaching for the same brand in this category, it may be out of habit, not strong brand loyalty.
- Evidence suggests we have low involvement with most low-cost, frequently purchased products.
- Marketers use techniques to try to convert a low-involvement product into one of higher involvement.
- Some buying situations are characterized by low involvement but significant brand differences. Here consumers often do a lot of brand switching.

Behavioral Economics

One of the most active academic research areas in marketing over the past three decades has been behavioral decision theory (BDT).

Behavioral decision theorists have identified many situations in which consumers make seemingly irrational choices.

1. The **availability heuristic**—
   - Consumers base their predictions on the quickness and ease with which a particular example of an outcome comes to mind.
   - If an example comes to mind too easily, consumers might overestimate the likelihood of its happening.
   - For example, a recent product failure may lead consumers to inflate the likelihood of a future product failure and make them more inclined to purchase a product warranty.
2. The **representativeness heuristic**—
   - Consumers base their predictions on how representative or similar the outcome is to other examples.
   - One reason package appearance may be so similar for different brands in the same product category is that marketers want their products to be seen as representative of the category as a whole.
3. The **anchoring and adjustment heuristic**—
   - Consumers arrive at an initial judgment and then adjust it—sometimes only reluctantly—based on additional information. For services marketers, a strong first impression is critical to establishing a favorable anchor so subsequent experiences will be interpreted in a more favorable light.

Decision framing is the manner in which choices are presented to and seen by a decision maker.

Mental accounting describes the way consumers code, categorize, and evaluate financial outcomes of choices.

Mental accounting is based on a set of core principles:

1. *Consumers tend to segregate gains.*
   - When a seller has a product with more than one positive dimension, it's desirable to have the consumer evaluate each dimension separately.
   - Listing multiple benefits of a large industrial product,
     for example, can make the sum of the parts seem greater than the whole.
2. *Consumers tend to integrate losses.*
   - Marketers have a distinct advantage in selling something if its cost can be added to another large purchase.
   - House buyers are more inclined to view additional expenditures favorably given the already high price of buying a house.
3. *Consumers tend to integrate smaller losses with larger gains*.
   - The"cancellation" principle might explain why withholding taxes from monthly paychecks is less painful than making large, lump-sum tax payments—the smaller withholdings are more likely to be overshadowed by the larger pay amount.
4. *Consumers tend to segregate small gains from large losses.*
   - The "silver lining" principle might explain the popularity of rebates on big-ticket purchases such as cars.

One-to-one marketing

- Early pioneers in individual marketing Don Peppers and Martha Rogers outlined a four-step framework for what they called one-to-one marketing.
- One-to-one marketing is not for every company.
- It works best for firms that normally collect a great deal of individual customer information and carry a lot of products that can be cross sold, need periodic replacement or upgrading, and offer high value.
- For others, the required investment in information collection, hardware, and software may exceed the payout.
- The cost of goods is raised beyond what the customer is willing to pays.
- Example : Saloon

LEGAL AND ETHICAL ISSUES

- Some consumers resist being *labeled*.
- Marketers must avoid consumer backlash
- Singles may reject single-serve food packaging if they don't want to be reminded, they are eating alone.
- Elderly consumers who don't feel their age may not appreciate products that label them "old."
- Market targeting also can generate public controversy when marketers take unfair advantage of vulnerable groups (such as children) or disadvantaged groups (such as inner-city residents) or promote potentially harmful products.
- The cereal industry has been criticized through the years for marketing efforts directed toward children.
- Avoid promoting potential harmful products.

SEGMENTATION

It is nearly impossible for a company to connect with all customers in large, broad, or diverse markets. They need to identify the market segments they can serve effectively.

Bases for Segmenting Consumer Markets

- Market segmentation divides a market into well-defined slices.
- A market segment consists of a group of customers who share a similar set of needs and wants.
- The marketer's task is to identify the appropriate number and nature of market segments and decide which one(s) to target.
- The major segmentation variables
    - geographic,
    - demographic,
    - psychographic, and
    - behavioral segmentation—

GEOGRAPHIC SEGMENTATION

- The company can operate in one or a few areas, or it can operate in all but pay attention to local variations. In that way it can tailor marketing programs to the needs and wants of local customer groups in trading areas, neighborhoods, even individual stores.
- In a growing trend called grassroots marketing, marketers concentrate on making such activities as personally relevant to individual customers as possible.
- More and more, regional marketing means marketing right down to a specific zip code.
- Nielsen Claritas has developed a geoclustering approach called **PRIZM** (Potential Rating Index by Zip Markets) NE that classifies more than half a million U.S. residential neighborhoods into 14 distinct groups and 66 distinct lifestyle segments called PRIZM Clusters.
- Based on following - Education and affluence, Family life cycle, Urbanization, Race and ethnicity, Mobility
- The groupings take into consideration 39 factors in five broad categories.
- The clusters have descriptive titles such as Blue Blood Estates, Winner's Circle, Hometown Retired, Shotguns and Pickups, and Back Country Folks.
- The inhabitants in a cluster tend to lead similar lives, drive similar cars, have similar jobs, and read similar magazines.
- Nariman Point,Cuffe Parade, Peddar Road, (all Mumbai)
- Panchsheel Park, Amrita Shergill Marg (all Delhi) may have
- Similar characteristics.
- A Retail chain. School etc. would find such a segmentation useful.
- Geoclustering captures the increasing diversity of the U.S. population. PRIZM has been used to answer questions such as:
    - Which neighborhoods or zip codes contain our most valuable customers?
    - How deeply have we already penetrated these segments?
    - Which distribution channels and promotional media work best in reaching our target clusters in each area?
- Below are examples of three PRIZM clusters:
    - **Young Digerati.** Young Digerati are the nation's tech-savvy singles and couples living in fashionable neighbourhoods on the urban fringe. Affluent, highly educated, and ethnically mixed, they live in areas typically filled with trendy apartments and condos, fitness clubs and clothing boutiques, casual restaurants, and all types of bars— from juice to coffee to microbrew.
    - **Beltway Boomers.** One segment of the huge baby boomer cohort—college-educated, upper-middle-class, and home-owning—is Beltway Boomers. Like many of their peers who married late, these boomers are still raising children in comfortable suburban subdivisions and pursuing kid-cantered lifestyles.
    - **The Cosmopolitans**. Educated, midscale, and multi-ethnic, the Cosmopolitans are urbane couples in America's fast-growing cities. Concentrated in a handful of metros—such as Las Vegas, Miami, and Albuquerque—these households feature older homeowners, empty nesters, and college graduates. A vibrant social scene surrounds their older homes and apartments, and residents love the nightlife and enjoy leisure-intensive lifestyles.

DEMOGRAPHIC SEGMENTATION

- One reason demographic variable such as *age, family size, family life cycle, gender, income, occupation, education, religion, race, generation, nationality, and social class* are so popular with marketers is that they're often associated with consumer needs and wants.
- Another is that they're easy to measure.
- **Age and life cycle** can be tricky variables. The target market for some products may be the psychologically Young.
    - Childhood, Adolescence, Adulthood, Middle Age, Old
    - Our wants and abilities change with age

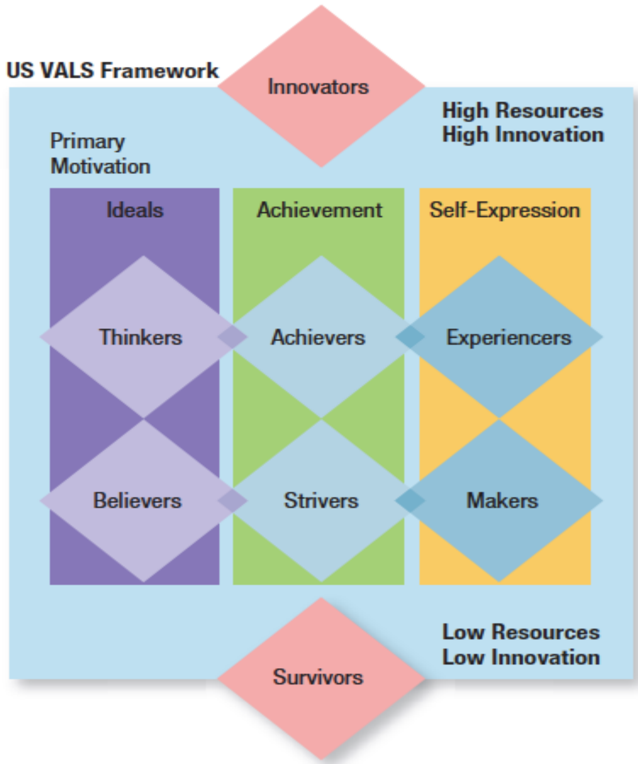
- **Life stage -** People in the same part of the life cycle may still differ in their life stage.
    - Life stage defines a person's major concern, such as going through a divorce, going into a second marriage, taking care of an older parent, deciding to cohabit with another person, buying a new home, and so on.
    - A person's major concern like job, marriage, children's education, children's marriage etc.
- **Gender** - Research shows that women have traditionally tended to be more communal-minded and men more self-expressive and goal-directed; women have tended to take in more of the data in their immediate environment and men to focus on the part of the environment that helps them achieve a goal. Gender differences are shrinking in some other areas as men and women expand their roles.
- **Income** does not always predict the best customers for a given product. Blue-collar workers were among the first purchasers of color television sets; it was cheaper for them to buy a television than to go to movies and restaurants. Many marketers are deliberately going after lower income groups, in some cases discovering fewer competitive pressures or greater consumer loyalty. Increasingly, companies are finding their markets are hourglass-shaped, as middle-market U.S. consumers migrate toward both discount and premium products.
- Each **generation** or cohort is profoundly influenced by the times in which it grows up—the music, movies, politics, and defining events of that period. Members share the same major cultural, political, and economic experiences and often have similar outlooks and values. Marketers may choose to advertise to a cohort by using the icons and images prominent in its experiences. They can also try to develop products and services that uniquely meet the particular interests or needs of a generational target.
    - Although different age splits are used to define *Millennials, or Gen Y*, the term usually means people born between 1977 and 1994. Also known as the Echo Boomers, "digital native" Millennials have been wired almost from birth—playing computer games, navigating the Internet, downloading music, and connecting with friends via texting and social media. Although they may have a sense of entitlement and abundance from growing up during the economic boom and being pampered by their boomer parents, Millennials are also often highly socially conscious, concerned about environmental issues, and receptive to cause marketing efforts.
    - Often lost in the demographic shuffle, the 50 million or so *Gen X consumers*, named for a 1991 novel by Douglas Coupland, were born between 1964 and 1978. Gen Xers prize self-sufficiency and the ability to handle any circumstance. Technology is an enabler for them, not a barrier. Unlike the more optimistic, team-oriented Gen Yers, Gen Xers are more pragmatic and individualistic. As consumers, they are wary of hype and pitches that seem inauthentic.
    - *Baby boomers* are the approximately 76 million U.S. consumers born between 1946 and 1964. Though they represent a wealthy target, possessing $1.2 trillion in annual spending power and controlling three-quarters of the country's wealth, marketers often overlook them. With many baby boomers approaching their 70s and even the last and youngest wave cresting 50, demand has exploded for products to turn back the hands of time.
    - Those born between 1925 and 1945—the "*Silent Generation*"—are redefining what old age means. To start with, many people whose chronological age puts them in this category don't see themselves as old. Advertisers have learned that older consumers don't mind seeing other older consumers in ads targeting them, as long as they appear to be leading vibrant lives. But marketers have learned to avoid clichés like happy older couples riding bikes or strolling hand in hand on a beach at sunset.
- **Race and culture -** Multicultural marketing is an approach recognizing that different ethnic and cultural segments have sufficiently different needs and wants to require targeted marketing activities and that a mass market approach is not refined enough for the diversity of the marketplace. The Hispanic American, African American, and Asian American markets are all growing at two to three times the rate of no multicultural populations, with numerous submarkets, and their buying power is expanding.
    - Accounting for more than half the growth in the U.S. population from 2000 to 2010, Hispanic Americans have become the largest minority in the country. It's projected that by 2020, 17 percent of U.S. residents will be of Hispanic origin. With annual purchasing power of more than $1 trillion in 2010—and expected to rise to $1.5 trillion by 2015—Hispanic Americans would be the world's ninth-largest market if they were a separate nation. Hispanic Americans often share strong family values—several generations may reside in one household—and strong ties to their country of origin.
    - According to the U.S. Census Bureau, "Asian" refers to people having origins in any of the original peoples of the Far East, Southeast Asia, or the Indian subcontinent. Six countries

represent 79 percent of the Asian American population: China (21 percent), the Philippines (18 percent), India (11 percent), Vietnam (10 percent), Korea (10 percent), and Japan (9 percent). Telecommunications and financial services are a few of the industries more actively targeting Asian Americans. Asian Americans tend to be more brand-conscious than other minority groups yet are the least loyal to particular brands. They also tend to care more about what others think (for instance, whether their neighbors will approve of them) and share core values of safety and education.

- African Americans are projected to have a combined spending power of $1.1 trillion by 2015. Like many cultural segments, they are deeply rooted in the U.S. landscape while also proud of their heritage and respectful of family ties. African Americans are the most fashion-conscious of all racial and ethnic groups but are strongly motivated by quality and selection. They're also more likely to be influenced by their children when selecting a product and less likely to buy unfamiliar brands. African Americans watch television and listen to the radio more than other groups and are heavy users of mobile data. Nearly three-fourths have a profile on more than one social network, with Twitter being extremely popular.
- The lesbian, gay, bisexual, and transgender (LGBT) market is estimated to make up 5 percent to 10 percent of the population and have approximately $700 billion in buying power. Many firms have recently created initiatives to target this market. Some firms worry about backlash from organizations that will criticize or even boycott firms supporting gay and lesbian causes. Although Pepsi, Campbell's, and Wells Fargo all experienced such boycotts in the past, they continue to advertise to the gay community.

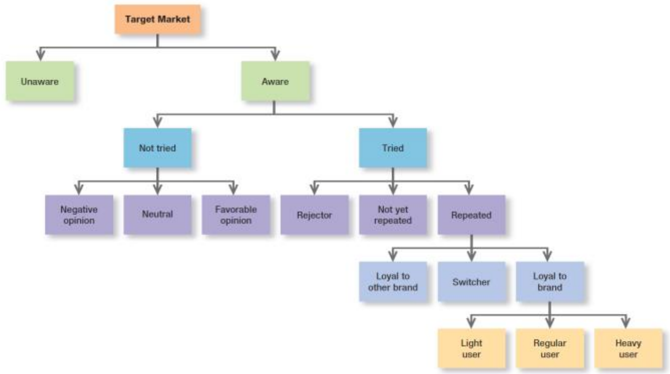
PSYCHOGRAPHIC SEGMENTATION

- Psychographics is the science of using psychology and demographics to better understand consumers.
- People within the same demographic group can exhibit very different psychographic profiles.
- Buyers are divided into groups on the basis of psychological/personality traits, lifestyle, or values
- One of the most popular commercially available classification systems based on psychographic measurements is **Strategic Business Insight's (SBI) VALS™ framework**. VALS is based on psychological traits for people and classifies U.S. adults into eight primary groups based on responses to a questionnaire featuring four demographic and 35 attitudinal questions.
- The main dimensions of the VALS segmentation framework are consumer motivation (the horizontal dimension) and consumer resources (the vertical dimension).
- Consumers are inspired by one of three primary motivations: ideals, achievement, and self-expression.
- Those primarily motivated by ideals are guided by knowledge and principles.
- Those motivated by achievement look for products and services that demonstrate success to their peers. Consumers whose motivation is self-expression desire social or physical activity, variety, and risk.
- Personality traits such as energy, self-confidence, intellectualism, novelty seeking, innovativeness, impulsiveness, leadership, and vanity—in conjunction with key demographics—determine an individual's resources. Different levels of resources enhance or constrain a person's expression of his or her primary motivation.
- **Innovators -** High income, High self-esteem, Image conscious, prefer the finer things of life.
- **Thinkers** - Mature, Responsible, Well educated , Well informed Practical Customers, Willing to experiment
- **Believers** - Conservative, Family centric, Brand Loyal
- **Survivors** - Low Income, Older, stick to their lifestyles
- **Marker** - Low income, Self-sufficient, Family centric, Family, Work, Recreation
- **Experiencer** - Young, Energetic, Eager to spend and consumer



BEHAVIOURAL SEGMENTATION

- Although psychographic segmentation can provide a richer understanding of consumers, some marketers fault it for being somewhat removed from actual consumer behavior.
- Marketers separate buyers into groups on the basis of their knowledge of, attitude toward, use of, or response to a product
- Needs-based or benefit-based segmentation identifies distinct market segments with clear marketing implications.
- People play five roles in a buying decision: *Initiator, Influencer, Decider, Buyer, and User.*
- For example, assume a wife initiates a purchase by requesting a new treadmill for her birthday. The husband may then seek information from many sources, including his best friend who has a treadmill and is a key influencer in what models to consider. After presenting the alternative choices to his wife, he purchases her preferred model, which ends up being used by the entire family.
- Different people are playing different roles, but all are crucial in the decision process and ultimate consumer satisfaction.
- Combining different behavioral bases can provide a more comprehensive and cohesive view of a market and its segments.
- Below Figure depicts one possible way to break down a target market by various behavioral segmentation bases.



USER AND USAGE – RELATED VARIABLES

- Many marketers believe variables related to users or their usage—***occasions, user status, usage rate, buyer-readiness stage, and loyalty status***—are good starting points for constructing market segments.
- **Occasions** mark a time of day, week, month, year, or other well-defined temporal aspects of a consumer's life. We can distinguish buyers according to the occasions when they develop a need, purchase a product, or use a product.
  Example: Stay in a hotel for business (Taj Mahal hotel), leisure(Taj Holiday Village), experience (Oberoi Vilas hotels – experience of staying in a Fort)
- **User Status** - Every product has its nonusers, ex-users, potential users, first-time users, and regular users. Included in the potential-user group are consumers who will become users in connection with some life stage or event.
  Example: Non-user, Ex-user, Potential User, First time user, Regular user.
  Many 5 star hotels offer memberships to non-users who can be potential users.
  Many portals run campaigns to attract ex-users. (Linkedin)
- **Usage Rate** - We can segment markets into light, medium, and heavy product users. Heavy users are often a small slice but account for a high percentage of total consumption.
- Some people are unaware of the product, some are aware, some are informed, some are interested, some desire the product, and some intend to buy. To help characterize how many people are at different stages and how well they have converted people from one stage to another, marketers can employ a marketing funnel to break the market into **buyer-readiness stages**.
  Below figure displays a funnel for two hypothetical brands. Compared with Brand B, Brand A performs poorly at converting one-time users to more recent users (only 46 percent convert for Brand A compared with 61 percent for Brand B). Depending on the reasons consumers didn't use again, a marketing campaign could introduce more relevant products, find more accessible retail outlets, or dispel rumors or incorrect beliefs consumers hold.

- **Loyalty Status** Marketers usually envision four groups based on brand loyalty status:
  - Hard-core loyals—Consumers who buy only one brand all the time
  - Split loyals—Consumers who are loyal to two or three brands
  - Shifting loyals—Consumers who shift loyalty from one brand to another
- Switchers—Consumers who show no loyalty to any brand
- Five consumer **attitudes** about products are *enthusiastic, positive, indifferent, negative, and hostile*.

HOW SHOULD BUSINESS MARKETS BE SEGMENTED?

We can segment business markets with some of the same variables we use in consumer markets, such as geography, benefits sought, and usage rate, but business marketers also use other variables.

The demographic variables are the most important, followed by the operating variables—down to the personal characteristics of the buyer.

Business marketers generally identify segments through a sequential process.

- **Demographic**
  - What industries?
  - What company size?
  - What geographical location?
    - English Medium Schools. Schools with over 1000 students. Schools in urban areas.
- **Operating variables**
  - What technology?
  - User status?
  - Customer Capability?
    - Chalk and Talk? New to digital classes? What is the level of IT awareness among its teachers?
- **Purchasing approaches**
  - Centralized Purchase, Decentralized Purchases
    - Are all purchase decisions centralized for a school chain?
    - Are individual schools allowed the option of choosing their own digital classrooms?
- **Situational factors**
  - Large order/ Small order
    - 25+ Classrooms? Less than 5 classrooms?
  - Specific Application or All application
    - Would they use it for teaching all subjects or only science?
- **Personal characteristics**
  - Buyer-Seller similarity
    - PSUs selling to PSUs, German/Jap companies?
  - Attitude towards risk.
    - PSU banks financing startups?
  - Loyalty
    - Is the customer expected to stay loyal?

MARKET TARGETING

There are many statistical techniques for developing market segments.

Once the firm has identified its market-segment opportunities, it must decide how many and which ones to target.

Marketers are increasingly combining several variables in an effort to identify smaller, better-defined target groups.

Thus, a bank may not only identify a group of wealthy retired adults but within that group distinguish several segments depending on current income, assets, savings, and risk preferences.

This has led some market researchers to advocate a needs-based market segmentation approach.

Roger Best proposed the seven-step approach shown in below table:

		Description
1	Needs-Based Segmentation	Group customers into segments based on similar needs and benefits sought by customers in solving a particular consumption problem.
2	Segment Identification	For each needs-based segment, determine which demographics, lifestyles, and usage behaviors make the segment distinct and identifiable (actionable).
3	Segment Attractiveness	Using predetermined segment attractiveness criteria (such as market growth, competitive intensity, and market access), determine the overall attractiveness of each segment.
4	Segment Profitability	Determine segment profitability.
5	Segment Positioning	For each segment, create a "value proposition" and product-price positioning strategy based on that segment's unique customer needs and characteristics.
6	Segment "Acid Test"	Create "segment storyboard" to test the attractiveness of each segment's positioning strategy.
7	Marketing-Mix Strategy	Expand segment positioning strategy to include all aspects of the marketing mix: product, price, promotion, and place.

Effective Segmentation Criteria

To be useful, market segments must rate favorably on five key criteria:

Measurable.
- The size, purchasing power, and characteristics of the segments can be measured.

Substantial.
- The segments are large and profitable enough to serve.
- A segment should be the largest possible homogeneous group worth going after with a tailored marketing program.
- It would not pay, for example, for an automobile manufacturer to develop cars for people who are under four feet tall.

Accessible.
- The segments can be effectively reached and served.

Differentiable.
- The segments are conceptually distinguishable and respond differently to different marketing mix elements and programs.

- If married and single women respond similarly to a sale on perfume, they do not constitute separate segments.

Actionable.

- Effective programs can be formulated for attracting and serving the segments.

PORTER'S FIVE FORCES

Michael Porter has identified five forces that determine the intrinsic long-run attractiveness of a market or market segment: industry competitors, potential entrants, substitutes, buyers, and suppliers.

Threat of intense segment rivalry

- A segment is unattractive if it already contains numerous, strong, or aggressive competitors.
- These conditions will lead to frequent price wars, advertising battles, and new-product introductions and will make it expensive to compete.

Threat of new entrants

- The most attractive segment is one in which entry barriers are high and exit barriers are low.
- Few new firms can enter the industry, and poorly performing firms can easily exit.
- When both entry and exit barriers are high, profit potential is high, but firms face more risk because poorer-performing firms stay in and fight it out.
- When both entry and exit barriers are low, firms easily enter and leave the industry, and returns are stable but low.
- The worst case occurs when entry barriers are low and exit barriers are high: Here firms enter during good times but find it hard to leave during bad times.

Threat of substitute products

- A segment is unattractive when there are actual or potential substitutes for the product.
- Substitutes place a limit on prices and on profits. If technology advances or competition increases in these substitute industries, prices and profits are likely to fall.

Threat of buyers' growing bargaining power

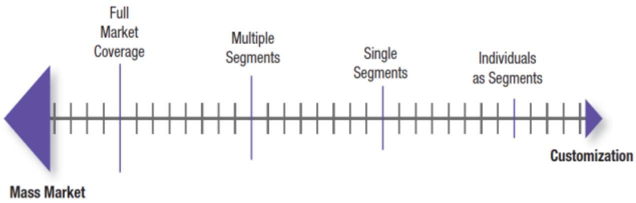
- A segment is unattractive if buyers possess strong or growing bargaining power.
- Buyers' bargaining power grows when they become more concentrated or organized, when the product represents a significant fraction of their costs, when the product is undifferentiated, when buyers' switching costs are low, or when they can integrate upstream.
- To protect themselves, sellers might select buyers who have the least power to negotiate or switch suppliers.
- A better defense is developing superior offers that strong buyers cannot refuse.

Threat of suppliers' growing bargaining power

- A segment is unattractive if the company's suppliers are able to raise prices or reduce quantity supplied.
- Suppliers tend to be powerful when they are concentrated or organized, when they can integrate downstream, when there are few substitutes, when the supplied product is an important input, and when the costs of switching suppliers are high.
- The best defenses are to build win-win relationships with suppliers or use multiple supply sources.

Evaluating & Selecting the Market Segments

Marketers have a range or continuum of possible levels of segmentation that can guide their target market decisions. As in Figure shows, at one end is a mass market of essentially one segment; at the other are individuals or segments of one person each. Between lie multiple segments and single segments.



Full market coverage,

- a firm attempt to serve all customer groups with all the products they might need. Only very large firms such as Microsoft (software market), General Motors (vehicle market), and Coca-Cola (nonalcoholic beverage market) can undertake a full market coverage strategy.
- Large firms can cover a whole market in two broad ways: through differentiated or undifferentiated marketing.

Multiple Segment

- Multiple Segment Specialization With selective specialization, a firm selects a subset of all the possible segments, each objectively attractive and appropriate.
- There may be little or no synergy among the segments, but each promise to be a moneymaker.
- Keeping synergies in mind, companies can try to operate in supersegments rather than in isolated segments.
- A supersegment is a set of segments sharing some exploitable similarity.
- With product specialization, the firm sells a certain product to several different market segments.
- With market specialization, the firm concentrates on serving many needs of a particular customer group, such as by selling an assortment of products only to university laboratories.

Singe Segment

- With single-segment concentration, the firm markets to only one particular segment.
- Through concentrated marketing, the firm gains deep knowledge of the segment's needs and achieves a strong market presence.
- It also enjoys operating economies by specializing its production, distribution, and promotion.

- If it captures segment leadership, the firm can earn a high return on its investment.
- A niche is a more narrowly defined customer group seeking a distinctive mix of benefits within a segment.
- Marketers usually identify niches by dividing a segment into subsegments.

Individual Marketing

- The ultimate level of segmentation leads to “segments of one,” “customized marketing,” or “one-to-one marketing.”
- As companies have grown proficient at gathering information about individual customers and business partners (suppliers, distributors, retailers), and as their factories are being designed more flexibly, they have increased their ability to individualize market offerings, messages, and media.
- Mass customization is the ability of a company to meet each customer’s requirements—to prepare on a mass basis individually designed products, services, programs, and communications.

The goal is to locate the brand in the minds of consumers to maximize the potential benefit to the firm.

A good brand positioning helps guide marketing strategy by clarifying the brand's essence, identifying the goals it helps the consumer achieve, and showing how it does so in a unique way.

One result of positioning is the successful creation of a customer-focused value proposition, a cogent reason why the target market should buy a product or service.

Positioning

The act of designing a company's offering and image to occupy a distinctive place in the minds of the target market

Value Proposition

A cogent reason why a target segment should buy a product or service.

A value proposition captures the way a product or service's key benefits provide value to customers by satisfying their needs.

Example of Value Proposition:

Company & Product	Target Customers	Value Proposition
Hertz (car rental)	Busy professionals	Fast, convenient way to rent the right type of a car at an airport
Volvo (station wagon)	Safety-conscious upscale families	The safest, most durable wagon in which your family can ride
Domino's (pizza)	Convenience-minded pizza lovers	A delicious hot pizza, delivered promptly to your door
Cuttack Nursing Home	Lower middle class	Medical treatment for minor ailments at affordable price. Located in the outskirts of Cuttack city.

COMPETITIVE FRAME OF REFERENCE

- Defines which other brands a brand competes with and which should thus be the focus of competitive analysis
- Identifying and analyzing competitors
- Decisions about the competitive frame of reference are closely linked to target market decisions.
- Deciding to target a certain type of consumer can define the nature of competition because certain firms have decided to target that segment in the past (or plan to do so in the future) or because consumers in that segment may already look to certain products or brands in their purchase decisions.
- A good starting point in defining a competitive frame of reference for brand positioning is category membership—the products or sets of products with which a brand competes and that function as close substitutes.
- The range of a company's actual and potential competitors, however, can be much broader than the obvious.
- Using the market approach, we define competitors as companies that satisfy the same customer need. A SWOT-analysis that includes a competitive analysis.
- A company needs to gather information about each competitor's real and perceived strengths and weaknesses.
- Once a company has identified its main competitors and their strategies, it must ask: What is each competitor seeking in the marketplace? What drives each competitor's behavior?

TABLE 10.2 Customers' Ratings of Competitors on Key Success Factors

	Customer Awareness	Product Quality	Product Availability	Technical Assistance	Selling Staff
Competitor A	E	E	P	P	G
Competitor B	G	G	E	G	E
Competitor C	F	P	G	F	F

Above table shows the results of a company survey that asked customers to rate its three competitors, A, B, and C, on five attributes.

Competitor A turns out to be well known and respected for producing high-quality products sold by a good sales force, but poor at providing product availability and technical assistance.

Competitor B is good across the board and excellent in product availability and sales force.

Competitor C rates poor to fair on most attributes.

This result suggests that in its positioning, the company could attack Competitor A on product availability and technical assistance and Competitor C on almost anything, but it should not attack B, which has no glaring weaknesses.

As part of this competitive analysis for positioning, the firm should also ascertain the strategies and objectives of its primary competitors.

Competitive Analysis – Hospital:

Hospital	Specialty	Location	Customer Care	Cost
A	Multi	Central	Poor (crowded)	Low
B	Multi	Central	Fair	High
C	Multi	Outskirts	Excellent	High

POINT-OF-DIFFERENCE AND POINTS-OF-PARITY

Points-of-parity (POPs)

- Attribute/benefit associations that are not necessarily unique to the brand but may in fact be shared with other brands
- Regardless of the source of perceived weaknesses, if, in the eyes of consumers, a brand can "break even" in those areas where it appears to be at a disadvantage and achieve advantages in other

areas, it should be in a strong—and perhaps unbeatable—competitive position.

- Consider the introduction of Miller Lite beer—the first major light beer in North America.
- Did Tata Nano have point of parity with new cars?
- POP associations come in three basic forms (or criteria): **category, correlational, and competitive**.
- **Category points-of-parity** are attributes or benefits that consumers view as essential to a legitimate and credible offering within a certain product or service category. In other words, they represent necessary—but not sufficient—conditions for brand choice.
  E.g.: Sports ground etc. for a school.
- **Correlational points-of-parity** are potentially negative associations that arise from the existence of positive associations for the brand.
  These are the associations that follow as a consequence of establishing a point of parity.
  Cheap products often are considered to be bad quality.
- **Competitive points-of-parity** are associations designed to overcome perceived weaknesses of the brand in light of competitors' points-of-difference.
  Measures taken to overcome possible weaknesses vis-à-vis competition. 10 years warranty.

Points-of-difference (PODs)

- Attributes/benefits that consumers strongly associate with a brand, positively evaluate, and believe they could not find to the same extent with a competitive brand.
- Associations that make up points-of-difference can be based on virtually any type of attribute or benefit.
- Strong brands often have multiple points-of-difference.
- Three criteria determine whether a brand association can truly function as a point-of-difference: **desirability, deliverability, and differentiability**.
- **Desirable to consumer** - Consumers must see the brand association as personally relevant to them.
- **Deliverable by the company** - The company must have the internal resources and commitment to feasibly and profitably create and maintain the brand association in the minds of consumers. The product design and marketing offering must support the desired association.
- **Differentiating from competitors** - Finally, consumers must see the brand association as distinctive and superior to relevant competitors.

Multi Frames of Reference

- It is not uncommon for a brand to identify more than one actual or potential competitive frame of reference, if competition widens or the firm plans to expand into new categories.
- For example, Starbucks could define very distinct sets of competitors, suggesting different possible POPs and PODs as a result: some potential POPs and PODs for Starbucks are shared across competitors; others are unique to a particular competitor.
- Also examples like – Normal School, Competitive Coaching.

Straddle Positioning

- Occasionally, a company will be able to straddle two frames of reference with one set of points-of-difference and points-of-parity.
- In these cases, the points-of-difference for one category become points-of-parity for the other and vice versa.
- Straddle positions allow brands to expand their market coverage and potential customer base.
- Example: Amity Education Group - runs a number of schools and Universities in India and abroad. They offer a Synchro-Learning Program that combines school and competitive syllabi.

Choosing Specific POPs and PODs

- Michael Porter urged companies to build a sustainable competitive advantage.
- **Competitive advantage** is a company's ability to perform in one or more ways that competitors cannot or will not match.
- But few competitive advantages are inherently sustainable.
- At best, they may be leverageable.
- A leverageable advantage is one that a company can use as a springboard to new advantages, much as Microsoft has leveraged its operating system to Microsoft Office and then to networking applications.
- In general, a company that hopes to endure must be in the business of continuously inventing new advantages that can serve as the basis of points-of-difference.
- Any product or service benefit that is sufficiently desirable, deliverable, and differentiating can serve as a point-of-difference for a brand.
- The obvious, and often the most compelling, **means of differentiation** for consumers are benefits related to performance.
- For choosing specific benefits as POPs and PODs to position a brand, perceptual maps may be useful.
- **Perceptual maps** are visual representations of consumer perceptions and preferences.
- They provide quantitative pictures of market situations and the way consumers view different products, services, and brands along various dimensions.
- By overlaying consumer preferences with brand perceptions, marketers can reveal "holes" or "openings" that suggest unmet consumer needs and marketing opportunities.

- Many marketing experts believe a brand positioning should have both **rational and emotional components**.
- In other words, it should contain points-of-difference and points-of-parity that appeal to both the head and the heart.
- A person's emotional response to a brand and its marketing will depend on many factors. An increasingly important one is the brand's authenticity.

Brand Mantras

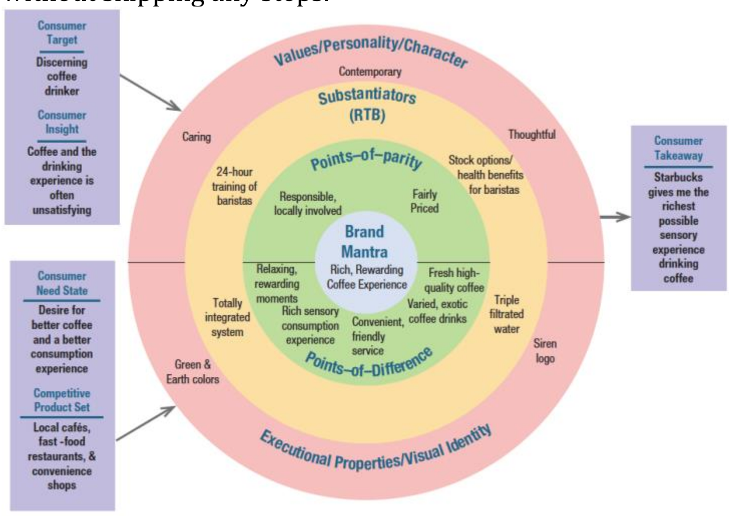
- To further focus brand positioning and guide the way their marketers help consumers think about the brand, firms can define a brand mantra.
- A brand mantra is a three- to five-word articulation of the heart and soul of the brand and is closely related to other branding concepts like "brand essence" and "core brand promise."
- Brand mantras are short statements articulating the heart and soul of the brand and are generally meant for internal purposes (for example: employees). Brand slogans are for
- External purposes (customers)
- Here are the three key criteria for a brand mantra:
- **Communicate**. A good brand mantra should clarify what is unique about the brand. It may also need to Define the category (or categories) of business for the brand and set brand boundaries.
- **Simplify**. An effective brand mantra should be memorable. For that, it should be short, crisp, and vivid in meaning.
- **Inspire**. Ideally, the brand mantra should also stake out ground that is personally meaningful and relevant to as many employees as possible.
- For example: Health, Hygiene and Heart (compassion) for a hospital.

Establishing a Brand Position

- Often a good positioning will have several PODs and POPs.
- Of those, often two or three really define the competitive battlefield and should be analyzed and developed carefully.
- A good positioning should also follow the "90–10" rule and be highly applicable to 90 percent (or at least 80 percent) of the products in the brand. Attempting to position to all 100 percent of a brand's product often yields an unsatisfactory "lowest common denominator" result.
- The remaining 10 percent or 20 percent of products should be reviewed to ensure they have the proper branding strategy and to see how they could be changed to better reflect the brand positioning.
- When a product is new, marketers must inform consumers of the brand's category membership. Sometimes consumers may know the category membership but not be convinced the brand is a valid member of the category. Brands are sometimes affiliated with categories in which they do not hold membership.
- There are three main ways to convey a brand's category membership:
  1. **Announcing category benefits**—To reassure consumers that a brand will deliver on the fundamental reason for using a category, marketers frequently use benefits to announce category membership.
     Ex**:** A premium hotel can mention its luxurious rooms, restaurant,
     Bar, swimming pool. Spa etc.
  2. **Comparing to exemplars**—Well-known, noteworthy brands in a category can also help a brand specify its category Membership.
     Ex: A comparison with other premium hotels in the city.
  3. **Relying on the product descriptor**—The product descriptor that follows the brand name is often a concise means of conveying category origin.
     Ex: Airbnb - Online platform for rental accommodations

Brand-Positioning Bull's-eye

Once they have fashioned the brand positioning strategy, marketers should communicate it to everyone in the organization, so it guides their words and actions.
One helpful schematic with which to do so is a brand-positioning bull's-eye. "Marketing Memo: Constructing a Brand Positioning Bull's-eye" outlines one-way marketers can formally express brand positioning without skipping any steps.



A Hypothetical Example of a Starbucks Brand Positioning Bull's Eye

Communicating POPs and PODs

- One common challenge in positioning is that many of the benefits that make up points-of-parity and points-of-difference are negatively correlated.
- ConAgra must convince consumers that Healthy Choice frozen foods both taste good and are good for you.

- Unfortunately, consumers typically want to maximize both the negatively correlated attributes and benefits.
- Much of the art and science of marketing consists of dealing with trade-offs, and positioning is no different.
- The best approach clearly is to develop a product or service that performs well on both dimensions.
- Negative correlated attributes/benefits Instances:
    - Low price vs. high quality
    - Taste vs. low calories
    - Powerful vs. safe
    - Ubiquitous vs. exclusive
    - Varied vs. simple

Monitoring Competition

- It is important to regularly research the desirability, deliverability, and differentiability of the brand's POPs and PODs in the marketplace to understand how the brand positioning might need to evolve or, in relatively rare cases, be completely replaced.
- In assessing potential threats from competitors, three high-level variables are useful:
    - Share of market—The competitor's share of the target market.
    - Share of mind—The percentage of customers who named the competitor in responding to the statement "Name the first company that comes to mind in this industry."
    - Share of heart—The percentage of customers who named the competitor in responding to the statement "Name the company from which you would prefer to buy the product."

Alternative Approaches to Positioning

- Rather than outlining specific attributes or benefits, some marketing experts describe positioning a brand as telling a narrative or story.
- Companies like the richness and imagination they can derive from thinking of the story behind a product or service.
- Based on literary convention and brand experience, the following framework is offered for a brand story: **Setting**. The time, place, and context **Cast**.
- The brand as a character, including its role in the life of the audience, its relationships and responsibilities, and its history or creation myth **Narrative arc**.
- The way the narrative logic unfolds over time, including actions, desired experiences, defining events, and the moment of epiphany **Language**.
- The authenticating voice, metaphors, symbols, themes, and leitmotifs Douglass Holt believes that for companies to build iconic, leadership brands, they must assemble cultural knowledge, strategize according to cultural branding principles, and hire and train cultural experts.
- Experts who see consumers actively cocreating brand meaning and positioning even refer to this as "Brand Wikification," given that wikis are written by contributors from all walks of life and points of view.
- Example for Cultural branding:
    - Fair and lovely taps into the cultural notion of beauty.
    - Bullet feeds notions of machismo.
    - Hero Honda is about thrift.

Positioning/Branding for a Small Business

- Building brands is a challenge for a small business with limited resources and budgets.
- Nevertheless, numerous success stories exist of entrepreneurs who have built their brands up essentially from scratch to become powerhouse brands.
- When resources are limited, focus and consistency in marketing programs become critically important.
- Creativity is also paramount—finding new ways to market new ideas about products to consumers.
- Here are some specific branding guidelines for small businesses.
    - Find compelling product performance advantage
    - Focus on building one or two strong brands based on one or two key associations
    - Encourage product trial in any way possible
    - Develop cohesive digital strategy to make the brand "bigger and better"
    - Create buzz and a loyal brand community
    - Employ a well-integrated set of brand elements
    - Leverage as many secondary associations as possible
    - Creatively conduct low-cost marketing research

PART 5 – CREATING VALIE

CH13 – SETTING PRODUCT STRATEGY

Many people think a product is tangible, but technically a product is anything that can be offered to a market to satisfy a want or need, including physical goods, services, experiences, events, persons, places, properties, organizations, information, and ideas.
For Instance:

- Physical Goods: Car
- Service: healthcare, coaching
- Experience: Vacation
- Event: IPL
- Person: Rahul Gandhi
- Place: Kerala, God's own country.
- Properties: Real Estate, Gold.
- Organization: Helpage
- Information: Covid Guidelines
- Ideas: Beti Bachao, Beti padhao.

Marketing planning begins with formulating an offering to meet target customers' needs or wants.
The customer will judge the offering on three basic elements: **product features and quality**, **service mix and quality**, and **price**

PRODUCT LEVELS: THE CUSTOMER-VALUE HIERARCHY

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

- The fundamental level is the **core benefit**: the service or benefit the customer is really buying. A hotel guest is buying rest and sleep.
- At the second level, the marketer must turn the core benefit into a **basic product**. Thus a hotel room includes a bed, bathroom, towels, desk, dresser, and closet.
- At the third level, the marketer prepares an **expected product**, a set of attributes and conditions buyers normally expect when they purchase this product. Hotel guests minimally expect a clean bed, fresh towels, working lamps, and a relative degree of quiet.
- At the fourth level, the marketer prepares an **augmented product** that exceeds customer expectations. In developed countries, brand positioning and competition take place at this level.
- At the fifth level stands the **potential product**, which encompasses all the possible augmentations and transformations the product or offering might undergo in the future. Here companies search for new ways to satisfy customers and distinguish their offering.

Example for Product Levels – CAR

- Core Benefit
  - Transportation
- Basic Product
  - A chassis on wheels
- Expected Product
  - Reasonable speed
  - Roomy
  - Safe
  - Environment Friendly
  - Economical
- Augmented Product
  - Air conditioner, Climatic Control
  - Power Steering
  - Power Windows
  - Armoured Car
- Potential Product
  - Electric Car
  - Amphibian Car?
  - Flying Car?

PRODUCT CLASSIFICATION

Marketers classify products on the basis of ***durability, tangibility, and use (***consumer or industrial).
Each type has an appropriate marketing-mix strategy.

Products fall into three groups according to durability and tangibility:

1. **Nondurable goods are tangible goods** normally consumed in one or a few uses, such as beer and shampoo.
   Because these goods are purchased frequently, the appropriate strategy is to make them available in many locations, charge only a small markup, and advertise heavily to induce trial and build preference.
   Ex: Frequently purchased, Soap, Toothpaste
   Heavy Distribution, Low mark-up, heavy advertising
2. **Durable goods** are tangible goods that normally survive many uses: refrigerators, machine tools, and clothing.
   They normally require more personal selling and service, command a higher margin, and require more seller guarantees.
   Ex: Infrequently purchased: TVs, Refs, Personal Selling, Service, Higher margin, Warranty
3. **Services** are intangible, inseparable, variable, and perishable products that normally require more quality control, supplier credibility, and adaptability.
   Examples include haircuts, legal advice, and appliance repairs.

Intangible, Inseparable, variable, perishable
Quality Control, Supplier Credibility, Adaptability
Doctor's consultation, Education, Hospitality

Consumer – Goods Classification

When we classify the vast array of consumer goods on the basis of shopping habits, we distinguish among **convenience, shopping, specialty, and unsought goods**.

- The consumer usually purchases **convenience goods** frequently, immediately, and with minimal effort.
- Examples include soft drinks, soaps, and newspapers.
- Staples are convenience goods consumers purchase on a regular basis.
- A buyer might routinely purchase Heinz ketchup, Crest toothpaste, and Ritz crackers.
- Impulse goods are purchased without any planning or search effort, like candy bars and magazines.
- Emergency goods are purchased when a need is urgent umbrellas during a rainstorm, boots and shovels during the first winter snow.
- Frequent purchase, Immediate purchase, Minimal Effort. Staples: Regular purchases (Soap), Impulse Goods: Random purchases (Chewing Gum), Emergency Goods: Painkillers
- **Shopping goods** are those the consumer characteristically compares on such bases as suitability, quality, price, and style.
- Examples include furniture, clothing, and major appliances.
- Homogeneous shopping goods are similar in quality but different enough in price to justify shopping comparisons.
- Heterogeneous shopping goods differ in product features and services that may be more important than price.
- Customer spends time and energy to check suitability, quality, price and style. Clothing, Furniture, Appliances.
- **Specialty goods** have unique characteristics or brand identification for which enough buyers are willing to make a special purchasing effort.
- Examples include cars, audio-video components, and men's suits.
- Products known for their unique characteristics, deodorants, nail polish, cigarettes, suits, high value pens
- **Unsought goods** are those the consumer does not know about or normally think of buying, such as smoke detectors.
- Other classic examples are life insurance, cemetery plots, and gravestones.
- Ex: Life insurance policies

Industrial – Goods Classification

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

- **Materials and parts** are goods that enter the manufacturer's product completely.
- They fall into two classes: raw materials and manufactured materials and parts.
- Raw materials in turn fall into two major groups: farm products (wheat, cotton, livestock, fruits, and vegetables) and natural products (fish, lumber, crude petroleum, iron ore).
- Manufactured materials and parts fall into two categories: component materials (iron, yarn, cement, wires) and component parts (small motors, tires, castings).
- Component materials are usually fabricated further—pig iron is made into steel, and yarn is woven into cloth.
- The standardized nature of component materials usually makes price and supplier reliability key purchase factors.
- Component parts enter the finished product with no further change in form, as when small motors are put into vacuum cleaners and tires are put on automobiles.
- **Capital items** are long-lasting goods that facilitate developing or managing the finished product.
- They fall into two groups: installations and equipment.
- Installations consist of buildings (factories, offices) and heavy equipment (generators, drill presses, mainframe computers, elevators).
- Equipment includes portable factory equipment and tools (hand tools, lift trucks) and office equipment (desktop computers, desks).
- These types of equipment don't become part of a finished product.
- **Supplies and business services** are short-term goods and services that facilitate developing or managing the finished product.
- Supplies are of two kinds: maintenance and repair items (paint, nails, brooms) and operating supplies (lubricants, coal, writing paper, pencils).
- Together, they go under the name of MRO goods.
- Business services include maintenance and repair services (window cleaning, copier repair) and business advisory services (legal, management consulting, advertising).

PRODUCT DIFFERENTIATION

Form

- Many products can be differentiated in form—the size, shape, or physical structure of a product.

Features

- Most products can be offered with varying features that supplement their basic function.

Performance Quality

- Most products occupy one of four performance levels: low, average, high, or superior.
- Performance quality is the level at which the product's primary characteristics operate.

Conformance Quality

- Buyers expect a high conformance quality, the degree to which all produced units are identical and meet promised specifications.

Durability

- Durability, a measure of the product's expected operating life under natural or stressful conditions, is a valued attribute for vehicles, kitchen appliances, and other durable goods.

Reliability

- Buyers normally will pay a premium for more reliable products.
- Reliability is a measure of the probability that a product will not malfunction or fail within a specified time period.

Repairability

- Repairability measures the ease of fixing a product when it malfunctions or fails.
- Ideal repairability would exist if users could fix the product themselves with little cost in money or time.

Style

- Style describes the product's look and feel to the buyer and creates distinctiveness that is hard to copy.

Customization

- customized products and marketing allow firms to be highly relevant and differentiating by finding out exactly what a person wants—and doesn't want—and delivering on that.

SERVICE DIFFERENTIATION

The main service differentiators are ordering ease, delivery, installation, customer training, customer consulting, maintenance and repair, and returns.

Ordering Ease

- Ordering ease describes how easy it is for the customer to place an order with the company.

Delivery

- Delivery refers to how well the product or service is brought to the customer, including speed, accuracy, and care throughout the process.

Installation

- Installation refers to the work done to make a product operational in its planned location.

Customer Training

- Customer training helps the customer's employees use the vendor's equipment properly and efficiently.

Customer Consulting

- Customer consulting includes data, information systems, and advice services the seller offers to buyers.

Maintenance and Repair

- Maintenance and repair programs help customers keep purchased products in good working order. These services are critical in business-to-business settings.

Returns

- A nuisance to customers, manufacturers, retailers, and distributors alike, product returns are also an unavoidable reality of doing business, especially in online purchases.
- Free shipping, growing more popular, makes it easier for customers to try out an item, but it also increases the likelihood of returns.
- Controllable returns result from problems or errors made by the seller or customer and can mostly be eliminated with improved handling or storage, better packaging, and improved transportation and forward logistics by the seller, or its supply chain partners.
- Uncontrollable returns result from the need for customers to actually see, try, or experience products in person to determine suitability and can't be eliminated by the company in the short run.

Example: Service Differentiation – CAR

- Ordering ease
  - The ease with which a car can be ordered.
  - Convenient location of dealer showrooms
  - Trial facility at home
  - Finance, Registration and Insurance Services
- Delivery
  - Low waiting period
  - Scratch less vehicle
  - Display of all facilities
- Installation
  - Matching Upholstery, interior
  - Accessories (Audio system, Gear Lock, Central locking)
- Customer training
  - Efficient, Safe Driving (economical speed, safety features)
- Customer consulting
  - What is the best model suitable to a customer?
- Maintenance and repair
- Returns
  - Controllable (preventable)
    - Product flaws (AC not working)
  - Uncontrollable (not preventable in the short term)
  - Product unsuitability which follows customer experience

- Customer returns a garment bought online because of poor feel

Example: Services Differentiation – OYO

- Ordering ease
  - Online ordering
  - Customer feedback helps selection
  - Pictures
  - Room Details, Prices
- Delivery
  - GPS guided navigation
  - Nonstandard delivery - The previous occupant has not vacated. ("Room is getting ready.")
- Installation
  - Basic yet standardized (liquid soap)
- Customer training
  - Generally, not applicable
  - Use of AC and TV remote, switches
- Customer consulting
  - Variety of choices. Locations, Distances, Room Details
- Maintenance and repair
  - Customer feedback helps
- Returns
  - Controllable
    Misleading pictures, Room Size
  - Uncontrollable
    Product unsuitability which follows customer experience(room size, location, room view etc. for a hotel)

DESIGN

As competition intensifies, design offers a potent way to differentiate and position a company's products and services.
The totality of features that affect the way a product looks, feels, and functions to a consumer.
Design offers functional and aesthetic benefits and appeals to both our rational and emotional sides.

- Is emotionally powerful
- Transmits brand meaning/positioning
- Is important with durable goods
- Makes brand experiences rewarding
- Can transform an entire enterprise
- Facilitates manufacturing/distribution
- Can take on various approaches
- Design thinking
  - ✓ A kitchen appliances manufacturer studies how different people cook, the shapes of their kitchen, utensils While designing their products.
- Many firms are considering ways to reduce the negative environmental consequences of conducting business, and some are changing the manufacture of their products or the ingredients that go into them.
  Ex: Sigg makes reusable bottles with embedded micro filters.

Ex:

- Coca cola bottle - Hobble Skirt Design - Ergonomics, Distinctive
- The round rimmed glasses became a distinctive feature of John Lennon's Persona.
- Jelly Bean Design – Roomier (car), More aerodynamic, More fuel efficient

Luxury Brands

- Design is often an important aspect of luxury products, though these products also face some unique issues.
- They are perhaps one of the purest examples of the role of branding because the brand and its image are often key competitive advantages that create enormous value and wealth.
- A luxury shopper must feel he or she is getting something truly special.
- Thus, the common denominators of luxury brands are *quality and uniqueness*.
- A winning formula for many is *craftsmanship, heritage, authenticity, and history*, often critical to justifying a sometimes-extravagant price.
- Example: Aditya Birla Fashions
  - Louis Phillippe - Super premium
  - Van Heusen - Premium
  - LP - Young professionals
  - Allen Solley - Smart Casuals

GUIDELINES FOR MARKETING LUXURY BRANDS

1. Maintaining a premium image for luxury brands is crucial; controlling that image is thus a priority.
2. Luxury branding typically includes the creation of many intangible brand associations and an aspirational image.
3. All aspects of the marketing program for luxury brands must be aligned to ensure high-quality products and services and pleasurable purchase and consumption experiences.
4. Besides brand names, other brand elements—logos, symbols, packaging, signage—can be important drivers of brand equity for luxury products.
5. Secondary associations from linked personalities, events, countries, and other entities can boost luxury-brand equity as well.
6. Luxury brands must carefully control distribution via a selective channel strategy.
7. Luxury brands must employ a premium pricing strategy, with strong quality cues and few discounts and markdowns.
8. Brand architecture for luxury brands must be managed carefully.
9. Competition for luxury brands must be defined broadly because it often comes from other categories.
10. Luxury brands must legally protect all trademarks and aggressively combat counterfeits.

THE PRODUCT HIRARCHY

The product hierarchy stretches from basic needs to particular items that satisfy those needs. We can identify six levels of the product hierarchy, using life insurance as an example:

1. **Need family**—The core need that underlies the existence of a product family.
   Example: security, Home Convenience
2. **Product family**—All the product classes that can satisfy a core need with reasonable effectiveness.
   Example: savings and income, Home Appliances
3. **Product class**—A group of products within the product family recognized as having a certain functional coherence, also known as a product category.
   Example: financial instruments, Washing Machines
4. **Product line**—A group of products within a product class that are closely related because they perform a similar function, are sold to the same customer groups, are marketed through the same outlets or channels, or fall within given price ranges. A product line may consist of different brands, a single-family brand, or an individual brand that has been line extended.
   Example: life insurance, semi-automatic, front load
5. **Product type**—A group of items within a product line that share one of several possible forms of the product.
   Example: term life insurance, 5Kg/6Kg load
6. **Item** (also called stock-keeping unit or product variant)—A distinct unit within a brand or product line distinguishable by size, price, appearance, or some other attribute.
   Example: Prudential renewable term life insurance, 5Kg – Model A

Product Systems and Mixes

Product System

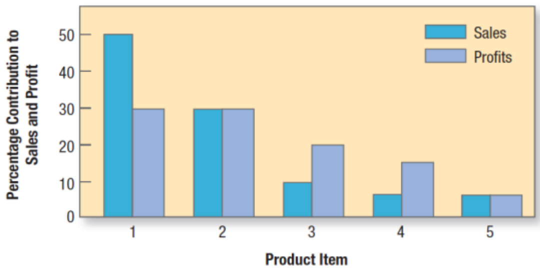
- A product system is a group of diverse but related items that function in a compatible manner.
- A product mix (also called a product assortment) is the set of all products and items a particular seller offers for sale.
- A product mix consists of various product lines.

Product Mix/Assortment

- A company's product mix has a certain width, length, depth, and consistency.
- Set of all products and items a particular seller offers for sale.
- Maruti 800, Alto, Wagon R, Ignis, Swift, Swift Dzire etc.
- The **width** of a product mix refers to how many different product lines the company carries.
    - Car maker X has one model each in hatchback(A), premium hatchback(B), Entry sedan (C), Premium Sedan (D) and SUV (Wide)
    - Car maker Y has does not have an SUV, but has all other models.
- The **length** of a product mix refers to the total number of items in the mix.
    - Y has 10 products, X has only 5 (Y has a longer line-up
- The **depth** of a product mix refers to how many variants are offered of each product in the line.
    - Presence of more variants (alto Lx, alto vx)
    - Mahindra has greater depth in SUVs
- The **consistency** of the product mix describes how closely related the various product lines are in end use, production requirements, distribution channels, or some other way.
    - Does the line-up make sense?
    - Customer point of view
    - Manufacturing point of view
    - Distribution point of View

PRODUCT LINE ANALYSIS

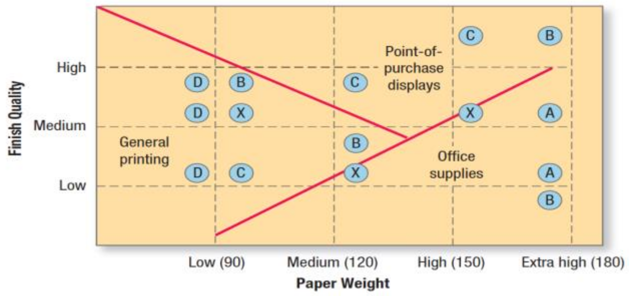
- In offering a product line, companies normally develop a basic platform and modules that can be added to meet different customer requirements and lower production costs.
- Product line managers need to know the sales and profits of each item in their line to determine which items to build, maintain, harvest, or divest.
- They also need to understand each product line's market profile and image.



Above figure shows a sales and profit report for a five-item product line. The first item accounts for 50 percent of total sales and 30 percent of total profits. The first two items account for 80 percent of total sales and 60 percent of total profits. If these two items were suddenly hurt by a competitor, the line's sales and profitability could collapse. These items must be carefully monitored and protected. At the other end, the last item delivers only 5 percent of the product line's sales and profits. The product line manager may consider dropping this item unless it has strong growth potential.

Market Profile & Image

- The product line manager must review how the line is positioned against competitors' lines.
- Consider paper company X with a paperboard product line.
- Two paperboard attributes are weight and finish quality.
- Paper is usually offered at standard levels of 90, 120, 150, and 180 weights.
- Finish quality is offered at low, medium, and high levels.

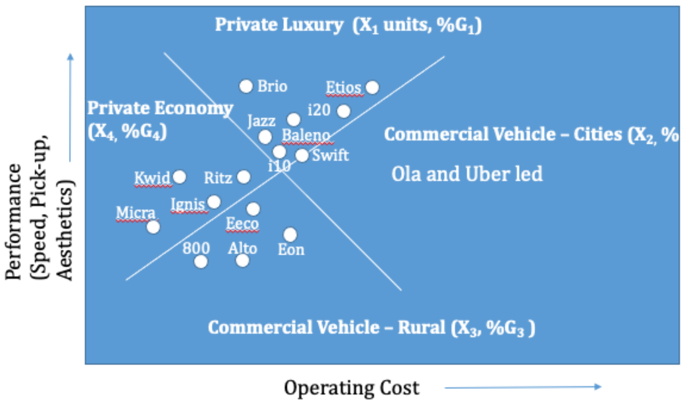


The product map in above figure shows the location of the various product line items of company X and four competitors, A, B, C, and D.

- Competitor A sells two product items in the extra-high weight class ranging from medium to low finish quality.
- Competitor B sells four items that vary in weight and finish quality.
- Competitor C sells three items in which the greater the weight, the greater the finish quality.
- Competitor D sells three items, all lightweight but varying in finish quality.
- Company X offers three items that vary in weight and finish quality.
- The product map also shows which competitors' items are competing against company X's items. Another benefit of product mapping is that it identifies market segments.
- Figure shows the types of paper, by weight and quality, preferred by the general printing industry, the point-of-purchase display industry, and the office supply industry.

Example: Hatchback Cars

A car manufacturer can have a tie up with them and make an exclusive model for this segment.



PRODUCT LINE LENGTH

Product lines tend to lengthen over time.

Excess manufacturing capacity puts pressure on the product line manager to develop new items.

A company lengthens its product line in two ways: *line stretching and line filling*.

Line stretching occurs when a company lengthens its product line beyond its current range, whether down-market, up-market, or both ways.

- Down-Market Stretch A company positioned in the middle market may want to introduce a lower-priced line.
- Up-Market Stretch Companies may wish to enter the high end of the market to achieve more growth, realize higher margins, or simply position themselves as full-line manufacturers.
- Two-Way Stretch Companies serving the middle market might stretch their line in both directions.

Line Filling

- A firm can also lengthen its product line by adding more items within the present range.
- Motives for line filling include reaching for incremental profits, satisfying dealers who complain about lost sales because of items missing from the line, utilizing excess capacity, trying to become the leading full-line company, and plugging holes to keep out competitors.

Line Modernization, Featuring, and Pruning Product lines regularly need to be modernized.

- Modernization - Upgrading to electronic power Steering from a hydraulic one
- Featuring - Adding new features to the existing range of products or Introducing ABS
- Pruning – Discontinuing some models

The product line manager typically selects one or a few items in the line to feature.

Using sales and cost analysis, product line managers must periodically review the line for deadwood that depresses profits.

PRODUCT MIX PRICING

We can distinguish six situations calling for product-mix pricing: *product line pricing, optional- feature pricing, captive-product pricing, two-part pricing, by-product pricing, and product-bundling pricing.*

Product Line Pricing

- Companies normally develop product lines rather than single products, so they introduce price steps.

Optional-Feature

- Pricing Many companies offer optional products, features, and services with their main product.

Captive-Product

- Pricing Some products require the use of ancillary or captive products.

Two-Part Pricing

- Service firms engage in two-part pricing, consisting of a fixed fee plus a variable usage fee.

By-Product Pricing

- The production of certain goods—meats, petroleum products, and other chemicals—often yields by-products that should be priced on their value.

Product-Bundling

- Pricing Sellers often bundle products and features. Pure bundling occurs when a firm offers its products only as a bundle.
- In mixed bundling, the seller offers goods both individually and in bundles, normally charging less

for the bundle than if the items were purchased separately.

CO-BRANDING

- Marketers often combine their products with products from other companies in various ways.
- Two or more well-known brands are combined into a joint product or marketed together in some fashion
- In co-branding—also called dual branding or brand bundling—two or more well-known brands are combined into a joint product or marketed together in some fashion.
- One form of co-branding is **same-company** co-branding, as when General Mills advertises Trix cereal and Yoplait yogurt.
  Ex: Combines school and competition preparation
- Another form is **joint-venture** co-branding, such as General Electric and Hitachi lightbulbs in Japan or the Citi Platinum Select Advantage Visa Signature credit card in which three different parties are involved.
  Ex: Hero Honda
- There is **multiple-sponsor** co-branding, such as Taligent, a one-time technological alliance of Apple, IBM, and Motorola.
  Ex: Events marketed by multiple sponsors
- Finally, there is **retail** co-branding in which two retail establishments use the same location to optimize space and profits, such as jointly owned Pizza Hut, KFC, and Taco Bell restaurants.
  Ex: Samsung Phone on Amazon

Ingredient Branding

- For host products whose brands are not that strong, ingredient brands can provide differentiation and important signals of quality.
- Co-branding that creates brand equity for parts that are necessarily contained within other branded products (Intel-Inside campaign.)
- An interesting take on ingredient branding is self-branded ingredients that companies advertise and even trademark. Westin Hotels advertises its own "Heavenly Bed"—a critically important ingredient to a guest's good night's sleep.
- The brand has been so successful that Westin now sells the bed, pillows, sheets, and blankets via an online catalog, along with other "Heavenly" gifts, bath products, and even pet items.
- Ingredient brands try to create enough awareness and preference for their product so consumers will not buy a host product that doesn't contain it.

PACKAGING

- Packaging is important because it is the buyer's first encounter with the product.
- All the activities of designing and producing the container for a product
- A good package draws the consumer in and encourages product choice.
- In effect, it can act as a "five-second commercial" for the product.
- It also affects consumers' later product experiences when they open it and use what's inside.
- Some packages can even be attractively displayed at home.
- Distinctive packaging like that for Kiwi shoe polish, Altoids mints, and Absolut vodka is an important part of a brand's equity.

Several factors contribute to the growing use of packaging as a marketing tool.

- **Self-service.** In an average supermarket, which may stock 15,000 items, the typical shopper passes some 300 products per minute. Given that 50 percent to 70 percent of all purchases are made in the store, the effective package must perform many sales tasks: attract attention, describe the product's features, create consumer confidence, and make a favorable overall impression.
- **Consumer affluence**. Rising affluence means consumers are willing to pay a little more for the convenience, appearance, dependability, and prestige of better packages.
- **Company and brand image**. Packages contribute to instant recognition of the company or brand. In the store, they can create a billboard effect, as Garnier Fructis does with its bright green packaging in the hair care aisle.
- **Innovation opportunity**. Unique or innovative packaging can bring big benefits to consumers and profits to producers. Companies are always looking for a way to make their products more convenient and easier to use—often charging a premium when they do so.

Packaging must achieve a number of objectives as below. To achieve these **packaging objectives** and satisfy consumers' desires, marketers must choose the functional and aesthetic components of packaging correctly.

- Identify the brand
- Convey descriptive and persuasive information
- Facilitate product transportation and protection
- Assist at-home storage
- Aid product consumption

The Color Wheel of Branding and Packaging

Color is a particularly important aspect of packaging and carries different meanings in different cultures and market segments.

Color can define a brand, from Tiffany's blue box to Cadbury's purple wrapping and UPS's brown trucks. Orange, the telecom mobile operator, uses color as both its name and its look. Below list summarizes the beliefs of some visual marketing experts about the role of color in Western culture.

Red symbolizes excitement, energy, passion, courage, and being bold.
Orange connotes friendliness and fun. It combines the energy of red and the warmth of yellow.
Yellow, as the color of the sun, is equated with warmth, joy, and happiness.
Green, as the color of nature, connotes health, growth, freshness, and renewal.
Blue, as the color of the sky and sea, is associated with dependability, trust, competence, and integrity.
Purple has symbolized nobility, wealth, and wisdom. It combines the stability of blue and the energy of red.
Pink is considered to have soft, peaceful, comforting qualities.
Brown, as the color of the earth, connotes honesty and dependability.
Black is seen as classic, strong, and balanced.
White connotes purity, innocence, and cleanliness.

LABELING, WARRANTIES, AND GAURANTEES

Labelling

- A label performs several functions.
- First, it identifies the product or brand—for instance, the name Sunkist stamped on oranges.
- It might also grade the product; canned peaches are grade-labeled A, B, and C.
- The label might describe the product: who made it, where and when, what it contains, how it is to be used, and how to use it safely.
- Finally, the label might promote the product through attractive graphics.

Warranties

- All sellers are legally responsible for fulfilling a buyer's normal or reasonable expectations.
- Products under warranty can be returned to the manufacturer or designated repair center for repair, replacement, or refund.
- Whether expressed or implied, warranties are legally enforceable.

Guarantees

- Many sellers offer either general or specific guarantees.
- Guarantees reduce the buyer's perceived risk.
- They suggest that the product is of high quality and the company and its service performance are dependable.
- They can be especially helpful when the company or product is not well known or when the product's quality is superior to that of competitors.

For some years now, the Internet has been changing the way buyers and sellers interact.
A short list of how the Internet allows sellers to discriminate between buyers and buyers to discriminate between sellers:

- Get instant vendor price comparisons
  - Amazon
- Check prices at the point of purchase
  - Prices of Restaurant (Zomato)
- Name your price and have it met
- Get products free
- Monitor customer behavior & tailor offers
  - Air line offers
- Give customers access to special prices
  - Cash Back offers, Schemes. Discounts etc
- Negotiate prices online or even in person

Pricing practices have changed significantly, thanks in part to a severe recession in 2008–2009, a slow recovery, and rapid technological advances.
But the new millennial generation also brings new attitudes and values to consumption.
Renting, **borrowing**, and **sharing** are valid options to many.
Some say these new behaviors are creating a **sharing** economy in which consumers share bikes, cars, clothes, couches, apartments, tools, and skills and extracting more value from what they already own.
Bartering, one of the oldest ways of acquiring goods, is making a comeback through transactions estimated to total $12 billion annually in the United States.
Trade exchange companies like Florida Barter and Web sites like www.swap.com connect people and businesses seeking win-win solutions.
The sector of the new sharing economy that is really exploding is **rentals**.

Possible Consumer Reference Prices

- "Fair Price" (what consumers feel the product should cost)
- Typical Price
- Last Price Paid
- Upper-Bound Price (reservation price or the maximum most consumers would pay)
- Lower-Bound Price (lower threshold price or the minimum most consumers would pay)
- Historical Competitor Prices
- Expected Future Price
- Usual Discounted Price

CONSUMER PSYCHOLOGY AND PRICING

- Purchase decisions are based on how consumers perceive prices and what they consider the current actual price to be—not on the marketer's stated price.
- Customers may have a lower price threshold, below which prices signal inferior or unacceptable quality, and an upper price threshold, above which prices are prohibitive and the product appears not worth the money. Different people interpret prices in different ways.

Reference Prices

- Although consumers may have fairly good knowledge of price ranges, surprisingly few can accurately recall specific prices.
- When examining products, however, they often employ reference prices, comparing an observed price to an internal reference price they remember or an external frame of reference such as a posted "regular retail price."
- When consumers evoke one or more of these frames of reference, their perceived price can vary from the stated price.

Price-Quality Inferences

- Many consumers use price as an indicator of quality. Image pricing is especially effective with ego-sensitive products such as perfumes, expensive cars, and designer clothing.

Price Endings

- Many sellers believe prices should end in an odd number.
- Customers perceive an item priced at $299 to be in the $200 rather than the $300 range; they tend to process prices "left to right" rather than by rounding.
- Price encoding in this fashion is important if there is a mental price break at the higher, rounded price.
- Another explanation for the popularity of "9" endings is that they suggest a discount or bargain, so if a company wants a high-price image, it should probably avoid the odd-ending tactic.

How companies should price?

In small companies, the boss often sets prices. In large companies, division and product line managers do. Even here, top management sets general pricing objectives and policies and often approves lower management's proposals.
Many companies do not handle pricing well and fall back on "strategies" such as: "We calculate our costs and add our industry's traditional margins." Other common mistakes are not revising price often enough to capitalize on market changes; setting price independently of the rest of the marketing program rather than as an intrinsic element of market-positioning strategy; and not varying price enough for different product items, market segments, distribution channels, and purchase occasions.
For any organization, effectively designing and implementing pricing strategies requires a thorough understanding of consumer pricing psychology and a systematic approach to setting, adapting, and changing prices.

STEP 1 – SELECTING PRICING OBJECTIVE

The company first decides where it wants to position its market offering. The clearer a firm's objectives, the easier it is to set price. Five major objectives are: *survival, maximum current profit, maximum market share, maximum market skimming, and product-quality leadership*.

Survival Companies

- pursue survival as their major objective if they are plagued with overcapacity, intense competition, or changing consumer wants.
  As long as prices cover variable costs and some fixed costs, the company stays in business.

Maximum Current Profit

- Many companies try to set a price that will maximize current profits.
- They estimate the demand and costs associated with alternative prices and choose the price that produces maximum current profit, cash flow, or rate of return on investment.

Maximum Market Share

- Some companies want to maximize their market share.
- They believe a higher sales volume will lead to lower unit costs and higher long-run profit, so they set the lowest price, assuming the market is price sensitive.
- Texas Instruments famously practiced this market-penetration pricing for years.
- The company would build a large plant, set its price as low as possible, win a large market share, experience falling costs, and cut its price further as costs fell.

Maximum Market Skimming

- Companies unveiling a new technology favor setting high prices to maximize market skimming.
- Sony has been a frequent practitioner of market-skimming pricing, in which prices start high and slowly drop over time.

Product-Quality Leadership

- A company might aim to be the product-quality leader in the market.
- Many brands strive to be "affordable luxuries"—products or services characterized by high levels of perceived quality, taste, and status with a price just high enough not to be out of consumers' reach.

Other Objectives

- Nonprofit and public organizations may have other pricing objectives.
- A university aims for partial cost recovery, knowing that it must rely on private gifts and public grants to cover its remaining costs.
- A nonprofit hospital may aim for full cost recovery in its pricing.
- A nonprofit theater company may price its productions to fill the maximum number of seats.
- A social service agency may set a service price geared to client income.

STEP 2 – DETERMINING DEMAND

Price Sensitivity

- The demand curve shows the market's probable purchase quantity at alternative prices, summing the reactions of many individuals with different price sensitivities.
- The first step in estimating demand is to understand what affects price sensitivity. Generally speaking, customers are less price sensitive to low-cost items or items they buy infrequently.
- They are also less price sensitive when
  1. there are few or no substitutes or competitors
  2. they do not readily notice the higher price
  3. they are slow to change their buying habits
  4. they think the higher prices are justified
  5. price is only a small part of the total cost of obtaining, operating, and servicing the product over its lifetime.
- Factors that reduce Price Sensitivity
  - The product is more distinctive.
  - Buyers are less aware of substitutes.
  - Buyers cannot easily compare the quality of substitutes.
  - The expenditure is a smaller part of the buyer's total income.
  - The expenditure is small compared to the total cost of the end product.
  - Part of the cost is borne by another party.
  - The product is used in conjunction with assets previously bought.
  - The product is assumed to have more quality, prestige, or exclusiveness.
  - Buyers cannot store the product.

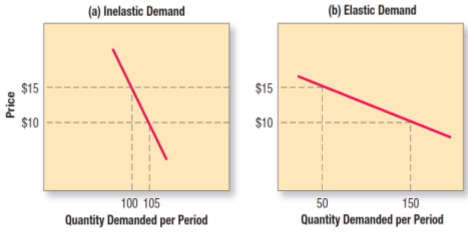
Estimating Demand Curves

- Most companies attempt to measure their demand curves using several different methods.
- *Surveys* can explore how many units' consumers would buy at different proposed prices.
- *Price* experiments can vary the prices of different products in a store or of the same product in similar territories to see how the change affects sales.
- *Statistical analysis* of past prices, quantities sold, and other factors can reveal their relationships.

Price Elasticity of Demand

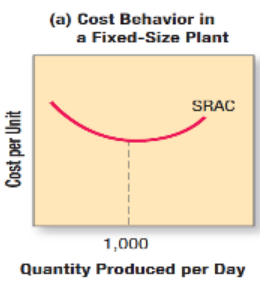
- Marketers need to know how responsive, or elastic, demand is to a change in price.
- Each price will lead to a different level of demand and have a different impact on a company's marketing objectives.
- The normally inverse relationship between price and demand is captured in a demand curve
- The higher the price, the lower the demand. For prestige goods, the demand curve sometimes slopes upward. Some consumers take the higher price to signify a better product.
- However, if the price is too high, demand may fall.

- If demand hardly changes with a small change in price, we say it is inelastic.
- If demand changes considerably, it is elastic.

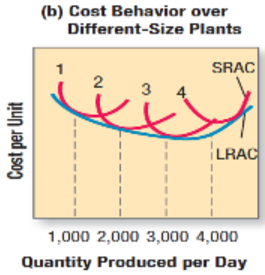


STEP 3 – ESTIMATING COSTS

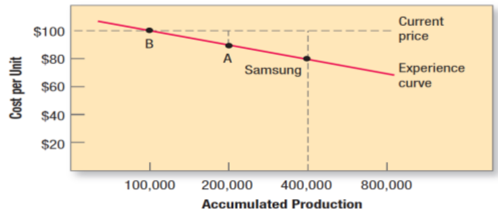
- Demand sets a ceiling on the price the company can charge for its product.
- Costs set the floor.
- The company wants to charge a price that covers its cost of producing, distributing, and selling the product, including a fair return for its effort and risk.
- A company's costs take two forms, fixed and variable.
- **Fixed costs**, also known as **overhead**, are costs that do not vary with production level or sales revenue.
- A company must pay bills each month for rent, heat, interest, salaries, and so on, regardless of output.
- **Variable costs** vary directly with the level of production.
- For example, each tablet computer produced by Samsung incurs the cost of plastic and glass, microprocessor chips and other electronics, and packaging.
- **Total costs** consist of the sum of the fixed and variable costs for any given level of production.
- **Average cost** is the cost per unit at that level of production; it equals total costs divided by production.
- Management wants to charge a price that will at least cover the total production costs at a given level of production.
- To price intelligently, management needs to know how its costs vary with different levels of production.
- Take the case in which a company such as Samsung has built a fixed-size plant to produce 1,000 tablet computers a day. The cost per unit is high if few units are produced per day. As production approaches 1,000 units per day, the average cost falls because the fixed costs are spread over more units. Short-run average cost increases after 1,000 units, however, because the plant becomes inefficient: Workers must line up for machines, getting in each other's way, and machines break down more often.



- If Samsung believes it can sell 2,000 units per day, it should consider building a larger plant. The plant will use more efficient machinery and work arrangements, and the unit cost of producing 2,000 tablets per day will be lower than the unit cost of producing 1,000 per day. This is shown in the long-run average cost curve (LRAC) in Figure 16.2(b). In fact, a 3,000-capacity plant would be even more efficient according to Figure 16.2(b), but a 4,000-daily production plant would be less so because of increasing diseconomies of scale: There are too many workers to manage, and paperwork slows things down. Figure 16.2(b) indicates that a 3,000-daily production plant is the optimal size if demand is strong enough to support this level of production.



- Suppose Samsung runs a plant that produces 3,000 tablet computers per day. As the company gains experience producing tablets, its methods improve. Workers learn shortcuts, materials flow more smoothly, and procurement costs fall. The result, as Figure shows, is that average cost falls with **accumulated production** experience. Thus the average cost of producing the first 100,000 tablets is $100 per tablet. When the company has produced the first 200,000 tablets, the average cost has fallen to $90. After its accumulated production experience doubles again to 400,000, the average cost is $80. This decline in the average cost with accumulated production experience is called the experience curve or learning curve.



- Now suppose three firms compete in this particular tablet market, Samsung, A, and B. Samsung is the lowest cost producer at $80, having produced 400,000 units in the past. If all three firms sell the tablet for $100, Samsung makes $20 profit per unit, A makes $10 per unit, and B breaks even. The smart move for Samsung would be to lower its price to $90. This will drive B out of the market, and even A may consider leaving. Samsung will pick up the business that would have gone to B (and possibly A). Furthermore, price-sensitive customers will enter the market at the lower price. As production increases beyond 400,000 units, Samsung's costs will drop still further and faster, more than restoring its profits, even at a price of $90.
- Costs change with production scale and experience. They can also change as a result of a

concentrated effort by designers, engineers, and purchasing agents to reduce them through target costing. Market research establishes a new product's desired functions and the price at which it will sell, given its appeal and competitors' prices. This price less desired profit margin leaves the **target cost** the marketer must achieve.

- The firm must examine each cost element—design, engineering, manufacturing, sales—and bring down costs so the final cost projections are in the target range. Cost cutting cannot go so deep as to compromise the brand promise and value delivered. Despite the early success of the PT Cruiser, Chrysler chose to squeeze out more profit by avoiding certain redesigns and cutting costs with cheaper radios and inferior materials. Once a best-selling car, the PT Cruiser was eventually discontinued.

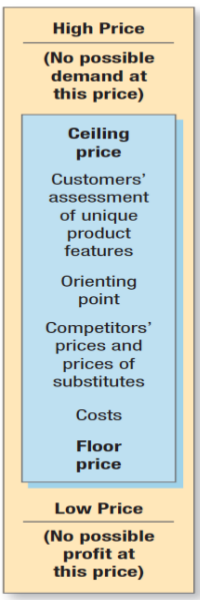
STEP 4 – ANALYZING COMPETITORS' PRICES

- If the firm's offer contains features not offered by the nearest competitor, it should evaluate their worth to the customer and add that value to the competitor's price.
- If the competitor's offer contains some features not offered by the firm, the firm should subtract their value from its own price.
- Now the firm can decide whether it can charge more, the same, or less than the competitor.
- **Value-priced competitors** - Companies offering the powerful combination of low price and high quality are capturing the hearts and wallets of consumers all over the world.
- Value players, such as Aldi, E*TRADE Financial, JetBlue Airways, Southwest Airlines, Target, and Walmart, are transforming the way consumers of nearly every age and income level purchase groceries, apparel, airline tickets, financial services, and other goods and services.

STEP 5 – SELECTING A PRICING METHOD

Given the customers' demand schedule, the cost function, and competitors' prices, the company is now ready to select a price.

- Companies select a pricing method that includes one or more of these three considerations.
- We will examine seven price-setting methods: markup pricing, target-return pricing, perceived-value pricing, value pricing, EDLP, going-rate pricing, and auction-type pricing.
- Three major considerations in price
  - Costs = price floor
  - Competitors' prices = orienting point
  - Customers' assessment of unique features = price ceiling



- The most elementary pricing method is to add a standard markup to the product's cost. Construction companies submit job bids by estimating the total project cost and adding a standard markup for profit.

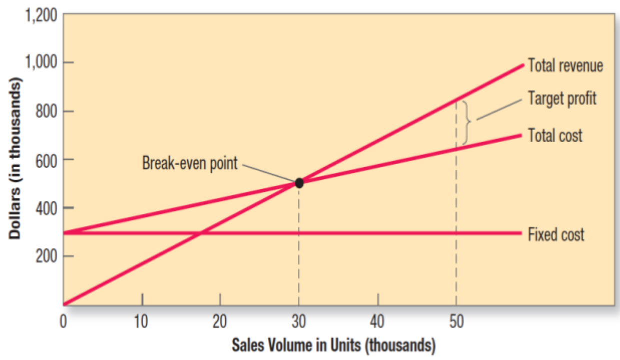
$$Markup\ price = \frac{unit\ cost}{1 - desired\ return\ on\ sales}$$

- Lawyers and accountants typically price by adding a standard markup on their time and costs.
- Assume the manufacturer wants to earn a 20 percent markup on sales.
- The manufacturer will charge dealers $20 per toaster and make a profit of $4 per unit. If dealers want to earn 50 percent on their selling price, they will mark up the toaster 100 percent to $40.

- In **target-return pricing**, the firm determines the price that yields its target rate of return on investment. Public utilities, which need to make a fair return on investment, often use this method.
- Suppose the toaster manufacturer has invested $1 million in the business and wants to set a price to earn a 20 percent ROI, specifically $200,000.
- The target-return price of $20 is calculated by the formula:

$$Target\ return\ price = unit\ cost + \frac{desired\ return \times invested\ capital}{unit\ sales}$$

- The manufacturer can prepare a break-even chart to learn what would happen at other sales levels.



- Fixed costs are $300,000 regardless of sales volume.
- Variable costs, not shown in the figure, rise with volume.
- Total costs equal the sum of fixed and variable costs.
- The total revenue curve starts at zero and rises with each unit sold.
- The total revenue and total cost curves cross at 30,000 units.
- This is the **break-even volume**.

$$Break\ even\ volume = \frac{fixed\ cost}{price - variable\ cost}$$

Perceived-value Pricing

- An increasing number of companies now base their price on the customer's perceived value. Companies must deliver the value promised by their value proposition, and the customer must perceive this value.
- Firms use the other marketing program elements, such as advertising, sales force, and the Internet, to communicate and enhance perceived value in buyers' minds.
- Ensuring that customers appreciate the total value of a product or service offering is crucial.
- The key to perceived-value pricing is to deliver more unique value than competitors and to demonstrate this to prospective buyers.
- The company can try to determine the value of its offering in several ways: managerial judgments within the company, value of similar products, focus groups, surveys, experimentation, analysis of historical data, and conjoint analysis.
- *Example of Perceived Value Pricing*
  Our bike gives mileage of 80 km per liter of petrol, the salesman at the showroom said. The competitor's bike, in comparison gives 60 km per liter of petrol. Secondly, our bikes are built to 99.9% Japanese reliability, which would mean 0.3 days of maintenance work in a year. The other bike, if I choose to say something nice about it, would probably have 99% reliability which means nearly 3.5 days in the service center.
  If you drive for 40 km in a day, that is 15000 km in a year. That is saving 50-liter petrol in just one year. That is equal to Rs. 3500. If you keep the bike for 5 years, you have saved, Rs. 17,500.
  Then you save three days at the service center, which is equal to Rs. 2500. That more than explains why my bike is costlier by Rs. 10,000.

Value Pricing

- Companies that adopt value pricing win loyal customers by charging a fairly low price for a high-quality offering.
- Value pricing is thus not a matter of simply setting lower prices; it is a matter of reengineering the company's operations to become a low-cost producer without sacrificing quality to attract a large number of value-conscious customers.

EDLP

- A retailer using everyday low pricing (EDLP) charges a constant low price with little or no price promotion or special sales.
- Constant prices eliminate week-to-week price uncertainty and the high-low pricing of promotion-oriented competitors.
- In high-low pricing, the retailer charges higher prices on an everyday basis but runs frequent promotions with prices temporarily lower than the EDLP level.

Going-Rate Pricing

- In going-rate pricing, the firm bases its price largely on competitors' prices.
- Going-rate pricing is quite popular.
- Where costs are difficult to measure or competitive response is uncertain, firms feel it is a good solution because they believe it reflects the industry's collective wisdom.

Auction-type pricing

- Auction-type pricing is growing more popular, especially with scores of electronic marketplaces selling everything from pigs to used cars as firms dispose of excess inventories or used goods.
- These are the three major types of auctions and their separate pricing procedures:
- *English auctions* (ascending bids) have one seller and many buyers. On sites such as eBay and Amazon.com, the seller puts up an item and bidders raise their offer prices until the top price is reached.
- *Dutch auctions* (descending bids) feature one seller and many buyers or one buyer and many sellers. In the first kind, an auctioneer announces a high price for a product and then slowly decreases the price until a bidder accepts. In the other, the buyer announces something he or she wants to buy, and potential sellers compete to offer the lowest price.
- *Sealed-bid auctions* let would-be suppliers submit only one bid; they cannot know the other bids. The U.S. and other governments often use this method to procure supplies or to grant licenses.

STEP 6 – SELECTING THE FINAL PRICE

Pricing methods narrow the range from which the company must select its final price.

Impact of Other Marketing Activities

- The final price must take into account the brand's quality and advertising relative to the competition.
- High advertising fetches a price premium.

Company Pricing Policies

- The price must be consistent with company pricing policies.
- Yet companies are not averse to establishing pricing penalties under certain circumstances.
- Ola charges for cancellations
- OYO penalizes hotels for deviations.

Gain-and-Risk-Sharing

- Pricing Buyers may resist accepting a seller's proposal because they perceive a high level of risk, such as in a big computer hardware purchase or a company health plan.
- The seller then has the option of offering to absorb part or all the risk if it does not deliver the full promised value.

- Extended warranty, Lawyer's Fees in US as a proportion of damage won.

Impact of Price on Other Parties

- How will distributors and dealers feel about the contemplated price?
- If they don't make enough profit, they may choose not to bring the product to market.
- Will the sales force be willing to sell at that price?
- How will competitors react?
- Will suppliers raise their prices when they see the company's price?
- Will the government intervene and prevent this price from being charged?
- Sales Team, Dealers, competitors

ADAPTING THE PRICE

- Companies usually do not set a single price but rather develop a pricing structure that reflects variations in geographical demand and costs, market-segment requirements, purchase timing, order levels, delivery frequency, guarantees, service contracts, and other factors.
- As a result of discounts, allowances, and promotional support, a company rarely realizes the same profit from each unit of a product that it sells.
- In geographical pricing, the company decides how to price its products to different customers in different locations and countries.
- Countertrade may account for 15 percent to 20 percent of world trade and takes several forms:
- **Barter**. The buyer and seller directly exchange goods, with no money and no third party involved.
- **Compensation** deal. The seller receives some percentage of the payment in cash and the rest in products.
- **Buyback arrangement.** The seller sells a plant, equipment, or technology to a company in another country and agrees to accept as partial payment products manufactured with the supplied equipment.
- **Offset**. The seller receives full payment in cash for a sale overseas but agrees to spend a substantial amount of the money in that country within a stated time period.
- In the Gorbachev era, PepsiCo sold its cola syrup to the government of the Soviet Union for rubles and agreed to buy Russian vodka at a certain rate for sale in the United States.
- Most companies will adjust their list price and give discounts and allowances for early payment, volume purchases, and off-season buying.
- Companies must do this carefully or find their profits much lower than planned.
- Discount pricing has become the modus operandi of a surprising number of companies offering both products and services.
- Price Discounts and Allowances:
    - **Discount** - A price reduction to buyers who pay bills promptly. A typical example is "2/10, net 30," which means payment is due within 30 days and the buyer can deduct 2 percent by paying within 10 days.
    - **Quantity Discount** - A price reduction to those who buy large volumes. A typical example is "$10 per unit for fewer than 100 units; $9 per unit for 100 or more units." Quantity discounts must be offered equally to all customers and must not exceed the cost savings to the seller. They can be offered on each order placed or on the number of units ordered over a given period.
    - **Functional Discount** - Discount (also called trade discount) offered by a manufacturer to trade-channel members if they perform certain functions, such as selling, storing, and record keeping. Manufacturers must offer the same functional discounts within each channel.
    - **Seasonal Discount** - A price reduction to those who buy merchandise or services out of season. Hotels, motels, and airlines offer seasonal discounts in slow selling periods.
    - **Allowance** - An extra payment designed to gain reseller participation in special programs. Trade-in allowances are granted for turning in an old item when buying a new one. Promotional allowances reward dealers for participating in advertising and sales support programs.

Companies can use several pricing techniques to stimulate early purchase:

Promotional Pricing

- Ex: 2 garments, 30% discount

Loss-leader pricing.

- Supermarkets and department stores often drop the price on well-known brands to stimulate additional store traffic.
- This pays if the revenue on the additional sales compensates for the lower margins on the loss-leader items.
- A product is sold at a very low price, sometimes incurring a loss, so that the firm could attract customers and make profit on other items.

Special event pricing.

- Sellers will establish special prices in certain seasons to draw in more customers.
- Every August, there are back-to-school sales.
- Diwali discounts

Special customer pricing.

- Sellers will offer special prices exclusively to certain customers.

Cash rebates.

- Auto companies and other consumer-goods companies offer cash rebates to encourage purchase of the manufacturers' products within a specified time period.

Low-interest financing.

- Instead of cutting its price, the company can offer low-interest financing.

Longer payment terms.

- Sellers, especially mortgage banks and auto companies, stretch loans over longer periods and thus lower the monthly payments.

Warranties and service contracts.

- Companies can promote sales by adding a free or low-cost warranty or service contract.

Psychological discounting.

- This strategy sets an artificially high price and then offers the product at substantial savings.
- for example, "Was $359, now $299."

Price discrimination

Price discrimination occurs when a company sells a product or service at two or more prices that do not reflect a proportional difference in costs.

In first-degree price discrimination, the seller charges a separate price to each customer depending on the intensity of his or her demand. In second-degree price discrimination, the seller charges less to buyers of larger volumes.

In third-degree price discrimination, the seller charges different amounts to different classes of buyers, as in the following cases

- **Customer-segment pricing.** Different customer groups pay different prices for the same product or service. For example, museums often charge a lower admission fee to students and senior citizens.
- **Product-form pricing.** Different versions of the product are priced differently, but not in proportion to their costs. Evian prices a 2-liter bottle of its mineral water as low as $1 but 5 ounces of the same water in a moisturizer spray for as much as $12.
- **Image pricing.** Some companies price the same product at two different levels based on image differences. A perfume manufacturer can put a scent in one bottle, give it a name and image, and price it at $10 an ounce. The same scent in another bottle with a different name and image can sell for $30 an ounce.
- **Channel pricing.** Coca-Cola carries a different price depending on whether the consumer purchases it from a fine restaurant, a fast-food restaurant, or a vending machine.
- **Location pricing.** The same product is priced differently at different locations even though the cost of offering it at each location is the same. A theater varies its seat prices according to audience preferences for different locations.
- **Time pricing.** Prices vary by season, day, or hour. Restaurants charge less to "early bird" customers, and some hotels charge less on weekends. Retail prices for roses increase by as much as 200 percent in the lead-up to Valentine's Day.
- **Yielding pricing.** The airline and hospitality industries use yield management systems and yield pricing, by which they offer discounted but limited early purchases, higher-priced late purchases, and the lowest rates on unsold inventory just before it expires.

INITIATING AND RESPONDING TO PRICE CHANGES

Several circumstances might lead a firm to cut prices.

One is excess plant capacity:

The firm needs additional business and cannot generate it through increased sales effort, product improvement, or other measures.

Companies sometimes **initiate price cuts** in a drive to dominate the market through lower costs.

Either the company starts with lower costs than its competitors, or it initiates price cuts in the hope of gaining market share and lower costs.

Cutting prices to keep customers or beat competitors often encourages customers to demand price concessions, however, and trains salespeople to offer them.

A price-cutting strategy can lead to other possible traps:

- **Low-quality trap**. Consumers assume quality is low.
- **Fragile-market-share trap**. A low price buys market share but not market loyalty. The same customers will shift to any lower-priced firm that comes along.
- **Shallow-pockets trap**. Higher-priced competitors match the lower prices but have longer staying power because of deeper cash reserves.
- **Price-war trap.** Competitors respond by lowering their prices even more, triggering a price war.

Initiating Price Increases

A successful price increase can raise profits considerably.

A major circumstance provoking price increases is cost inflation.

Rising costs unmatched by productivity gains squeeze profit margins and lead companies to regular rounds of price increases.

Companies often raise their prices by more than the cost increase, in anticipation of further inflation or government price controls, in a practice called anticipatory pricing.

Another factor leading to price increases is overdemand.

When a company cannot supply all its customers, it can raise its prices, ration supplies, or both.

It can increase price in the following ways, each of which has a different impact on buyers.

Delayed quotation pricing.

- The company does not set a final price until the product is finished or delivered.

- This pricing is prevalent in industries with long production lead times, such as industrial construction and heavy equipment.

Escalator clauses.

- The company requires the customer to pay today's price plus all or part of any inflation increase that takes place before delivery.
- Escalator clauses base price increases on some specified price index.
- They are found in contracts for major industrial projects, such as aircraft construction and bridge building.

Unbundling.

- The company maintains its price but removes or prices separately one or more elements that were formerly part of the offer, such as delivery or installation.
- Car companies sometimes add higher-end audio entertainment systems or GPS navigation systems to their vehicles as separately priced extras.

Reduction of discounts.

- The company instructs its sales force not to offer its normal cash and quantity discounts.

TABLE 16.5 Profits before and after a Price Increase

	Before	After	
Price	$10	$10.10	(a 1% price increase)
Units sold	100	100	
Revenue	$1,000	$1,010	
Costs	–970	–970	
Profit	$30	$40	(a 33 1/3% profit increase)

If the company's profit margin is 3 percent of sales, a 1 percent price increase will increase profits by 33 percent if sales volume is unaffected.

The assumption is that a company charged $10 and sold 100 units and had costs of $970, leaving a profit of $30, or 3 percent on sales.

By raising its price by 10 cents (a 1 percent price increase), it boosted its profits by 33 percent, assuming the same sales volume.

Anticipating Competitive Responses

- The introduction or change of any price can provoke a response from customers, competitors, distributors, suppliers, and even government.
- Competitors are most likely to react when the number of firms is few, the product is homogeneous, and buyers are highly informed.
- How can a firm anticipate a competitor's reactions?
- One way is to assume the competitor reacts in the standard way to a price being set or changed.
- Another is to assume the competitor treats each price difference or change as a fresh challenge and reacts according to self-interest at the time.

Responding to competitor's price change

- How should a firm respond to a competitor's price cut?
- It depends on the situation.
- The company must consider the product's stage in the life cycle, its importance in the company's portfolio, the competitor's intentions and resources, the market's price and quality sensitivity, the behavior of costs with volume, and the company's alternative opportunities.

Place – The 'Invisible' P of Marketing

- Invisible, yet crucial
- *Product* is tangible, *price* hits the pocket, *promotion* catches the eye
- Only those product sell which are available.
- A firm might do saturation advertising and stimulate the sale of the competition if its products are not available.
- A dissatisfied dealer or channel partner can kill sales by badmouthing a brand.
- We need to understand how the channel works, there concerns and issues and Find ways to handle them.

MARKETING CHANNELS & VALUE NETWORKS

- Most producers do not sell their goods directly to the final users; between them stands a set of intermediaries performing a variety of functions.
- These intermediaries constitute a marketing channel (also called a trade channel or distribution channel).
- Some intermediaries—such as wholesalers and retailers—buy, take title to, and resell the merchandise; they are called merchants.
- Others—brokers, manufacturers' representatives, sales agents—search for customers and may negotiate on the producer's behalf but do not take title to the goods; they are called agents.
- Still others— transportation companies, independent warehouses, banks, advertising agencies—assist in the distribution process but neither take title to goods nor negotiate purchases or sales; they are called facilitators.

Intermediary	Stocks	Owns	Sell	Affiliated
Distributor	Y	Y	Y	Y
Stockist	Y	Y	N	Y
Wholesaler*	Y	Y	Y	N
Carrying and Forwarding Agent	Y	N	N	Y
Dealer (Retailer)	Y	Y	Y	Y/N

- After a company has chosen a channel system, it must select, train, motivate, and evaluate intermediaries for each channel. It must also modify channel design and arrangements over time, including the possibility of expansion into international markets.
- To customers, the channels are the company. To facilitate channel member selection, producers should determine what characteristics distinguish the better intermediaries—number of years in business, other lines carried, growth and profit record, financial strength, cooperativeness, and service reputation.
- Carefully implemented training, market research, and other capability-building programs can motivate and improve intermediaries' performance. The company must constantly communicate that intermediaries are crucial partners in a joint effort to satisfy end users of the product.
- Producers must periodically evaluate intermediaries' performance against such standards as sales-quota attainment, average inventory levels, customer delivery time, treatment of damaged and lost goods, and cooperation in promotional and training programs.
- No channel strategy remains effective over the whole product life cycle. In competitive markets with low entry barriers, the optimal channel structure will inevitably change over time. Channel Evolution A new firm typically starts as a local operation selling in a fairly circumscribed market, using a few existing intermediaries. Identifying the best channels might not be a problem; the problem is often to convince the available intermediaries to handle the firm's line. In short, the channel system evolves as a function of local opportunities and conditions, emerging threats and opportunities, and company resources and capabilities.
- A producer must periodically review and modify its channel design and arrangements.
- International markets pose distinct challenges, including variations in customers' shopping habits and the need to gain social acceptance or legitimacy among others, but opportunities do exist.

Channel Functions

- Address spatial discrepancy
  - Covers the distance between manufacturer and buyer.
- Address temporal discrepancy
  - Covers the time gap between manufacturing and consumption
- Bulk Breaking
  - Reduces lot sizes to achieve scale economies
  - Provides credit to smaller retailers and working capital to company
- Assortment
  - Provide options to the customer.
- Information and promotion

- Information about product, customer promotion gifts etc. (manufacturer to customer)
  - Customer and competitor information (customer to manufacturer)
- Service
  - Providing after sales service to customers
- Spares and Returned Goods logistics
- Managing Relationships
  - B2B segment

Channel Member Functions

A marketing channel performs the work of moving goods from producers to consumers.
It overcomes the time, place, and possession gaps that separate goods and services from those who need or want them.
Members of the marketing channel perform a number of key functions:

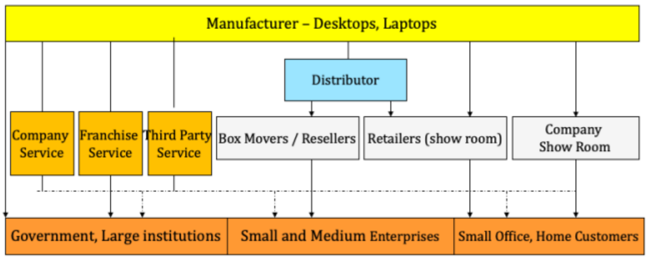
- Gather information about potential and current customers, competitors, and other actors and forces in the marketing environment.
- Develop and disseminate persuasive communications to stimulate purchasing.
- Negotiate and reach agreements on price and other terms so that transfer of ownership or possession can be affected.
- Place orders with manufacturers.
- Acquire the funds to finance inventories at different levels in the marketing channel.
- Assume risks connected with carrying out channel work.
- Provide for the successive storage and movement of physical products.
- Provide for buyers' payment of their bills through banks and other financial institutions.
- Oversee actual transfer of ownership from one organization or person to another.

Marketing Channel

- One of the chief roles of marketing channels is to convert potential buyers into profitable customers.
- Marketing channels must not just serve markets, they must also make them.
- In managing its intermediaries, the firm must decide how much effort to devote to push and to pull marketing.
- A **push strategy** uses the manufacturer's sales force, trade promotion money, or other means to induce intermediaries to carry, promote, and sell the product to end users.
- In a **pull strategy** the manufacturer uses advertising, promotion, and other forms of communication to persuade consumers to demand the product from intermediaries, thus inducing the intermediaries to order it.
- Pull strategy has a higher element of risk.

Multichannel Marketing

- Each channel can target a different segment of buyers, or different need states for one buyer, to deliver the right products in the right places in the right way at the least cost.
- When this doesn't happen, channel conflict, excessive cost, or insufficient demand can result.
- Research has shown that multichannel customers can be more valuable to marketers.
- Most companies today have adopted multichannel marketing.
- Companies are increasingly employing digital distribution strategies, selling directly online to customers or through e-merchants who have their own Web sites.



- In doing so, these companies are seeking to achieve **omni-channel marketing**, in which multiple channels work seamlessly together and match each target customer's preferred ways of doing business, delivering the right product information and customer service regardless of whether customers are online, in the store, or on the phone.
- An **integrated marketing** channel system is one in which the strategies and tactics of selling through one channel reflect the strategies and tactics of selling through one or more other channels.
- Challenges of multi-channel
  - Price Imbalance
  - Territory Poaching
  - Margin Cutting

Digital Channels Revolution

- The digital revolution is profoundly transforming distribution strategies.
- With customers—both individuals and businesses—becoming more comfortable buying online and the use of smart phones exploding, traditional brick-and-mortar channel strategies are being modified or even replaced.
- Customers want the advantages both of digital—vast product selection, abundant product information, helpful customer reviews and tips—and of physical stores—highly personalized service, detailed physical examination of products, an overall event and experience.
- Customer support in store/online/phone
- Check online for product availability at local stores
- Order product online to pick up at store
- Return a product purchased online to a nearby store

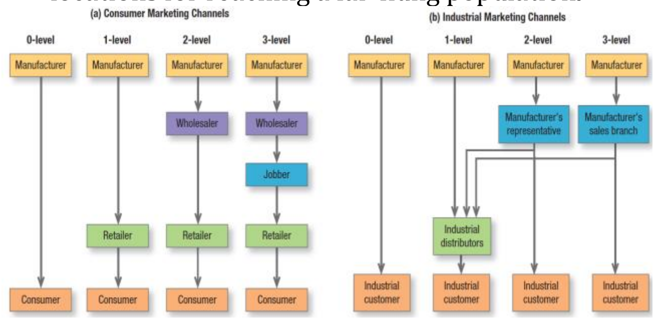
Value Network

- A value network includes a firm's suppliers and its suppliers' suppliers and its immediate customers and their end customers.
- It also incorporates valued relationships with others such as university researchers and government approval agencies.
- A supply chain view of a firm sees markets as destination points and amounts to a linear view of the flow of ingredients and components through the production process to their ultimate sale to customers.
  The company should first think of the target market, however, and then design the supply chain backward from that point.
- This strategy has been called **demand chain planning**.

THE ROLE OF MARKETING CHANNELS

The producer and the final customer are part of every channel.
We will use the number of intermediary levels to designate the length of a channel.

- A **zero-level channel**, also called a **direct marketing channel**, consists of a manufacturer selling directly to the final customer.
- The major examples are mail order, online selling, TV selling, telemarketing, door-to-door sales, home parties, and manufacturer-owned stores.
- A **one-level channel** contains one selling intermediary, such as a retailer.
- A **two-level channel** contains two intermediaries, typically a wholesaler and a retailer, and
- a three-level channel contains three.
- Channels normally describe a forward movement of products from source to user, but **reverse-flow channels** are also important
  (1) to reuse products or containers (such as refillable chemical-carrying drums),
  (2) to refurbish products for resale (such as circuit boards or computers),
  (3) to recycle products, and
  (4) to dispose of products and packaging. Reverse-flow intermediaries include manufacturers' redemption centers, community groups, trash-collection specialists, recycling centers, trash-recycling brokers, and central processing warehousing.
- Many of the most successful new banks, insurance and travel companies, and stock brokerages have emerged with strictly or largely online operations, such as Ally banking, Esurance insurance, Expedia travel, and E*TRADE investments.
- Marketing channels also keep changing for "person marketing." Nonprofit service organizations such as schools develop education-dissemination systems and hospitals develop health-delivery systems.
- These institutions must figure out agencies and locations for reaching a far-flung population.



Above figure illustrates several consumer-goods marketing channels of different lengths.
Also, shows channels commonly used in B-to-B marketing.
An industrial-goods manufacturer can use its sales force to sell directly to industrial customers, or it can sell to industrial distributors who sell to industrial customers, or it can sell through manufacturer's representatives or its own sales branches directly to industrial customers or indirectly to industrial customers through industrial distributors. Zero-, one-, and two-level marketing channels are quite common.

CHANNEL DESIGN

- We need to design a channel that would carry our products and services to our customers.
- Channel decisions are taken at many different levels within the organization.
- Dell operated on the Direct from Dell principle globally for decades till the emergence of the consumer sector forced them to change their tack.
- Samsung in the IT business worked with National Distributors who supplied to Regional Distributors who in turn made the products available to local retailers. LG its competitor chose to work with Regional Distributors and ignored the national distributors.
- A sales executive posted to a city often has to design the channel for his market.

Consumers may choose the channels they prefer based on price, product assortment, and convenience as well as their own shopping goals (economic, social, or experiential).
Channel segmentation exists, and marketers must be aware that different consumers have different needs during the purchase process.
Channels produce five service outputs:

1. **Desired lot size**—The number of units the channel permits a typical customer to purchase on one occasion.
   One car, a packet of ten biscuits for the end customer.
   A carton of biscuits for a retailer
2. **Waiting and delivery time**—The average time customers wait for receipt of goods. Customers increasingly prefer faster delivery channels.
   Low waiting time would call for (costly) intensive distribution.

3. **Spatial convenience**—The degree to which the marketing channel makes it easy for customers to purchase the product.
   If the customer is not willing to travel far, intensive distribution
4. **Product variety**—The assortment provided by the marketing channel. Normally, customers prefer a greater assortment because more choices increase the chance of finding what they need, though too many choices can sometimes create a negative effect.
5. **Service backup**—Add-on services (credit, delivery, installation, repairs) provided by the channel. The more service backup, the greater the benefit provided by the channel.

Marketers should state their channel objectives in terms of the service output levels they want to provide and the associated cost and support levels.
Channel objectives vary with product characteristics.
Marketers must adapt their channel objectives to the larger environment.
When economic conditions are depressed, producers want to move goods to market using shorter channels and without services that add to the final price.
Legal regulations and restrictions also affect channel design.

Objective

- The products must reach the customer without damage.
- The products must be sold by honest retailers. Due care must be taken to avoid it falling into unscrupulous middlemen.
- The channel must allow for reverse flow for damaged or defective goods.
- The operation of the channel should generate profit for all.

Constraints

- During the first year, we can employ 100 sales personnel to service this channel.
- We cannot allow for credit.

IDENTIFYING MAJOR CHANNEL ALTERNATIVES

Each channel—from sales forces to *agents, distributors, dealers, direct mail, telemarketing, and the Internet*—has unique strengths and weaknesses.
Channel alternatives differ in three ways: **the types of intermediaries**, the **number needed**, and the **terms and responsibilities** of channel members.
Larger the number of intermediaries, the greater would-be price competition among them Leading to erosion of profits.
Three strategies based on the number of intermediaries are **exclusive**, **selective**, and **intensive** distribution.

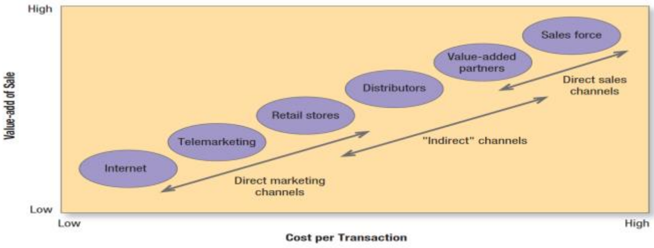
- Exclusive distribution severely limits the number of intermediaries.
- Selective distribution relies on only some of the intermediaries willing to carry a particular product.
- Whether established or new, the company does not need to worry about having too many outlets; it can gain adequate market coverage with more control and less cost than intensive distribution. Intensive distribution places the goods or services in as many outlets as possible.

The main elements in the "*trade relations mix*" are price policies, conditions of sale, territorial rights, and specific services to be performed by each party.

- **Price policy** calls for the producer to establish a price list and schedule of discounts and allowances that intermediaries see as equitable and sufficient.
- **Conditions of sale** refers to payment terms and producer guarantees. Most producers grant cash discounts to distributors for early payment. They might also offer a guarantee against defective merchandise or price declines, creating an incentive to buy larger quantities.
- **Distributors' territorial rights** define the distributors' territories and the terms under which the producer will enfranchise other distributors. Distributors normally expect to receive full credit for all sales in their territory, whether or not they did the selling.
- **Mutual services and responsibilities** must be carefully spelled out, especially in franchised and exclusive agency Channels. Sales Support, Product Return Terms

Economic Criteria.

- Each channel alternative needs to be evaluated against economic, control, and adaptive criteria.
- Every channel member will produce a different level of sales and costs.
- Figure shows how six different sales channels stack up in terms of the value added per sale and the cost per transaction.



- A Zero level channel where the Company directly sells to customer is also called a direct marketing channel.
- Retail stores mentioned above are company owned retail stores.

Control and Adaptive Criteria

- Using a sales agency can pose a control problem. Agents may concentrate on the customers who buy the most, not necessarily those who buy the manufacturer's goods.

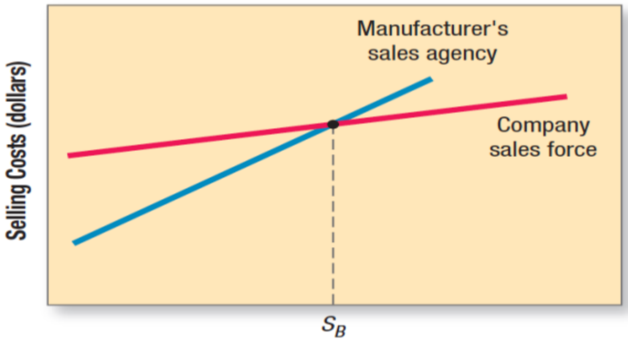
- They might not master the technical details of the company's product or handle its promotion materials effectively.
- To develop a channel, members must commit to each other for a specified period of time.
- Yet these commitments invariably reduce the producer's ability to respond to change and uncertainty.
- The producer needs channel structures and policies that provide high adaptability.

Control

- It is easier to control channels owned by the company or where the channel partner is an employees
  - Company owned outlets
  - Sales set-ups
  - Less control on Retailers, wholesalers

Adaptable

  - Channel should be able to deal with changes in product lines, prices, changes in design.



- The next step is to estimate the costs of selling different volumes through each channel. The cost schedules are shown in figure.
- Engaging a sales agency is less expensive, but costs rise faster because sales agents get larger commissions. The final step is comparing sales and costs.
- As Figure shows, there is one sales level (SB) at which selling costs for the two channels are the same.
- The sales agency is thus the better channel for any sales volume below SB, and the company sales branch is better at any volume above SB.
- Given this information, it is not surprising that sales agents tend to be used by smaller firms or by large firms in smaller territories where the volume is low.

Training and Motivated Channel Members

- Producers vary greatly in their skill in managing distributors.
- Channel power is the ability to alter channel members' behavior so they take actions they would not have taken otherwise.
- Manufacturers can draw on the following types of power to elicit cooperation:

Coercive power.

- A manufacturer threatens to withdraw a resource or terminate a relationship if intermediaries fail to cooperate.
- Power of force
- This power can be effective, but its exercise produces resentment and can lead the intermediaries to organize countervailing power.

Reward power.

- The manufacturer offers intermediaries an extra benefit for performing specific acts or functions.
- Power to reward
- Reward power typically produces better results than coercive power, but intermediaries may come to expect a reward every time the manufacturer wants a certain behavior to occur.

Legitimate power.

- The manufacturer requests a behavior that is warranted under the contract.
- Power that follows a contract
- As long as the intermediaries view the manufacturer as a legitimate leader, legitimate power works.

Expert power.

- The manufacturer has special knowledge the intermediaries value.
- Power of knowledge
- Once the intermediaries acquire this expertise, however, expert power weakens.
- The manufacturer must continue to develop new expertise so intermediaries will want to continue cooperating.

Referent power.

- The manufacturer is so highly respected that intermediaries are proud to be associated with it.
- Power of association
- Companies such as IBM, Caterpillar, and Hewlett-Packard have high referent power.

More sophisticated companies try to forge a long-term partnership with distributors.
To streamline the supply chain and cut costs, many manufacturers and retailers have adopted efficient consumer response (ECR) practices to organize their relationships in three areas:
(1) **demand-side management**, or collaborative practices to stimulate consumer demand by promoting joint marketing and sales activities,
(2) **supply-side management**, or collaborative practices to optimize supply (with a focus on joint logistics and supply chain activities), and
(3) **enablers and integrators**, or collaborative information technology and process improvement tools to support joint activities that reduce operational problems, allow greater standardization, and so on.
Research has shown that although ECR has a positive impact on manufacturers' economic performance and capability development, manufacturers may also feel they are inequitably sharing the burdens of adopting it

and not getting as much as they deserve from retailers.

- A conventional marketing channel consists of an independent producer, wholesaler(s), and retailer(s).
- Each is a separate business seeking to maximize its own profits, even if this goal reduces profit for the system as a whole.
- No channel member has completed or substantial control over other members.
- A **vertical marketing system** (VMS), by contrast, includes the producer, wholesaler(s), and retailer(s) acting as a unified system. One channel member, the channel captain, sometimes called a channel steward, owns or franchises the others or has so much power that they all cooperate.
- Stewards accomplish channel coordination without issuing commands or directives by persuading channel partners to act in the best interest of all.
- Another channel development is the horizontal marketing system, in which two or more unrelated companies put together resources or programs to exploit an emerging marketing opportunity.
- Each company lacks the capital, know-how, production, or marketing resources to venture alone, or it is afraid of the risk.
- The companies might work together on a temporary or permanent basis or create a joint venture company.

VERTICAL MARKETING SYSTEMS

- A **corporate VMS** combines successive stages of production and distribution under single ownership.
- An **administered VMS** coordinates successive stages of production and distribution through the size and power of one of the members. Manufacturers of dominant brands can secure strong trade cooperation and support from resellers. The most advanced supply-distributor arrangement for administered VMSs relies on distribution programming, which builds a planned, professionally managed, vertical marketing system that meets the needs of both manufacturer and distributors.
- A **contractual VMS** consists of independent firms at different levels of production and distribution integrating their programs on a contractual basis to obtain more economies or sales impact than they could achieve alone. Sometimes thought of as "value-adding partnerships" (VAPs), contractual VMSs come in three types:
    - Wholesaler-sponsored voluntary chains—Wholesalers organize voluntary chains of independent retailers to help standardize their selling practices and achieve buying economies in competing with large chain organizations.
    - Retailer cooperatives—Retailers take the initiative and organize a new business entity to carry on wholesaling and possibly some production. Members concentrate their purchases through the retailer co-op and plan their advertising jointly, sharing in profits in proportion to their purchases. Nonmember retailers can also buy through the co-op but do not share in the profits.
    - Franchise organizations—A channel member called a franchisor might link several successive stages in the production-distribution process. Franchising has been the fastest-growing retailing development in recent years.
- Many independent retailers that have not joined VMSs have developed specialty stores serving special market segments.
- The result is a polarization in retailing between large vertical marketing organizations and independent specialty stores, which creates a problem for manufacturers.
- The **new competition in retailing** is no longer between independent business units but between whole systems of centrally programmed networks (corporate, administered, and contractual), competing against one another to achieve the best cost economies and customer response.

eCommerce

We can distinguish between pure-click companies, those that have launched a Web site without any previous existence as a firm, and brick-and-click companies, existing companies that have added an online site for information or e-commerce.

- Uses a Web site to transact or facilitate the sale of products and services online

mCommerce

- By mid-2013, more than half of all online U.S. buyers had made a purchase on a mobile device, and m-commerce accounted for more than 11 percent of all e-commerce.
- In the United States, mobile marketing is becoming more prevalent and taking all forms.
- Consumers are fundamentally changing the way they shop in stores, increasingly using a cell phone to text a friend or relative about a product while shopping in stores. Fifty percent of all Google searches are done on mobile phones.
- Companies are trying to give their customers more control over their shopping experiences by bringing Web technologies into the store, especially via mobile apps.
- Marketers are using a number of new and traditional practices in m-marketing. Understanding how consumers want to use their smart phones is critical to understanding the role

of advertising. Given the small screen and fleeting attention paid, fulfilling advertising's traditional role of informing and persuading is more challenging for m-commerce marketers.
- Consumers often use their smart phones to find deals or capitalize on them: the redemption rate for mobile coupons (10 percent) far exceeds that of paper coupons (1 percent).
- The idea of geofencing is to target customers with a mobile promotion when they are within a defined geographical space, typically near or in a store.
- The local-based service requires just an app and GPS coordinates, but consumers have to opt in.
- The fact that a company can pinpoint a customer's or employee's location with GPS technology raises privacy issues.
- Like so many new technologies, such location-based services have potential for good and harm and will ultimately warrant public scrutiny and regulation.

CONFLICT, COOPERATION, AND COMPETITION

Channel conflict

- Generated when one channel member's actions prevent another channel member from achieving its goal
    - The classic channel conflict between the manufacturer and the reseller.
- **Horizontal channel** conflict occurs between channel members at the same level.
- **Vertical channel** conflict occurs between different levels of the channel.
- **Multichannel** conflict exists when the manufacturer has established two or more channels that sell to the same market. It's likely to be especially intense when the members of one channel get a lower price (based on larger-volume purchases) or work with a lower margin.

Channel coordination

- Occurs when channel members are brought together to advance the goals of the channel instead of their own potentially incompatible goals

Causes of Channel conflict

Goal incompatibility.
- The manufacturer may want to achieve rapid market penetration through a low-price policy.
- Dealers, in contrast, may prefer to work with high margins and pursue short-run profitability.

Unclear roles and rights.
- HP may sell laptops to large accounts through its own sales force, but its licensed dealers may also be trying to sell to large accounts.
- Territory boundaries and credit for sales often produce conflict.

Differences in perception.
- The manufacturer may be optimistic about the short-term economic outlook and want dealers to carry higher inventory, while the dealers may be pessimistic.
- In the beverage category, it is not uncommon for disputes to arise between manufacturers and their distributors about the optimal advertising strategy.

Intermediaries' dependence on the manufacturer.
- The fortunes of exclusive dealers, such as auto dealers, are profoundly affected by the manufacturer's product and pricing decisions. This situation creates a high potential for conflict.

Strategies to Manage Channel Conflict

Below are the lists of some mechanisms for effective conflict management that we discuss next.

Strategic Justification
- In some cases, a convincing strategic justification that they serve distinctive segments and do not compete as much as they might think can reduce potential for conflict among channel members.

Dual Compensation
- Dual compensation pays existing channels for sales made through new channels.

Superordinate Goals
- Channel members can come to an agreement on the fundamental or superordinate goal they are jointly seeking, whether it is survival, market share, high quality, or customer satisfaction.

Employee Exchange
- A useful step is to exchange persons between two or more channel levels.
- Thus participants can grow to appreciate each other's point of view.

Joint Memberships
- Similarly, marketers can encourage joint memberships in trade associations.
- Co-optation is an effort by one organization to win the support of the leaders of another by including them in advisory councils, boards of directors, and the like.

Diplomacy, Mediation, and Arbitration
- When conflict is chronic or acute, the parties may need to resort to stronger means.
- Diplomacy takes place when each side sends a person or group to meet with its counterpart to resolve the conflict.
- Mediation relies on a neutral third party skilled in conciliating the two parties' interests.
- In arbitration, two parties agree to present their arguments to one or more arbitrators and accept their decision.

Legal Recourse
- If nothing else proves effective, a channel partner may choose to file a lawsuit.

- Calvin Klein and Tommy Hilfiger both took a hit when they sold too many of their products in discount channels.
- Given the lengths to which they go to pamper customers in their stores—with doormen, glasses of champagne, and extravagant surroundings—luxury brands have had to work hard to provide a high-quality digital experience.
- We saw earlier that in exclusive distribution, only certain outlets are allowed to carry a seller's products, and that requiring these dealers not to handle competitors' products is called exclusive dealing.
- Exclusive arrangements are legal as long as they do not substantially lessen competition or tend to create a monopoly and as long as both parties enter into them voluntarily.
- Exclusive dealing often includes exclusive territorial agreements. The producer may agree not to sell to other dealers in a given area (which is perfectly legal), or the buyer may agree to sell only in its own territory (which has become a major legal issue).
- Producers of a strong brand sometimes sell it to dealers only if they will take some or all of the rest of the line.
- This practice is called full-line forcing.
- Such tying agreements are not necessarily illegal, but they do violate U.S. law if they tend to lessen competition substantially.
- Producers are free to select their dealers, but their right to terminate them is somewhat restricted. In general, sellers can drop dealers "for cause," but not if, for example, a dealer refuses to cooperate in a doubtful legal arrangement, such as exclusive dealing or tying agreements.