ALAGAPPA UNIVERSITY

M.Com.

MARKETING MANAGEMENT

II - Semester

ALAGAPPA UNIVERSITY

[Accredited with 'A+' Grade by NAAC (CGPA:3.64) in the Third Cycle and Graded as Category–I University by MHRD-UGC]

(A State University Established by the Government of Tamil Nadu)

KARAIKUDI – 630 003

ONLINE PROGRAMMES

M.Com.

205321

MARKETING MANAGEMENT

Authors:

Arun Kumar, *Professor, New Delhi Institute of Management, New Delhi*
N Meenakshi, *Associate Professor, Goa Institute of Management, Goa*
Units: (1-10, 12)

Amitabh Chaudhry, *Practicing as an Advocate in the District Courts of Meerut*
Unit: (11)

Prof Geeta Sarin, *Director, International Syndicate for Insurance Training and Education, Faridabad, Haryana*
M Manchanda, *Visiting Faculty (MBA-Insurance), Guru Gobind Singh Indraprastha University, Delhi*
Unit (13)

Vikas® Publishing House, Unit (14)

SYLLABI-BOOK MAPPING TABLE

Marketing Management

Syllabi	Mapping in Book

BLOCK I: THE STUDY OF MARKETING

UNIT - 1: Marketing: Meaning - Scope - Importance - Approaches to the study of Marketing - Marketing Concept -

UNIT - 2: Market Segmentation: Meaning - Bases for segmentation - Uses. Marketing Mix: Four P's in marketing - Marketing Planning - Importance - Types of planning.

UNIT - 3: Marketing Environment - External factors - Internal factors - Consumer Behaviour - Meaning and importance - Consumer buying process - Determinants of consumer behaviour -- Theories and their relevance to marketing.

Unit 1: Introduction to Marketing
(Pages 1-17);
Unit 2: Market Segmentation
(Pages 18-42);
Unit 3: Marketing Environment
(Pages 43-73)

BLOCK II: MARKETING MIX

UNIT - 4: Product Mix Management: Product planning and development - New Product development - Product Life Cycle - Meaning - Stages -Managing PLC - Product positioning - Branding - Packaging.

UNIT - 5: Price Mix Management: Factors affecting pricing - Pricing and pricing policies - Objectives - Procedures - Methods of price fixation - Administered and regulated prices.

UNIT - 6: Physical Distribution Mix: Distribution channel policy - Types - Factors determining choice of channel - Channel management - Middlemen functions.

UNIT - 7: Promotional Mix: Personal selling Vs Impersonal selling - Personal selling process - Steps in selling - Compensation plans - Evaluation of salesmen performance.

Unit 4: Product Mix Management
(Pages 74-99);
Unit 5: Price Mix Management
(Pages 100-122);
Unit 6: Physical Distribution Mix
(Pages 123-144);
Unit 7: Promotional Mix
(Pages 145-164)

BLOCK III: PROMOTIONAL METHODS

UNIT - 8: Advertising: Importance - Objectives - Media planning and selection - Factors influencing selection - Advertising copy - Layout - Evaluation of advertising - Advertising budget - Sales Promotion methods - Publicity - Sales promotion tools.

UNIT - 9: Marketing Research & Marketing Information System: Meaning - Scope - Need - Elements - Research Process - Steps involved.

UNIT - 10: Consumerism: Meaning - Consumer rights - Consumer movement in India - Salient provisions of Consumer Protection Act.

UNIT - 11: Co-operative marketing - Meaning - Features of Co-operative marketing - Advantages - Structure and organization - National Agricultural Co-operative Marketing Federation (NAFED).

UNIT - 12: E-Marketing - Meaning - Business models - Websites associated with e- marketing - Benefits of e-marketing - Limitations of e-marketing - Scope of e- marketing.

Unit 8: Advertising
(Pages 165-192);
Unit 9: Marketing Research and Marketing Information System
(Pages 193-209);
Unit 10: Consumerism
(Pages 210-224);
Unit 11: Co-operative Marketing
(Pages 225-235);
Unit 12: E-Marketing
(Pages 236-253)

BLOCK IV: CUSTOMER RELATIONSHIP MANAGEMENT

UNIT - 13: Concept of customer relationship management - Evolution - Scope -Differences between marketing and CRM - Types of CRM.

UNIT - 14: Technology for customer relationship - Contact centre technology - CRM technology - Customer data management - Managing customer relationship - CRM measurement.

Unit 13: Concept of Customer Relationship Management
(Pages 254-274);
Unit 14: Technology for Customer Relationship
(Pages 275-290)

CONTENTS

INTRODUCTION

The function of marketing assumes such an importance in the course of running a business that Peter Drucker, the world-renowned management guru, has accorded it the highest place among all management activities. Marketing management is a branch of management that focuses on the practical application of marketing techniques and the management of a company's marketing resources and activities. The growth of a business depends upon how well its products are marketed. Unless a business adapts to the changing external environment and creates innovative methods to counter and outperform its competitors, it will lose the market to its rivals. Therefore, marketers are constantly committed to creating a new customer base and retaining the existing customers as businesses cannot run without the patronage of customers. Customers are retained by ensuring that they get – value for money, quality and timely services and a constant supply of future products.

In addition, the marketing personnel are in constant touch with the dealers, distributors and other intermediaries as well as with the end-user, that is the customer; and therefore, they are the face of the company in the market. They also provide the company with useful inputs regarding the acceptance or rejection of its product and the reasons for the same. In this sense, the marketing department functions as the eyes and ears of the company.

This book has been designed keeping in mind the self-instruction mode (SIM) format and follows a simple pattern, wherein each unit of the book begins with the Introduction followed by the Objectives for the topic. The content is then presented in a simple and easy-to-understand manner, and is interspersed with Check Your Progress questions to reinforce the student's understanding of the topic. A list of Self Assessment Questions and Exercises is also provided at the end of each unit. The Summary and Key Words further act as useful tools for students and are meant for effective recapitulation of the text.

| BLOCK - I |
| MARKETING MANAGEMENT |

UNIT 1 INTRODUCTION TO MARKETING

Structure

1.0 INTRODUCTION

Marketing is the process of understanding consumer needs and serving to fulfil them. It is important to minimize the cost of production. Providing good service is as important as supplying a good product. Effective marketing not only assures a demand for the product but also fulfils the consumer's needs. The ideal mix of supplying the desired product at a competitive price, promoting the product and making it easily accessible is what creates the right mix.

Market-driven companies display concern for the customer in all its actions. All departments recognize the importance of the customer for the success of the business. Market-driven businesses know how their products are evaluated by customers against competition. They understand the choice criteria that customers use to evaluate their offerings and ensure that their marketing mix matches those criteria better than competition. Marketing spend is regarded as an investment that has long-term consequences in market-driven businesses. Such companies invest in understanding their customers. They invest in building brands based on their understanding of the customers.

In this unit, you shall learn the concepts, nature and scope of marketing. You will also study the changing concepts of marketing, with a focus on the role of marketing in a developing economy.

1.1 OBJECTIVES

After going through this unit, you will be able to:

- Explain the meaning of various marketing concepts
- Understand the nature and scope of marketing
- Differentiate between the various concepts of marketing
- Describe the changing concept of marketing
- Distinguish between service concept and experience concept of marketing
- Explain the role of marketing in a developing economy

1.2 MARKETING CONCEPTS: MEANING AND DEFINITION

Marketing may be defined as the process which ensures that potential clients or customers show interest in a particular product or service. You could also say that marketing is an activity encompassing tactics and strategies employed for the identification, creation and maintenance of a satisfactory relationship with the customers. This activity ensures value for not only the customer but also the marketer of the product or service.

In simple terms, marketing is defined as the process of identifying customer needs and serving these needs profitably. If a company only stresses on attaining maximum profits, then they will never succeed. On the other hand, if a company is sensitive to its customers' needs, then profits will follow. Therefore, it can be said that profits result from understanding and serving customer needs efficiently.

One of the main goals of a business is profit. Attaining a certain level of profit is required by an organization due to the following reasons:

(i) To keep the interest of stakeholders in business

(ii) Enhancing organizational capabilities to improve its products and services

Therefore, organizations should have a profitable turnover. As scarcity of resources may affect the organization's ability to provide products and services to its customers, it can be said that a business that only focuses on increasing its profits will not be able outlast stiff competition in the market. Profit maximization should be one of the major goals of an organization and not the only goal. In order to run a successful business, customer needs should be prioritized. If the interest of customers is comprised, it will result in a conflict situation with the profit maximization goal of the organization. Customers withdraw their support towards such organizations where customers are not a top priority and their interests are compromised in the pursuit of profit maximization.

Companies which are successful in the industry normally depend upon its customers to return for future purchasing and recommend the company's offerings to other. Therefore, marketing aims to influence as many customers as possible and also develop a long-term relationship by satisfying their needs. It is a common sense that attracting new customers is a more expensive deal in comparison to sustaining the new customers. Organizations that focus on marketing, make it their main objective to enhance their existing relationships by making their customers a priority and ensuring that they provide complete satisfaction to their customers. They attract new customers by building expectations and promising to provide value. New customers find the company's promise credible, as the company's existing and erstwhile customers vouch for it.

Various concepts related to marketing have come up which are worth considering. The five primary ones are the exchange, the sales, the product, the marketing and the production concepts.

According to the exchange concept, marketing revolves around the exchange of a good or product between the seller and the buyer.

The sales concept highlights the importance of aggressive pushing and promotion of products. Therefore, organizations patronizing this concept will concentrate on promotion campaigns, price discounts, heavy publicity and effective public relations.

The product concept believes in achieving profits and conquering markets through new products, product excellence, well designed products and properly engineered goods.

On the other hand, the production concept believes that markets can be conquered by producing in high volumes. According to this concept, high volume of production will lower the unit cost and result in attracting customers.

In the marketing concept, the consumer is the beginning and the end of all activities, or in short, the business cycle. Therefore, all the activities and the employees in the company are customer-oriented. They believe in producing goods that satisfy the customer and fulfil his needs. Therefore, they not only anticipate customer requirements but also stimulate them and do everything possible to fulfil them.

1.2.1 Marketing Concept and its Evolution

Customer needs are discovered and the organization's processes are orchestrated to serve those needs truthfully. A company practising the marketing concept achieves corporate goals by meeting its customer needs better than its competitors. A company which is characterized as market-centric ensures that all major activities taking place in the company are defined by the motto of customer satisfaction. Market-centric companies are aware that customer satisfaction depends on integration of efforts taking place throughout the company. Therefore, customer needs are the focal points of operations in a company which is market-centric.

Decisions are taken in these departments considering the impact that the decisions will have on the customers. The role of marketing is to champion the cause of the customer and to orient the whole organization towards serving customer needs. Company's management needs to understand that the company's aims and objectives can only be attained by satisfying its customers.

Every employee in an organization is a marketer

Marketing is not the sole prerogative and responsibility of the marketing department in an organization. Each department, in fact, every employee of an organization, primarily performs the function of a marketer. His main job is to convey a consistent image of his organization, whether it is to the internal stakeholders (employees, shareholders), or to the external stakeholders (customers, public). The company should realize that every interaction of any of these stakeholders with any employee of an organization is decisive for the ultimate fate of the organization.

Internal communication

Marketers need to communicate formally and informally with people in other departments in their organization more often.

In most of the companies, the marketing department provides data regarding customer needs and preferences. However, when marketers try to share their insights with other departments, the information often ends up being ignored or misunderstood. The problem lies with how often and in what manner the marketing department communicates with other functions in the organization. Marketers who interact with their non-marketing colleagues fewer than ten times a week tend to have their work undervalued by people in other departments. The reason is that, contacts fewer than ten times a week – whether formal or informal, spoken or written – means that the marketer has not been in communication enough to learn what information is needed by others in the company, or how and when it should be presented. Marketing managers who have infrequent contacts with their non-marketing colleagues do not develop the kind of understanding they need in order to provide the right information in a correct format and information needs to be provided in a timely manner.

However, the increased value associated with boosting the frequency of communication begins to level off at about twenty-five times a week. Therefore, marketing managers should strive to communicate between ten and twenty-five times. In fact, marketing managers who communicate with their non-marketing colleagues more than forty times a week also run the risk of having their work undervalued by other departments. Non-marketing managers often receive a flood of information like daily sales reports by product and market. They cannot review all this data or think about it. A deluge of communication confuses and eventually alienates the receiver.

All types of communication like individual and group meetings, phone calls, faxes, mails, voice mails, memos and even a chat in the cafeteria are counted.

However, the mix between formal and informal communication matters. A 50-50 mix of formal and informal communication is optimal for getting the marketers' message across. Formal communication is useful because it is verifiable, and in situations where two departments have different styles, a formal procedure for communication can reduce conflicts. Informal communication allows people to exchange critical information unlikely to be found in a real report, such as the 'real' reason why a customer defected. They can also help clarify and give meaning to what is said in more formal communications. Moreover, they present an opportunity for people to ask 'dumb' questions which they otherwise would not. The spontaneous nature of informal communication also does not give participants the time to develop politically motivated opinions.

(i) Exchange concept

An exchange process is a process where in a person or a business organization takes a decision to satisfy a need or want of its customers by offering goods or services or even financial aid in exchange.

According to Gary Armstrong, 'Exchange is the act of obtaining a desired object from someone by offering something in return.'

For example, you go for shopping and your buy your favourite dress. You pay for your dress through your credit card. This is a basic exchange relationship.

Marketing managers try to create a response from a marketing impetus. This is the beginning of the exchange process. It is to be noted that marketing extends further than goods or services. It could be that a government is trying to convince its population to quit smoking or speeding to drive safely. Therefore, marketing is a series of actions and plans that are designed to recruit, retain and extend goods and services to a target audience. This is the basic exchange process in marketing.

The exchange process further leads to relationship marketing. Relationship marketing helps develop long-term relationship with our target audience and also aim to grow our business. By delivering value to our customers, we constantly encourage the relationship with customers.

(ii) Production concept

The production concept in marketing is characterized as a competing philosophy which is production oriented and has an inward-looking orientation. Management becomes cost focused. A company tries to achieve economies of scale through the production of limited products in such a manner that production costs are reduced. The major aim of the company is to reduce costs, which is done for the company's own personal benefit. In production orientation, business is defined in terms of products that the company is making. The management does not define business in terms of serving particular needs of customers.

The business mission is focused on current production capabilities. For example, a film production company determines their business according to the product produced. This means that they slow to respond when consumers shift the way they spend leisure time and their demand for watching cinema declines. Thus, the main focus of the film production company should be to manufacture its products, i.e., make films more aggressively in order to sell them to their customers. When customers need change, production-oriented companies are not able to sense them and they continue to produce products and services which no longer serve the needs of the customers. However, even when they are able to sense such changes in customer needs, they are so convinced about the superiority of their offerings, that they refuse to make a departure.

Marketing-centric companies stress on customer needs. Products and services are just considered as means to serve the needs of the customers. Change and adaptation are endemic in marketing-oriented companies. Potential market opportunities arise from changing needs of the customers. The company then focuses to produce these new products and services. With specific competencies, market-oriented companies change their products and services. This change takes place on the basis of current and latent market demands. These companies try to close in on their customers in order to understand their requirements and issues.

(iii) Selling concept

There is also an implicit contradiction between marketing and selling. Marketing involves gauging a customer's requirements and designing a product or service to serve that requirement. Once the company has designed and made a product according to the customer's requirement, it only needs to be made available to the customer. The product or the service sells itself. But when a product or service is not designed and made according to a customer's exact requirements, a customer has to be persuaded to believe that the product or the service meets his requirements. This is selling. Selling is largely a wasteful activity. It consumes a lot of organizational resources, as the company forces the product on the customer. Even if a company manages to sell a customer a product or service that does not really serve his requirements, the customer is anguished and becomes suspicious of the company. Such a customer 'bad-mouths' the company. A company truly practising the marketing concept will not need to sell its product. Marketing makes selling redundant.

(iv) Product concept

Some companies become centred on constantly improving the product. Such companies prescribe to the philosophy of the product concept. Continuous attempts are made to improve the product and its quality, as it is believed that customers would always prefer to buy the product that is superior. This often results in a myopic focus on the product, without any attention on the other ways

in which customers can fulfil their needs. This is called marketing myopia. The company is so focused on improving the product that it loses sight of the fact that the product is merely a way of fulfilling customer needs. In other words, the customer does not buy a product, he buys an offering that fulfils his needs. For instance, a customer watches television to fulfil his need for entertainment. He may consider watching a movie in a theatre, a book or a music system as other ways of fulfilling his need for entertainment. The company, however, stays focused only on improving the television. In India, several no-frills airline companies have started offering their services at low prices, that are comparable to the ticket prices of air-conditioned coaches of the railways. Customers have started switching over to airlines as a preferred mode of travel, due to lesser time involved at little or no additional cost to them. Whether he travels by rail or by air, the customer is basically fulfilling his need for reaching a destination.

Marketing myopia is dangerous, because it does not allow the company to explore other more effective and efficient ways of serving the customer need that its product is serving. It is often foxed by companies who devise better ways of serving the same customer need. Since customers do not have any attachment to the product, they desert the company and adopt a new way of serving their need. The myopic company is left alone, clinging to its product.

(v) Marketing concept

A significant concept of marketing is that organisations survive and continue to grow through meeting the needs and wants of its customers. This important perspective is commonly known as the marketing concept.

The marketing concept focuses on coordinating the capabilities of an organization with the needs and wants of the customers. This matching process takes place in a marketing environment.

Marketing activities are not undertaken by businesses single-handedly. Factors such as threats from competitors, and changes in the political, economic, social and technological environment, should be taken into consideration by business organizations to meet the requirements of its target customers.

An organisation that adopts the marketing concept accepts the needs of potential customers as the basis for its operations. Success is dependent on satisfying customer needs.

Check Your Progress

1. Why is it important for an organization to attain a certain level of profit?
2. Differentiate between formal communication and informal communication.
3. Define marketing myopia.

1.3 NATURE AND SCOPE OF MARKETING

Marketing is the process of finding out customer needs and serving those needs profitably. If an organization is obsessed with looking for profits, it will never find them. However, if it is focused on satisfying its customers, profits will come automatically. Profit is an outcome of serving customer needs well.

Profit is a legitimate goal of a business organization. Reasonable profits are required to keep stakeholders interested in running the business, and to increase the capability of the organization to serve its customers better. In that sense, customers should allow companies to have reasonable profits, because lack of resources will impair the company's capabilities to serve customers in the future. However, a business with a single-minded focus on maximization of profits will not survive. In such companies, customer interests will not be accorded the top priority. Customer interests are likely to be compromised if they conflict with the profit maximization goal of the company. Customers stop patronizing such companies once they realize that their interests can be compromised in the organizational pursuit of profits.

The essence of marketing is to provide the desired value to customers. A company cannot possibly satisfy all the customers in a market because their needs vary. Most organizations do not have the capability to serve widely varying needs. An organization has to select customers whose needs can be matched with its capability to serve them. If it tries to serve all customers, it is sure to have some of them dissatisfied. However, if an organization has selected its customers carefully, it is possible to satisfy all of them completely.

Successful companies rely on their satisfied customers to return to repurchase and recommend the company's offerings to others. Therefore, the goal of marketing is attracting and retaining customers through a long-term satisfaction of their needs.

Companies understand that it is much more expensive to attract new customers than to retain existing ones. Marketing oriented companies build relationships with their existing customers by providing satisfaction. They attract new customers by building expectations and promising to provide value. New customers find the company's promise credible, as the company's existing and erstwhile customers vouch for it.

Marketing should be considered a central business function as it establishes, develops and commercializes long-term customer relationships so that objectives of both the parties are met. Customer needs are served and the company earns profits.

A company exists primarily to serve its customers. Therefore, customers are the most powerful stakeholders of any company. It is the job of the marketer to keep the company's people, processes and systems tuned to serving the most important stakeholder of the company. Customer interests must be paramount and should be protected in every decision that a company takes.

Check Your Progress

4. What is the essence of marketing?

5. State the goal of marketing.

6. Why should marketing be considered a central business function?

1.4 APPROCHES TO THE STUDY OF MARKETING

The changing concepts of marketing are discussed in detail in this section to let you get acquainted with the newer approaches to the study of marketing.

The service concept

Customers buy services, not products. Therefore, marketers should adopt a service model of marketing instead of selling the title to the customers.

Customers buy products for the services that they provide. When a customer buys a car, he is buying the service of transportation. When another customer buys an air-conditioner, he is essentially buying cool atmosphere. Some customers may buy a car or an air-conditioner for the prestige that the ownership of these products provides, but for most products, the main reason for the customers buying them is the service that these products provide.

Marketers have known this fact for long but have not ceased to insist on customers buying their products. Their focus has been to ensure transfer of ownership from the company to the customer. But does the customer really want the ownership of the product, or will it be sufficient for him if he gets the required service but ownership of the product remains with company?

A company and its customers would be greatly benefited if the company took it upon itself to provide the service that its product is supposed to provide. Take an example. A potential customer is to build an office premise. The air conditioner company proposes to take responsibility for maintaining desired temperature in the premise for fifty years or for the lifetime of the premise for an annual fee. If the customer agrees to this proposal, he will not have to make a huge upfront payment for buying the air conditioners. He does not have to bother about day to day maintenance of the equipment or its replacement. All he has to do is to pay an annual fee and get the cool ambience that he desires. The air conditioner company gets an assured stream of revenue for fifty years or more. The company selling the air conditioners does not spend any money on sales task with this company ever again. Since the equipment belongs to the company, it is responsible for its maintenance and it also pays for the electricity consumption of these equipment. Now this company has an incentive to design and build air conditioners which will require minimum maintenance and will consume minimum electricity.

Further, the air conditioner company can get in collaboration with architects and builders to design the premise in such a manner and use such materials which will require less cooling. The air conditioner company can even share some construction cost as it will save a huge amount of money on account of lesser electricity consumption. Another company with responsibility for lighting of the premise and under a similar contract can also join the collaboration and share the costs and benefits. The net result is that the same benefit that the buying of air conditioners gave, can now be had at a much lower price and with more profits for the air conditioning company, only because the two parties get into a contract for provision of a service rather than selling a product.

The same type of benefits as above can flow to buyers and sellers in most categories of products. The only hindrance is the mindset of the two parties and their unwillingness to experiment with this model. The model can be easily applied in businesses like automobiles, carpeting, furnishing and for most consumer durable items.

The experience concept

The marketer should create an experience around the product to make it memorable and reaffirm it with cues at every customer interaction point.

An experience occurs when a company intentionally uses services as the stage and goods as props to engage individual customers in a way that creates a memorable event. While products and services are external to the customer, experiences are inherently personal, existing only in the mind of an individual who has been engaged on an emotional, physical, intellectual or even spiritual level. No two people can have can have the same experience, because each experience derives from the interaction between the staged event and the individual's state of mind. Experiences have always been at the heart of entertainment business but experiences are not exclusive to entertainment. Companies stage an experience whenever they engage customers in a personal, memorable way. Airlines use the base service of travel as the stage for a distinctive *en route* experience that transforms air travel into a respite from the traveller's normally frenetic life. Business-to-business marketers create elaborate venues to sell their goods and services.

While companies are staging experiences, most are still charging only for their goods and services. An event is created to increase customer preference for the commoditized products or services. The guests are not charged any admission fees. However, if companies were to contemplate as to what they should be doing if they had to charge admission fees from customers, it would lead them to designing richer experiences. Some stores are already providing great ambience. Customers loiter around such stores for a long time, but to be able to charge admission fees from them, the stores have to stage a much richer experience. The merchandise mix would have to change more often-daily or even hourly. The stores would have to add demonstrations, showcases, contests and other attractions to enhance the customer experience.

Experience will have to be designed much like its product and service counterparts. Following design principles are helpful:

- **An experience should be built around a well defined theme:** Customers organize the experience they encounter around the theme, and remember it for a long time. The theme must drive all the designed elements and the staged experience towards a unified storyline that captivates customers. There should be something distinctive about the store, instead of each store looking like the other with rows of products displayed.

- **To create desired impressions, companies must introduce cues that affirm the nature of the experience to the guest:** Each cue must support the theme, and none be inconsistent with it. Impressions are what the customers carry back and the impressions are created by the cues provided to them.

- **Companies must eliminate anything that diminishes, contradicts or distracts from the theme:** Activities and behaviour of employees, architecture of the place, instructions to customers, displays and the smallest details should support the theme. Customers purchase memorabilia as a physical reminder of an experience. Teenagers obtain T-shirts to remember a rock concert. One good test of a great experience would be whether customers are willing to buy some item at a price higher than the normal price of that item, to help them remember the event. If companies find no demand for memorabilia, it means they are not staging engaging experiences.

- **The more senses an experience engages, the more effective and memorable it becomes:** Savvy hair stylists shampoo and apply lotions not because the styling requires it but because they add more tactile sensations to the customer experience.

1.5 MARKETING IN A DEVELOPING ECONOMY

A marketer cannot take initiatives and initiate a modern marketing system in a developing country or economy. The efforts undertaken for marketing should coordinate with the situations and circumstances in the organizational environment. For example, there is a significant difference between a programme for a population with 95 per cent literacy and a sales promotion campaign for a population that is 50 per cent illiterate. Pricing in a market where goods produced are insufficient poses different problems from pricing in a surplus situation. Therefore, in a developing economy, an efficient marketing programme is needed as it provides for adequate utility, given a particular set of circumstances. In evaluating the potential in a developing country, the marketer must make a survey of the existing level of market development and acceptance within the country.

Emerging multinationals from developing countries face several difficulties. These companies must surmount their mindset before formulating appropriate strategies. They must also seek the right partnerships, or look for inorganic route to succeed.

Companies from developing countries find it difficult to compete in international markets against established companies from the United States, Europe and Japan. The perceived quality of goods of the companies from developing countries is not good. Moreover, even when they are able to enter the markets of developed countries, they serve the less sophisticated and the less profitable segments of those markets. To compete in more sophisticated and profitable segments, they are required to have or develop advanced capabilities in research and development (R&D), distribution and marketing. However, what is most dismal is that the companies from developing countries continue to serve the less profitable segments even when the company's internal capabilities exceeds the demands of the segment it is serving. Arvind Mills, an Indian garment manufacturer, expanded abroad with commodity-like products even though it competed successfully in higher-value segments at home. Companies from developing countries lack the will and the confidence to commit resources to acquire capabilities to move up the value curve, i.e., the capability to compete in more sophisticated and profitable segments of markets of developed countries. They somehow feel that they can never be good enough to compete against multinational giants in their own backyards.

However, there are companies like Ranbaxy from India and Samsung from South Korea which have broken these shackles and are on the path to becoming true multinationals. Their forays into international markets have followed a pattern.

- **Breaking out of the marginal mindset:** Companies from developing countries realize that there is a big gap between technical requirements and design norms at home, and world-class standards abroad. They become resigned to their inability to bridge this gap. Moreover, when demand at home is strong, they can conveniently postpone the investments to comply with international standards under the pretext of being focused on serving the requirements of the home market. Some other companies have the required capabilities but are unaware of the company's global potential or do not trust their own abilities to compete globally. Successful companies have got out of this defeatist mindset in their own ways. Samsung's chairman had to take his managers to the USA to show them the scant regard with which their products were being treated in stores there. The shocked managers initiated a series of actions to change perceptions of overseas customers about their products.

  Some companies like Thermax, which manufactures small boilers, believed that their technologies and designs were world-class and designed for international markets even when those designs were not

acceptable in their home markets. The emerging multinationals which took care to appoint powerful managers for their overseas operation, were able to build credible organizational structures outside their home markets. These powerful and committed overseas managers were able to convince managers at home to commit resources for the overseas operations. These powerful overseas organizations exert a strong pull from abroad. Ranbaxy's European operations hired a senior British executive from a leading pharmaceutical multinational to its European business though the size of Ranbaxy's European operations did not justify it. Managers at home cannot ignore such powerful personalities.

- **Devising strategies:** Emerging multinational companies often complain about their lack of international exposure. In today's global market, a company does not have to go abroad to experience international competition. International competition eventually comes to the company's home market. Emerging multinationals can learn to compete against companies in foreign markets simply by adapting and responding to those players when they enter their home markets. The Philippines-based fast-food chain Jollibee, used the entry of McDonald's to learn about the latter's sophisticated operating systems that allowed it to control its quality, costs and service at the store level. It also learned from McDonald's the mistake of not catering to local taste preferences. Jollibee improved its performance because it decided to take the fast-food chain giant head-on in its home market. The insights born out of having survived McDonald's entry in its home market taught Jollibee how it could move abroad. Companies seeking to venture in international markets should fight it out with multinational companies when the latter enters their home markets. The experience will count when they leave their shores to enter overseas markets.

Another approach is to introduce a new business model that challenges the industry's rules of competition. The wine industry has very few truly global brands. The Europeans labelled wines by region, sub-region and even village. There was other categorization according to historical quality classification. The resulting complexity confused customers and fragmented producers. Their small-scale prevented them from building brands. The Australian wine company, BRL Hardy started building its own brands in the overseas market and it also started sourcing wine from all-over the world to build the scale necessary for creating strong brands. The new approach has been successful.

- **Learning:** The emerging multinationals have to protect their home markets while they try to globalize their operations. The effort involved in acquiring new capabilities should not draw off too many vital resources and risk the domestic market. They have to strike a balance between protecting their existing capabilities and acquiring new ones. Before they

think of building new capabilities, the emerging multinationals should fully exploit their existing resources and capabilities. The company should learn to build on existing expertise by breaking down the barriers between the international and the domestic organizations. Companies which have isolated their international operations from their domestic operations have lost on useful expertise and insights that the domestic business has developed and which could have been useful in their international operations. Close co-operation between the parent company and its subsidiaries establishes a dynamic of mutual learning and both domestic and international operations improve.

However, very often, the expertise and insights of the domestic operations are not enough to succeed in international markets. Some companies enter into partnership with a foreign company to bridge the gap between what they know and what is required to know to succeed in the overseas market. Most of these partnerships fail because the interests and expectations of partners differ, and because one partner becomes dominant in the relationship. When such partnerships fail, the emerging multinational is at a serious disadvantage, because it lacks the capabilities that it was hoping its partner would provide. India's largest luggage company, VIP industries formed a marketing partnership with a local distributor when it entered the UK market. The distributor switched sides when Samsonite offered it exclusive rights to its Oyster II model. With no direct investment in its own local sales and marketing capabilities, VIP was helpless.

Sometimes, it is helpful to buy the necessary capabilities, but there are numerous problems of integrating the acquisition into the parent company. Companies have realized that in international business new capabilities cannot simply be installed. They must be developed and internalized.

Check Your Progress

7. Why should marketers adopt a service model of marketing?

8. When does an experience occur?

9. What should companies from developing countries do to compete in more sophisticated and profitable segments?

10. What is the effect of close co-operation between a parent company and its subsidiaries?

1.6 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Attaining a certain level of profit is required by an organization due to the following reasons:

   (a) To keep the interest of stakeholders in business

(b) Enhancing organizational capabilities to improve its products and services

2. Formal communication is useful because it is verifiable, and in situations where two departments have different styles, a formal procedure for communication can reduce conflicts. Informal communication allows people to exchange critical information unlikely to be found in a real report, such as the 'real' reason why a customer defected. They can also help clarify and give meaning to what is said in more formal communications.

3. Some companies become centred on constantly improving the product. Such companies prescribe to the philosophy of the product concept. Continuous attempts are made to improve the product and its quality, as it is believed that customers would always prefer to buy the product that is superior. This often results in a myopic focus on the product, without any attention on the other ways in which customers can fulfil their needs. This is called marketing myopia.

4. The essence of marketing is to provide the desired value to customers.

5. The goal of marketing is attracting and retaining customers through a long-term satisfaction of their needs.

6. Marketing should be considered a central business function as it establishes, develops and commercializes long term customer relationships so that objectives of both the parties are met. Customer needs are served and the company earns profits.

7. Marketers should adopt a service model of marketing instead of selling the title to the customers because customers buy services and not products.

8. An experience occurs when a company intentionally uses services as the stage and goods as props to engage individual customers in a way that creates a memorable event.

9. To compete in more sophisticated and profitable segments, companies from developing countries are required to have or develop advanced capabilities in research and development (R&D), distribution and marketing.

10. Close co-operation between a parent company and its subsidiaries establishes a dynamic of mutual learning and both domestic and international operations improve.

1.7 SUMMARY

- Marketing is defined as the process of identifying customer needs and serving these needs profitably.
- The essence of marketing is providing desired value to customers.

- Marketing aims to influence as many customers as possible and also develop a long-term relationship by satisfying their needs.

- The role of marketing is to champion the cause of the customer and to orient the whole organization towards serving customer needs.

- Marketers need to include a service model of marketing rather than selling titles of the products as customers purchase services and not products.

- The production concept in marketing is characterized as a competing philosophy which is production oriented and has an inward-looking orientation.

- Marketing involves gauging a customer's requirements and designing a product or service to serve that requirement.

- In order to satisfy the customer, the marketer should make the product a memorable experience for the customer while simultaneously reaffirming it with cues from customer interaction points.

- Marketing is the process of finding out customer needs and serving those needs profitably.

- Profit is a legitimate goal of a business organization. Reasonable profits are required to keep stakeholders interested in running the business, and to increase the capability of the organization to serve its customers better.

- The essence of marketing is to provide the desired value to customers.

- Marketing should be considered a central business function as it establishes, develops and commercializes long-term customer relationships so that objectives of both the parties are met, that is, customer needs are served and the company earns profits.

- Marketers should adopt a service model of marketing instead of selling the title to the customers.

- The marketer should create an experience around a product to make it memorable and reaffirm it with cues at every customer interaction point.

1.8 KEY WORDS

- **Profit Maximization:** It is process that companies undergo to determine the best output and price levels in order to maximize its return.

- **Business Cycle:** It means the fluctuations in economic activity that an economy experiences over a period of time.

- **Merchandise Mix:** It is the total set of all products offered for sale by a retailer, including all product lines sold to all consumer groups.

- **Memorabilia:** It means objects kept or collected because of their associations with memorable people or events.

- **Consumer Durables:** It refers to a category of consumer products that do not have to be purchased frequently because they are made to last for an extended period of time (typically more than three years).

- **Commoditize:** It means the act of making a process, good or service easy to obtain by making it as uniform, plentiful and affordable as possible.

1.9 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. Briefly describe the various concepts related to marketing.
2. Why is profit a legitimate goal of a business organization?
3. Why is marketing myopia dangerous?
4. Write a short note on the service model of marketing.
5. Differentiate between service concept and experience concept of marketing.

Long-Answer Questions

1. Describe in detail the concept of marketing and its evolution.
2. Explain the nature and scope of marketing.
3. Discuss the changing concepts of marketing. Use suitable examples to support your answer.
4. 'A marketer should create an experience around a product to make it memorable.' Analyse this statement.

1.10 FURTHER READINGS

Kumar, Arun, N Meenakshi. 2011. *Marketing Management.* New Delhi: Vikas Publishing House Pvt. Ltd.

Kotler, Philip. 1972. *Marketing Management; Analysis, Planning, and Control.* New Jersey: Prentice Hall, Inc.

Gandhi, J. C. 1985. *Marketing: A Managerial Introduction.* New Delhi: Tata McGraw Hill Publishing Company Limited.

Stanton, William J. 1984. *Instructor's Manual to Accompany Fundamentals of Marketing*, seventh edition. New Delhi: Tata McGraw Hill Publishing Company Limited.

UNIT 2 MARKET SEGMENTATION

Structure

2.0 Introduction
2.1 Objectives
2.2 Segmentation of a Market: Meaning, Bases and Uses
    2.2.1 Uses of Segmentation
    2.2.2 Process of Market Segmentation: Target marketing
    2.2.3 Bases for Segmenting Consumer Markets
    2.2.4 Segmenting Organizational Markets
    2.2.5 Evaluating Market Segments and Target Market Selection
2.3 Marketing Mix and the 4 P's of Marketing
    2.3.1 Marketing Planning: Importance and Types
2.4 Answers to Check Your Progress Questions
2.5 Summary
2.6 Key Words
2.7 Self Assessment Questions and Exercises
2.8 Further Readings

2.0 INTRODUCTION

In this unit, you will learn about segmentation, which is the process of dividing the market for a product or service into smaller groups of customers. The types of segmentation for markets, including consumer markets, organizational markets, and target market strategies, will also be discussed in the unit. You will study the concept of marketing mix and the four P's of marketing. Further, you will learn about the importance and types of marketing planning.

2.1 OBJECTIVES

After going through this unit, you will be able to:

- Discuss the concept of market segmentation
- Explain the four P's of planning
- Describe the importance of marketing planning

2.2 SEGMENTATION OF A MARKET: MEANING, BASES AND USES

Segmentation is the process of dividing the market of a product or service in smaller groups of customers. The customers in one group should (i) buy the product for the same purpose, or (ii) use the product in the same way, or (iii) buy the

product in the same way. But customers in one segment should be different from customers of any other segment in one or more of the above parameters. Segmentation of a market makes sense only when the company has to design a separate value proposition for each segment.

Sportspersons buy Nike shoes to enhance their performance, whereas the same shoes are used as casual shoes by other people. People drive their cars in different ways. Some are 'rough' drivers, while others take it easy on the road. The same grocery items are bought both at neighbourhood stores and at upscale stores.

Customer Value Proposition

Segmentation refers to the process of identifying clusters of customers who desire the same value proposition. Customer value proposition is a unique mix of product and service attributes, customer relations and corporate image that a company offers. Customer value proposition defines how the organization will differentiate itself from competitors to attract, retain and deepen relationships with target customers.

The value proposition helps an organization connect its internal processes to improve outcomes with its customers. An effective process of segmentation should result in a different set of internal processes for each segment, because only a unique set of internal processes will create a unique value proposition for the customer. These unique sets of internal processes will necessitate creation of separate organizations to serve each of the segments. If one common organization has to serve all the segments, the demands made on it would be so contradictory in nature that it will not be possible to serve even one of the segments effectively. This is especially true if the value propositions are vastly different. And the process of segmentation will provide value only if the value propositions for various segments are very different from one other. The organization thus does not have any other alternative but to create separate organizations to ensure success in different segments that it is serving.

Non-Segmented Markets

Very few products or services can satisfy all customers in a market. Not all customers want to buy the same product. Companies in some countries like India have behaved as if there was just one common market and fed it with one offering for decades. A decade back, Ambassador and Fiat and later Maruti 800 were the only cars on the Indian roads. But now, Mercedes Benz is being run as a taxi for the super premium segment of the market. This indicates that marketers had been ignoring the potential for market segmentation for long. Now, a new car is launched in the Indian market once a month, sometimes by the same company. Similar stories abound in most categories of goods in most developing countries. In fact, one of the reasons for the relative backwardness of these countries can be lack of thorough process of segmentation.

Marketing not based on segmentation is essentially inefficient because some segments get over-engineered and advanced products giving far more value and features are offered than desired by the customers, whereas other segments do not get the required value and features that customers want in the product. Nobody is happy in the process and the company ends up spending a lot of money unnecessarily. Companies confuse segmentation, market evolution and the state of the economy. Whatever the state of the economy and market, distinct segments are always there in any market, because segments are based on differences in society, and differences in society are more pronounced in developing countries. Any marketing endeavour has to start with the process of segmenting the market, else it will be ineffective (due to underserving the market) and inefficient (because of overserving the market).

2.2.1 Uses of Segmentation

Different product and service offerings must be made to the diverse groups that typically comprise a market. Segmentation involves identification of groups of individuals or organizations that have significant implications for determination of a marketing strategy. Segmentation is dividing a diverse market into a number of smaller, more similar sub-markets. The objective is to identify groups of customers with similar requirements so that they can be served effectively while being of a sufficient size for the product to be supplied efficiently. It is the basis by which marketers understand their markets and develop strategies for serving their chosen customers better than competition.

Target market selection

Segmentation provides the basis for selection of target markets. A target market is a chosen segment of market which a company has decided to serve. Customers in the target market have similar characteristics and a single marketing mix can be used to serve them. Creative segmentation may result in the identification of new segments that are not being served presently and may form attractive targets.

Tailored marketing mix

Segmentation allows grouping of customers based on similarities (similar benefits). Marketers are able to understand in depth the requirements of segments and tailor a marketing mix that meets their needs. Segmentation promotes the idea of customer satisfaction by viewing markets as diverse set of needs which must be understood and met by suppliers.

Differentiation

By breaking a market into its constituent segments, a company may differentiate its offerings between segments, and within each segment it can differentiate its offering from competition. By creating a differential advantage over the competition, a company gives the customer a reason to buy from them rather than from competitors.

Opportunities and threats

Markets are rarely static. As customers become more affluent, they seek new experiences and develop new values, and new segments emerge. The company may spot a new underserved market segment and meet its needs better than competition. Similarly the neglect of a market segment can pose a threat if competition uses it as a gateway to market entry. Market segments may need to be protected by existing competitors even though it may not be profitable to serve them. They do this because they fear that the market segments they vacate might be used by new entrants to establish a foothold in the market.

Segmentation and market entry

The segmentation process can be used to enter new markets with entrenched competitors. Whatever the state of segmentation in the market, there is always the possibility of segmenting it further because howsoever stable a market may be, changes are always happening in it. So instead of launching copycat products and getting into direct confrontation with entrenched players, the entrant can creatively segment the market and locate an underserved one. It can focus its energies on serving this segment.

2.2.2 Process of Market Segmentation: Target marketing

A target market is a group of people or organizations for which a company designs, implements and maintains a marketing mix intended to meet the needs of that group, resulting in mutually beneficial and satisfying exchanges. Selection of target markets is a three-step process.

 (i) The requirements and characteristics of the individuals that comprise the market are understood. Marketing research helps in this process.

 (ii) Customers are grouped according to their requirements and characteristics into segments. A given market can be segmented in various segments. A given market can also be segmented in various ways depending on the choice criteria. There is no single, prescribed way of segmenting a market. A car market can be broken down according to the type of buyer (individual/ organization), by major benefits sought in the car (functionality/status) or by family size (empty nester/family with children). There are no rules for how a market should be segmented. The only limitation to the ways in which a market can be segmented is the marketer's ingenuity.

 The selection of the criteria on which the market will be segmented is the most important decision that the company will have to make. The criteria should be able bring out meaningful differences among customers which the company can exploit by designing a unique value proposition. Using new criteria or using a combination of well-known criteria in a novel way may give fresh insights into a market. Marketers should visualize markets from a fresh perspective. They may be able to locate attractive, underexploited market segments.

(iii) Finally, one or more markets are chosen for targeting or serving. Marketing mix is developed by keeping in mind what the customers value. The aim is to design a mix that is distinctive from the one which the competition is offering.

Target Market Strategies

When selecting their target markets, companies have to make a choice, whether they are going to be focused on one or few segments or going to cater to the mass market. The choice that companies make at this stage will determine their marketing mix and positioning plank.

Undifferentiated targeting

A company using an undifferentiated targeting strategy essentially adopts a mass market philosophy. It views the market as one big market with no individual segments. The company uses one marketing mix for the entire market. The company assumes that individual customers have similar needs that can be met with a common marketing mix. The first company in an industry normally uses an undifferentiated targeting strategy. There is no competition at this stage and the company does not feel the need to tailor marketing mixes to the needs of market segments. Since there is no alternate offering, customers have to buy the pioneer's product. Ford's Model T is a classical example of an undifferentiated targeting strategy. Companies marketing commodity products like sugar also follow this strategy.

Companies following undifferentiated targeting strategies save on production and marketing costs. Since only one product is produced, the company achieves economies of mass production. Marketing costs are also lower because only one product has to be promoted and there is a single channel of distribution.

But undifferentiated targeting strategy is hardly ever a well-considered strategy. Companies adopting this strategy have either been blissfully ignorant about differences among customers or arrogant enough to believe that their product will live up to the expectations of all customers, till focused competitors invade the market with more appropriate products for different segments. Therefore, companies following this strategy will be susceptible to incursions from competitors who design their marketing mixes specifically for smaller segments.

Concentrated targeting

A company selects one segment to serve. It understands the needs and motives of the segment's customers and designs a specialized marketing mix. Companies have discovered that concentrating resources and meeting the needs of a narrowly defined market segment is more profitable than spreading resources over several different segments. Starbucks became successful by focusing exclusively on customers who wanted gourmet coffee products.

Companies following concentrated targeting strategies are obviously putting all their eggs in one basket. If their chosen segment were to become unprofitable or shrink in size, the companies will be in problem. Such companies also face problems when they want to move to some other segments, especially when they have been serving a segment for a long time. They become so strongly associated with serving a segment with a particular type of product or service that the customers of other segments find it very difficult to associate with them. They believe that the company can serve only that particular segment. Companies, which start with concentrated targeting strategy but nurse ambitions to serve more segments, should make early and periodic forays into other segments. The idea is to avoid being labelled as a company which exclusively serves a particular segment. The association with one particular segment should not be allowed to become so strong that customers cannot imagine the company doing something else.

From the car makers' perspective, Mercedes offers premium cars for the upper segment of the market only. It does not offer cars for the middle and lower segments. But, Mercedes segments the premium segment for its own purpose and offers different cars for its different premium segments.

Multi-segment targeting

A company following multi-segment targeting strategy serves two or more well-defined segments and develops a distinct marketing mix for each one of them. Separate brands are developed to serve each of the segments by most companies following this strategy. It is the most sought-after target market strategy because the strategy has the potential to generate sales volume, higher profits, larger market share and economies of scale in manufacturing and marketing. But the strategy involves greater product design, production, promotion, inventory, marketing research and management costs. Another potential cost is cannibalization, which occurs when sales of a new product cut into the sales of a firm's existing products. Before deciding to use this strategy, a company should compare the benefits and costs of multi-segment targeting to those of undifferentiated and concentrated targeting.

The car market is most clearly segmented. There are segments for small cars, luxury cars, sports utility vehicles, etc. Most car makers, such as General Motors, Ford, Toyota, Honda and others, offer cars for all the segments. Though Toyota entered the US market with small cars, it eventually chose to operate in most of the segments.

2.2.3 Bases for Segmenting Consumer Markets

Markets can be segmented in many ways. Segmentation variables are the criteria that are used for dividing a market into segments. The chosen criteria should be good predictors of differences in buyer behaviour. There are three broad groups of consumer segmentation criteria: Behavioural, Psychographic and Profile variables.

- Behavioural variables, such as benefits sought from the product, and buying patterns, such as frequency and volume of purchase, may be considered as the fundamental basis.

- Psychographic variables are used when purchasing behaviour is correlated with the personality or lifestyle of consumers. Consumers with different personalities or lifestyles have varying product preferences and may respond differently to marketing mix offerings.

- Profiling is not essentially a criterion for segmentation. After finding these differences, marketers need to describe the people who exhibit them. Profile variables, such as socio-economic group or geographic location, are valuable in describing the customers of the identified segment. For instance, a marketer may want to find out whether there are groups of people who value low calories in soft drinks. After identifying such people, the marketer attempts to profile them in terms of their age and socio-economic groupings. The objective of profiling is to identify and locate the customers so that they can be approached by marketers.

But in practice, segmentation may not follow this logical sequence. Often, profile variables will be identified first and then the segments so described will be examined to see if they show different behavioural responses. For instance, different age or income groups may be examined to see if they show different attitudes and requirements.

1. Behavioural Segmentation

Segmentation can be done on the basis of the purchase behaviour of customers. Product or brand purchases of customers can be tracked to identify differences in patterns of such purchases, which can be used a means of segmenting the market.

Benefits sought

People may seek different benefits from a product. Benefits sought in the fruit drink market are extra energy, vitamins, being natural, low calories and low price. There are brands targeting each segment. Benefit segmentation provides an understanding on why people buy in a market and aids in identification of opportunities, as some of the benefits that customers seek may not be provided by the existing companies.

Benefit segmentation is fundamental because the objective of marketing is to provide customers with benefits which they value. Profile analysis can then be performed to identify types of people (age, gender) in each benefit segment so that targeting becomes easier.

Purchase occasion

Products like tyres may be purchased as a result of an emergency or as a routine unpressurized buy. Price sensitivity is likely to be lower when products are bought

in emergency situations. Some products may be bought as gifts or self-purchases. Gift markets are concentrated at festivals period, while the advertising budget for these will be concentrated in the pre-festival period. Package designs may differ during this period, and special offers may also be made.

Purchase behaviour

Differences sin purchase behaviour can be based on the time of purchase relative to the launch of the product or on patterns of purchase. When a new product is launched, a key task is to identify the innovator segment of the market. These people allow communication to be specifically targeted at them. Innovators are more likely to be willing to buy products soon after launch. Other segments of the market may need more time to assess the benefits and delay purchase until after the innovators have taken the early risks of purchase.

Brand loyalty

The degree of brand loyalty can be the basis for segmenting customers. Some buyers are totally brand loyal, buying only one brand in a product group. Most buyers switch brands. Some may buy one particular brand on most occasions but also buy two or three other brands. Others might show no loyalty to any individual brand but switch brands on the basis of special offers to buy, because they are variety seekers who look to buy a different brand each time. By profiling the characteristics of each group a company can target each segment accordingly. By knowing the type of person (for instance, by age, socio-economic group, etc.) who is brand loyal, a company can channel persuasive appeals to defend this segment. By knowing the characteristics and shopping habits of offer seekers, sales promotions can be correctly targeted. In consumer durables market, customers can be divided into first-time buyers, replacement buyers and switchers from other brands.

Usage

Consumers can be segmented on the basis of heavy users, light users and non-users of a product category. Profiling of heavy users allow this group to receive most marketing attention because creating brand loyalty among these people will pay heavy dividends. Attacking the heavy user segment (20 per cent customers consuming 80 per cent of the product) can have drawbacks if all competitors are following this strategy. Analysing the light and non-user category provides insights that permit development of appeals that are not mimicked by competition as they will be concentrating on the heavy users.

Perception and beliefs

Perceptions and beliefs are strongly linked to behaviour. Consumers are grouped by identifying those people who view the products in a market in a similar way (perceptual segmentation) and have similar beliefs (belief segmentation). For

instance, when it was launched, a product such as iPod by Apple made more sense to consumers who were passionate about music and also held extremely positive perceptions about the use of technology.

In the early 1990s, several Indian consumers held negative perceptions about microwaves. It was believed that Indian food rich in oil and spices cannot be cooked in microwaves, and the waves emanating inside were harmful to health. Another segment that was more open to adapting microwaves consisted of those consumers who were well aware about the functioning of the microwave and health conscious. They also sought the convenience of cooking faster and cooking other types of cuisines. For these purposes, a microwave was found to be suitable by them. Therefore, marketers initially focused on the second segment.

2. Psychographic Segmentation

Another means of segmentation involves analysing the psychological make-up of customers, to unearth deeper motivations for purchasing specific products or brands. This often involves studying customers' values, opinions, activities and lifestyles to establish patterns, which can be used as a basis for clustering similar customers.

Lifestyle

A company groups people according to their way of living as reflected in their activities, interests and opinions. The company identifies groups of people with similar patterns of living. The question that arises in this type of segmentation is whether general lifestyle patterns are predictive of purchasing behaviour in specific markets. The company will relate a brand to a particular lifestyle.

Personality

In some product categories, there is relationship between the brand personality and the personality of the buyer. Buyer and brand personalities are likely to match where brand choice is a direct manifestation of personal values, but for most FMCG goods, people buy a repertoire of goods. Personality and lifestyle segmentation will work best when brand choice is a reflection of self-expression, i.e., the brand becomes a badge that makes public an aspect of personality. Successful personality-based segmentation is found in categories such as cosmetics, alcoholic drinks and cigarettes.

3. Profile Segmentation

Even if behaviour and/or psychographic segmentation have distinguished between buyer preferences, there is need to analyse the resulting segments in terms of profile variables such as age and socio-economic group. The segments emerging from behavioural and psychographic segmentation will have to be profiled in terms of age, occupation, socio-economic status, place of residence, gender, etc. Profiling will help companies in identifying the segments and focusing their attention on them.

Demographic variables

Age – Age is used to segment many consumer markets, like food and clothing.

Gender – Differing tastes and customs between men and women are reflected in specialist products aimed at these market segments.

Life cycle – Disposable income and purchase requirement vary according to life cycle stage (young singles versus married). Young couples without children may be a prime target for consumer durables. The use of life cycle analysis gives a better precision in segmenting markets than age because family responsibilities and presence of children have a greater bearing on what people buy than age.

Socio-economic variables

Social class as a predictor of buyer behaviour has been open to question. Many people who hold similar occupation have dissimilar lifestyles and purchasing patterns.

Educational qualification and income are also used as variables for segmentation.

Geographic variables

A marketer can use pure geographic segmentation or a hybrid of geographic and demographic variables to segment the market.

Geographic segmentation is useful when there are geographic locational differences in consumption patterns and preferences. Variations in food preferences may form the basis of geographic segmentation.

Both geographic and demographic variables help a marketer to point to their segments more precisely.

Combining Segmentation Variables

Often a combination of variables will be used to identify groups of consumers that respond in the same way to marketing mix strategies. For instance, lifecycle, occupation and income can be combined. Flexibility and creativity are hallmarks of effective segmentation analysis.

2.2.4 Segmenting Organizational Markets

Organizational markets can be segmented on the basis of various factors that can be broadly classified into macro-segmentation and micro-segmentation. First macro and then micro basis of segmentation are employed while segmenting organizational markets.

Macro-segmentation

Macro-segmentation focuses on the characteristics of the buying organization such as company size, industry and geographic location.

Organizational size

Large organizations have greater order potential, a more formalized buying process, increased specialization of functions and special needs (more services and quantity discounts). They are important target market segments and require tailored marketing mix strategies. Dedicated sales teams are used to service important industrial accounts. List price should take into account the inevitable demand for volume discounts. Sales team should be well-versed in the art of negotiation.

Industry

Different industries have unique requirements of products. Computer suppliers can market their products to various sectors such as banking, manufacturing, healthcare and education, each of which has unique needs in terms of software programmes, price and purchasing practice. By understanding each industry's needs in depth, a more effective marketing mix can be designed.

Geographical segmentation

There are regional variations in purchasing practice and needs that organizations must take into account.

Micro segmentation

Micro segmentation is a detailed knowledge of the internal functioning of company. It concerns the characteristics of decision-making such as choice criteria, decision-making unit structure, decision-making process, buy class, purchasing organization and organizational innovativeness.

Choice criteria

One customer may rate price as the key choice criteria, another may favour productivity of the equipment being sold and a third may want more services. Marketing strategies need to be adapted to cater to each segment's needs. Three different marketing mixes would be needed to cover the three segments and salespersons would have to stress different benefits when talking to customers in each segment. Key choice criteria is a powerful predictor of buyer behaviour.

Decision-making unit structure

Members of a decision-making unit (DMU) and its size vary among firms. The DMU consists of all people in a buying organization who influence supplier choice. In one segment, top management may make the decision, in another, engineers may play a role, and in yet another, purchasers may play a role. The selling approach that a company will adopt will depend heavily on the priorities of the members of the DMU.

Decision-making process

Decision-making process can take a long time or be relatively short in duration depending on size of the DMU. Large DMUs will take a longer time. Where the decision time is long, high levels of marketing expenditure are needed with considerable effort being placed on personal selling. Much less effort is needed when buying process is short and where, say, only the purchaser is involved.

Buy class

Organizational purchases are categorized into straight rebuy, modified rebuy and new task. The Buy class affects the length of decision-making process, complexity of DMU and number of choice criteria which are used in supplier selection. It can therefore be used as a predictor of different forms of buyer behaviour.

When a company is buying an item for the first time, it will prefer suppliers who will have the patience to educate the buyer company. It will also be suspicious of sellers as it does not really know the credibility of the sellers. The sellers will have to demonstrate a lot of patience as the buyer will evaluate a number of options and have a good deal of consultation before settling on a supplier (New task). When the company is already buying the item but only wants to alter the specifications of the product or the conditions of purchase, it will expect the incumbent supplier to make the required changes and retain the order. New suppliers can make a pitch but they have to compete hard against the incumbent supplier because of its proximity to the buyer (Modified rebuy). The incumbent supplier should get the order when the buyer continues to buy the same item in the same way. New suppliers can make a pitch but they have to prove that they are decisively better than the incumbent (Straight rebuy).

Purchasing organization

Decentralized versus centralized purchasing is an important variable due to its influence on the purchase decision. Centralized purchasing is associated with purchasing specialists who become experts in buying a product or range of products. They are more familiar with cost factors, and strengths and weaknesses of suppliers than decentralized generalists. The opportunity for volume buying means that their power base to demand price concessions from suppliers is enhanced. In centralized purchasing systems, purchasing specialists have greater power within the DMU with respect to technical people like engineers.

In decentralized purchasing, users and technical personnel have a lot of influence and it is important to understand their requirements. A purchaser may ultimately negotiate the price and place the order, but the choice of the user and technical person is respected by the purchaser.

A centralized purchasing segment could be served by a national account team, whereas a decentralized purchasing segment might be covered by territory representatives.

Organizational innovativeness

Marketers need to identify the specific characteristics of the innovator segment since these are companies that should be targeted first when new products are launched. Follower firms buy the product but only after innovators have approved it.

2.2.5 Evaluating Market Segments and Target Market Selection

Segmentation is a means to target marketing. Target marketing is the choice of specific segments to serve. A firm needs to evaluate the segments and decide which ones to serve.

In evaluating market segments which can be targeted, a company should examine two broad issues: (i) Relative attractiveness of the market segments (ii) Company's capability to compete in various segments.

Market Attractiveness

The following factors should be evaluated in finding out whether a particular market segment is worth pursuing.

Market factors

Segment size

But large segments are highly competitive since other companies are also targeting these bigger segments. Smaller companies may not have the resources to compete in large segments and so may find smaller segments more attractive.

Segment growth rate

Growing segments are usually more attractive than stagnant or declining segments as new business opportunities will be greater in growing markets. But growth markets have heavy competition. Such markets need commitment of enormous resources in production and marketing as new capacities have to be created to serve the growing number of customers and the company has to reach the customers through various promotional means and distribution channels. Analysis of growth rate should be accompanied with an examination of state of competition and amount of investment needed.

Price sensitivity

In segments where customers are price-sensitive, there is a danger of profit margins being eroded by price competition. Low-price-sensitive segments are more attractive as margins can be maintained. Competition may be based more on quality and other non-price factors in segments where customers are less price-sensitive.

Bargaining power of customers

Both end and intermediate customers like retailers can reduce the attractiveness of a market segment if they can exert high bargaining pressure on suppliers. It results in reduction of profit margins as customers negotiate lower prices in return for placing large orders, or under threat of switching suppliers.

Bargaining power of customers is higher when the number of customers is few but each of them have large buying capacity; when the number of suppliers is more and the product sold by all of them is standard; when the customers can develop the capability to make the item provided by the seller; and when the product being sold is not a very important one for the buyer.

Bargaining power of suppliers

Where the supply is in the hands of a few dominant companies, the segment will be less attractive than when served by a large number of competing suppliers.

Barriers to market segment entry

Entry barriers reduce attractiveness. Barriers take the form of high marketing expenditures required to compete, patents or high switching costs for customers. If a company judges that it can afford to overcome barriers to entry, the segment will be attractive as other new entrants may find the entry barrier daunting.

Barriers to market segment exit

A segment is less attractive if there are high barriers to exit. High barriers to exit compel competitors to stay in the market which makes the rivalry among competitors very intense. Exit barriers may take the form of specialized production facilities that cannot be easily liquidated or agreements to provide spare parts to customers.

Competitive factors

Nature of competition

Segments that are characterized by strong aggressive competition are less attractive than where competition is weak. The quality of competition is more significant than the number of companies operating in a market segment. Depending on the nature of industry, the quality of competitors would be related to their size, financial strength, innovativeness, technical capability, production facilities, brand equity, etc.

New entrants

A judgement must be made regarding the likelihood of new entrants, possibly with new technology which might change the rules of the competitive game. If it is anticipated that strong players will enter the market, it is best to stay away from such a market.

Competitive differentiation

Segments will be attractive if there is real probability of creating a differentiated offering that customers value. Howsoever intensely competitive a market may be, it is always possible to differentiate one's offerings and win a share of the market. This is dependent upon the company identifying unserved customer requirements and having the capability to meet these requirements.

Political, social and environmental factors

Political issues

Political forces can open up new market segments (deregulation of the Indian economy). Attraction of entering new geographic segments may be reduced if political instability exists or is forecast. Governments may encourage or discourage entry of foreign companies in their markets.

Social trends

Changes in society can give rise to latent market segments underserved by current products and services. Increasing proportion of working women has increased the market for pre-cooked, packaged food. Big gains can be made by the first entrants.

Environmental issues

The trend towards more environment-friendly products has affected market attractiveness both positively and negatively. Companies that are damaging the environment are facing pressures from interest groups and have to invest in new technologies, equipment and processes to make their operations more environment-friendly. Such investments will affect the cost structure of these companies adversely. On the other hand, there are huge opportunities for companies to produce environment-friendly products that are likely to fetch higher prices from environment-sensitive customers. There are also opportunities to innovate new equipment and processes which other companies can use to make their operations more environment-friendly.

Firm's Capability to Serve Segments

A market segment may be attractive, but it may be beyond the resources and competencies of the company to serve it profitably. A company needs to carry out an audit of its resources and competencies and match them with the resources and competencies that will be required to serve the target segment. Howsoever attractive a segment may look to be, a company should not venture to serve it unless it is certain that it has the required resources and competencies.

Exploitable marketing assets

The target market segment should allow the firm to exploit its current technological, manufacturing and marketing strengths. Segment entry should be consonant with the image of its brands and it should provide distribution synergies. Where new segment entry is inconsistent with its current image, a new brand name may be created.

Cost advantage

Companies which can exploit cheaper material, labour or technological cost advantages to achieve a low-cost position compared to competition will be in a stronger position, particularly if the segment is price sensitive.

Technological edge

Superior technology may be a source of differential advantage in the market segment. If the company has patent protection it can form the basis of a strong entry. If the company possesses resources, it can invest in building technological leadership.

Managerial capabilities and commitment

The technological capabilities of the company and its superior products may be insufficient to compete against strong competitors. A segment needs to be assessed from the viewpoint of managerial skills that will be required to develop and maintain the marketing mix.

Check Your Progress

1. Why is marketing not based on segmentation considered to be essentially inefficient?

2. How does market segmentation promote the idea of customer satisfaction?

3. What is undifferentiated targeting?

4. Name the market segmentation which involves studying customers' values, opinions, activities and lifestyles to establish patterns, which is used as a basis for clustering similar customers.

2.3 MARKETING MIX AND THE 4 P'S OF MARKETING

Marketing mix is a particular combination of the product, its price, the methods to promote it, and the ways to make the product available to the customer. Based upon its understanding of customers, a company develops its marketing mix of product, price, place and promotion. The elements of the marketing mix are intricately and sensitively related to each other. The marketing mix is good or bad as a whole. All the elements have to reinforce each other to enhance the experience

of the customer. When a change is proposed to be made in one of the elements, it has to be checked if the changed element still fits with and reinforces other elements, or has it started contradicting other elements, making the marketing mix less effective in serving customers. Managers must manage these 4Ps in a way that they satisfy customer needs better than competition. Decisions regarding marketing mix form a major aspect of implementation of the marketing concept.

(i) Product

Product decision involves deciding what goods or services should be offered to customers. The product or service serves the basic need of the customer. The product provides the primary value to the customer. The customer got interested in the company primarily because of the product or service it was producing or proposed to produce. All other elements should be reinforcing the value proposition of the product.

New product development is an essential feature of product strategy. As technology is ever-changing and customer needs also change from time-to-time, many products become out of date as better products are invading the market constantly. Therefore, it is important that a company keeps updating and changing its products with new designs and features that customers will desire and appreciate. The main challenge faced by companies is how to include new technologies and solutions to fulfil customer's needs in their products.

Product decisions involve choices regarding brand names, warranties, packaging and services which should accompany the product offering.

(ii) Price

Price is the cost that customer is willing to bear for the product and the way it is made available to him. Price represents on a unit basis what the company receives for the product which is being marketed. All other elements of the marketing mix represent costs. Marketers need to be very careful about pricing objectives, methods to arrive at a price and the factors which influence setting of a price.

The company must also take into account the necessity to give discounts and allowances in some transactions. These requirements can influence the level of list price chosen. If discounts and concessions have to be given in certain transactions, the list price should have negotiation margin built in it. Payment periods and credit terms also affect the real price received in any transaction. These kinds of decisions can affect the perceived value of a product.

In comparison to other elements of the marketing mix, price can be changed easily. However, an ill-considered price change is effective enough to make changes in the customer's mind with respect to the marketing mix value. In the absence of any objective knowledge about the quality of the product, the customer builds a strong association between price and quality. In case, the company reduces the price of a particular product, the customers may start doubting the quality of the

product and consider it to be of an inferior quality. If a company raises price, customers may consider it a high quality product, but there is also the risk that customers may regard the price too high for the value that they are getting from the product. Price change, though easy to make, should always be done taking into consideration the effect the change will have on the attractiveness or otherwise of the marketing mix.

(iii) Promotion

Decisions have to be made with respect to promotional mix: advertising, personal selling, sales promotions, exhibition, sponsorship and public relations. By these means, the target audience is made aware of the existence of the product and the benefits that it confers to customers.

The type of promotional tool used has to be compatible with other elements of the marketing mix. An expensive product, like machinery, with limited number of customers should be promoted through personal contacts between buyers and salespersons. Advertising in the mass media would be wasteful as the number of customers is far too small, and it would be ineffective as the customer will not make a decision to buy such an expensive product based on little information provided in an advertisement. Prior to making a selection, a customer needs detailed information regarding the product. However, if the product is not very expensive and is purchased by the mass market, then it can be advertised through the medium of mass media.

Even the nitty-gritty of a chosen promotional tool should enhance the marketing mix. The media used, the celebrity chosen to endorse the product, the training provided to the salesperson, etc., should reflect and reinforce other elements of the marketing mix.

Normally, the company makes its first contact with customers through its promotional efforts. Until and unless a customer has evaluated the product, he will not purchase that product. A customer needs to have some expectations fulfilled through the product. This is where promotion comes into the picture as it helps shape the expectations of the customer regarding the product. Used rightly, promotion can raise customer expectations and drive sales. However, if a product is hyped, though customer expectations are raised, he will be disappointed when he actually uses the product and does not find it up to his expectations. Such disappointments engender negative word-of-mouth and a permanent dent in the company's reputation.

(iv) Place

Place involves decisions concerning distribution channels to be used, the location of outlets, methods of transportation and inventory levels to be held. Product should be available in right quantity, at right time and place. Distribution channels consist of independent intermediaries such as retailers, wholesalers, and distributors

through which goods pass on their way to customers. These intermediaries provide cost-effective access to the marketplace. It will be extremely costly and cumbersome if the manufacturer had to set up all the infrastructure needed to manage the transfer of goods to the customers. The manufacturer has to manage and structure relationships with these intermediaries in such a way that interests of the manufacturer and intermediaries are served.

Distribution channels perform three distinct functions. The main objective of distribution channels is to transfer products from the manufacturer of the product to the consumer of the product. The distribution channels also assist in informing customers and receiving payments from customers on behalf of the manufacturer. It is possible to segregate these three functions as alternate means of delivering products, passing information and collecting money are developed. In Internet marketing, information is provided on the manufacturer's web site, the product is sent from the manufacturer's store to the customer through courier service, and payment is collected by banks through credit cards. A company should have an open mind while designing its distribution strategy. The three functions have to be performed but it is not essential that all the three functions are performed by one channel. Three separate channels can perform a function each, depending on each channel's efficiency and effectiveness in carrying out the function.

2.3.1 Marketing Planning: Importance and Types

It is important for every organisation to consider its marketing in relation to the marketing mix, which is often referred to as the 4Ps. The marketing mix is a means of evaluating how to balance the elements of the mix for meeting the requirements of the customers. These elements include:

- The right product
- Sold at the right price
- In the right place
- Using the most suitable form of promotion

As every business is diverse in nature, organisations should decide on their own the method of balancing the 4Ps in order to befit its customers' wants and needs. There are several internal and external factors which affect the marketing mix of an organisation. The major factors include:

- The size of the business
- The markets it operates in
- Available resources

A marketing mix needs to be effective in order to meet customer needs better than competitors. In the planning of marketing mix, various elements of the marketing mix must be in synchrony with one another. It must also be mindful of the company's resources.

- **The marketing mix should match customer needs:** The target customer has to be understood in terms of his level of need, his ability and willingness to pay a particular amount for his needs being served, the way he would like the product to be delivered, and his most preferred method of accessing information from the company. Once the target customer is identified and understood, marketers need to understand how he chooses between rival offerings. A company needs to understand the choice criteria that the customer uses in evaluating offerings of different companies. The marketing mix should reflect the customer's choice criteria.

  Customers evaluate products on both economic and psychological criteria. Economic criteria include factors such as performance, availability, reliability, durability and productivity gains to be made by using the product. Psychological criteria are self-image, pleasure, convenience and risk reduction. An analysis of customer choice criteria will reveal a set of key requirements that must be met in order to succeed in the marketplace. The company's marketing mix should meet these requirements better than competitors.

- **Marketing mix is the true source of competitive advantage:** Competitive advantage is derived from decisions about the four elements of the marketing mix. A company may use product features to provide customer benefits in excess of what the competition is offering. A company can use advertising as a tool for competitive advantage when product benefits are particularly subjective and amorphous in nature. Advertising for perfumes is critical in preserving the exclusive image established by brands. The size and quality of sales force can act as a competitive advantage. Distribution decisions need to be made with the customer in mind, not only in terms of availability, but also with respect to service levels, image of the outlet and customer convenience.

- **The marketing mix should be well blended to form a consistent theme:** If the product gives superior benefits to customers, the price which sends cues to customers regarding quality should reflect those extra benefits. All the elements of the promotional mix should be designed with the objective of communicating a consistent image. All the elements of the marketing mix should reinforce each other to strengthen the positioning of the product in the marketplace.

- **The marketing mix should match corporate resources:** It is always tempting to provide to the customer the highest quality product at the lowest price, in a way most convenient to him, with the offering promoted in the most sophisticated way. However, such a marketing mix would be very costly to provide. The choice of the marketing mix will be constrained by the financial resources and internal competencies of the company, and the customers' willingness and ability to pay for such an exalted marketing mix.

Criticism of the 4Ps approach to marketing

Marketing mix oversimplifies the realities of the market. In services, 4Ps do not take into account people who provide the service, processes and physical evidence. In services, people are often the service itself. The process or how the service is delivered to the customer is a key part of the service. The physical evidence, like the check-list in car service or a surgeon's uniform, give signals to customers about the quality and reliability of the service.

In industrial markets, success does not come solely from manipulation of the marketing mix components, but from long-term relationship building whereby the bond between the buyer and the seller becomes so strong that it effectively acts as a barrier to entry for out-suppliers. This phenomenon exists to such an extent that industrial buyers are now increasingly seeking long term relationships with suppliers. These activities are not captured in the marketing mix approach.

However, there is no reason why these extensions cannot be incorporated within the marketing mix framework. People, process and physical evidence can be incorporated in 'product' and long-term relationship building can be incorporated in 'promotion'. The strength of the marketing mix or 4Ps approach is that it allows companies to focus on a tangible aspect of concern to the customer. The company can work to improve an element or can redesign the element to synchronize with other elements. Marketing mix converts marketing from an abstract discipline into something more concrete.

Segmentation, Targeting and Positioning

The concepts of segmentation, targeting and positioning are discussed as follows:

Segmentation

As discussed, customers in a market vary widely in terms of their level and sophistication of need, in the way they would like the product to be delivered to them, in their ability and willingness to pay a certain amount for getting their needs satisfied, and their most preferred method of receiving communication from the company. All customers in a market cannot be served by a single marketing mix. Although each customer is different from the other in some way or the other, it is not economically viable to have a tailored marketing mix for each customer. Segmentation is the process of clubbing together similar customers in a group, so that they can be served by a marketing mix especially designed for the group or segment. The process of segmentation by a company continues till the market is divided into smaller and more uniform groups. Once the company divides the market as per its requirements and desire, they create a unique marketing mix for them. The main idea for segmentation by a company lies in the fact that the more similar a market segment is, the marketing mix will be more appropriate for the customers in that particular segment. Many companies use segmentation as their

main vehicle to enter markets. A company which is entering the market for the first time is able to segment the existing market in a manner which may not be possible for incumbents. Hence, the entrant has the potential to serve the newly carved-out segment with a suitable marketing mix.

Target markets

In any market, there are normally many segments. A company may not have the resources and the capabilities to design marketing mixes to serve all the segments. A company will decide to serve one or more segments depending upon its capabilities and resources. The segments that a company chooses to serve by designing special marketing mixes are called target markets.

Positioning

In most markets, there will be many companies providing the same basic solutions to customer needs. The customer has to select one provider among them. The offering of a company has to be distinct, so that customers are able to make a choice by matching their requirements with the offerings of various providers. Positioning is the process of creating a distinct offer and communicating it to the customer. Positioning is created by designing a marketing mix which is suitable for the target market but is different from marketing mixes of other providers. The chosen marketing mix has to be then communicated to the customers. The smaller and more homogeneous the target market is for which a marketing mix is designed, the stronger will be the positioning, i.e., the fit between the marketing mix of the company and requirement of the customers of the target market will be stronger. Positioning is a constant process and it is required that this process be proactive as new needs and competitors keep emerging in the market.

Types of Marketing Planning

Some of the common types include:

- Direct marketing: Here the focus is on promoting the product/service directly to the consumer.
- Indirect marketing: Here the company focusses less on the product/service and more on the image of the company.
- Cause marketing: Here the company associates the product/service to a certain social or environmental cause so as to attract a certain kind of customers.
- Relationship marketing: Here the focus is on providing the best customer satisfaction and response.
- Niche marketing: Here the companies target only a select kind of audience and makes products and services targeted for them.

Types of Planning

Some of the basic and foundational planning include:

- Strategic plans involve the planning at the top most level of the company and here the entire organization is kept in mind, starting with the organizational mission, desire planning and long term goals.

- Tactical planning assists the strategic planning by giving them a specific direction in the form of departmental plans.

- Operational planning comes at the bottom of the planning ladder and is concerned with the lower level managers who oversee the work in the particular departments by the employees. These are related to day to day functioning.

Check Your Progress

5. List some of the choices involved in product decisions.
6. Name three major factors affecting the marketing mix of an organization.

2.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Marketing not based on segmentation is essentially inefficient because some segments get over-engineered and advanced products giving far more value and features are offered than desired by the customers, whereas other segments do not get the required value and features that customers want in the product

2. Segmentation promotes the idea of customer satisfaction by viewing markets as diverse set of needs which must be understood and met by suppliers.

3. A company using an undifferentiated targeting strategy essentially adopts a mass market philosophy. It views the market as one big market with no individual segments. The company uses one marketing mix for the entire market.

4. Pyschographic segmentation often involves studying customers' values, opinions, activities and lifestyles to establish patterns, which can be used as a basis for clustering similar customers.

5. Product decisions involve choices regarding brand names, warranties, packaging and services which should accompany the product offering.

6. The three major factors which affect the marketing mix of an organisation include:
   - The size of the business

- The markets it operates in
- Available resources

2.5 SUMMARY

- Segmentation is the process of dividing the market of a product or service in smaller groups of customers. The customers in one group should (i) buy the product for the same purpose, or (ii) use the product in the same way, or (iii) buy the product in the same way. But customers in one segment should be different from customers of any other segment in one or more of the above parameters.

- Customer value proposition is a unique mix of product and service attributes, customer relations and corporate image that a company offers. Customer value proposition defines

- A target market is a group of people or organizations for which a company designs, implements and maintains a marketing mix intended to meet the needs of that group, resulting in mutually beneficial and satisfying exchanges.

- Markets can be segmented in many ways. Segmentation variables are the criteria that are used for dividing a market into segments. The chosen criteria should be good predictors of differences in buyer behaviour. There are three broad groups of consumer segmentation criteria: Behavioural, Psychographic and Profile variables.

- Organizational markets can be segmented on the basis of various factors that can be broadly classified into macrosegmentation and microsegmentation.

- In evaluating market segments which can be targeted, a company should examine two broad issues: (i) Relative attractiveness of the market segments (ii) Company's capability to compete in various segments.

- Marketing mix is a particular combination of the product, its price, the methods to promote it, and the ways to make the product available to the customer. Based upon its understanding of customers, a company develops its marketing mix of product, price, place and promotion. The elements of the marketing mix are intricately and sensitively related to each other.

- A marketing mix needs to be effective in order to meet customer needs better than competitors. In the planning of marketing mix, various elements of the marketing mix must be in synchrony with one another. It must also be mindful of the company's resources.

2.6 KEY WORDS

- **Segmentation:** It is the process of dividing the market of a product or service in smaller groups of customers.
- **Customer Value Proposition:** It defines how the organization will differentiate itself from competitors to attract, retain and deepen relationships with target customers.
- **Marketing Mix:** It is a particular combination of the product, its price, the methods to promote it, and the ways to make the product available to the customer.

2.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. Write a short note on macro and micro segmentation.
2. What are the competitive factors affecting market segmentation?
3. What is the criticism against 4Ps approach to marketing?
4. What are the different types of marketing planning and plans?

Long-Answer Questions

1. What are the uses of market segmentation?
2. Describe the different bases for segmenting consumer markets.
3. Evaluate market segments and target market selection.
4. Explain in detail the concept of marketing mix.

2.8 FURTHER READINGS

Kumar, Arun, N Meenakshi. 2011. *Marketing Management.* New Delhi: Vikas Publishing House Pvt. Ltd.

Kotler, Philip. 1972. *Marketing Management; Analysis, Planning, and Control*. New Jersey: Prentice Hall, Inc.

Gandhi, J. C. 1985. *Marketing: A Managerial Introduction.* New Delhi: Tata McGraw Hill Publishing Company Limited.

Stanton, William J. 1984. *Instructor's Manual to Accompany Fundamentals of Marketing*, seventh edition. New Delhi: Tata McGraw Hill Publishing Company Limited.

UNIT 3 MARKETING ENVIRONMENT

Structure

3.0 INTRODUCTION

The environment of a company consists of various forces that affect the company's ability to deliver products and services to its customers. The immediate environment of a company constitutes its micro environment and includes its suppliers, distributors, customers and competitors. Together they affect a company's ability to operate effectively in its chosen markets. The macro environment of a company operates at a larger level and shapes the future of the company and the industry as a whole. Though the nature and scope of marketing encompass the whole gamut of an organization and the customers it seeks to serve, in these days of globalization, its impact spills over national boundaries. In this unit, you will learn about the micro and macro environments of a company.

The unit will also discuss the consumer buying process. The types of behaviour that different customers demonstrate in buying and using the same product, and the different types of behaviour that the same customer demonstrates in buying different products, elevates marketing to a discipline much more intricate than product management. Even the same customer may not behave in an equivalent fashion while buying the same product under varying circumstances. By studying the behaviour of customers, it becomes possible to segment the market in new ways and serve them with different marketing mixes even if the product of the varying marketing mixes may be the same.

3.1 OBJECTIVES

After going through this unit, you will be able to:

*   Discuss the internal and external marketing environment of a firm

- Analyse the consumer behaviour
- Describe the consumer buying process

3.2 MARKETING ENVIRONMENT: INTERNAL AND EXTERNAL FACTORS

A marketing-oriented company looks outside its premises to take advantage of the emerging opportunities and to monitor and minimize the potential threats faced by it in its businesses.

The environment of a company consists of various forces that affect the company's ability to deliver products and services to its customers. The micro environment of the company consists of various forces operating in its immediate environment that affect its ability to operate effectively in its chosen markets. This includes the company's suppliers, distributors, customers and competitors. The macro environment consists of broader forces that not only affect the company and the industry, but also other factors in the micro environment. These forces shape the characteristics of the opportunities and threats facing a company. These factors are largely beyond the control of a company.

The environment can affect a company in dramatic ways. A company can have the best technologies, the best employees and the best of suppliers but it can fail miserably if any of the factors, such as the exchange rate, policies of the host government or the changing needs of customers, starts to act against it. Similarly, a mediocre company can be spectacularly successful if the factors in the external environment start favouring its strategies and policies. It is imperative that companies keep a close watch over the environmental factors that may affect them and prepare themselves adequately to face the emerging challenges.

An organization is a subsystem in the larger socio-economic environment. It receives human, material and financial resources from the environment and converts them into useful products and services to serve their target customers. In this process, the organization has to interact with a host of suppliers, competitors, the public, customers and the government. All these agents and institutions act as the environment of the organization. They act as facilitators as well as impediments in the marketing efforts of the organization.

Components of an Organizational Marketing Environment

A company's environment consists of:

- A company and its own environment–organizational as well as cultural
- A company's task environment—suppliers, intermediaries and markets
- The competitive environment—competitors in a market
- The public environment
- Macro environment—uncontrollable variables

Internal Micro Environment

This consists of the environment within an organization, i.e., the organizational culture. For example, marketing is the function of a department in an organization which impacts and is impacted by the decisions of other departments of the organization.

Shared values and beliefs, which form the culture of an organization, are necessary prerequisites for successful marketing orientation. Every employee in every department should believe that business goals can be achieved only through heightened awareness of customer needs and a tireless zeal to serve those needs. Customer orientation cannot be drilled into the workforce overnight. Fables have to be created and circulated, extolling customer care. Top executives have to repeatedly demonstrate concern for customers in their strategic and operating decisions and their own behaviour. People should feel proud and good about themselves that they go out of their way to serve customers. This can be a problem for long-established companies that did not put the customer first. Such companies have to be patient. They should not expect their employees to change overnight from ignoring customers to serving them.

External Proximate Macro Environment

This includes suppliers, marketing intermediaries, competitors and the public.

(a) Supplier's environment

Every organization has a number of suppliers. For a manufacturing concern, the suppliers provide raw materials, components, machinery and equipment; for wholesalers, the manufacturer is the supplier; and for retailers, the manufacturer or the distributor is the supplier.

Business buyers draw a product specification and ask the suppliers to make the components for their products in accordance with the specifications and requirements. Usually, suppliers are selected on the basis of strict specifications that are based on economic and technical criteria. Usually, the buyers and the suppliers enter into long-term relationships due to the nature of the products being bought and sold in business markets.

(b) Marketing intermediaries' environment

Marketing intermediaries are organizations that facilitate the distribution of products and services from producers to customers. There are three types of marketing intermediaries-agents and brokers, wholesalers and retailers, and facilitating organizations such as transporters, warehouses, financing companies and freight forwarders.

Producers need to consider not only the needs of the ultimate customer, but also the requirements of the marketing intermediaries.

(c) Competitive environment

The competitive environment comprises the competitors a company faces, the relative size of the competitors and the degree of interdependence within the industry. The marketing department of a company has little control over the competitive environment confronting it.

Companies should be ready to encounter competitive environments that are very different from the ones they have been operating in. Most companies have faced domestic competition and done well in the limited competitive milieu they have been operating in. Now, all companies face competition from companies all over the world. Governments are unwilling to protect domestic companies because they have realized that they will be doing a great disservice to their economies and people by limiting competition in their own countries. Most governments are going overboard in making their countries attractive destinations for foreign capital, technologies and companies. The game is clear. Only the best companies will survive. The nationalities of companies will not matter and country markets will become intensely competitive.

(d) Public environment

A public is any group that has some interest in an organization and its activities. It is crucial for an organization to not only understand and develop good relations with its target markets and its intermediaries, but also to understand various types of public that affect its business. By communicating to other groups, the company creates an environment in which it is easier to conduct marketing.

A company has to understand the importance of stakeholders other than its customers, suppliers and channel partners. A company's very existence as a business entity will be in jeopardy if these stakeholders do not have positive perceptions of the company. For instance, it will not be allowed to set up its factories and offices if it has antagonized the community in which the business is to be set up. Aggrieved media and pressure groups can berate the company to the extent that its suppliers and other partners would not want to do business with it. All these stakeholders shape customers' opinion to some extent. In sum, a company would find it impossible to do business if its major stakeholders are aggrieved with it, even if the company has a very good product and marketing programme in place.

There are various types of public, which are as follows:

Customer public

These are the target customers of a company. The main task of the company for this group is to satisfy and retain them.

Local public

This includes the local community, usually in geographical proximity of the company's office premises and surrounding its factories or manufacturing units. The firm needs to be careful about maintaining good relations with this group and following the environmental norms and safety standards.

General public

It is important for marketers to create positive perceptions among the general public that may be in a position to influence the purchase decisions of consumers, even if they are not customers themselves. Companies build corporate image to achieve this goal.

Media public

Though a company can manage to get talked about in the media without doing anything which is newsworthy, it will not help its cause if the readers or the viewers do not find a story about the company stimulating enough to take a note of and register in their minds. A big portion of the publicity budget is spent on maintaining relations with the media with the hope that the media will feature the company more frequently and prominently. This is wasteful. Instead, the company, depending on the type of business it is in, should expand its resources in staging events, building associations and doing other worthwhile things that the public would be genuinely interested in knowing about.

Savvy companies know the trigger points of public and media attention and conduct themselves in a manner that invites the attention of the public and the media. Their publicity endeavour does not end with courting the media. The media, anyway, will carry stories that its readers and viewers will want to read and view.

Financial public

The public would not invest and banks would not finance a company's operations if it lacks credibility. Therefore, a company must build credibility among these stakeholders.

Government public

A company's policies must always comply with the rules and regulations laid down by the government. Else, it can invite the wrath of the government, which can lead to severe negative publicity.

Citizens' action public

These include consumer action groups, forums, associations, trade unions and environmental groups. Consumerism is a movement that is defined as seeking to increase the rights and powers of buyers in relation to sellers. A combination of consumer concern over rising prices and the problems of product performance

and quality are viewed as the main factors behind consumerism. Consumers are concerned about the marketing activities of companies. They feel that marketers are not clear about consumers' needs and hence, their marketing efforts often result in consumer confusion. Despite problems and confusion, consumers are seen as still able to make sensible buying decisions. Many consumers feel that marketers sometimes manipulate consumers into making unwanted purchases, but companies strongly contend that consumers still hold the ultimate weapon of not buying products. Companies' executives support propositions, which aim at making advertising more factual and informative. They think that consumerism will lead to major modifications in the advertising content so as to make it more truthful.

Business is considered primarily responsible for causing consumer problems as well as resolving them. Business self-regulation is still the most favoured route. Improving product quality and performance is viewed as the most constructive consumer-oriented programme that companies can undertake. There has to be increased sensitivity to consumer complaints.

Internal public

A company creates and maintains respectability in the eyes of the public so that the best people are attracted to work for the company. It promotes the sense of identification and satisfaction of the employees with their company. Talented employees will stay in an organization only if they are proud of belonging to the organization. An employee will not feel proud of his organization if stories of the organization's sordid deeds and its shoddy behaviour are out in the open. But when the public respects their organization, they feel good to be a part of it. Activities such as internal newsletters, recreation activities and awards for service and achievement can be used to promote that feeling.

Company's Macro Environment

These include external factors such as economic forces and technological factors that are beyond the control of the company.

(I) Economic forces

The economic environment can have a major impact on businesses by affecting the patterns of demand and supply. Companies need to keep a track of relevant economic indicators and monitor them over time.

The various factors affecting the economic environment include customers' income, inflation, recession, interest rate and exchange rate, which are discussed as follows:

Income

One of the most important factors in the economic environment is the income of customers. This indicates their ability to spend on the products sold by the marketer. The marketer not only needs to estimate the income of customers, but has also to

identify products on which the customer would be willing to spend his money. The rise in the number of dual-income families in several parts of the world, including urban India, has led to a rise in the incomes for such families. This has resulted in a higher demand for lifestyle and luxury products. However, marketers should be wary of making generalizations while using income as an indicator of consumer spending, because customers' propensity to spend depends on the cultural factors as well. The proportion of money spent by a customer on various products also varies across cultures. Some products, for instance, dishwashers, that are considered to be necessities in the western markets do not even fall into the consideration set of consumers in the Indian markets. Therefore, despite having a higher income, customers will not spend on products that are not considered to be desirable.

Inflation

Inflation is an important economic indicator of an economy. Inflation refers to an increase in prices without a corresponding increase in wages, resulting in lower purchasing power of consumers. An economy should try to achieve low rate of inflation. The best way to achieve a low rate of inflation is to ensure that products and services are produced efficiently. When the costs of production of products and services are low, they will be sold at lower prices and hence, inflation will be low. An artificial way to reduce inflation is by restricting the supply of money in the economy by raising the interest rates at which consumers and businesses can borrow money. There will be less demand and supply will be higher, forcing suppliers to reduce their prices. But this can only be a short-term approach because restricting the supply of money will reduce the outputs of businesses and the level of economic activities. This will be dangerous to the economy. The effort should be to increase the productivity and efficiency of all economic activities.

The inflation rate is higher when costs of producing products or services go up, or when there is too much money chasing too few supplies, prompting suppliers to raise prices and earn higher profits. High inflation decreases real wages, i.e., the customer can buy less number of goods with his income, because the goods have become costlier. Inflation will reduce the demand for several products because the customer will ration his income on goods. But if wages and incomes increase at a rate greater than the inflation rate, the customers' purchasing power will not be affected adversely. In inflationary times, customers stock items to save themselves from further increase in prices and abandon their favourite brands to buy more economical brands.

When the cost of production goes up, companies should try to withhold the increase in prices for as long as possible, because customers do not value the products more just because they are more costly. In the long run, companies will have to look for better methods of production and cheaper inputs so that the cost of production can be brought down. And if inflation is because the supplies are less than the demand, the money supply can be restricted in the short run; but in the long run, companies will have to expand capacities and increase their supplies.

Recession

Recession is a period of economic activity when income, production and employment tend to fall. The demand for products and services are reduced. Specific activities cause recession. The slowdown in the high-tech sector, rising fuel prices, excessive consumer credit and terror attacks resulted in the recession in the US in 2001.

Interest rate

If the interest rate of an economy is high, businesses will borrow capital at a higher rate and set up new businesses only when they are convinced that they can earn at a rate higher than the interest rate they are paying on the capital. Therefore, if the interest rates are high, new businesses will not come. Even in the existing businesses, operating costs would go up as their working capital requirements will attract higher interest rates. Therefore companies will be able to produce products and services at higher costs and perforce sell them at higher prices. Therefore, there will be inflationary tendencies if interest rates are higher for long periods. Further, consumers will have strong tendencies to save because of the prospect of earning higher interest rates from their deposits. High interest rates have detrimental effects on the economy.

When the interest rate is lower, companies can get cheap capital and the pressure to earn at a higher rate from their new businesses is less. Therefore, new businesses are likely to be set up in low-interest regimes. Furthermore, companies are able to get their working capital at a lower interest rate and consequently, are able to produce products and services at lower costs. Companies are able to sell at lower prices and hence, are able to attract larger number of customers. Customers are also able to get loans at lower interest rates and hence, are able to buy products and services that otherwise they would not have been able to buy. When customers are able to avail loans at low interest rates, sale of expensive items like houses and cars go up. Customers do not have to save and accumulate to buy these products. They take loans, buy the products and keep paying back the loans in small instalments. Lower interest rate is one sure way to spur consumer purchases. Also, consumers are not too keen to save because their money will not grow rapidly due to lower interest rates. Instead, they would spend their money. And when they invest, they are more likely to do so in equity markets because they are more likely to give higher returns. Therefore, business will get impetus because finance in the form of equity capital will be available to them.

Exchange rate

The exchange rate becomes a very important driver of performance when a company exports its products and when it imports materials and components for making its products. It is more profitable to export when the currency of the exporting country is weaker than the currency of the importing country. But this advantage is nullified if materials and components are imported from a country

whose currency is stronger. A company will run its most profitable operations when it exports its product to a country whose currency is stronger and imports material and components from a country whose currency is weaker.

The exchange rate has become more important when supply chains of most companies are becoming global in scope, i.e., companies are locating their manufacturing and distribution centres throughout the world, depending on the advantages of each location. A company may have located its manufacturing facility in a country, say India, because of the advantages of lower labour cost. But if the Indian currency appreciates, this decision will not fare well, because exports from India will become costlier to the importer. To minimize the adverse effects of exchange rate, a company locates its manufacturing facilities in multiple locations in the world and has some extra capacity at each of the manufacturing locations. The company will export from manufacturing locations in countries whose currencies are weaker than the currencies of countries where they are being exported.

(II) Technological factors

New technologies can be used very effectively to counter inflation and recession. New machines can reduce production costs. The increasing computing and processing capabilities of personal computers is increasing the efficiency and effectiveness of businesses. Advances in information technology has made it possible to plan truly global supply chains, in which manufacturing and warehousing are disbursed throughout the world, depending on where these activities can be performed best. Companies will be able to make better products at lesser cost and will be able to distribute them economically when supply chains become global. An economy's ability to generate wealth largely depends on the speed and effectiveness of new inventions and adoption of machines that improve their productivity.

Technologies for nations

Economies need to excel in both basic and applied research. Basic research attempts to expand the frontiers of knowledge and is not aimed at a specific problem. Economies which are well-off should concentrate more on basic research because they can remain ahead of other economies only by creating new businesses through inventing new technologies. Developed economies should be ready to relinquish businesses they are currently excelling in, because other economies will catch up with them and the developed economies will not be able to charge premium prices for their products and services.

Technologies for products and services

New products and services are possible because of new technologies. These help to increase revenues and profits of companies. At different times in history, technologies have created new businesses like automobile, railways, telephones, computers, etc. Currently we are seeing new products and services being developed

by emerging technologies like Internet, mobile connectivity, nanotechnology, genetic engineering, etc. These technologies are likely to fuel growth in the near future.

Technologies for business models

Companies also use new technologies to do business differently and more effectively. Dell Computers is able to sell its product directly to business customers because the Internet enables it to be in contact with its customers without incurring much expense. It gleans valuable information about its customers from the interactions it has with them. Dell uses the information to segment its market further and then focuses its attention on the most profitable customers. Thus, by using the Internet, Dell is able to earn greater profits by serving only the most profitable customers. There are companies in fragrance and other businesses that have equipped their customers with design tools. The customers design their own products and services and the companies manufacture them. Through these tools, these companies are able to lock their customers in a long-term relationship. Some other companies have used the power of the Internet to create virtual design teams. The members of the teams are experts in different technologies and stationed in different locations.

The team members interact through the new tools of information technology like e-mail, chat rooms, videoconferencing, etc. It has been found that these virtual teams are able to design better products because the best people can be put on these teams without constraints of location and interpersonal conflicts of real teams. There are lots of other ways in which technologies like the Internet are impacting businesses. Therefore, when evaluating new technologies companies should ask two questions-what new products and services can be produced by using these technologies, and how can these technologies be used to run businesses in a better way?

(III) Socio-cultural factors

Customers live in societies. A large part of an individual's existence is dependent on the society he resides in. Social factors include attitudes, values and lifestyles of people. Social factors influence people to buy a particular product, the prices they are willing to pay for the product, the effectiveness of specific promotions, and how, where and when people expect to purchase products. But societies are hardly ever static. They change gradually and some changes will be imperceptible if not watched closely. Social change is the most difficult variable for marketing managers to forecast, influence and integrate into marketing plans. But it is important that marketers take into account changes happening in societies in which their customers live when they are framing their marketing strategies. Societies can change in manners that can make a company's current products and services totally redundant. Some of the various socio-cultural factors include values, lifestyle and family structure.

(IV) Demographic factors

Demography is the study of people in terms of age, gender, race, ethnicity and location. Demographics are significant because people constitute markets. Demographic characteristics strongly affect buyer behaviour. Faster growth of population accompanied with rising income means expanding markets. The longer life span means a growing market for products and services targeted at the elderly.

Adolescents

The new-age teens are a marketer's delight. They do not earn, but they are fond of spending and most of them have their own budgets. They spend lavishly on clothes, eating out, going out, buying latest gadgets, etc., and are very keen to catch on with their friends in terms of possessions and lifestyles. They do not feel guilty of spending their parents' money and put on real pressure on their parents to shell out more money for them. They will put their parents in financial inconvenience but they will have their motorbikes and fanciful mobiles, and will hang out at eating joints, theatres and malls. They are stylish and fashion conscious and submit to peer pressure. They will latch on to the next hot item. They feel they need to have a life of their own and it should not be denied to them just because they are not earning.

Youth

Youngsters today are growing in a more media-influenced, brand-conscious world than their parents did. They respond to advertisements differently and prefer to encounter these advertisements in different places. Companies have to take their messages to the places where these youngsters frequent, whether on the Internet, in a cricket stadium or on television. The advertisements may be comical or disarmingly direct. But the advertisements should never suggest that the advertiser knows these youngsters better than they know themselves. These youngsters know what they want from their lives and the products and services they buy. They do not mind information reaching them but will reserve their right to make their choices. They hate to be persuaded and influenced. Companies would do well to leave them alone to make their decisions. They will access and process the desired information themselves and will let their choice known to the marketers. For these youngsters, anyone can be a star and most of them count themselves as one. They believe that everyone deserves to have his say and own space. For them, getting heard and becoming well known are not only easy, but a natural way to go about with their lives. They create their own websites, make a movie with their own webcam or digital camera and post their thoughts and pictures online. Since they are sure about themselves and know what they want, they prefer customized products and services. Companies are realizing that they have to provide something unique and deeply personal to win the loyalty of current youngsters.

People between 35 and 45

People in the age group of 35 to 45 years are settled in their professions and have toddlers and growing children at home. They exert themselves in their profession because they realize that their career is likely to take off at this stage. They put long hours at office and have to juggle endlessly between their responsibilities as spouses and parents and growing responsibilities at work. They may also have old parents to look after. Parents may be staying with them or living in another city.

The income of people in this group rises at a good rate, and they are good spenders. Some of them may be buying their first cars but most of them will be thinking of upgrading their cars. Similarly, they will upgrade their household gadgets like refrigerators, televisions and kitchen appliances when better products come along. They are also open to new gadgets for themselves and their households. People in this age group want to live a good life and are constantly on a buying spree to improve their lifestyles. They dress well, dine out frequently and look for opportunities to go on holidays. These days they are also keen to buy houses very early in their lives. They also plan to retire early and they plan their finances accordingly. They have a taste for good life and they do not want their lives' pleasures to be disturbed by pressures of job.

People between 45 and 60

Some people in this age group are at the peak of their careers while some others are struggling to keep their jobs. Children become a major priority for people in this age group. Children are ready to go to colleges and professional schools, some of them will be willing to make sacrifices in their careers to avoid unsettling their children. People in this age group will spend less as they will be saving resources to fund the higher education of their children. They will also be worried about their own future and making last-ditch efforts to put a retirement plan in place because they do not see many years of career left ahead of them.

People above 60

People in this age group live on a steady income. Some of them live with their grown-up children as part of their households. They contribute to the requirement of the joint household and do not spend much on themselves. The family looks after their requirements. Most of their money is spent on buying gifts for their children and grandchildren. But quite a few of these people live alone and are visited by their children infrequently. They maintain their own households and their major spending is on running their households. They have to spend a substantial part of their earnings on health-related issues and domestic help. Sometimes their children also supplement their income.

(V) Politico-legal environment

Politico-legal environment provides the legal framework within which the marketing department has to function. The politico-legal environment of a country is influenced

by political structures and organizations, political stability, government's intervention in business, constitutional provisions affecting businesses, government's attitude towards business, foreign policy, etc. The viability of businesses depends on their ability to understand the laws of the land and abide by them, while not becoming less innovative in their marketing endeavours due to the fear of infringing on some laws.

Check Your Progress

1. An organization is a subsystem in the larger socio-economic environment. Explain.

2. How is customer orientation achieved in a company?

3. What is the politico-legal environment of a country influenced by?

3.3 CONSUMER BEHAVIOUR: MEANING, IMPORTANCE, DETERMINANTS AND THEORIES

In this section, you will learn about consumer behaviour. Consumer behaviour can be categorised into varied roles:

Buyer Roles

When an individual consumer makes a purchase, he unilaterally decides what he would purchase and how. But, groups like households also make purchases, and in such buying processes, members of the group influence the purchase decision in many ways, and at different stages in the buying process. Members assume specific roles as the buying process proceeds and they interact actively to make the purchase decision.

Initiator

The person who starts the process of considering a purchase is the initiator, since he feels the need for the product. He may also initiate the search for information about the purchase decision on his own, or by involving others.

For instance, a teenager may act as an initiator for a motorcycle that he wants for commuting, a housewife may feel the need for a higher capacity refrigerator, or a busy executive may feel the need for apparel that is comfortable and stylish.

Influencer

The influencers attempt to persuade others in the decision-making process to influence the outcome of the process. Influencers gather information and attempt to impose their choice criteria on the decision. These influencers may be sought

out by the initiator, or may supply relevant information on their own. Influencers may be a part of the reference group of the initiator, experts in the particular categories, retailers, or other such individuals from whom information is sought.

Payer

The payer is the individual with the power or/and financial authority to purchase the product. The payer is usually presumed to have a large influencing power on the product purchase as the spending power lies with him.

Decider

The decider is the person who makes the ultimate choice regarding which product to buy. This may be the initiator or the payer or the user, depending on the dynamics of the decision-making process.

Buyer

The buyer conducts the transaction. He visits stores, makes payments and effects delivery. Usually, the buyer is the only player whom the marketer can see being involved in the decision-making process. Merely interviewing him about the purchase does not serve the purpose of the marketer who wants to explore the consumer decision-making process, as at the time of purchase all other evaluations have been completed, which have involved several other players as well. The importance of these players is crucial in deciding the relevant marketing mixes.

User

He is the actual user/consumer of the product. The user may or may not be the initiator. The product can be used by an individual, or it may be used by a group.

Some points need to be noted in the decision-making process for consumers:

One person can assume multiple roles	Roles played depend on product purchased

Role identification important for marketers to influence DM process	High involvement products: Group decision-making	Roles change across products/situations
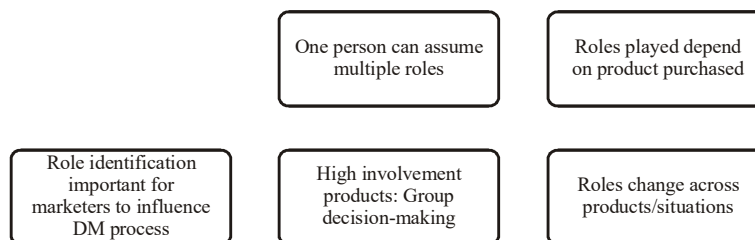
Fig. 3.1 Consumer Roles

- **One person may assume multiple roles in the decision-making process:** Depending on the product to be purchased, all the roles may be assumed by the same person. In case of low involvement products such as a pen, this is likely to occur. In high involvement categories, there is a clear separation of buyer roles.

- **Roles differ according to the product type being bought:** Women's roles have been found to be more significant for household products.

Respective roles may change according to product categories, and as purchasing process progresses. In a group decision-making process, such as in household decision making, members collaborate to make the purchase decision. In such a joint decision-making process, different members play different roles at different stages, depending on their competencies and also their influence. The group may allow a member to dominate a particular stage because of some special competencies that he might possess. For example, a younger member of the group might be asked to evaluate brands of laptops on the basis of relevant choice criteria, as he is more technology savvy than others. But, as soon as he has presented his evaluation, the decision-making process becomes collective once again, and the other members in the group start influencing the purchase process. The final purchase decision is almost always taken jointly. Joint decision-making prevails in dual-income households. The same consumer assumes different roles depending on the product in question. Marketers have to understand the dynamics of group decision-making. It is important to gauge who is the dominant influencer in the decision-making process and what type of roles are played by various players.

- **More people are involved in the purchase of high involvement products:** The product is expensive, and hence carries high-perceived risk. Since the product would be bought again only after a long time, members want to ensure that they buy the right brand. Therefore, a lot of information is sought from several sources to enable the group to make the right choice. A high involvement product is evaluated on the basis of several choice criteria, and the evaluation is more stringent. Therefore, joint decision making of high involvement product is lengthy. Each member wants to buy the brand which is good according to his choice criteria. Thus, conflicts and compromises are inevitable before the household settles on a brand.

- **The group solicits opinions of experts to limit the influence of powerful members of the group:** A member may try to exploit his ties with other members to get his way. Emotions may run high when a household is making a purchase decision, especially when the user and payer differ in their choice.

It is important for a company to understand the roles played by members while purchasing its products. It should target its communication at influencers and deciders. It should also know their choice criteria, so that the product is differentiated along the preferred criteria, and it is able to communicate that its product is good according to their choice criteria. It should also keep track of how roles within a group are changing.

Choice Criteria

Choice criteria are the various features and benefits a customer uses when evaluating products. These factors provide the basis for deciding to purchase one brand or another. Different members of the buying group may use different choice criteria. A child may use style as a criterion when choosing shoes whereas a parent may use price. Choice criteria can change over time due to changes in income through the family life cycle, change in circumstances or changes in the attitude of an individual. For instance, as income increases, price may no longer be a choice criterion but may be replaced by status.

The Buying Situation

Customers spend different amounts of time and effort in different purchase decisions. The level of involvement of the customer depends on the type of product, the level of perceived risk, the consumer spend and the purchase consequences.

3.3.1 Determinants of Consumer Behaviour

Let us begin by studying the personal influences.

I. Personal Influences

Various factors influence the decision-making process of a consumer. Some of these are internal factors, or personal influences that are individualistic in nature. These factors are not visible, though they influence the consumer to a great extent. Learning, perception, motivation, attitude, self-concept, etc., are some such factors. The processes by which these factors influence consumers have to be examined and understood by the marketer by conducting appropriate research. The effect of these factors cannot be verbalized by the consumer, as he may not be able to realize their influence on him. For instance, motivation is one such factor about which traditional surveys reveal little, as the consumer is not able to tell the exact reasons for opting for a particular choice. Qualitative, exploratory research using alternative methods such as projective techniques, word completion tests are used to ascertain consumer motivations.

Perception

Perception is the process by which a person selects, organizes and interprets sensory stimulation to form a meaningful picture of the world. It is the process by which a consumer makes sense of the information that he receives.

Selective attention

Exposure is the first step in the process of perception. The consumer has to first come across the stimulus or be exposed to it, to interpret it. Attention is the next step in this process.

- A customer pays attention to only a very small number of stimuli. He does not pay attention to a stimulus if it contrasts with his beliefs and experiences. Most customers want to remain ensconced in their beliefs, and consciously and diligently shut themselves out from information which may force them to re-examine their beliefs. They also put a great value on their experiences, and do not easily learn from others' experiences. They discount experiences of others when they contradict with their own experiences.

- A customer pays attention to a stimulus if it contrasts with his background, which may include his social status, educational qualification and profession, simply because of his curiosity to know about something he is not intimately aware of. A stimulus which blends with his background simply passes under his antenna due to its familiarity.

- Size, colour, position and movement of a stimulus also determine if a customer will pay attention to it.

- A customer pays attention to a stimulus if it is related to a need that he seeks to satisfy. For example, if a customer wants to buy a car, he will watch all advertisements of cars very closely.

- A customer pays attention to a stimulus that surprises him because it forces him to check his assumptions and beliefs.

Selective distortion

Consumers proceed to make sense of the information that they have paid attention to. They interpret the stimulus and assign meanings to it.

Selective retention

A customer remembers only a few messages, and they are the ones which are in line with his existing beliefs and attitudes.

- Selective retention helps to reduce cognitive dissonance—a customer remembers only positive reviews of a car he has bought recently. He actively discounts the negative reviews, often discrediting their source.

- The message about the product from the word of mouth and advertising must be consistent to prompt retention.

- Perception depends on the customer, the stimulus and the situation. Thus, the same message can be perceived differently by different individuals.

- The quality of the stimulus can be enhanced to improve the probability of exposure, attention and retention. Communication should be designed in a manner so as to enable distortion-free perception.

- The same consumer can perceive the same communication differently in varying circumstances. For instance, price-offs during festival can be interpreted as an event-related discount, whereas price-offs at other times can be judged as poor brand performance.

Many phenomena related to consumers are driven by the process of perception, for instance, brand image, satisfaction, evaluation of brands and marketing communication. Consumers form perceptions related to several marketing variables such as price, attributes and their importance, country of origin of brands, corporate brands, salespeople, etc.

Learning

Learning is any change in the content or organization of long time memory and is a result of information processing. Perceptual processes lead to additions in memory, if the interpreted information is retained. The customer's memory acts as the internal information source in the decision-making process.

Classical conditioning

Classical conditioning is the process of using an established relationship between a stimulus and response to cause the learning of the same response to a different stimulus. The repetitive appearance of the unconditioned and conditioned stimulus ensures that the removal of the unconditioned stimulus evokes the same response.

In advertising, humour is used to please the customer and make him at ease with himself. Humour makes the consumer associate pleasant and positive perceptions about the brand that is advertised, as it has made him laugh. Use of heavy metal music when advertising a soft drink, imbues the brand with youthfulness and strength connotations.

The creation of brand personality involves using relationships that already generate a desired positive response from the intended target audience. Such images are combined with the brand to create the personality of the brand. The use of colours, symbols, country of origin images, music in creating brand image are associated with classical conditioning. The use of celebrity endorsements is also based on the belief that the positive image of the celebrity would rub off on the brand image.

Operant conditioning

Learning also occurs through operant conditioning. Operant conditioning is positive or negative reinforcement upon the performance of some behaviour. Sales promotions such as the use of free samples, coupons, price-offs are instances of operant conditioning. If the consumer likes the product, he may purchase it the next time, which is positive reinforcement. If he does not like it, he negatively reinforces this learning by not repeating the brand purchase or even spreading a negative word about it. A company should provide a series of incentives to make the customer buy its product again and again. Each time the customer buys the product, he experiences the pleasure of receiving the incentive, and when the sequence is repeated for a long time, the customer begins to associate buying of the product with a pleasurable experience. Therefore, the company provides positive

reinforcers to make the consumer buy the product again and again, till the time he starts associating the buying of the product with a pleasurable experience.

But when a company offers such an incentive for a long period of time, customers begin to expect to get an incentive every time they buy the product. They become conditioned to buy the product for the incentive, and not for the intrinsic value of the product. Customers may stop buying when a company discontinues its incentive scheme. Therefore, a company should load so much value in its product, that the customer considers the product as a reward in itself.

Cognitive learning

Cognitive learning is the development of beliefs and attitudes without reinforcement. This type of learning primarily involves communication of benefits offered by a product to the intended target audience. The display of information and learning route is rational in nature. Rote learning is learning without conditioning in which companies repeat their messages that are primarily of a rational nature. Consumers are repeatedly exposed to such messages and thus learn about the company's offerings.

Modelling/vicarious learning

Vicarious learning involves learning from others without direct experience or reward. This type of learning involves copying others or modelling oneself on observed behaviour in anticipation of certain rewards. An advertisement promises rewards to the customer who buys the product. For example, an advertisement of a toothpaste promises 'white teeth' and it is the promise of the reward which motivates the customer to buy the advertised product. The people who are imitated may be product experts, high achievers, or leaders with desirable values. So when a lady gives an admiring glance to the man who is riding the advertiser's bike, viewers imagine the same thing happening to them if they were to ride the advertiser's bike. The desire to imitate thus, stems from the consumer's need to belong or seek affiliation, make correct decisions, uphold similar values, or one's aspirations in life that can be achieved by emulation.

Reasoning

A customer does not simply fall for the promise of the reward in the advertisement when he is buying a high involvement product. He consults other resources, deliberates and then draws his own conclusions. And then he forms an opinion about the product. Therefore, advertisements of high involvement products should provide cues about what the product can achieve for the customer, let him research further and draw his own conclusions.

A customer's opinion about a product is the result of his learning about the product from the information that the company has provided him and information drawn from his own sources. His opinion about the product is the product's perceived positioning, and a company should always try to create a clear and

favourable image or impression about its products in the mind of the customer. The company has to ensure that customers continue to learn about its products through advertising, publicity, sales promotion, salespersons' visits and through their own experience with the products. It is only through learning that the customers form perceptions about the company and its products.

Motivation

The basic process of motivation involves needs that inspire actions to accomplish goals of fulfilling a need or reducing a drive.

Maslow's theory of motivation

Abraham Maslow gave one of the most popular theories of motivation. According to Maslow's theory, an individual could have the following motivations:

- Physiological needs: Hunger, Thirst
- Safety needs: Protection against accidents, Ill-health
- Belongingness and love
- Self-esteem and status
- Self-actualization

A customer's motivations determine his choice criteria. For example, a customer whose prime motivation is self-esteem and status will use self image as main choice criteria when evaluating a car.

Different consumers have varying motivations while buying the same product. Therefore, the choice criteria of various consumer segments differ, and marketers must choose the most relevant motivating factor while positioning their product. For instance, some consumers may buy food for satisfying hunger, some may frequent a fast food joint to hang out with friends or family, while others may enjoy gourmet food service provided by a leading luxury hotel. Each segment considers different motives while buying the same product. Therefore, while the segment that only wants to satisfy hunger may look for convenience or price, these factors may be inconsequential for the segment that wants gourmet food.

Belief and attitude

Belief is thoughts about a product or a brand on one or more choice criteria. A consumer believes that Swatch offers international quality watches, or a particular hotel has good room service.

An attitude is an overall favourable or unfavourable evaluation of a product. The consequence of a set of beliefs may be positive or negative attitudes towards the product. A customer forms an attitude of a product based on his experience with the product, word-of-mouth publicity, or information that he might have got from the company or searched for it himself from press, internet and other sources of secondary information. Internet has the capability to shape attitudes, since a

large number of consumers can share their experience with the product. Customer attitudes also impact pricing because the company tries to match price with customer's beliefs about what a good product should cost. The Internet is making price more transparent, as customers are able to compare prices that they have paid for the same product.

If customer attitudes about a company's product are positive, and match what the company wanted to create, the company reinforces their attitude by loading the product with features and benefits that match their beliefs about the product. But, if the customers' attitude is not what the company wants them to have, it has to work very hard to correct their misperceptions. It has to start by providing an exaggerated level of those features and benefits which will prompt customers to have the attitude that the company wants them to have. Therefore, the company first tries to make its ACs very energy efficient, and then it uses all sources of communication like advertisement and publicity, to let the customers know what it has done. It is real hard work, and there are no short-cuts.

Personality

Personality is the inner psychological characteristic of an individual that leads him to respond consistently to his environment. A company should understand the personality profile of the target market so that its advertisement can show people of the same personality profile using the product. Typical personality profiles are diametric opposites like competitive versus cooperative, aggressive versus submissive, individualistic versus group oriented. Rarely do customers display such extremes, usually people fall somewhere between the extremes. An individual exhibits a combination of several personality traits with different intensities.

A company endows a personality to the brand by loading features and benefits that serve customer needs—product design and development, and by imbuing it with values and ethos that reflect customers' personality—advertising and publicity. The brand assumes a character of its own, distinct from those of others. A branding idea is successful if the customers of the target market start considering the brand as an extension of their own personality. Therefore, a brand is 'cool' or 'suave' or 'rugged.' When a brand acquires a personality, it appeals to customers who value its character. Customers prefer the brands that either match their own personality or portray personalities that they aspire for. For instance, a laptop conveying efficiency and productivity could be identical to an executive's personality. Apparel brands conveying success and material wealth could be aspirational for young executives.

Lifestyle

Lifestyle is the pattern of living as expressed in a person's activities, interests and opinions. Lifestyle analysis groups consumers according to their activities, values and demographic characteristics such as education and income.

Lifestyles have been found to correlate with purchasing behaviour. A company may choose to target a particular lifestyle group with a particular product offering and use advertising which is in line with the values and beliefs of this group.

Life cycle

Needs and income vary according to life cycle stages, but not all customers follow the classic family life cycle stages. Consumer's priorities regarding which products to buy, undergoes changes in different stages of the life cycle. His attitude towards life also changes.

II. Social Influences

Besides the internal factors, external factors also influence consumer behaviour. These factors are not individualistic and are external to the individual. These factors include culture, subculture, social class, reference group and family influences. They are associated with the groups that the individual belongs to and interacts with.

Culture

Culture refers to the traditions, taboos, values and basic attitudes of the whole society within which an individual lives. It is essentially associated with a certain nationality or religious identity of an individual. Cultural norms are learnt by an individual from childhood and their influence is so ingrained that it is invisible in daily behaviour. Culture teaches an individual the acceptable norms of behaviour and tells him the rights and wrongs. When an individual deviates from acceptable norms, certain sanctions are imposed on him.

Cultural values affect how business is conducted. Culture also affects consumption behaviour. Cultural influences can be seen in the food habits and dressing style of people. It also influences communication (language), attitudes and values that influence consumption patterns. For instance, attitude towards future security and prosperity affects the propensity to save and consume and also affects decisions about possessions. In many Asian countries, having one's own house is one of the most important indicators of security (it is considered an investment) and lends social standing.

Social class

Social class refers to the hierarchical arrangement of the society into various divisions, each of which signifies social status or standing. Social class is an important determinant of consumer behaviour as it affects consumption patterns, lifestyle, media patterns, activities and interests of consumers.

Though there are various methods of ascertaining social class, most often it has been equated with income differences. However, this may not be true. Income differences do contribute to differences in social status, though they may not be

the sole cause of differences in consumption patterns or lifestyles. For instance, two consumers earning the same income may differ considerably in lifestyle when one has professional qualification at the post graduate level and is employed at the senior management cadre of a multinational, while the other is self employed, with education confined to a few years of schooling. Preferences regarding product and brand purchases, media consumption patterns, interests in pursuit of various leisure time activities vary a lot among these two consumers. Such revelations through the years have prompted marketers to measure social class as a composite variable that reflects not just income differences, but other indicators such as educational qualifications, type of profession and designation, material possessions, etc.

Social class may fail to distinguish between contrasting consumption patterns though it remains an important discrimination of consumption patterns. Social class should be used with other measures such as life stage and life cycle.

Reference groups

Reference groups are groups of people that influence an individual's attitude or behaviour. Individuals use these groups as reference points for learning attitudes, beliefs and behaviour, and adapt these in their life. Family and close friends are considered to be primary reference groups in an individual's life due to their frequency of interaction with the individual and primacy of these significant others in an individual's life. Schoolmates, neighbourhood, colleagues, other acquaintances are a part of the secondary reference groups of an individual. An individual may or may not personally interact with others to imitate their behaviour, and thus, even those individuals or groups from whom an individual learns by mere observation are also part of his reference group.

Reference groups influence product and brand purchases, particularly when the consumption is conspicuous in nature. Where a product is conspicuously consumed, the brand chosen may be influenced by what buyers perceive as acceptable to their reference groups. In case of conspicuous luxuries, even product consumption is influenced by reference groups. In case of inconspicuous products, reference group influence is lower, as there are little or no consequences (sanctions) for not buying the 'right' choices.

3.4 CONSUMER BUYING PROCESS

In this section, you will get acquainted with the consumer buying process.

The Buying Process

The buying process is divided into various stages—need recognition, information search, evaluation of alternatives, purchase and post-purchase evaluation of decisions.

Problem or need recognition

The decision-making process begins with the recognition that a problem exists.

- The problem may be functional like a slow computer or a small house. The marketer will have to communicate the new level of function or benefit of the product in an exaggerated way so that the customer feels at a disadvantage owning the current product. The marketer will also have to emphasize the importance of the function so that the customer feels uncomfortable not possessing the new product which can perform that function.
- Recognition of the problem may take place over a period of time. For instance, the need for a larger house may be realized by a family over many years.
- Problem recognition may occur as a result of routine depletion, for instance, petrol for the car, or other such regular requirements in a household.
- Unpredictable problems, for instance, breakdown of a car.
- Problem recognition may be initiated by emotional or psychological needs, for instance, status.

An individual may have several problems or needs at the same time. But, he may not get around to solving all these needs at once. Consumers tend to prioritize needs. The degree to which the consumer intends to resolve the problem depends on several factors—for instance, the magnitude of discrepancy between the desired and the present situation and the relative importance of the problem.

Information search

The consumer, after recognizing the need for a product, searches for alternatives that may fulfil his needs, and evaluates these alternatives on the basis of various choice criteria.

- The consumer first conducts an internal search. This involves retrieving relevant information from his memory. It also involves retrieving information about similar purchase decisions made earlier by the consumer, or information about the product received from personal or non-personal sources that was stored in the memory for future usage. Such information includes decisions about choice criteria, brands included in the consideration set, information received from reference groups or advertisements related to the product, etc.
- In case the internal search for information is found to be insufficient, the consumer goes in for external search. External sources involve information collection from personal sources such as family, friends and non-personal or commercial sources such as advertisements, retailers and other media sources.

- Third party reports may provide unbiased information to consumers about a company and its offerings. Retailers and media reports by independent agencies are, therefore, particularly credible sources of information for consumers.

- Personal experience with the product is often unsubstitutable for evaluating the product. Consumers may seek limited trials of the product before buying, or may ask for demonstrations.

- The objective of information search is to build up an awareness set, which is an array of brands that may provide a solution to the problem.

- An advertisement is biased, but it prompts consumers to gather information about the advertised product from unbiased sources like the press, existing users and reviews. They may also seek information about rival brands and make a judgement about the company's brand.

Evaluation of alternatives

The awareness set has to be reduced to a smaller set of brands for serious consideration through screening. This smaller set is called the evolved set or the consideration set.

- The screening process reduces the choice to a few brands using choice criteria, which may be different from the choice criteria that the consumer will use in making the final choice. For example, a consumer may use technical specifications of a product as choice criteria at the screening stage, but finally choose the product on the basis of its design and aesthetics. Consumers use various types of rules while arriving at the set of possible brands that can be considered for purchase.

- Involvement is the degree of perceived relevance and personal importance accompanying a particular purchase decision. In high involvement decisions, the consumer carries out extensive evaluations of the brands. High involvement purchases typically incur high expenditure or personal risks. The consumer spends more time and effort in arriving at the 'right' decision. The evaluation of choices is more stringent and the consumer uses many choice criteria on which to evaluate various brands.

- Low involvement products incur less expenditure and personal risk, and hence, the consumer spends less time and effort in such decisions. In such purchases, simple and lesser evaluative criteria are used. Consumers use simple choice tactics to reduce time and effort in buying the product rather than maximize consequences of the purchase.

- In high involvement products, consumers evaluate the consequences of the purchase and what others will think about it. The attributes that are weighed heavily will influence the decision more strongly.

- Low involvement products are characterized by awareness, trial and repeat purchases. These products are not very expensive and are bought frequently. Therefore customers perceive less risk in their purchase. They do not conduct rigorous evaluation of alternatives. If customers are sufficiently knowledgeable about a product, they go out and buy it. Even if they are merely aware of the brand name, it may lead to purchase. Awareness precedes purchase and usage, and attitude formation usually comes after the purchase and usage of the product. Thus, if the product is good, consumers buy it again. And when customers continue to find a product useful, the purchase of the product becomes habitual. They do not consciously think about the purchase or form any attitude about the product, but continue to buy it. Therefore, there is no attitude formation before purchase behaviour —awareness precedes behaviour and behaviour precedes attitude. The customer buys any one of the brands of the considered set and does not see much difference between them. The decision does not involve the consumer much, and he is likely to be satisfied with the product without much conscious deliberation about it.

- In high involvement situations, marketers should provide a good deal of information as the customer will need such information to evaluate the brands that he is considering. High levels of repetition of communication may not be needed. Print media allows detailed and repeated scrutiny of information which is helpful when a customer is comparing brands. Communication should be able to focus on how the customers view the influence of important others on the brand choice. Salespeople should ensure that the customer is aware of the important attributes of the product and also ensure that he correctly evaluates their consequences.

- In low involvement purchase, attempting to gain top-of-the-mind awareness through advertising and providing positive reinforcement like sales promotions to gain trial may be more important than providing information. The customer is not actively seeking information but is a passive receiver. So, advertising messages should be short with small number of key points but with high repetition to enhance learning. TV may be the best medium since it allows passive reception of messages.

Purchase and post-purchase evaluation of decision

Once the customer has zeroed in on the right choice, he purchases the product. The product can be purchased from retail stores, online, ordered by telephone or purchased directly from the company. The purchase process itself involves several more decisions. It involves decisions about the place and mode of purchase, payment terms and conditions, delivery of the product, instalment, training for usage of the product, etc. Marketers can study each of these processes to discover sources of competitive advantage. Marketers can either conduct these activities themselves, or they may employ intermediaries to perform these tasks. For instance,

the goods may be delivered by the retailer while engineers of the company may install the products and train the customer. In case of high involvement products, the purchase process may itself take a long time. It may stretch from a few days to a few months or longer. The marketer has to take particular care of the customer during this crucial period in their relationship.

After a customer has bought a product, he faces what is called cognitive dissonance—he is not sure if he has bought the right product. A customer feels uncertain about his choice because in the process of selecting a brand, he has rejected many other brands. The rejected brands have features and benefits that he likes, and therefore he keeps pondering if he would have been better off buying one of the rejected brands. A customer goes through cognitive dissonance because no single brand is superior to all other brands on all choice criteria, therefore whichever brand a customer buys, he will always find another which is better than the purchased brand on some choice criteria. Cognitive dissonance is higher when the purchase is expensive, and there are many alternatives, with each one offering benefits and features which the other is not, because the consumer has made trade-offs. Cognitive dissonance is also high when the purchase is made infrequently, and when consumers face social and psychological risk, as they do when they buy a house or a car.

A consumer faces social and psychological risks when people whose opinions count in his life evaluate him on the products he possesses. In such a situation, he looks for evidence that he has bought the right product—asks people who have bought the same brand and revisits the brand's advertisements and brochures. Companies should make efforts to reduce customers' cognitive dissonance by continuing to advertise, and by reassuring them through letters and visits that they have bought the right product. And the best away to ensure that the customer does not go through cognitive dissonance is to ensure that the brand gives superior performance on the choice criteria that are important to customers.

Check Your Progress

4. Name all the stages of the buying process.

5. Who are the external sources of information for the consumer?

6. State any one difference between high involvement and low involvement purchases.

3.5 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. An organization is a subsystem in the larger socio-economic environment. It receives human, material and financial resources from the environment and converts them into useful products and services to serve their target

customers. In this process, the organization has to interact with a host of suppliers, competitors, the public, customers and the government. All these agents and institutions act as the environment of the organization.

2. Customer orientation cannot be drilled into the workforce overnight. Fables have to be created and circulated, extolling customer care. Top executives have to repeatedly demonstrate concern for customers in their strategic and operating decisions and their own behaviour. People should feel proud and good about themselves that they go out of their way to serve customers.

3. The politico-legal environment of a country is influenced by political structures and organizations, political stability, government's intervention in business, constitutional provisions affecting businesses, government's attitude towards business, foreign policy, etc.

4. The stages of the buying process are: need recognition, information search, evaluation of alternatives, purchase and post-purchase evaluation of decision.

5. External sources involve information collection from personal sources such as family, friends and non-personal or commercial sources such as advertisements, retailers and other media sources.

6. One of the differences is that in a low involvement purchase, attempting to gain top-of-the-mind awareness through advertising and providing positive reinforcement like sales promotions to gain trial may be more important than providing information. The customer is not actively seeking information but is a passive receiver. Whereas, in high-involvement purchases, the consumer actively seeks information about the various available alternatives.

3.6 SUMMARY

- The environment of a company consists of various forces that affect the company's ability to deliver products and services to its customers. The micro environment of the company consists of various forces operating in its immediate environment that affect its ability to operate effectively in its chosen markets. This includes the company's suppliers, distributors, customers and competitors.

- An organization is a subsystem in the larger socio-economic environment. It receives human, material and financial resources from the environment and converts them into useful products and services to serve their target customers.

- Internal environment consists of the environment within an organization, i.e., the organizational culture. For example, marketing is the function of a department in an organization which impacts and is impacted by the decisions of other departments of the organization.

- The competitive environment comprises the competitors a company faces, the relative size of the competitors and the degree of interdependence within the industry. The marketing department of a company has little control over the competitive environment confronting it.

- The economic environment can have a major impact on businesses by affecting the patterns of demand and supply. Companies need to keep a track of relevant economic indicators and monitor them over time.

- Politico-legal environment provides the legal framework within which the marketing department has to function. The politico-legal environment of a country is influenced by political structures and organizations, political stability, government's intervention in business, constitutional provisions affecting businesses, government's attitude towards business, foreign policy, etc.

- Every aspect of the marketing mix is subject to laws and restrictions. It is important that marketing managers and their legal assistants understand these laws and conform to them, because failure to comply with regulations can have major consequences for a company.

- The features and functions that are an important part of the decision criteria will have to be exaggerated in the product and they have to feature prominently in the communications of the company.

- Choice criteria are the various features and benefits a customer uses when evaluating products. These factors provide the basis for deciding to purchase one brand or another. Different members of the buying group may use different choice criteria.

- Customers spend different amounts of time and effort in different purchase decisions. The level of involvement of the customer depends on the type of product, the level of perceived risk, the consumer spend and the purchase consequences.

- Various factors influence the decision-making process of a consumer. Some of these are internal factors, or personal influences that are individualistic in nature. These factors are not visible, though they influence the consumer to a great extent. The effect of these factors cannot be verbalized by the consumer, as he may not be able to realize their influence on himself.

- Besides the internal factors, external factors also influence consumer behaviour. These factors are not individualistic and external to the individual. These factors include culture, subculture, social class, reference group and family influences. They are associated with the groups that the individual belongs to and interacts with.

3.7 KEY WORDS

- **Marketing Environment**: The environment of a company consists of various forces that affect the company's ability to deliver products and services to its customers.

- **Micro Environment**: The micro environment of the company consists of various forces operating in its immediate environment that affect its ability to operate effectively in its chosen markets. This includes the company's suppliers, distributors, customers and competitors.

- **Macro Environment**: These include external factors such as economic forces and technological factors that are beyond the control of the company.

- **Competitive Environment**: It comprises the competitors a company faces, the relative size of the competitors and the degree of interdependence within the industry.

- **Reference Groups**: These are groups of people that influence an individual's attitude or behaviour.

- **Perception**: It is the process by which a person selects, organizes and interprets sensory stimulation to form a meaningful picture of the world.

3.8 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What constitutes a company's environment?
2. Identify the components of a company's internal micro environment.
3. Which are the various publics of a company?
4. Who should be the target of a company's marketing efforts?
5. How does a customer's perception affect his/her buying decisions?

Long-Answer Questions

1. What constitutes the politico-legal environment of a firm?
2. Explain a company's external proximate macro environment and how it affects the business.
3. Identify and describe the economic forces that impact a company and its position in the market.
4. Analyse the impact of various technology-related factors on a firm's performance.

5. Discuss the various individuals involved in the buying decision and their respective roles.

6. Analyse the important aspects of the decision-making process for consumers.

7. Identify the various social influences that affect a customer's buying decision.

3.9 FURTHER READINGS

Gandhi, IC. 1993. *Marketing Managerial Introduction*. Tata McGraw Hill Publication.

Ramswamy, S. Namakumari, VS. 2001. *Marketing Management Planning, Implementation and Control,* Macmillan India Ltd.

Gupta, SL. 2000. *Brand Management: Text and Case an Indian Perceptive.* Himalaya Publication House.

Straus, Judy, Adel EL-Ansary, Frost Raymond, 2004. *E-Marketing*. Prentice Hall.

Kapoor Jagdeep, 2004. *Brand Switch*. Jaico Books.

BLOCK - II
MARKETING MIX

UNIT 4 PRODUCT MIX MANAGEMENT

Structure

4.0   INTRODUCTION

The new product development process is the first step in product or service development and involves a numerous other measures that needs to be taken before the product is released the market. New product development is vital to sustain changing market trends and demands. A company needs a new product development strategy before anything else. After the strategy is set, there can be an idea generation session, where the senior management can do a brain-storming session and finalize a few ideas for the new product. However, ideas cannot generate success.

The need to develop new products in the market propels companies to design new products. This involves understanding various concepts of a designing a new product:

- Research and development

- Reverse engineering

- Computer-aided design or computer-aided manufacturing.

- Concurrent engineering

- Life cycle of a product

Before releasing a product into the market, the company needs to raise product awareness through evaluation of all the macro forces that impact the business among the customers. This needs planning the new product's success ahead. It is important to note that a product's availability and its positioning can make or break a product's launch. It is important to note here that in spite of all the correct measures, a new product may fail in the market. A wrong idea, poor pricing strategy or even poor launching time can hamper a product's image.

In this unit, you will study the importance of product in marketing, its classification, method of new product development and several other important concepts that are essential for product management.

4.1 OBJECTIVES

After going through this unit, you will be able to:

- Discuss the meaning of a product

- Assess the importance of product life cycle

- Describe the process of developing a new product

- Elucidate the importance of idea generation and screening in marketing

- Describe the significance of packaging

4.2 PRODUCT: MEANING AND CLASSIFICATION

Product is the most important tool in the marketing mix. Without a product, there can be no marketing. The buyer purchases a product only because it satisfies his needs and desires. Thus, the product is a bundle of potential utility and the customer is more interested in the benefits that he gets from the product rather than the physical characteristics of the product.

There are two essential elements of a business:

1. Products (goods and services)

2. Markets (customers: buyers and sellers)

Without these two essential elements, there can be no marketing. Transfer of ownership cannot take place unless there are both, a market and a product. Markets and products are the foundation on which the whole study of marketing is based.

Meaning of Product

In simple terms, a product is something that can be offered in the market to satisfy a want or a need. It can also be described as a set of tangible and intangible features, such as colour, packaging, warranty, reputation and prestige of the manufacturer and retailer, service facility, etc. The buyer usually buys a product, based on these features, to meet his needs and requirements. A product is a bundle of utilities. People buy products for their utilities–real or perceived.

Product Classification

The two major categories of goods are (i) consumer goods and (ii) industrial goods. This classification is traditional and based on the purpose for which the goods are primarily used. Equipment and machinery used in factories are industrial goods and similarly, soaps, toothpastes, sweets and milk used in domestic households are consumer goods. However, these are not watertight compartments. For example, writing paper, when used for business or commercial purposes, comes under the category of industrial goods. However, when it is used by a student for writing, it becomes a consumer good. In spite of this, classification is necessary because buying motive differs from buyer to buyer.

The two types of goods are further sub-divided into various categories as shown in Figure 4.1.

```
                                    Product
                 ┌─────────────────────┴─────────────────────┐
           Consumer Goods                              Industrial Goods
      ┌──────────┬──────────┬──────────┐        ┌──────────┬──────────┬──────────┐
 Convenience  Speciality  Unsought                Raw     Semi-finished  Operating
    Goods       Goods      Goods                Materials    Goods       Supplied
      │                          Shopping     Installation  Components  Fabricated
 ┌────┴────┐                      Goods          Goods                   Material
Staple    Impulse                   │
Convenience Convenience       ┌─────┴─────┐
 Goods     Goods          Homogeneous  Heterogeneous
                            Goods        Goods
```
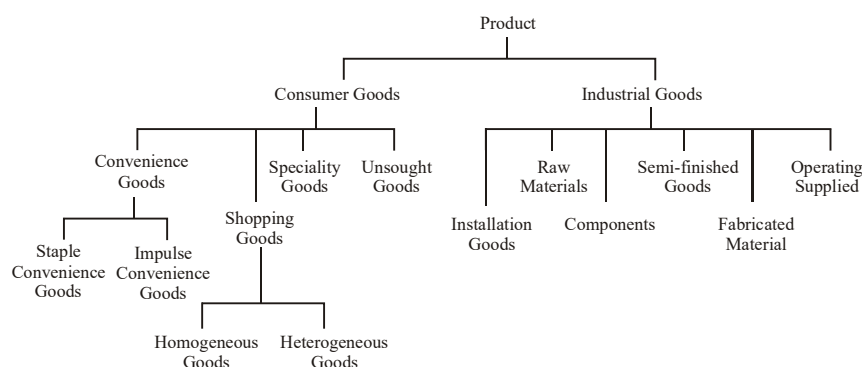
Fig. 4.1 *Product Classification*

4.3 PRODUCT LIFE CYCLE

Every product goes through a life cycle right from its inception till decline. The concept of product life cycle is based on the biological life cycle. In the case of a tree, first a seed is planted, then, it begins to sprout. After that, comes a stage when leaves shoot out followed by the emergence of roots. After another period of time, like an adult the plant begins to shrink and die. The stage of planting of trees can be categorized as the introduction stage. The sprouting can be compared with the growth stage and similarly shooting out of leaves and emergence of roots

can be considered as the stage of maturity and the stage of shrinking and dying of plants can be compared to the decline. A similar theory applies to the life of a product. Once the product is developed, it is launched in the market. As it grows, it attracts more and more customers. With the gradual stabilization of the market, the product reaches the stage of maturity while gaining the confidence of more and more customers. However, this stage does not continue for long as the product faces competition from other superior products from competitors and eventually faces decline and has to be withdrawn.

4.3.1 Significance of Product Life Cycle

For a marketing manager, the concept of product life cycle is central to the product marketing strategy. It is based on the following notions:

(i) A product life cycle is initiated the moment the product is introduced in the market.

(ii) Every product has a birth and death, i.e. introduction and decline. The intervening period is characterized by growth and development.

Taking into consideration the stages through which a product travels during its life period, it may be prudent for a marketer to devise a marketing strategy which is appropriate to the relevant stage in the product's life. The product is introduced in the market at the pioneering stage, initially the response is limited. It will take some time before the sales pick up. It is only after the product receives the customer's faith and confidence that the sales go up during the development stage of the life cycle. With more competitors in the market, the rate of growth is likely to come down but total sales will go up. Then comes the stage when, in spite of the best efforts of the marketers, the sales of the product almost come to a standstill. This stage in the life of the product is called the saturation stage. Henceforth, the sales are likely to decline and the product dies at the end. Though every product passes through these stages, but the time span from invention to decline differs from one product to another.

Some products fail at the introduction stage only. There are products that continue to remain in the market because of consumers' demand. The length of the life cycle from one stage to another is governed by various factors. At the introduction stage the product requires a large scale advertisement and promotional campaign in order to sustain itself in the market. In case the marketer fails to provide such support, the life cycle of the product is likely to be very short. At the growth stage, the product is faced with the situation of growing competition from rival marketers, who offer more improved products at a cheaper price. In other words, right from its birth till decline or death, the product has to face a different competitive environment and its capacity to adjust to these environmental factors determines to a great extent the degree of success of the product.

4.3.2 Stages of Product Life Cycle

The various stages of product life cycle are as follows:

1. Introduction stage

As explained above, this is the stage of launching a new product in the market. The length and duration of this phase depends on the pace at which the product penetrates into the selected market segment. This stage continues till the awareness of the product is high enough to attract a large consumer base. The important features of the introductory stage of the product life cycle are as follows:

   (i) A high failure rate at the product launching stage itself

  (ii) Not enough competition from the rival companies

 (iii) Limited product distribution base

 (iv) Frequent product modification depending on the response from users and their feedback

The product launching stage causes a heavy financial loss to the company due to the high promotional cost and low sales volume. At this stage, the prime objective of the company is to create product awareness which requires huge marketing expenditure. Such expenditure at the introductory stage is considered as an investment in the product's future. Since the product is introduced in the market at a very competitive price, the quantum of profit is either very low or negligible but at the same time the risk factor is very high. The price of the product will depend on the uniqueness and exclusiveness of the product.

At the introduction stage, the company offers only a limited edition of the product. For example, when Maruti Udyog Limited launched its car in the early 80's, it offered only the 'Maruti-800' version and this was priced very high and thus was not within the common man's budget. The company offered benefits like safety and fuel economy when compared with existing products like the Ambassador and Premier Padmini.

Pricing strategy

The company has two basic strategic options available with it regarding pricing:

   (a) Skimming pricing strategy: Under this strategy, the product is offered at a high price to a very selective segment of consumers–primarily the innovators and early adopters who can afford to pay a premium price. The product offered has to be distinctive. The growth in sales can be achieved with planned price reduction.

   (b) Penetration pricing strategy: Under this strategy, the price of the product is kept very low in order to attract the largest possible number of new buyers at the early stage of the product life cycle.

In both the above strategic pricing options, the pricing is done in such a way that the scope for further change in the strategy remains open during the subsequent stages of the life cycle. As per the skimming pricing strategy, an attempt should be made to retain the product's exclusiveness as long as possible. It may not always be possible to earn profits during the introductory stage, but at the same time it is the duty of the marketer to ensure that the introductory pricing strategy prepares the stage for future profitability.

The distribution strategy during the introductory stage of the product life cycle should ensure that the product is made readily available in the targeted market segment. The failure of the company to implement an effective distribution strategy will negate all the positive work done by the marketer during the early stages of the product life cycle.

2. Growth stage

After crossing the introduction stage, the product enters the growth stage of the life cycle. As more than 95 per cent of the products fail during the introduction phase, only the remaining 5 per cent enter the growth phase, which is marked by intense competition from the rival product companies. As a consequence of this competition the product is now offered in a more attractive form and packaging and at a competitive price. The main characteristics of the growth stage are as follows:

  (i) Intense competition from fellow marketers

 (ii) Profitable return

(iii) Rapid demand and sales growth

(iv) Wide product popularity and recognition from the customers

 (v) High advertising and distribution cost

(vi) Reduction in per unit cost due to higher production demand

The growth stage of the life cycle is the most suitable to acquire the maximum market share. However, the utmost care should be taken to ensure that this does not lead to draining of the company's profitability.

During the growth stage, the marketers concentrate on cultivating the selective demand. The marketing strategy involves either the 'niche marketing strategy' or the 'focused marketing strategy'. The growth phase also marks an end to the mass marketing approach.

The product distribution strategy remains very crucial during the growth phase of the life cycle. The success of the marketing strategy during this phase will depend on getting enough shelf space in retail outlets, which these days are controlled by a small number of powerful multiple operators. This stage also witnesses the establishment of the hierarchy of brand leaders. The consumers make their brand preferences accordingly.

During this phase, all possible attempts should be made by the company to optimize the product's price. This will ensure that there is enough opportunity to maximize the profit towards the end of this period. As the growth period tends to lead towards profits, there is the likelihood that market shares of the product will get stabilized. This phase will also witness the emergence of brand leaders.

3. Maturity stage

There the two basic reasons for the survival of the product during the growth stage and their successful entry in the maturity stage. These are as follows:

(a) Competitive strength of the product

(b) Customer's passion to acquire these products.

The major characteristics of this phase are as follows:

(i) Slowing down of sales growth and profits

(ii) Cut throat competition which leads to a price and promotional war

(iii) Differentiation and re-differentiation of the product

(iv) Withdrawal of marginal manufacturers from the market who cannot sustain the pressure of cut throat competition and reduced profit margin

This phase also witnesses the decline of market growth. The growth, if any, can be achieved only at the expense of competitors. That is why this stage calls for a sustained promotional campaign in order to retain the existing customer base. Taking a decision regarding the promotional budget will also be very difficult due to reduced profit margin. Every possible attempt should be made to avoid the price war because the consequence of price cuts will be very serious, like reduced revenue for all marketing participants. The aim of the price reduction should be to increase the purchase level which can then offset any revenue loss.

4. Decline phase

During this phase, market demand of the product faces gradual decline. This is due to a change in the consumers' preferences, who are now looking for more convenient and better products. Due to a decline in the demand for the product, the industry offers only a limited version of the product. Now the number of competing firms also get a reduced customer's value perception and the product also undergoes a change during the decline phase of product's life cycle. Hence the marketers are left with no other option but to abandon the product.

However, at the same time, it will be worthwhile for marketers to explore the possibility of giving a new lease of life to the product, particularly keeping in view the falling number of competitors. While making an attempt to further extend the life of the product, the management should give more emphasis on strict cost control. Because, during the decline phase, cost control is the only method of ensuring profitability.

4.3.3 Factors Affecting Life Cycle of Product

The length of the product life cycle is governed by several factors like the pace of technological change, level of market acceptance and entry of other competitive products in the market. The crucial factors affecting the life cycle of the product are as follows:

1. Changing technology

The life cycle of the product is immensely influenced by the changing technological environment in the country. In case the technology is changing very fast, it will lead to a new breakthrough in product improvement and product innovation. As a consequence of the same, the life of the old technology based product is cut short and the consumers now switch over to the new product which is more advanced in terms of technology and innovation. This fact can further be illustrated by comparing the life cycle of a product in the USA and India. As the technological change is faster and more rapid in the USA compared to India, the life cycle of the product there is much shorter.

2. Rate of acceptance of the product by the customer

The rate of customer's acceptance of the product also affects the product's life cycle. In case the rate of acceptance by the customer is very fast, the life of the product is likely to be very short. It is because the customers who accept one product easily today, can easily accept another product tomorrow and the existing products will soon find no demand in the market.

In a similar fashion, if the customer's acceptance of the product is slow, the product life cycle is likely to be very long. In the case of a developing economy like India, since the market acceptance of the product is very slow, the life cycle of the product is usually quite long.

3. Level of competition in the product market

The level of competition in the market also affects the length of the product life cycle. If the markets are very competitive and new products find an easy entry into the market, the life cycle of the product will be very short, as due to easy entry of new products the customers will be easily getting an opportunity to look for alternative products. In the same way, if it is very difficult for new products to enter into the market, the life cycle of the existing products will be longer.

4. Risk taking capacity of the producer

The extent to which an enterprise can take risks also determines the length of the product life cycle. If the risk bearing capacity of the firm is very high, they can keep the product alive in the market for a longer period of time as they are able to face the market challenges effectively. For example, in case the product is not doing very well in the market, the firm can still take a risk by undertaking a huge

advertising and sales promotion campaign to maintain the competitive level in the market. However in the case of those enterprises who cannot take a high level of risk, they will be left with no option but to withdraw their product from the market. In such a case, the life cycle of the product will be very short.

5. Brand image/good will of the product

In case the company has been able to build a brand image and good will for its product in the market, it can ensure a long lease of life for the product as compared to the products of other companies that do not enjoy such image and goodwill.

4.3.4 Reasons for Change in Product Life Cycle

The two major factors that play a significant role in product life cycle are:

1. Changing needs of the customer

Among the various environmental factors that determine the length of the product life cycle, the most crucial is the customer's need for a capable product which can satisfy human needs. With the gradual increase in customer awareness and also due to the increase in his disposable income, the customer's need and aspirations also undergoes a change. Such a change can very easily be noticed today if we take into consideration, the large scale revolution in electronic media which has led to a revolution in markets and products. Due to the active role played by the electronic media in product marketing, the demand for the product that had faced a decline or stagnation in the past suddenly went up and the company witnessed a spurt in sales from an unexplored market. While customers from metros and cities now look for more sophisticated products, the customers from rural areas get more satisfaction from basic versions of the product. The companies that are more sensitive to such changes taking place in the customer's needs are competent to incorporate such changes in their product strategies. This fact may be explained through the invention of a Walkman. Before the invention of the Walkman, people in the United States and also some other countries used to carry a large portable music system on their backs with a very high level of unbearable music sound which used to disturb others. This very fact led Sony to develop a small portable music system known as the Walkman.

2. Invention of improved and efficient products

Due to new technological breakthrough and rapid technological changes, companies are now more competent to develop a user-friendly, attractive looking and low priced product. Rapid development in packaging technology also helped companies in capturing the market. For example, tetra packs and PET (polyethylene terephthalate) bottles helped soft drink manufacturing companies to capture the selected target market. Development in the field of packaging helped in making the product convenient to use, carry and preserve. Similarly, the concept of any time money or Automated Teller Money (ATM) and Internet Banking, helped the

banking sector in expanding their market base and it also provided the customers with more value added features and benefits.

4.3.5 Managing the Product Life Cycle as a Strategic Marketing Tool

A company's attempt to successfully use the strategic concept of the product life cycle (PLC) depends on its ability to precisely identify the transition from one stage of the product life cycle to another. This can be accomplished only when the company is intensely marketing oriented. The company should also encourage development of marketing research and marketing intelligence techniques to achieve its marketing objective.

The use of the product life cycle provides the following valuable benefits to the company:

   (i) It provides the company with a tool to forecast future product development and thus helps the company to formulate its strategy. It also helps the company in planning their budget accordingly.

  (ii) The PLC as a strategic tool can also help the company in planning beyond the existing line of product. Alternatively the company can plan some additional or substitute products with more consumer acceptability.

 (iii) Another important aspect of the product life cycle is the fact that although every product has to undergo its life cycle, the length of the life cycle differs from product to product. Products like tooth paste, toilet soap, eatables, etc. will have a longer period of the growth and maturity stage when compared to durable goods like radio which has been substituted with television.

By adopting an aggressive product strategy, the company can prolong the growth and maturity phase of the product's life cycle. Such a strategy will include the following:

   (a) Carrying out product modifications

   (b) Encouraging the consumers to frequently use the product

   (c) Creating a new market for its product, i.e., the segment which has remained untapped so far

   (d) Locating new users in the existing market

Among the various strategies adopted by the company in order to extend the growth and maturity stage of the life cycle product, the modification strategy is the most crucial. Product modification strategies help the company in improving the quality and functional utility of the product.

The functional utility of the product can be achieved by adopting the following measures:

(i) Improvement in product efficiency and personnel level of the product

(ii) Reducing the cost of the product

(iii) Adding more features to the product

(iv) Finding new applications for the product

(v) Increasing the convenience level of the product, i.e., incorporates easy to handle features.

Any product modification that is carried out by the company should be based on real customer needs. However, the main problem of the functional modification of the product is that it may increase the cost of the product and may adversely affect the sales of the product.

Yet another strategy adopted by the company to extend the growth and maturity stage of the product's life cycle is to bring about changes in the quality of the product. Any change in the quality of the product is likely to affect the cost, performance and durability of the product. A change in the quality can either improve or reduce the performance level of the product. As a part of the product modification strategy, the company may decide to bring down the quality of the product in order to reduce its cost so than it can easily enter in the lower market segment. Similarly, the company may decide to further improve the quality of the product so that apart from retaining its existing customer base, it can also attract customers of superior brands.

Another method to increase the life of the product that is followed by companies, is to bring changes in product presentation and style. This kind of product strategy has been used quite successfully in the automobile market where customers eagerly wait for new models every year.

The products like apparel, shoes, cellular phones, furniture, etc. are forced to undergo large scale changes in style in order to remain alive in the market. Thus it becomes very difficult to predict what the style of these products will be in next few years.

Check Your Progress

1. List the two essential elements of a business.

2. List the important features of the introductory stage of the product life cycle.

3. How can the functional utility of a product be achieved?

4.4   PRODUCT PLANNING AND DEVELOPMENT: NEW PRODUCT DEVELOPMENT PROCESS

Product development process is expensive, risky and time consuming. Though world-shaping innovations have emerged from the 'garages' and will continue to

do so, companies cannot depend solely on flashes of brilliance and inspiration to provide create their next blockbuster. In the absence of any better method to bring out new products, a formal process with review points, clear new product goals, and strong marketing orientations underlying the process is being relied upon by companies to achieve greater success. An eight-step new product development process consists of new product strategy, idea generation, screening, concept testing, business analysis, product development, market testing and commercialization. New products pass through every stage at varying speeds.

New Product Strategy

Senior management should provide vision and priorities for new product development. It should provide guidelines about which product or market the company is interested in serving. It has to provide a focus for the areas in which idea generation should take place. By outlining their objectives—for instance, market share, profitability, or technological leadership for new products—the senior management can provide indicators for screening criteria that should be used to evaluate these ideas.

A development team is likely to achieve better results if it concentrates its resources on a few projects, instead of taking shots at anything that might work. Since the outcome of new product development process is unpredictable, a company might believe that it is taking a risk by working only on a few new ideas. However unpredictable the new product development process may be, chances of success will definitely improve if the team knows precisely what it wants to achieve from the process, puts its best people in the project, and has enough resources to commit to the project. In the following sections of this unit, you will learn the important aspects of product planning and development in detail.

Generation of Ideas

Developing an innovative culture that kindles imagination is a prerequisite. Sources of new product ideas can be internal to the company. Scientists, engineers, marketers, salespeople, designers, etc., can be rich sources of new ideas. Companies use brainstorming session to stimulate creation of ideas and financial incentives to persuade people to ideate. Though anyone can come up with a brilliant idea, a company can work systematically to generate great ideas. An organization can follow the following practices:

- A company can look outside markets that are currently being served. It may not be manufacturing the exact product that the new market requires, but it may realize that it has the competence to serve the new market. When a company scrutinizes its core competences, it may discover that these factors may be combined in a new way to serve a new market. Apart from people who specialize in various technologies, it is important that a company has a few market-savvy people who understand all its technologies. These people will combine technologies to serve customer needs in interesting ways.

- For too long, companies have viewed the market as a set of customer needs and product functionalities to serve these needs. But they should begin to ask as to why the product has to be like that. Can customer needs be satisfied with some other product form? Companies will realize that their products have shaped consumer expectations about the appropriate solution to their needs but if the companies become bold and persistent, customers will accept new solutions to their needs.

- A company should question conventional price and performance relationships. It should explore the possibility of providing the same value at lesser price or try to make the customers pay more by serving their needs in a new or better way. A rigorous market research may reveal more sophistication in customers' needs that the company can serve with a novel product. A company should reject the idea that an existing product is the only starting point for new product development. The greatest hindrance to the development of novel products is the existing product. Developers keep making mental references to the existing product—how their new product will be different or better than the existing ones. Having people from outside the industry can help the development team in distancing themselves from the existing product. A development team comprising solely of outsiders can be tried if the company desperately wants a novel product.

- A company can try to lead customers by imagining unarticulated needs rather than simply following them. The developers need to have an in-depth talk with customers and observe closely a market's sophisticated and demanding customers. However, an innovation need not always be more sophisticated than the current products. Customers might be using sophisticated products because they do not have a choice but may be actually looking for simpler solutions. In quite a few markets, companies have to reduce the sophistication of their products. Sometimes, customers need to acquire quite a few skills to use sophisticated products. They would be happier using a simpler product at a lesser price.

- A company should examine its competitors' products at frequent intervals. Though copying competitors' products may not inspire many developers, a company can use the competitors' products to identify features and benefits that its own product lacks.

  If a competitor's product is more advanced or sophisticated, the company can use the competitor's product as a base and develop the product further.

- Retailers have a direct relation to customers and they have a firsthand hearing of the customer's feedback. The experiences of retailers can provide useful information about customers' experience with the company's offerings. A company should be in constant interaction with retailers so that they are able to glean customers' opinions about their product. Retailers are also in contact with the customers of competitors' products and such information have be very sueful in developing ideas.

- Customers are the original sources of new product ideas. Lead users, who are the most sophisticated users of a product, are excellent sources of ideas for new products, as they are most likely to encounter new problems due to the increased sophistication of their needs. Business customers, who are innovators and market leaders in their own marketplace, are sources of new product ideas, as they have advanced needs and are likely to face problems before other product users. But companies who focus on lead users may develop products which may be too sophisticated for the average product user. It may contain features and benefits that the average customer may not need, but will have to pay for.

- Customers can give feedback about the products that they are familiar with, and these inputs can be used to drive innovations which will be incremental in nature. But for breakthrough innovations, ideas must come from other sources, such as the R&D (research and development) team. This is because the customer cannot talk beyond his realm of experience. Therefore, if a company wants to launch a radical innovation, it has to look beyond existing customers as a source of idea.

Idea Screening

Ideas are screened to evaluate their commercial worth. At this stage, the company needs to ascertain whether the new products will fit in with the company's strategy and available resource. Simultaneously, the company also evaluates the market potential for the new product by evaluating criteria, such as projected sales, profit potential, extent of competition and return on investments. Unique designs that lower costs or give performance advantages are also considered.

Though it is difficult to forecast the success of an idea accurately at this stage, the process helps the company to check if the idea is in alignment with the company's objectives and competencies, and that the idea has reasonable chances of success. The process helps the company in weaning fanciful ideas. But sometimes, at this stage, such fanciful ideas may entice the management and the idea generator may get permission to go ahead with it.

Market Testing

So far in the product development process, potential customers have been asked if they intend to buy the product, but have never been placed in the position of having to pay for it. Now customers are forced to vote with their money. The company seeks to have a limited launch for the product in the marketplace so that it can gauge the customer response in true test conditions. The feedback obtained from this launch guides the company's decision to continue with the large scale commercialization of the project, or to abandon it. Ideally, the feedback that is obtained from the test sample should be as realistic as possible, i.e., the profile of the sample of respondents should closely resemble the profile of prospective customers in the actual marketplace, and they should be buying the product from

a realistic retail setup as they would actually do. For instance, a sample of customers may be recruited to buy their groceries from a mobile supermarket which visits them once a week. They are provided with magazines in which advertisements for the new products appear. Key success indicators such as penetration (the proportion of customers who buy the new product at least once) and repeat purchase (the rate at which purchasers buy again) can be found out. If the penetration is high but repeat purchase low, it is important for the company to ascertain the reasons for it. In case of any problems pertaining to specific aspects of the marketing mix, such as price points, product features, packaging, or availability, the company can take corrective measures. But if the company finds out that corrections are now impossible, or that the cost involved in remedial actions would outweigh the benefits, it can decide to withdraw the product from the market.

Test marketing involves the launch of a new product in one or few geographical areas chosen to be represent its intended market. The product is positioned and promoted the same way as it would be done in case of a full-scale launch. The new product is made available in select distribution outlets so that the real-time response of customers in terms of parameters such as purchase, amount of time spent in evaluation, or repeat purchase can be tracked vis-à-vis competing products. As the characteristics and composition of customers in the test market resemble the characteristics of customers in the entire target market, the results of test marketing can be extrapolated for the entire market. Marketers take decisions about the modification of some part of the marketing mix, and even about the continuation of the product launch according to the results of test marketing. Test towns and areas may not be representative of the national market and thus sales projections may be inaccurate. Competitors may invalidate the test market by giving distribution incentives to stock their product, thereby denying the new product shelf space. Test markets need to be long enough to measure the repeat purchase rate for the product. This can mean a delay in national launch stretching to many months and years. In the meantime more aggressive competitors can launch a rival product nationally and therefore gain pioneer advantage. Getting the co-operation of distributors is important. Distributors may not want to co-operate for conducting test marketing, or they may charge exorbitant fees for the activity.

The most important rationale for test marketing is that, the obtained results help the company to concretize its marketing strategies for the full-scale launch of the product. This is undoubtedly more efficient than making costly blunders after the full-scale product launch. A company may also choose to test several combinations of the variables in the marketing mix to ascertain the optimal one. This process is used very often for fast moving customer goods (FMCG) products where a test market is typically conducted in a few cities in a country. For very expensive equipment, it is impractical. Globally, when a company does a phased product launch, it can apply the lessons learnt from one country market, in another country where the product, consumer and market characteristics may bear close resemblance.

Check Your Progress

4. State the eight-step new product development process.

5. How can a development team achieve better results?

6. What is the greatest hindrance to the development of novel products?

7. Why are ideas screened?

4.5 BRANDING

Branding should be an indispensable activity of any organization. However, it is imperative for organizations to remember that branding is only an outcome of various other activities in an organization. A brand is an external manifestation of what happens inside the organization. It is important to align all activities in an organization and the behaviour of all employees towards the values embodied in the brand. Many companies believe that branding only comprises the product and communication. Hence, it is also believed that branding is only the responsibility of the marketing department. It is the duty of every department and each individual to shape the perception of the customers in line with the desired brand values. Every department and individual of the company has to identify how he will contribute to shaping the perceptions of the customers. Branding is too important to be the sole prerogative of the marketing department.

The sole purpose of branding is to create differentiation, and the brand name by itself cannot act as a differentiator. The brand as a label merely acts as a distinguished name to convey this differentiation. Therefore, the brand is the culmination of all the activities of the organization. The brand name conveys the set of values and attributes embodied in the brand. As soon as a customer hears the brand name, the attributes and values of the brand should conjure up before his eyes like a motion picture. This can only happen if the brand has lived its values for a long time. Strong brands just cannot be created overnight. Human behaviour is inherently distrustful. A brand has to live up to its promises consistently before customers start taking its values and attributes for granted.

The strength of the brand is directly proportional to the expectations of the customer about it. Therefore, the first task of branding should be to raise customer expectations about the product. The communication efforts of the company do raise expectations and thus contribute to branding, but personal usage of the product by the customer or recommendations from a personal source are decisive sources for raising expectations. This means that ensuring the product performs well is the most important branding exercise. But companies have to exercise some caution. In an effort to raise expectations about the brand, a company may hope that the brand in its communications effort with customers can form exaggerated expectations about the brand. If the brand does not match the heightened

expectations of the customers, they will be disappointed and can tarnish the image of the brand by talking in negative terms about it. Such a brand will find it difficult to be accepted until the market forgets the fiasco. Any renewed bout of advertising will only enhance the cynicism of the customers towards the brand. The company should wait for a considerable period of time before renewing the effort to arouse expectations among customers again.

However, if the company is too conservative in making claims, customer expectations will not be aroused and they will not buy the brand. It is a delicate balance, but companies have to manage it. The communication efforts of the company should arouse just enough expectations among customers to make them interested in buying the brand. And when the brand delivers more than what the customers expected, they spread positive word-of-mouth, thus starting the spiral of 'moderate expectation-superior delivery', which will ultimately create a strong brand.

One interaction alone cannot build or tarnish the brand image, unless it is particularly strong. The whole idea of giving consistent performance is that if once in a while the brand does not perform up to expectations, customers do not start feeling negatively about the brand. Customers should be willing to give the benefit of doubt to the brand if its performance slips once in a while. It is very important that a brand owns up to such one-time lacklustre performance and promises to make amends. A brand which chooses to remain in a state of denial or ignorance about its bad performance gives the signal that it no longer cares about providing the values embodied in the brand, or customer sentiments. It is usually useless to argue with customers. Customers interpret a brand's performance in their own way and the company's interpretation of the situation has no relevance to the customer. Instead of arguing against the customer's interpretations of the brand's performance, a company should try to understand the process by which the customer arrived at the interpretation. This would often include an impartial assessment of the brand's performance and the customer's existential situation in which he was using the brand. A customer should never be allowed to have a perception about the brand, which is different from the perception that the company wants its customers to have. A company's first task is to manage the perceptions of customers about the brand and not let customers develop their own perception. Every activity of the company should be assessed in terms of its influence on the customer's perception about the brand.

Advantages and Disadvantages of Branding

In order to establish itself in the marketplace, a company often takes recourse to branding. The concept of branding aims to create an impact in the marketplace, which is identifiable and recognizable. An effective branding can help improve the value of the product and also the company itself. However, branding has both advantages and disadvantages. Some of these are discussed as follows:

Advantages

(i) ***Awareness:*** In most cases, better awareness is created only when a company works harder on its branding and identity. For example, Coca-Cola is a well-known product worldwide. Even if a consumer sees it in a foreign country with the labelling in a foreign language, he will know it is a Coca-Cola product. The red colour and shape of the bottle immediately prompts that the drink is a Coca-Cola product. This is branding at its best.

(ii) ***Consistency in the marketplace:*** When a customer sees a product more often in the market, he prefers to purchase it more often. Therefore, if a company keeps its brand consistent, the customer is more likely to feel that the quality is consistent. This motivates him to become a loyal follower of the brand.

Disadvantages

(i) ***Can become commonplace:*** Several brands try their level best to occupy the top position in the minds of consumers. For example, in many parts of the US, people request a Coke when they go to a restaurant, not necessarily meaning a Coca-Cola product, but any soda. While the objective of branding is to become the standard, it does not aim to become the universal term for a line of products.

(ii) ***Negative attributes:*** If a product or service experiences a negative event, then it will become attached to the brand. For example, a massive recall or unintentionally offensive advertisement campaign can damage not only the brand of a company but also its image. This results in impelling the company to build a whole new brand and identity to recapture its place in the market.

4.6   PACKAGING

Packages have always served a practical function, that is, they hold the contents together and protect goods as they move through the distribution channel. Packaging is also a container for promoting the product and making it easier and safer to use.

Packaging functions

The critical functions of packaging include containing, protecting and promoting products as well as facilitating the storage, use and convenience of the products. A fourth function of packaging that is becoming more important now is to facilitate recycling and reduce environmental damage.

(i) Containing and protecting products

The most obvious function of packaging is to contain products that are liquid, granular, or otherwise divisible. Packaging also enables manufacturers, wholesalers, and retailers to market products in specific quantities, such as grams.

Physical protection is another obvious function of packaging. Most products are handled several times between the time they are manufactured, harvested or otherwise produced and the time they are consumed or used. Many products are shipped, stored and inspected several times between production and consumption. Some, like milk, need to be refrigerated. Others, like beer, are sensitive to light. Still others, like bandages and medicines need to be kept sterile. Packages protect products from breakage, evaporation, spillage, spoilage, light, heat, cold, infestation, and many other conditions.

(ii) Promoting products

A package differentiates a product from competing products and may associate a new product with a family of other products from the same manufacturer.

Packages use designs, colours, shapes, and materials to try to influence consumers' perceptions ad buying behaviour. Packaging has a measurable effect on sales. Appropriate packaging has been shown to improve sales by as much as 50 per cent.

(iii) Facilitating storage, use and convenience

Wholesalers and retailers prefer packages that are easy to ship, store, and stock on shelves. They also like packages that protect products, prevent spoilage or breakage, and extend the product's shelf life.

Consumers' requirements for storage, use and convenience cover many dimensions. Consumers are constantly seeking items that are easy to handle, open, and reclose, although some consumers want packages that are tamperproof or childproof. Consumers also want reusable and disposable packages.

Some firms use packages to segment markets. Different size packages appeal to heavy, moderate and light users. Packaging convenience can increase a product's utility and therefore, its market share and profits.

(iv) Facilitating recycling and reducing environmental damage

One of the most important packaging issues today is compatibility with the environment. Some firms use their packaging to target environmentally concerned market segments.

4.7 PRODUCT POSITIONING

A company has to select the target market in which it will offer its products. It will have to determine the differential value that it will provide to customers to make the product attractive to them, and communicate to customers the differential value it intends to provide to them.

Target Market

Where does the company want to compete? The company has to select the segments to which it will offer its products. It is very tempting to select the largest segment or the most profitable segment. The company should possess special competencies and resources to serve its target market, which means that before a company can zero on to its target markets, it should have done a comprehensive research of requirements of customers of various segments, and an honest audit of its own resources and competencies. Quite often a company believes that it will be able to develop or acquire the required resources and competencies after identifying a target market. But it is never easy. A company should have a clear road map of how it will acquire or develop the required competencies and resources.

Differential Advantage

How does the company want to compete? The company has to provide an answer to 'Why would a customer of the target market want to buy my product, and not those of competitors?' A company which is able to furnish an unambiguous answer has a clear positioning strategy.

Communicating the Differential Advantage to Customers

A company may have created the appropriate offering for its target market but its customers should know that it has. Most companies are content with using advertisements to convey their positioning. Advertisements have become more glossy and most advertising agencies do not understand the positioning of their client company empathically enough to be able to convey it in the ads that they make. But even when an honest attempt is made to convey a company's positioning through advertising, it cannot be done due to the short and impersonal pitch of advertisements. A company has to use all promotional means like publicity, sponsorship, personal selling, and direct mails to inundate customers with messages of its positioning. Of course, these messages emanating from the various sources should be consistent. In addition, every contact between the customers and the company should be so structured that its positioning is unambiguously conveyed. The first products should reach customers who are likely to be very exuberant upon finding a good product. Word-of-mouth promotion will ultimately cement the company's positioning in the customers' mind.

The objective of positioning is to create and maintain a distinctive place in the market for the company's products. Target market selection is a part of positioning. But to compete successfully in a target market involves providing customers with a differential advantage. This involves giving customers something better than what the competitors are offering.

Positioning, Differentiation and Marketing Mix

A company's offer has to be distinct from those of its competitors and should fulfil the requirements of the customers of its target markets. A company's positioning is

the result of whatever the company does. Marketing mix is the most tangible and the most flexible tool to create the desired positioning. Companies use their marketing mix to create something specific and special for the customer

Product Differentiation

Product differentiation results from added features which give customers benefits that rivals cannot match. Before adding features, a company should thoroughly research the need for the particular feature among customers in the intended target market. Companies keep on adding new features just because their competitors are offering them. Sometimes deletion of features and benefits from a product may be a very effective differentiation because customers never really wanted these benefits.

Adding the same features as competitors may make the products of a company more acceptable among customers, though it may end up introducing similar products that does not result in any differential advantage. Such a strategy of matching features and benefits will result in product parity, with no company providing any compelling reasons to the customer for buying its product. In such industries customers will buy on the basis of price, and competitors will be forced to cut prices to grab customers from each other. The profit of every company will go down. Companies will not have the ability to differentiate their product as they will not have enough resources due to their dwindling profit margins. The only way out of this mess is that companies should pick up courage, arrange resources and start differentiating their products from each other. Price based competition should be avoided.

Most of the time, in most categories of goods, consumers get products with features that they could do without and are needlessly paying for them. Most products can be made more suitable for their target markets by deletion of certain features. Nokia has introduced a stripped down version of the cellular phone for the entry level customer in India. The phone is a contrast to the ones that offer internet usage, m-commerce, camera etc. It serves the basic purpose of mobile connectivity. Many customers are realizing that they do not need what they have bought and are switching over to these simpler phones. This phenomenon is likely to be repeated in many categories of goods once simpler options are available at lesser prices.

Promotional Differentiation

Promotional differentiation arises from unique, valued images created by advertising or superior services provided by salespeople. People in different target markets are likely to react differently to certain stimuli like emotions, images, storylines, celebrities etc. It is important to identify the stimuli which will evoke the desired response in members of the target market. It may be an extremely intricate task but it is imperative to find out whether the members prefer emotional or rational messages, whether they like humour or sedate messages, whether they like

narratives or musicals etc. Unless the company has determined the choice of the consumers on all the variables that affect an advertisement it cannot create an advertisement which is suitable for members of the target market but is unsuitable for any other target market. Sadly most advertisements look and sound similar and are not suitable for any particular target market and do not elicit the desired response.

Similarly different target markets will require different types of sales presentations, persuasions and relationships with the seller.

Distribution Differentiation

Distribution differentiation arises by making the buy situation more convenient for customers. Different target markets will require different activities to make the buying situation more convenient for them. Customers hard pressed for time have welcomed introduction of automated teller machines. But some customers would still prefer to visit the bank to conduct transactions which can easily be carried out through the ATMs. Cans of carbonated soft drinks from vending machines are finding favour with youngsters from the upper strata in India who believe that this is the original Coke or Pepsi.

Different distribution channels like telemarketing, direct mails, internet marketing, personal selling are being used to lure customers of the same target market resulting in irritability among customers, duplication of efforts and high costs. This is particularly true of credit card markets, internet service providers etc. The adequate strategy would be to identify the most suitable distribution channel for each target market and pursue it.

Sometimes customers would like to compare different brands before deciding on one. This is particularly true for high priced items like cars which are mostly sold from one-brand stores. The company has to make it convenient for customers to compare brands. It would be a good idea to locate stores of different brands near each other or permit their brands to be sold in multiple-brand stores. Customers will inevitably compare, and so a company might as well make it convenient for them and let it happen in his proximity so that it can exert some influence over the choice.

For products that are bought on impulse it is important to make it available widely as the consumer will buy the next preferred brand if his desired brand is not available. It is imperative for the company to understand that in the same product category, members of different target markets will buy differently. Therefore, it is important to tailor the distribution arrangements according to the way the target market shops.

Price Differentiation

Price differentiation involves estimating the price sensitivity of the target market, and offering relevant values on the basis of such an estimation. A target market can

be totally price insensitive and desire value of the highest order. These values can be exclusivity, sheer luxury, symbol of status or royalty. They essentially signify belongingness to an exclusive club and are often accompanied with the owner's passionate attachment to the product.

A target market can be highly price sensitive and will go for mere functionality of the product if it finds the price of available products high. Customers of this target market yearn for better products, but will not be willing to pay a price for it. If a company offers a better product at the existing price level, such customers would buy it.

A third type of target market is emerging. This market's price sensitivity is moderate and is willing to pay higher price for more features and benefits. This would be a big market in the future because income and aspiration levels of customers are rising throughout the world.

Most segments desire the same values. What differentiates them is the manifestation of these values. For instance, luxury is a desirable value for all the above segments. But the way luxury is manifested, say, for the purchase of a product category such as automobiles, presents vast contrasts.

Sine Qua Non of Positioning

Positioning is not an abstract art. It is important for firms to understand and implement a few fundamental do's and don'ts to attain successful positioning.

- The positioning of a corporate or a brand should be clear and precise. The unique proposition made to the customer should be brief and catchy. Instead of overloading customers with a maze of complicated information, companies should be precise and concise.

- A company cannot hope to reach out to the entire market with one positioning appeal. The target audience should be determined, and the positioning appeal and message should be tailored to it.

- The product or service should be set apart from what competitors are offering. If the product or service being offered by the company is not better than or different from that of competition, why should customers buy it? It is extremely important to state that one compelling reason why the company's product is the best for the target customers.

- The positioning statement should clearly reflect what the organization stands for, and what it is about. Its values, intent and offering should be clear from the positioning statement.

- Positioning should address the felt needs of the customer. Customers should be told as to how the company's product will fulfill these needs. Such benefits should be stressed in the positioning statement. These needs should be specific, measurable and something that customers really want. Instead of being vague that the company offers a lot of variety or selection, a company should say that it has 25 different models, and five colours in each model.

- Positioning appeals should be specific. One unique value proposition that customers desire the most must be present in the product.

- The company should also be able to deliver what it promises to the customer as its success depends on its credibility.

Check Your Progress

8. What is a brand?

9. What does price differentiation involve?

4.8 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The two essentials elements of a business are as follows:

   (a) Products (goods and services

   (b) Markets (customers: buyers and sellers)

2. The important features of the introductory stage of the product life cycle are as follows:

   (a) A high failure rate at the product launching stage itself

   (b) Not enough competition from the rival companies

   (c) Limited product distribution base

   (d) Frequent product modification depending on the response from users and their feedback

3. The functional utility of a product can be achieved by adopting the following measures:

   (a) Improvement in product efficiency and personnel level of the product.

   (b) Reducing the cost of the product

   (c) Adding more features to the product

   (d) Finding new applications for the product

   (e) Increasing the convenience level of the product, i.e., incorporates easy to handle features

4. An eight-step new product development process consists of new product strategy, idea generation, screening, concept testing, business analysis, product development, market testing and commercialization.

5. A development team is likely to achieve better results if it concentrates its resources on a few projects, instead of taking shots at anything that might work.

6. The greatest hindrance to the development of novel products is the existing product.

7. Ideas are screened to evaluate their commercial worth. At this stage, the company needs to ascertain whether the new products will fit in with the company's strategy and available resource.

8. A brand is an external manifestation of what happens inside the organization. It is important to align all activities in an organization and the behaviour of all employees towards the values embodied in the brand.

9. Price differentiation involves estimating the price sensitivity of the target market, and offering relevant values on the basis of such an estimation.

4.9 SUMMARY

- Product is the most important tool in the marketing mix. Without a product, there can be no marketing.

- A product is something that can be offered in the market to satisfy a want or a need.

- The two major categories of goods are as follows:
  - o Consumer goods
  - o Industrial goods

- Every product goes through a life cycle right from its inception till decline. The concept of product life cycle is based on the biological life cycle.

- For a marketing manager, the concept of product life cycle is central to the product marketing strategy.

- The product launching stage causes a heavy financial loss to the company due to the high promotional cost and low sales volume.

- The length of the product life cycle is governed by several factors like the pace of technological change, level of market acceptance and entry of other competitive products in the market.

- The sole purpose of branding is to create differentiation, and the brand name by itself cannot act as a differentiator.

- The critical functions of packaging include containing, protecting and promoting products as well as facilitating the storage, use and convenience of the products.

4.10 KEY WORDS

- **Idea Generation:** It is the process of creating, developing, and communicating ideas which are abstract, concrete, or visual.

- **Market Testing:** It means to test multiple marketing scenarios and select the most promising for expansion.

4.11 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. State the factors affecting the life cycle of a product.
2. Write a short note on product life cycle as a strategic marketing tool.
3. What are the various attributes of a brand?
4. State the functions of packaging.

Long-Answer Questions

1. Explain the meaning and classification of a product.
2. Describe the importance of product life cycle and explain its various stages.
3. Analyse the significance of idea generation and screening.
4. Discuss the concept of market testing.

4.12 FURTHER READINGS

Kumar, Arun, N Meenakshi. 2011. *Marketing Management.* New Delhi: Vikas Publishing House Pvt. Ltd.

Kotler, Philip. 1972. *Marketing Management; Analysis, Planning, and Control.* New Jersey: Prentice Hall, Inc.

Gandhi, J. C. 1985. *Marketing: A Managerial Introduction.* New Delhi: Tata McGraw Hill Publishing Company Limited.

Stanton, William J. 1984. *Instructor's Manual to Accompany Fundamentals of marketing*, seventh edition. New Delhi: Tata McGraw Hill Publishing Company Limited.

UNIT 5 PRICE MIX MANAGEMENT

Structure

5.0 INTRODUCTION

A company earns revenues by charging a price from buyers. Price is the value that the company expects to get from customers in return of the product or the service the company provides to the customer. A company puts a lot of effort into manufacturing and marketing a product and in lieu of this effort a company receives a price. Marketing mix is also inclusive of product, promotion and the distribution of incurred costs. A company is liable to run into loss if the price is unable to cover costs. Both undercharging and overcharging will have detrimental effects on profitability. The purchasing power of consumers and the value additions needed in the product along with the cost structure of the company determine the pricing of product. Unfortunately, most companies decide prices based only on earning revenue.

In actuality, pricing should reflect which segment of consumers the company is targeting, and price changes should not be made erratically based on decisions made by competitors. Instead of ad hoc decisions, pricing should reflect the strategic goals of the company. An important point to remember is that price should not be treated as a separate entity. It is essential that price is not treated in isolation but blended with other elements of the marketing strategy. When price is mixed with other elements of marketing strategy, it forms a coherent mix that results in superior customer value.

In this unit, you will learn about the various pricing policies and their objectives, the factors influencing pricing decisions, the different pricing strategies as well as the different channels of distribution and their significance in the marketing mix.

5.1   OBJECTIVES

After going through this unit, you will be able to:

- Discuss the various pricing policies and their objectives
- Examine the factors influencing pricing decisions
- Explain the different pricing strategies

5.2   PRICING POLICIES

As one of the elements of marketing mix, price has a significant role in product market integration. Price is the only element in marketing mix that generates revenue.

In simple terms, price may be understood as the amount of money for which a product or services is made available to people. Broadly speaking, price is the total of all the values exchanged by customers just so that they can have or use a product or service. Price is the value of product attributes and is expressed in monetary terms. Price is the value a customer pays for in exchange for a product or service. The customer pays for the offered utility or in anticipation of utility or expecting some utility from the product or service in exchange.

Pricing facilitates establishment of a mutually beneficial economic relationship and helps in transferring the possession of goods and services from the company to the buyers. The managerial responsibilities when it comes to product pricing are as follows:

- Establishment of pricing objectives
- Identification of price governing factors and ascertainment of their relevance and importance
- Determination of the value of the product in terms of money
- Formulation of price policies and strategies

Therefore, the role played by pricing is much bigger in the marketing mix of a company, and this has a considerable bearing on the effectiveness and success of the marketing strategy and the firm.

5.2.1 Pricing Procedure

The pricing procedure usually comprises the following steps:

(i) Develop information base

The very first thing to do while determining the basic price of a company's product(s) is to come up with appropriate and up-to-date information on the price decisions that can be made. This comprises decision-inputs, such as cost consumer demand, production cost, industry prices and practices and government regulations.

(ii) Estimate sales and profits

Once the information base is set up, the management should focus on developing a profile of sales and profits at different price levels to be able to ascertain the level assuring maximum sales and profits under given conditions or situations. On matching this information against pricing objectives, the management gets a preview of the extent to which the objectives can be achieved through price component in the marketing mix.

(iii) Anticipate competitive reaction

Once the price in the competitive environment is determined, it becomes necessary to anticipate competitive reaction. Competition for the company's product(s) may arise from similar products or close substitutes. The reaction may be strong or mild. There may even be no reaction at all. The reaction may at times be immediate while at times it may be rather delayed. To be able to anticipate such a variety of reactions, it is essential to collect information about competitors in respect of their production capacity, cost structure, market share and target consumers.

(iv) Scan the internal environment

It is essential to scan the internal environment and understand it before determining the price. The primary factors to be considered in relation to price are the sanctioned production capacity, capacity available and used, the possibility and convenience of expansion, contracting facilities, input supplies and the state of labour relations. All these factors influence pricing decisions.

(v) Consider marketing mix components

Yet another step in the pricing procedure is to take into account the role of other elements of the marketing mix and weigh them in relation to price. Other things to be kept in mind include, the extent of perishability, shelf-life, shape, price and structure. The chances of the pricing being low is higher if the perishability is faster.

(vi) Select price policies and strategies

Selection of the pricing policies and strategies is the next important step in the pricing procedure. These facilitate the provision of consistent guidelines and framework for setting prices suited to specific market and customer needs.

(vii) Determine price

Once the first six steps are over, the management will be in a position to determine price. To be able to do so, the management should take into account the decision inputs provided by the information base and develop minimum and maximum price levels. These prices should not only match the objectives of pricing but also the competitive reactions, government regulations, marketing mix requirements and

the pricing policies and strategies, to be able to decide a price. However, the management would do well to arrive at a consensus on the price aspect to ensure that it fulfils consumer expectations.

5.2.2 General Pricing Approaches or Methods of Price Fixation

Companies set prices by adopting a general pricing approach that includes one or more of the following three approaches:

1. Cost-based approach

There are two cost-based pricing approaches. These are as follows:

(a) Cost-plus pricing

This is the easiest and commonly used pricing-setting method. In this method, a standard mark-up is added to the cost of a product to arrive at its price. For example, the cost of manufacturing a fan is ₹1000. Add to it 25 per cent mark-up, which sets the price for the retailer at ₹1250. The retailer in turn may mark it up to sell at ₹1350, which is 35 per cent mark-up on cost. The retailer's gross margin is ₹150.

However, this is not a logical method as it ignores current demand and competition and is unlikely to lead to the optimum price. Still, mark-up price is quite popular for three reasons:

    (i) Sellers have more certainty about costs than about demand and by tying the price to cost, they simplify their pricing task and need not frequently adjust price with changes in demand.

   (ii) Where all firms in the industry use this pricing method, their prices will be similar and competition will be minimised to the benefit of all.

  (iii) It is usually felt by the industry that cost-plus pricing is fairer to buyers as well as to sellers.

(b) Break-even pricing and target-profit pricing

An important cost-oriented pricing method is called target-profit pricing wherein the company attempts to determine the price that would generate the profits it wishes to earn. This pricing method employs the widely used 'break-even analysis'. According to this, a break-even chart is used to determine the price. This chart shows the total cost and revenue expected at different sales volume. The break-even point is reached when the total revenue equals the total cost and the seller neither makes a profit nor suffers a loss. Using the break-even chart, a marketer can arrive at the sales target he needs to achieve in order to earn the targeted profit, and the price that he needs to charge for his product.

2. Buyer-based approach

The buyer-based pricing approach is as follows:

Perceived-value pricing

Many companies base their price on the product's perceived value. They go by buyer's perception of the value of a product, and not the seller's cost, which they consider the key to pricing. Therefore, pricing starts with an analysis of consumer needs and value perceptions, and price is set to match consumers' perceived value.

Such companies use the non-price variables in their marketing mix to build up perceived value in the buyer's minds, e.g., heavy advertising and promotion to enhance the value of a product in the minds of the buyers. Then they set a high price to exploit the perceived value. The success of this pricing method depends on an accurate determination of the market's perception of the product's value.

3. Competition-based approach

The competition-based pricing approach is as follows:

(a) Going-rate pricing

According to this technique, the organization's price is based on the competitor's prices with little focus on its own costs or demand. The company may charge the same price as its primary competitors, or a slightly higher or lower price. In any industry, the smaller companies follow the leading firm and offer prices according to the market leader's prices. The marketer assumes that the going price is reflective of the collective wisdom of the industry.

(b) Sealed-bid pricing

This competitor-oriented pricing is extremely common in contract businesses where firms bid for jobs. The contractor decides on a price on the basis of expectations of how competitors will bid rather than on a strict relation to his cost or demand. As the contractor wishes to win the contract, he has to bid lower than the other contractors. However, a bidding firm cannot set its price below costs. If it bids higher than the cost, chances of it losing the contract will be more.

A company earns revenues by charging a price from buyers. Price is the value that the company expects from customers in return for the product or the service the company is providing to the customer. Price is the reward a company gets for doing the following with regard to its products:

- Designing
- Producing
- Marketing
- Selling

The product, promotion and distribution elements of the marketing mix incur costs, and if price is unable to cover these costs, the company loses. Therefore, a company has to charge a price that will cover its costs, and also generate significant profit. However, if the price is too high, customers may not find its product good

value for their money, and may not buy the product. Therefore, both undercharging and overcharging are not good for the company.

You cannot price in isolation. Price should be blended with other marketing mix components to provide superior value to customers. The sales of many products, especially the ones that help customers to express themselves, take a beating if the prices are too low, for example, cars, drinks and perfumes. Price is a part of a company's positioning strategy. Therefore, if a product's price is inconsistent with the other three elements of the marketing mix, customers are not clear about its real positioning. Customers form their own price-quality equation, and if a product price is too low, they believe that it cannot be of good quality. Similarly, if a product's price is too high, they believe that they are not getting good value for their money. Therefore, a company needs to change customers' price-quality equation before it decides to change price too drastically, otherwise customers will not accept the product. It must operate at the new price for a long time to allow customers to form their new price-quality equation. There is yet another type of price fixation, i.e., marginal cots pricing. This will be discussed at the further in the unit.

5.2.3 Implications of the Pricing Policy

A company's pricing policy reflects the organization's philosophy. Customers' perceptions about the company and the brand image are shaped to a significant degree by pricing.

Customers understand that companies have price flexibility. A company may opt to charge a lower price as it wants more people to own and enjoy its product. A company may never run a sales promotion to indicate that its product is always economically priced. It may never indulge in bargaining and insist on fixed price to give the signal that argumentative customers will not have a better deal with the company. A company engaging in frequent sales promotion will give the signal that its prices cannot be trusted and customers only have to wait to get a lower price.

A company should be aware that the pricing strategies and tactics of the company send strong signals about the company's philosophies and beliefs. A company that reduces prices because cost of its raw materials have gone down, will have a very different perception among customers from a company which increases price steeply because the demand of its product has gone up. Since customers are strongly affected by the price that a company charges, it leaves a very strong impression about the company on them.

A company should not treat the price of its product as simply another element of the marketing mix, which brings in revenues and profits. While deciding on its pricing policies, an organization should give great thought to how its customers' perceive it and take this into account before deciding on the pricing policy.

5.2.4 Methods of Pricing

It is not easy to set the price of a product as several product factors, external and internal, need to be taken into account together. The price should refer to its costs, as recovery of these is necessary in the long run. Most companies are unable to afford to sell at prices below cost for long periods. The price has to be low enough to attract customers but high enough to bring reasonable profits to the company. A company may be tempted to achieve maximum profits by charging higher prices. However, the customers may not consider the products worthy of its high prices and refrain from buying altogether. The price should match the positioning strategy of the company. The value of a premium brand will be eroded if its price is low. In most situations, all the above factors have to be considered simultaneously when prices are set.

The various methods of pricing are as follows:

1. Cost-oriented pricing

There are two types of cost-oriented pricing: full cost and direct cost.

(a) Full cost pricing

Variable and fixed cost per unit is added and the desired profit margin is added to the total cost. This price is true for one volume of sales/output. However, if sales/output decreases, fixed cost per unit will increase, so price should rise. Therefore, there is an increase in price as sales fall. Sales estimates are made before a price is set which is illogical. It focuses on internal costs rather than customer's ability or willingness to pay. There may also be technical problems in allocating fixed/overhead cost in multi-product firms.

In spite of its disadvantages, the method forces managers to calculate costs, so it gives an indication of the minimum price necessary to make a profit. Break-even analysis can be used to estimate sales volume needed to balance revenue and costs at different price levels.

(b) Direct cost pricing

The desired profit margin is added to the direct cost to get a price. Price does not cover full costs, and the company would be making a loss. The strategy is valid if there is an idle capacity as a margin covers some part of fixed costs. It is useful for services in periods of low demand as they cannot be stored. However, customers who have paid a higher amount may find out and complain. Direct cost indicates the lowest price at which it is sensible to take business if the alternative is to sit idle. It does not suffer from 'price up as demand goes down problem', as it happens in full-cost pricing method. It also avoids the problem of allocating overhead charges. However, when business is buoyant, it does not take into account customers' willingness to pay. It is not for the long term as fixed cost must also be covered to make profits. However, it is a good short-term strategy to reduce impact of excess capacity.

2. Competitor-oriented pricing

These are two types of competitor-oriented pricing. These are as follows

(a) Going-rate pricing

There is no product differentiation, i.e., there is some sort of perfect competition. All companies charge the same price and smaller players follow the price set by market leaders. This is not an attractive proposition for marketers. Marketers like to differentiate their offerings and achieve a degree of price discretion. Even for commodity products differential advantages can be built upon which premium prices can be charged.

(b) Competitive bidding

The usual procedure is to draw up a detailed specification for a product and put it out for a tender. Potential suppliers quote a price which is confidential that is, known to themselves and the buyer only (sealed bid). A major focus for suppliers is the likely bid prices of competitors.

Expected profit = Profit × Probability of winning

As the quoted price will increase, profits will rise, but the probability of winning the bid will fall. The bidder uses past experience to estimate a probability of clinching the deal at each price level. Expected profit peaks at a particular bid price, at which the bid will be made.

Bid price	Profit	Probability	Expected profit
2000	0	0.99	0
2100	100	0.9	90
2200	200	0.8	160
2300	300	0.4	120
2400	400	0.2	80
2500	500	0.1	50

The company would quote a price of $2200 as it stands to make the maximum profit at this price with 80 per cent probability of winning the bid. However, calculation of probability of succeeding goes haywire where competitors are desperate to win an order. Such competitors would quote very low prices to win the bid, as they are willing to take the lower profits. Successful bidding depends on having efficient competitor information system. The company should be aware of competitors who might be having a lot of costly idle capacity. Such companies will quote low prices to utilize their idle capacity.

Salespeople can feed details of past successful and unsuccessful bids. The salespeople should be trained to elicit successful bid prices from buyers and then enter them into the customer database which records order specifications, quantities and successful bid prices. However, not all buyers will reveal true figures so the buyers have to be graded for reliability.

3. Marketing-oriented pricing

Prices should be in keeping with the marketing strategy. They should be linked to positioning, strategic objectives, promotions, distribution and product benefits. Pricing decisions are dependant on other earlier decisions in the marketing planning process. For new products, price depends on the positioning strategy whereas for existing products, prices depend on strategic objectives.

Pricing new products

(i) **Positioning strategy:** If the product is new, there is a whole new range of potential target markets. For calculators, they include engineers and scientists, bankers and accountants and the general public. Choice of target market would have a strong effect on price that could be charged. If engineers were targeted, price could be higher. For accountants, price would be lower and for the general public, it would be even lesser. Over time, price would be lowered to draw other market segments even if engineers were the first targets.

For new products, therefore, marketers should decide on the target market and the value placed by consumers of that segment on the product (the extent of differential advantage), and the price is accordingly decided on to reflect that value. Where multiple segments appear attractive, modified versions of the product should be designed and priced differently in line with respective values that each target market places on the product. When a company opts to target different markets, by launching different versions of a product at different prices with different target audiences, it should find out whether the customers of the more premium version will trade down once cheaper versions are available. An engineer will buy a scientific calculator even if it is very highly priced in comparison to simpler calculators because the latter will not serve his purpose. If different versions cannot be sufficiently differentiated to be able to keep their customers, a company should desist from launching simpler and cheaper versions for as long as possible, because the customers who had hitherto bought the premium version, will start buying the cheaper version, as they too will serve his purpose sufficiently.

(ii) A combination of high price and high promotion expenditure is called rapid skimming strategy. The high price provides high margins and heavy promotion causes high level of product awareness and knowledge. A slow skimming strategy combines high price with low levels of promotional expenditure. High price means big profit margins but high level of promotion is believed to be unnecessary, perhaps because word of mouth is more important and product is already well known, or because heavy promotion is thought to be incompatible with product image as with cult products. This strategy (i.e., skimming) is useful if there is patent protection.

Companies which combine low prices with heavy promotional expenditure are practising rapid penetration strategy. The aim is to gain market share rapidly, perhaps at the expense of a rapid skimmer. Slow penetration strategy combines a low price with low promotional expenditure. Owner label brands use this strategy. Promotion is not necessary to gain distribution and low promotional expenditure helps to maintain high profit margins.

(iii) It is important to understand the characteristics of market segments that can bear high prices. The segment should place a high value on the product which means that its differential advantage is substantial. Calculators provide high functional value to engineers and they will be willing to pay high prices for them. Perfumes and clothes provide psychological value and brand image is crucial for such products to be acceptable. High prices go well with premium brand image. High prices are also more likely to be viable where consumers have a high ability to pay.

A company can afford to price its products at higher levels if the consumer of the product is different from the person who pays for it. Products for children or stationery items for a company's employees come under this category. The user simply focuses on the suitability of the product and does not bother much about the price when selecting a product.

A company can also afford to charge a high price if there is lack of competition among supplier companies. The company does not fear that its customers will switch over to competitors because of its high prices.

A company can also charge a high price from its customers if there is high pressure on them to buy. A business traveller rushing to meet a deadline with a customer will be willing to pay a much higher price for an air ticket than a normal passenger not so hard pressed.

(iv) Low price is used when it is the only feasible alternative. Product may have no differential advantage, customers are not rich and pay for themselves, have little pressure to buy, and have many suppliers to choose from. At best such products could take going rate price, but should be launched at a lower price to provide incentive for customers to switch from their usual brands. A company may wish to gain market share or domination by aggressively pricing its products. Penetration pricing, i.e., low prices, for market share is sometimes followed by price increase once market share has reached a satisfactory level. Low prices may also be charged to increase output and so bring down costs through experience curve effect. Economies of scale are also achieved. Marketing cost per unit will also fall.

Low price is also used when the objective is to make money later. Sale of the basic product may be followed by profitable after sales service and/or spare parts.

(v) Price sensitivity may change over time. When products are novel, customers are willing to buy them at higher prices because it serves their unique requirements or provides them self-esteem. But when the same products become widely used, customers start considering the price as an important element in their choice criteria. Also when customers' income increases, products about which they were price sensitive are bought without much regard to its price.

Pricing of existing products

The strategic objective for each product will have a major bearing on its pricing strategy. For example, if a company wants to develop a premium brand, it will price its products higher, but if it wants to capture the mass market, it will have to price its products lower.

- **Build objective**: The company wishes to increase its market share. In price sensitive markets, the company has to price lower than competition. If competition raises prices, the company should be slow to match them. However, if competition reduces prices, it promptly matches or undercuts it further. For price insensitive products, price will depend on the overall positioning strategy appropriate for the product. If the product is positioned as premium it will have to be priced higher but if the product is targeted at the mass market, the price has to be lower and competitive.

- **Hold objective**: The company wants to maintain its market share and profits. The company's pricing policies are essentially reactionary in nature. The company maintains or matches price relative to the competition. The company reduces price if competition reduces price in order to hold sales or market share. If the competition increases price, the company also increases its price, as it does not want to compromise on its profitability.

- **Harvest**: The company is focused on increasing its revenues. It wants to maintain or raise profits even if sales fall. The company sets premium prices in order to achieve this objective. It does not match competitor's price cuts, but price increase is swiftly matched. The company is proactive in revising its prices upwards.

- **Repositioning strategy**: Price change will depend on the new positioning strategy. If the objective is to build a premium brand, the company will price its product higher, but if the company wants to reposition the product for the mass market, it will have to lower its price and make it competitive.

A company cannot set its price in isolation. The pricing policy of a company is instrumental in achievement of its financial and strategic goals. The pricing policies of a company also send strong signals to customers about the positioning plank of the company. Therefore price can be decided only after knowing the positioning strategy and strategic objective.

Value to the customer

Price of the product should be precisely keyed to the value to the customer. The higher the value given by the product in comparison to competition, the higher the price that can be charged.

There are four ways of estimating value to the customer. These are as follows:

(i) Buy response method

A company finds out if its customers are open to buying at varying price levels. Up to ten prices are selected within the usual range for the product. Respondents are allowed to see the product and asked if they would purchase it at, say Rs 100. The first price is close to the average for the product category and other prices are randomly stated. The percentage of respondents indicating that they would buy is calculated for each price and plotted to get the buy-response curve. The curve indicates the prices at which willingness to buy falls drastically and indicates an acceptable price range.

The methodology focuses the respondent's attention exclusively on price, which may induce an unrealistically high price consciousness. However, the method gives the company a good idea of the value that the customers place on the company's product. Customers weigh price against product features and benefits of the company's products and competitors' offerings. If a competitor has launched a product with more features and benefits at a lesser price, customers will take into consideration the existence of a better product at a lesser price, and will value the company's product's lower.

(ii) Trade-off analysis

Product profiles comprising product features and prices are described, and respondents are asked to name their preferred profile. The customers consider price as just one aspect of the offering. What they choose indicates the trade-offs that they are willing to make between features and price. An analysis of the customers' preferences for particular profiles, relative importance of each of the product attributes including price is calculated. Based on this leaning, the company can create the right combination of product features and price (taking into account customer preference for product attributes and the price they are willing to pay for them).

A limitation of this method is that respondents are not asked to back up their preferences by being required to buy their preferred combination of features and price. They may not really buy their preferred choice when they are actually making a purchase.

(iii) Experimentation

Experimental pricing research entails placing a product on sale at different locations with different prices. In a controlled store experiment, a number of stores are paid to vary the price level of the product being tested. For example, 100 malls may be

chosen to test two price levels. Fifty stores could be randomly selected and allocated lower prices, and the rest could be sold at higher prices. By comparing sales levels and profit contributions between the two groups, the most profitable price is established. A variant of this procedure tests price differences between the test brand and a major rival brand. In half the stores, a price differential of, say ₹20 may be compared with ₹30.

In test marketing, a single product would be sold in two regions or areas using the same promotional campaign. However, the prices would be different in the two areas. These areas in question, will have be matched in terms of target customer profile so that it is possible to compare the results, i.e., difference in sales in the two areas can be attributed to difference in prices. The test should be spread over a considerably long period so that it is possible to measure trial and repeat purchase at each price. Competitors may attempt to invalidate the results by launching special promotional schemes in the test areas, making it tough for the company to attribute its sales figure to the price it is charging. This distortion is especially possible, when product is not highly differentiated and therefore introducing a cheaper version would make a premium buyer purchase that cheaper version.

(iv) Economic value to customer (EVC) analysis

Experimentation is more useful in consumer products. EVC analysis is used for industrial products. Economic value to the customer is the value that the industrial buyer derives from the product in comparison to the total costs that he incurs in procuring and operating the product. A high EVC may be because the product generates more revenues for the buyer than competition or because its total of procurement plus operating costs are lower over the product's lifetime (Price = Set-up costs, i.e., purchase cost + operating costs). If a company has an offering with high EVC, it can set a high price and still offer much better value in comparison to competition, if the operating cost to the customer is lower. The essential idea is that a company purchases a product to enable it to earn revenues at as less an expenditure as possible. Therefore, a product with high EVC is preferred by industrial customers. The EVC analysis is particularly revealing when applied to products whose purchase price represents a small proportion of the lifetime costs to the customer.

Administrative and Regulated Prices

Not all prices are government by market related factors. Some are set and regulated by authoritative bodies who may have welfare or budget related motives. Administrative price as the name suggests is the price set by the government in contrast to the market forces. Price control and rent control are examples of administered prices. The main aim of these prices is to maintain the affordability of general goods.

The administrative or regulating body might be the government, legal statute or regulatory authority. Generally, a certain minimum and maximum limits are set.

5.2.5 Objectives of Pricing Policy

Pricing objectives for a business organization may be several. Some objectives may be primary and others may be secondary, some may be long-term while some short-term. However, all pricing objectives are emitted from the corporate and marketing objectives of the firm.

Some of the pricing objectives are as follows:

- Target return
- Market penetration
- Market skimming
- Discriminatory pricing or ability to pay pricing
- Stabilizing pricing

1. Pricing aimed at a target return

Here, the pricing is aimed at earning a specific rate of Return On Investment (ROI) and the actual price policy is calculated to earn that rate of return. The target is in terms of 'return on investment'. Some firms, for instance, set the target at 20 per cent return on investment after taxes. This could be a short-term or a long-term target. A firm may also have different targets for different products but such targets are related to a single overall rate of return target.

2. Pricing aimed at market penetration

Initially, organizations set a relatively 'low price' for their new product in a bid to attract a large number of buyers and win a large market-share. This is termed penetration pricing policy. The focus is on growth in sales and not on profits. Their primary objective is to capture business and gain a strong foothold in the market. This objective can be achieved in a highly price-sensitive market. It is also done with the presumption that unit cost will decrease when the level of sales reach a certain target. Besides, the low price policy may force competitors to opt out. When market share increases considerably, firms may gradually increase the price of their product.

3. Pricing aimed at market skimming

Several organizations launch their new product at a 'high price' initially to skim the market. They set the highest price for their product by giving comparative benefits to their existing customers. After the initial sales slow down, they lower the price to attract the next price-sensitive layer of customers.

4. Discriminatory pricing or 'ability to pay' pricing

Sometimes, business firms, adopt a discriminatory pricing policy. They charge different prices for different customers or allow different discounts to different buyers.

This discriminatory policy is applicable on the basis of the product, place or time. For example, doctors charge different fees from different patients; railways charge different fares from usual and regular passengers and offer concessional fares to students. Manufacturers may offer discounts or quote different list prices to bulk-buyers, institutional buyers and small buyers.

5. Stabilizing pricing

This pricing policy is aimed at preventing prevent frequent fluctuations in pricing and at fixing uniform or stable price for a reasonable period. Once the price is revised, the new price is allowed to stay for a considerable period. Newspapers and magazines are known to adopt this pricing policy.

5.2.6 Factors Affecting Pricing Decisions

There are several factors influencing pricing decisions. These are as follows:

1. Price–quality relationship

Customers use price as an indicator of quality, particularly for products where objective measurement of quality is not possible, such as drinks and perfumes. Price strongly influences quality perceptions of such products. If a product is priced higher, the instinctive judgement of the customer is that the quality of the product must be higher, unless he can objectively justify otherwise.

2. Product line pricing

Some companies prefer to extend their product lines rather than reduce price of existing brands in face of price competition. They launch cut-price fighter brands to compete with low price rivals. This has an advantage of maintaining the image and profit margins of existing brands. By producing a range of brands at different price points, companies can cover varying price sensitivities of customers and encourage them to trade up to more expensive higher margin brands.

3. Explicability

The company should be able to justify the price it is charging especially if it is on the higher side. Consumer product companies have to send cues to the customers about the high quality and the superiority of the product. A superior finish, fine aesthetics or superior packaging can give positive cues to the customers when they cannot objectively measure the quality of the offering. A company should be aware of the features of the product that the customers can objectively evaluate and should ensure superior performance of those features. In industrial markets,

the capability of salespeople to explain a high price to customers may allow them to charge higher prices. Where customers demand economic justifications of prices, the inability to produce cost arguments may mean that high price cannot be charged. A customer may reject a price that does not seem to reflect the cost of producing the product. Sometimes it may have to be explained that premium price was needed to cover R&D (research and development) expenditure, the benefits of which the customer is going to enjoy.

4. Competition

A company should be able to anticipate reactions of competitors to its pricing policies and moves. Competitors can negate the advantages that a company might be hoping to make with its pricing policies. A company reduces its price to gain market share. One or more competitors can decide to match the cut, thwarting the ambitions of the company to garner market share. However, all competitors are not the same and their approaches and reactions to pricing moves of the company are different.

The company has to take care while defining competition. The first level of competitors offer technically similar products. There is direct competition between brands who define their business and customers in similar way. Reactions of such competitors are very swift and the company will have to study each of its major competitors and find out their business objectives and cash positions. Competitors who have similar ambitions to increase their market share and have deep pockets will swiftly reduce price if any one of them reduces prices. A telephone company offering landline services has all telephone companies offering landline services as its first level of competitors.

The second level of competition is dissimilar products serving the same problem in a similar way. Such competitors' initial belief is that they are not being affected by the pricing moves of the company. However, once it sinks into them that they are being affected adversely by the pricing moves of a company that seemingly belongs to another industry, they will take swift retaliatory actions. The telephone company has the mobile phone operators as its second level of competitors.

The third level of competition would come from products serving the problem in a dissimilar way. Again such competitors do not believe that they will be affected. However, once convinced that they are being affected adversely, swift retaliation should be expected. The retaliation of the third level is difficult to comprehend as the business premises and cost structures are very different from the telephone company in question. Companies offering E-mail service are competitors at the third level of the telephone company. A company must take into account all three levels of competition.

5. Negotiating margins

In some markets, customers expect a price reduction. Price paid is different from list price. In industrial goods this difference can be accounted for by order-size discounts, competitive discounts, fast payment discounts, annual volume bonus and promotions allowance. Negotiating margins should be built which allow prices to fall from list price levels but still permit profitable transactions. It is important that the company anticipates the discounts that it will have to grant to gain and retain business and adjust its list price accordingly. If the company does not build potential discounts into its list price, the discounts will have to come from the company's profits.

6. Effect on distributors and retailers

When products are sold through intermediaries like retailers, the list price to customers must reflect the margins required by them. Sometimes list prices will be high because middlemen want higher margins. However, some retailers can afford to sell below the list to customers. They run low-cost operations and can manage with lower margins. They pass on some part of their own margins to customers.

7. Political factors

Where price is out of line with manufacturing costs, political pressure may act to force down prices. Exploitation of a monopoly position may bring short term profits but incurs backlash of a public enquiry into pricing policies. It may also invite customer wrath and cause switching upon the introduction of suitable alternatives.

8. Earning very high profits

It is never wise to earn extraordinary profits, even if current circumstances allow the company to charge high prices. The pioneer companies are able charge high prices due to lack of alternatives to the customers. The company's high profits lure competitors who are enticed by the possibility of making profits. The entry of competitors in hordes puts tremendous pressure on price and the pioneer company is forced to reduce its price. However, if the pioneer had been satisfied with lower profits, the competitors would have kept away for a longer time, and it would have got sufficient time to consolidate its position.

9. Charging very low prices

It may not help a company's cause if it charges low prices when its major competitors are charging much higher prices. Customers come to believe that adequate quality can be provided only at the prices being charged by the major companies. If a company introduces very low prices customers suspect its quality, and do not buy the product inspite of the low price. If the cost structure of the company allows, it should stay in business at the low price. Slowly, as some

customers buy the product, they spread the news of its adequate quality. The customers' belief about the quality-price equation starts changing. They start believing that adequate quality can be provided at lower prices. The companies which have been charging higher prices come under fire from customers. They either have to reduce their prices or quit.

5.2.7 Different Pricing Strategies

While pricing is an important marketing issue, it is also one of the most puzzling marketing problems faced by any business firm. For a new product, the going is not easy because there is not established market or a visible demand. The firm may expect a demand for a substitute, which will also need to be manufactured. The estimate may not be reliable either for the direct costs of marketing and manufacturing the substitute product. Therefore, this challenging act of pricing can safely be called an art.

There are more challenges. The cost patterns are likely to change with greater knowledge and increasing volume of production. Still, the basic pricing policy for a substitute product is the same as for the established one — covering full costs in the long run and direct costs in the short run. There is, of course, greater uncertainty about both the demand and cost of the product.

Other than the initial problem of demand estimation for an entirely new product, certain other issues that are likely to come up include:

    (i) Discovering a competitive range of price

   (ii) Investigating probable sales at several possible prices

  (iii) Considering the possibility of retaliation from products substituted by it

In addition, decisions have to be taken on market targets, design, the promotional strategy and the channels of distribution.

Test marketing can help to decide a suitable pricing policy. Using test marketing, the product can be introduced in selected areas, usually with a price difference in different areas. These tests are able to give a fair idea to the management of the amount and elasticity of the demand for the product, the competition likely to be faced, and the expected sales volume and profits that may be yielded at different prices. Test marketing, however, is not the perfect solution for full-scale production and distribution. Yet, it may provide very useful information for better planning of the full-scale effort. It also helps rectify initial pricing mistakes.

The next important question is whether to have a high initial price or a low penetration price.

1. Skimming price

If the price is high initially, then coupled with heavy promotional expenditure, it may be possible to launch a new product if conditions are favourable. For example:

(a) Price-wise, the demand will fluctuate less in the initial stages, since high prices are unlikely to discourage pioneering consumers. A new product will command a better price owing to its novelty.

(b) If the life of the product is short, a high initial price will help in getting as much out of it and as fast as possible.

(c) Such a policy can provide the basis for dividing the market into segments of differing fluctuations. Bound edition of a book is usually followed by a paperback.

(d) A high initial price may prove useful if the production skills needed to make the product are kept secret so that it is difficult and time consuming for competitors to enter on an economical basis.

(e) It is a safe policy to keep a low profile where elasticity is not known and the product not yet accepted. High initial price may finance the heavy costs of introducing a new product when uncertainties block the usual sources of capital.

2. Penetration price

In certain situations, it is possible for a business firm to successfully expand the market rapidly. As a result, they will obtain larger sales volume and lower unit costs. This is appropriate where:

(a) Short-run price elasticity is high.

(b) Substantial cost savings from bulk production exist.

(c) The mass of consumers accepts the product.

(d) No strong patent protection exists.

(e) Threat of potential competition exists.

(f) A big share of the market is captured quickly.

The low penetration price is aimed at raising barriers against the entry of prospective competitors. Stay-out pricing works well in cases:

(i) Where the total demand is expected to be small. If the most efficient size of the plant is sufficiently big and capable of supplying the lion's share of the demand, a low-price policy can capture the bulk of the market and successfully hold back low-cost competition.

(ii) When sales potential appears to be great, prices must be set at their long-run level. In such cases, the important potential competitor is a large multi-product firm for whom the product in question is probably marginal. They are normally confident that they can get their costs down to the competitors' level if the volume of the product is large.

Product-mix pricing strategies

The strategy to set a product's price has to often change if the product forms a part of the product mix. In this case, the firm watches out for a set of prices that maximise the profits on the total product mix. Pricing is a challenge not only because various products have related demand and cost but because they face stiff competition.

Check Your Progress

1. Which is the only element of the marketing mix that generates revenue?
2. List the steps involved in the pricing procedure.
3. What are the various methods of pricing?
4. State the objectives of pricing policy.
5. List the different factors that influence pricing decisions.

5.3 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Price is the only element in the marketing mix that generates revenue.
2. Pricing procedure usually involves the following steps:
   (a) Development of information base
   (b) Estimation of sales and profits
   (c) Anticipation of competitive reaction
   (d) Scanning of the internal environment
   (e) Consideration of marketing mix components
   (f) Selection of price oolicies and strategies
   (g) Price determination
3. The various methods of pricing are as follows:
   (a) Cost-oriented pricing
   (b) Competitor-oriented pricing
   (c) Marketing-oriented pricing
4. The objectives of pricing policy are as follows:
   - Pricing for a target return
   - Pricing for market penetration
   - Pricing for market skimming
   - Discriminatory pricing or ability to pay pricing
   - Stabilizing pricing

5. The different factors that influence pricing decisions are as follows:

    (a) Price-quality relationship

    (b) Product line pricing

    (c) Explicability

    (d) Competition

    (e) Negotiating margins

    (f) Effect on distributors and retailers

    (g) Political factors

    (h) Earning very high profits

    (i) Charging very low prices

5.4 SUMMARY

- Among the different components of the marketing mix, price plays an important role to bring about product market integration. Price is the only element in the marketing mix that produces revenue.

- In the narrowest sense, price is the amount of money charged for a product or service. More broadly, price is the sum of all the values that customers exchange for the benefit of having or using the product or service.

- Price may be defined as the value of product attributes expressed in monetary terms, which a customer pays or is expected to pay in exchange and anticipation of the expected or offered utility.

- The managerial tasks involved in product pricing include establishing the pricing objectives, identifying the price governing factors, ascertaining their relevance and importance, determining product value in monetary terms and formulating price policies and strategies.

- The pricing policy of a company sends out signals about the company's philosophy. Customers' perceptions about the company and the brand image are shaped by pricing to a considerable degree.

- Customers understand that companies have price flexibility. A company may choose to

- Some companies prefer to extend their product lines rather than reduce price of existing brands in face of price competition. They launch cut-price fighter brands to compete with low price rivals. This has an advantage of maintaining the image and profit margins of existing brands.

- Pricing a new product is an art. It is one of the most important and puzzling marketing problems encountered by a firm. There are many drawbacks for the introduction of a new product since there is neither an established market nor a demonstrated demand for it.

- Test marketing can be helpful in deciding a suitable pricing policy. Under test marketing, the product is introduced in selected areas, often with a price difference in different areas. These tests will provide the management an idea of the amount and elasticity of the demand for the product, the competition it is likely to face, and the expected sales volume and profits it might yield at different prices.

- The strategy for setting a product's price often has to be changed when the product is a part of a product mix. In this case, the firm looks for a set of prices that maximize the profits on the total product mix. Pricing is difficult because various products have related demand and cost and face stiff competition.

5.5 KEY WORDS

- **Price:** It is defined as the value of product attributes expressed in monetary terms, which a customer pays or is expected to pay in exchange and anticipation of the expected or offered utility.

- **Full Cost Pricing:** It is a method of pricing in which, variable and fixed cost per unit is added and the desired profit margin is added to the total cost.

- **Direct Cost Pricing:** It is a method of pricing in which the desired profit margin is added to the direct cost to obtain a price.

5.6 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. Briefly explain the four methods of estimating value to the customer.
2. What are the various implications of the pricing policy?
3. Differentiate between going-rate pricing and sealed-bid pricing.
4. State the methods of estimating value to the customer.
5. Write a short note on penetration pricing.

Long-Answer Questions

1. Examine the various steps involved in the pricing procedure of a product.
2. What are the three general pricing approaches adopted by companies for pricing their products?
3. Explain in detail the different methods of pricing.
4. Explain the various factors that influence pricing decisions.

5.7   FURTHER READINGS

Kotler, Philip, Kevin Lane Keller, Mithileshwar Jha & Abraham Koshy. 2009. *Marketing Management.* New Delhi: Pearson Education.

Kazmi, SHH. 2007. *Marketing Management Text and Cases.* New Delhi: Excel Books.

Ramaswamy, V. S. and S. Namakumari. 1983. *Marketing Management in Indian Environment.* New Delhi: MacMillan Publishers.

Sharma, D. D. 2001. *Marketing Research: Principles, Applications and Cases*. New Delhi: South Asia Books.

UNIT 6 PHYSICAL DISTRIBUTION MIX

Structure

6.0 INTRODUCTION

Products need to be made available in adequate quantities, in convenient locations and at times when customers want to buy them. Channel intermediaries are those organizations which facilitate the distribution of products from producers to customers. Channel of distribution is how products are moved from the producer to the ultimate customer. Producers need to consider not only the needs of the ultimate customers but also the requirements of channel intermediaries.

Industrial channels are shorter than consumer channels because there are a small number of industrial customers, and they are geographically concentrated at a few locations. Industrial products are often complex in nature, and the buying process is long. Manufacturers and industrial customers interact extensively during the buying process, and even afterwards, as most industrial products need to be routinely serviced. Consumer channels are normally longer because many geographically dispersed customers must be reached. The consumers buy in small quantities. The information needed to arrive at a purchase decision is limited because the products are not very sophisticated.

Channel intermediaries serve several specialized functions that enable manufacturers to make their goods available to their customers at the right place at the right time. The functions that a channel performs, depends on the sophistication of the customer needs and the existing level of technologies. In this unit, you will study the importance of channel of distribution in detail.

6.1 OBJECTIVES

After going through this unit, you will be able to:

- Explain the importance of channel of distribution
- Classify distribution channels: consumer, industrial and service channels
- Describe the factors influencing channel decisions
- Assess the functions of the distribution channels

6.2 DISTRBUTION CHANNEL POLICY AND MANAGEMENT

Distribution corresponds to the fourth 'P' of the marketing mix, that is, place. The process of distribution or channel of distribution refers to the chain or series of intermediaries with each intermediary passing the product down the chain to the next and so on till the product reaches the consumer or end-user. Channels can be both direct and indirect. Resorts, for example, can sell their services either directly to the consumer or through airlines, tour operators, etc.

- Physical distribution refers to the fast and efficient movement of goods between three groups, i.e., manufacturers, intermediaries and the consumer. The goods and services move from the manufacturer to the intermediaries and consumer. Though channel and physical distribution decisions are interconnected, channel decisions are made before physical distribution decisions. The aim is to provide intermediaries and customers with correct products in the right quantities. The manufacturers try to ship his manufactured products at the right time and at the right location addresses.

- With the help of effective physical distribution, a company is able to minimize costs and enhance the levels of customer service. A company can save costs by the following methods:

  o Reduction in inventory levels

  o Use cheaper modes of transportation

  o Ship manufactured goods in bulk

Customer service can be significantly improved by quick and reliable delivery and holding high inventory. This will also give customer a wide array of choices while simultaneously minimizing the episodes of stock out. The manufacturer also must ensure that the right quality and quantity of products arrive as per scheduled time.

- The main aim of physical distribution management is to attain a balance between cost minimization and meeting customer requirements. At times, trade-offs become essential. Low inventory along with a cheaper mode of transportation may eventually lower costs but it will also result in a reduction of customer service and satisfaction levels. Therefore, to define the balance

between cost minimization and customer requirements is a primary marketing decision as physical distribution provides a competitive edge.

- Based on customer service, needs and price sensitivity market analysis is divided into two broad segments, which are as follows:
  - o Low service needs, high price sensitivity
  - o High service needs, low price sensitivity

  It is critical to determine the target market segment and create a marketing mix accordingly. It has been seen that large industrial markets have their own service facilities. However, smaller companies need a manufacturer or distributor services as a substantial part of product offering and therefore may be willing to pay a higher price.

- Besides trade-offs among customer service levels and physical distribution costs, conflicts may also occur between the elements of physical distribution. Inventory management preference may be for low stocks in comparison to low costs. However, if this results in stock out, costs may eventually rise elsewhere. The department responsible for freight may be forced to accept high costs in order to delivery faster. Similarly, low-cost containers reduce the packaging costs but increase in the cost of goods spoilt in transit. Therefore, all the processes under physical distribution need to be coordinated with one another and order processing, inventory and transportation needs to be managed as one process. It is important that a single manager manages the physical distribution of a company and prevents managers from managing individual functions, like transportation, from maximizing their performance and causing harm to the overall efficiency and effectiveness of the system. It is the duty of the manager who oversees the physical distribution department to resolve conflicts in the system. This will help to reduce costs with respect to the required levels of customer service.

6.2.1 Elements of the Physical Distribution System

The various elements of the physical distribution system are discussed as follows:

1. Customer service

Customer service is the percentage of orders that are completed in the defined time period. It is essential to set standards in terms of customer service. For instance, a customer service standard for a particular company may be 90 per cent of orders getting delivered in forty-eight hours of customer demand or 100 per cent delivery taking place within a time frame of seventy-two hours. Higher standards consequently lead to higher costs. This may be due to the reason that faster means of transportation are required. The management responsible for physical distribution need to know the details of expenditure that will be required to fulfil various standards of customer service and enhanced customer satisfaction which is possible by raising standards.

Some customers value consistency in delivery time rather than speed (guaranteed delivery within five days each time). Customer service standards may be the differentiating factor between suppliers. They may be used as a key customer choice criterion.

2. Order processing

The idea is to reduce the time between the placing of an order by the consumer and the receipt of the goods. A computer link between the order department and the salesperson is effective. Computers can also check the customer's credit rating and whether the goods are in stock, issuing an order to the warehousing, invoicing the customer and updating inventory records.
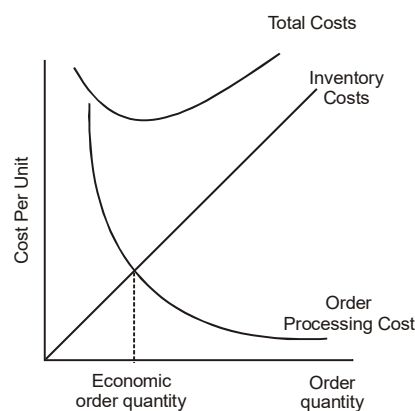
Fig. 6.1 *Determining the Economic Order Quantity*

Some basic questions can reveal the areas for improvement. What happens when a sales representative receives an order? What happens when it is received in the order department? How long does it take to check inventory? What are the methods for checking inventory? Delineating the steps that will be followed in the above situations will reveal gaps in the process to fulfil a customer order. If these gaps are covered efficiently, then customer service levels can be improved to a certain level (see Figure 6.1).

3. Inventory control

Since inventory (see Figure 6.2) represents cost, finance managers seek stock minimization. However, marketing wants large inventories to prevent stock out. Balance has to be found particularly as inventory costs rise at an increasing rate as customer service standard nears 100 per cent. To always have in stock, every conceivable item that a customer might order would normally be prohibitively expensive for companies marketing many items. One method to resolve this is by dividing the items which have high demands from those items which are slow moving. In this case, then a high standard for customer service is incorporated for high demand items and a much lower standard is incorporated for those items which do not have high demand.
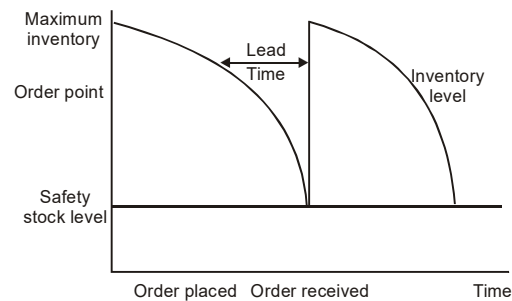
Fig. 6.2 Inventory Control

Two inventory decisions which are related are aware of how and when stocks are required and refill accordingly. In circumstances where stockout is accepted, the order point will be prior to the situation where inventory may become zero.

Due to the presence of lead time between ordering and receiving inventory, there should not be a stock out as the company is waiting for the ordered items to arrive. Higher variance in the lead time results in increasing fluctuations in customer demand, and the higher will be the safety or buffer stock that the company will be required to keep preventing a stock out. The amount of safety inventory for a product should be related to variability in its demand. The higher the variability in demand from one time period to another, the higher should be the safety inventory for that item.

Small, frequent orders raise order processing costs because more orders must be placed but reduce inventory carrying costs because lesser average inventory is held. (The average inventory held throughout the year is equal to half of the order amount. When the frequency of orders is increased, the order amount is reduced). High and infrequent expenditure increase inventory costs however altogether lower the processing expenditure. The trade-off is the EOQ (Economic Order Quantity).

4. Warehousing

Warehousing involves the activities pertaining to storing of goods that take place between the time goods are produced and transported to the customer. Warehousing activities are inclusive of the following:

(i) Breaking bulk

(ii) Making product assortments for delivery to customers

(iii) Storage

(iv) Loading

Warehouses for storage purposes hold goods for a moderate to long period of time. To ensure fast movement of goods, distribution centres are constructed which operate as central locations. In case of retailing organization, regional distribution centres are present. Suppliers bring their products in bulk to these regional

distribution centres. The entire bulk of products are broken down into loads that can be easily transported to the retail outlets in little time. Due to technological advancement, these distribution centres are highly-automated. Through computer commands products are carried by forklift trucks and placed in loading bays. Warehouses also function according to a strategy provided by the management. The warehousing strategy basically defines two factors, i.e., location and the details of the various warehouses that might be used. A company may possess a large warehouse which supplies products to the entire market. However, there are also a number of small warehouses which cater to the nearby local markets. Goods are also transferred from the main warehouse to one of the smaller warehouses. Smaller warehouses significantly improve customer service but in the end, are not very cost-effective. Therefore, the perfect balance between the location and number of warehouses should be based on customer service and cost considerations.

5. Mode of transport

A company can use any one or a combination of rail, road, air, water transport and pipeline for transporting their goods on time and without damage.

6. Materials handling

The process of moving products from the manufacturer's location, warehouse or transport depots is termed as materials handling. High level of automation is possible in modern storage facilities as they are usually in the form of a one-storey construction.

Unit handling and containerization are the two key developments of materials handling. Unit handling can be explained as the efficient method of combining numerous packages on to pallets which are then moved by forklift trucks. The process of containerization as the name suggests is the combination of different quantities of goods into one big container. Once the process of containerization is completed, the manufactured product is ready to be transferred to its required destination.

One important factor that needs to be kept in mind during materials handling is that the packaging needs to be strong enough to endure the harshness of physical distribution. They should also be repackageable into larger ones for transportation.

6.2.2 Functions of Distribution Channels

The various functions of distribution channels are as follows:

1. Realigning and reconciliation of producer and customer needs

In terms of limited range products, if the manufacturers produce large quantities however the customers only require a smaller amount of these limited range products then a conflict situation arises. The responsibility of resolving this conflict situation lies with the channel members. Breaking bulk is a related function which involves a wholesaler buying large quantities of goods from the manufacturer and then selling

them in smaller quantities to retailers. Therefore, manufacturers may produce vast amounts of products and customers can be offered smaller amounts during the time of purchase.

2. Enhancing efficiency through transaction reduction creating bulk for transportation

Suppose, there are three manufacturers trying to sell to three customers. If no intermediary is used, there would be nine transactions for products of all three manufacturers to reach all three customers. However, if an intermediary is used, there would be six transactions — three from the manufacturer to the intermediary and three from the intermediary to the three customers. Distribution costs and efforts are, thus, reduced. Hence, producers who carry out their business on a relatively smaller scale may profit by selling their products and services to intermediaries who collectively combine various small-scale purchases into bulk for the purpose of transportation.

3. Improving accessibility

Issues such as location and time gaps occur between producers and customers. It is very imperative that these location and time gaps be eliminated completely. The issue pertaining to location gaps originates due to the factors of geographical separation of producers and customers. For instance, a car dealer may simplify an individual's dream of owning a foreign car. The car dealer acts as a middle man and deals with the car manufacturer who is located in a different country. The customer now has the convenience of purchasing an imported luxurious car locally. In this scenario, a time gap will occur due to the existing discrepancies. There may be a stark difference in the time a manufacturer wants to produce goods and the customer wishes to purchase a car. A manufacturer may produce cars during the week whereas the customers would probably want to purchase a car during the weekend.

4. Providing specialist services

Expertise is required in certain areas such as selling, servicing and installation. Channel intermediaries are equipped with such expertise. Producers usually gain specialization in manufacturing area and allow the distributors to fulfil functions of selling, servicing and installation.

Check Your Progress

1. How can a company save costs?
2. List the methods of improving customer service.
3. Define materials handling.
4. What are the two key developments of materials handling?

6.3 TYPES/ALTERNATIVES OF DISTRIBUTION CHANNELS

It has been seen that industrial channels are usually shorter than consumer channels. This is due to the following reasons:

 (i) Small number of regular customers

 (ii) High geographical concentration of industrial customers

 (iii) Product complexities which require close-manufacturer-customer liaison

Consumer channels are normally longer because a large number of geographically dispersed customers have to be reached. The consumers buy in small quantities. The information needed to arrive at a purchase decision is limited because the products are not very sophisticated.

1. Consumer channels

The consumer distribution channels are as follows:

(a) Manufacturer to consumer

Direct marketing includes use of personal selling, direct mail, telephone selling and Internet. Avon cosmetics, Tupperware, Aquaguard and Amazon.com are examples of companies engaged primarily in direct marketing. The company contacts customers directly through salespersons, mail, telephone, or internet and makes sales. The products are sent directly to customers by the manufacturers.

(b) Manufacturer to retailer to consumer

Retailers have grown in size. Growth in retailer size means that it has become economic for manufacturers to supply directly to retailers rather than through wholesalers. Supermarket chains and corporate retailers exercise considerable power over manufacturers because of their enormous buying capabilities. Wal Mart uses its enormous retail sales to pressurise manufacturers to supply products at frequent intervals directly to their store at concessional prices.

(c) Manufacturer to wholesaler to retailer to consumer

For small retailers with limited order quantities, the use of wholesalers makes economic sense. Wholesalers buy in bulk from producers and sell smaller quantities to numerous retailers. However, large retailers in some markets have the power to buy directly from manufacturers and, thus, cut out the wholesalers. These big retailers are also able to sell at a cheaper rate to consumers than retailers who buy from the wholesaler. Wholesalers dominate where retail oligopolies are not dominant.

(d) Manufacturer to agent to wholesaler to retailer to consumers

Companies use these channels when they enter foreign markets. The companies then delegate the task of selling their manufactured product to an agent that does not take title to the goods. In fact, agents contact wholesalers who reach retailers. Agents take commission on sales after contacting wholesalers.

Multiple channels are put to use by companies in order to distribute their products and reach a wider customer range. A company's product may be found in a company-owned store, an exclusive store, a multi-brand store, and a discount store simultaneously. Companies have realised that all customers of a product do not buy from the same retail.

2. Industrial channels

The industrial distribution channels are as follows:

(a) Manufacturer to industrial customers

This is a common channel for expensive industrial products like heavy equipment and machines. There needs to be a close relationship between the manufacturer and the customer because the product affects the operations of the buyer. The seller has to participate in many activities like installation, commissioning, quality control, and maintenance jointly with the buyer. The seller is responsible for many aspects of the operations of the product long after the product is sold. The nature of the product requires a continuing relationship between the seller and the buyer. Due to the huge size of the order, direct selling and distribution becomes economical and cost effective.

(b) Manufacturer to agent to industrial customer

Any company that is manufacturing goods may employ an agent. These agents may sell a number of goods to numerous suppliers regularly on a commission basis. This ensures the spread of selling costs and is beneficial to smaller companies who might not have the required funds to set up a full-fledged sales operation. The arrangement allows the seller to reach a large number of customers. However, the company will not have one hundred per cent control over the agent as the agent needs to devote his time and attention among other companies who also avail his services. An agent may not provide the same time and attention as a dedicated sales team.

(c) Manufacturer to distributor to industrial customer

For frequently purchased cheap products, distributors are used. The company has both internal and field sales staff. Internal staff deals with customers and distributor generated enquiries and order placing, order follow-up and checking inventory levels. Outside sales staff are proactive. The sales staff ensures that they regularly obtain new customers from the market. Besides getting new customers, they are also responsible for collecting information regarding product specifications, distribute catalogues and markets. They also visit distributors to address their

problems and keep them motivated to sell the company's products. With the help and efforts of distributors, customers are able to purchase small quantity products locally.

(d) Manufacturer to agent to distributor to industrial customers

Instead of employing a dedicated sales force, the company may employ an agent who will serve distributors. This is basically done keeping cost considerations in mind.

3. Service channels

A distribution channel may use an agent and in some cases the company directly approaches the buyer. These distribution channels are usually short. As this transaction does not involve stocks, the role of wholesalers, retailers or industrial distributors are not applicable. The various distribution channels for services are as follows:

(a) Service provider to consumer or industrial customer

A close relationship between the service provider and the customer means that service supply has to be direct, for instance, healthcare.

(b) Service provider to agent to consumer or industrial customer

If the service provider is geographically distant from the customers, agents are used. The services of agents are also required when it is not feasible or economical for a provider to employ a local sales team.

(c) Service provider via the Internet to consumer or industrial customer

Increasingly, services like music, software solutions and financial information are being distributed via the Internet.

6.4 FACTORS INFLUENCING CHANNEL DECISIONS

Channel design decisions involve:

1. The choice of the most appropriate distribution channel in terms of effectiveness,

2. The suitable level of distribution intensity, and

3. degree of channel integration.

6.4.1 Channel Selection

A company has to consider many factors related to the market and customers, its own situation, the product, and the competitive environment. All these factors have a strong bearing on the type of distribution channel selected. A company should be very deliberate in deciding upon a distribution channel as it is expensive,

cumbersome, and can invite litigations to dismantle a distribution channel once it is established because interests of independent intermediaries are involved.

1. Marketing factors

- The expectations of the buyer usually dictate the terms as to how the product will be sold. Many buyers prefer to purchase on a local scale and from a particular shop. In case these expectations are not fulfilled, it can prove harmful to the company. The needs of the buyers with respect to product information, installation and technical assistance should also be understood. The buyers' level of need regarding such services has to be researched. It has to be decided if the manufacturer or the channel intermediary can fulfil requirements of expertise, commitment and cost as needed by the buyer. For instance, car service can be provided by dealers or independent authorised service providers, or by service centers run by the company. The company has to decide as to who will provide the service.

- Channel decisions are also influenced by the willingness of channel intermediaries to market a certain product. In case distributors refuse to handle a particular product, then the company needs to use direct distribution. In case of industrial products, this requires recruitment of salespersons whereas in consumer products selling through direct mail, telephone or Internet may be used. This situation may arise if the brand or the product is not well established, the intermediaries feel that there would not be enough buyers, selling the product is difficult and complicated, and there is not enough margin. For such products, the manufacturer will have to increase margins for the intermediaries and provide them more support.

- The attractiveness of the channel intermediary is also affected by the profit margins demanded by wholesalers and retailers along with the commission rates sales agents expect. The assessment of these expenses needs to be compared with the estimated cost a company might incur in case it sells directly to customers.

  As the powers of retailers have increased, they are demanding higher margins from manufacturers. While most manufacturers are complying due to the retailers' command over a huge base of customers and lack of alternate means of reaching customers, some companies are trying to bypass retailers by opening their own stores. If retailers' dominance continues, some radical response to bypass the powerful retailers should be expected from manufacturers in the near future.

- Channel selection may also be affected by the geographical concentration of customers. Direct distribution is most feasible in local and clustered base. Direct distribution also exists when there are few buyers who purchase large quantities of the marketed product. In case there are only a few customers, then it is economical to reach this customer base through channel intermediaries.

2. Manufacturer factors

- There have been some instances where the manufacturers lack the financial and managerial resources in order to fulfil channel operations. The lack of financial resources means that sales agents or distributors are used and salesforce is not recruited. A manufacturer of consumer products will need huge investment in setting up infrastructure for distribution because the number of customers are large and are geographically dispersed. The distribution channels of consumer products are long, and managing such a wholly-owned distribution infrastructure will be an arduous task even for the mightiest manufacturers. In addition, manufacturers may lack the various skills required to sell and distribute their products and, therefore, will have to rely on intermediaries.

- The presence of a wide mix of products makes direct distribution less expensive, as the cost of setting up the common distribution infrastructure will be distributed over a larger number of products. If the product is expensive or exclusive, then companies which are characterized as narrow or single product companies, find the expense of direct distribution prohibitive.

- The use of independent channel intermediaries reduces manufacturer control. In case independent channel intermediaries are used, manufacturers have no control on the prices charged and the way the product is stocked and presented to customers. In this case there is no guarantee if the new products or the entire range of the manufacturer is stocked. Manufacturers of electronic products are opening wholly-owned megastores to showcase their full range of products. Channel intermediaries are obliged to perform certain tasks like in-store promotion in retail stores, promotion in the local media by retailers, or appointing a minimum number of salespersons in a region by a wholesaler. It is very important for manufacturers to constantly monitor whether channel members are performing the agreed functions.

3. Product factors

- In case of large and complex products, the companies try to supply them directly to their customers. In case higher prices prevail and there is a requirement to develop personal contact between the manufacturer and the customer, then direct selling is not only necessarily but is the best possible method economically.

- With respect to perishable products, short channels of supply are needed as customer needs to be supplied with fresh stock. Similarly, bulky and difficult-to-handle products may need direct distribution as some distributors may refuse to carry them in their stores due to space constraint or because expensive provisions will have to made to handle and store them. Intermediaries may have difficulty in displaying such bulky products.

4. Competitive factors

If market competition has the power to control traditional channels of distribution, such as the exclusive dealership arrangement, a sales force to sell directly may be recruited or a manufacturer controlled or owned distribution network may be set up.

Producers should not agree to the distribution channels methods used by competitors as the only way to reach target customers. Producers should also consider direct marketing which provides opportunities to distribute products in different ways. Alternate distribution channels may be used as a means of attaining competitive advantage. For instance, Dell uses direct marketing to gain a substantial competitive advantage by customising personal computers to suit customer requirements.

6.4.2 Distribution Intensity

Deciding the number of outlets in a region or for a population, i.e., the intensity of outlets is a critical decision. If the number of outlets are more than required, the cost of serving a customer goes up. If the number of outlets are less than required, customers will face difficulty in accessing the outlets and they may buy an alternate brand or product or forgo purchase altogether. There are three options for a company. These are as follows:

1. Intensive distribution

This type of distribution provides vast coverage of the market as it uses all the available outlets. Mass market products like cigarettes, food items and confectionaries, sales represent the number of outlets penetrated. This may be because customers have a selected range of acceptable brands from which they choose. If a particular brand of choice is not available, then an alternative is purchased. The convenience aspect of purchase is supreme for a customer. Some of such purchases are also unplanned and impulsive in nature. They are purchased because the products happen to be in sight. If the product or the brand is not spotted by the customer, sales are lost.

New outlets should be sought which have not stocked the product or brand so far. The retailers who have been stocking the product do not mind when the manufacturer signs up more retailers to carry the product because the revenue generated from each customer for such products are low. Wider availability and display of such products across many outlets makes them popular and increases the sale of the product in every outlet. Also, most of these purchases happen in grocery stores for which customers show a high amount of loyalty. Therefore, it is important that the store has all the products that its customers may want and expect the store to stock. It is not very worrying if the next store has them too.

2. Selective distribution

For products like electronics goods and home appliances, manufacturers use the minimum outlets in a geographical area. Best outlets are selected, and a close working relationship is built with these outlets. The sales staff in such stores have to be trained and motivated. This arrangement is accepted and preferred by retail outlets and industrial distributors as it decreases competition between them.

This arrangement is used when buyers agree to spend time in the outlet when selecting products. It is not possible to make all its products available in the given outlets because customers expect a minimum amount of assistance in making the purchase. They may also expect the product to be delivered and installed at their homes. They may also expect the retailer to arrange loans and insurance for the product that they plan to buy. Therefore, only the retailers who can provide such services can be signed up to carry the product. And when these retailers have made such investments, they do not expect the next shop to be selling the same product. They expect some territory to themselves. Retailers would be aggrieved if the manufacturer tried to add more outlets in their region as the new outlets would eat into their sales. The customer makes such purchases after deliberation and is purposeful about buying a brand or from a set of brands. He will be willing to travel some distance to find his preferred brand or brands and, therefore, storing the brand in stores which are very close to each other is really not required.

3. Exclusive distribution

In a geographical area, only one wholesaler, retailer or industrial distributor is used. For example, auto dealers. The presence of only one distributor, wholesaler or retailer decreases the purchasing power to negotiate prices for the same model between dealers. Making a purchase form a dealer in a far-off location is inconvenient for the customer in case after sale service or repairing services are required. This encourages close cooperation between the manufacturer and the retailer with respect to servicing, pricing and promotion. In this scenario, the distributor may demand exclusive distribution to stock a manufacturer's full product line. Manufacturers may allow exclusive dealing in case the distributor is willing to not stock competing lines.

Exclusive dealing can reduce competition and make the dealer lackadaisical. This may be against the customer's interest as he has no alternate recourse. There is also danger in an exclusive channel arrangement. Since the level of commitment of both the channel member and the manufacturer is high, in case of estrangement, both are likely to fight bitterly.

6.4.3 Channel Integration

Degree of channel integration varies widely. The manufacturer or any particular intermediary has minimal control when independent wholesalers and dealers and

agents are part of the distribution channels. At the other extreme, in the wholly-owned distribution infrastructure, the channel members are owned by the manufacturer who exercises complete control over them. Somewhere in between are arrangements like franchise operation where both franchiser and franchisee exercise power and discretion in their areas of jurisdiction.

1. Conventional marketing channels

A manufacture may have negligible or no control over independent channel intermediaries. In arrangements where exclusive dealings take place may provide a degree of control. However, in case there is separation of ownership then each party will look into their own personal interests. Hard bargaining and occasional conflicts characterized conventional marketing channels. For example, a retailer may cut the price of a brand in order to move stock despite the manufacturer's objection as it may damage the brand image. In terms of separation of ownership, each party can specialize and enhance functions or its area of strengths, i.e., the manufacturers produce and the intermediaries distribute. However, it is essential for manufacturers to keep in touch with its customers and not give up is duty of maintaining social contacts with its customers upon its retailers.

If a manufacture is able to dominate a market due to its size and powerful brands, the manufacturer is able to gain significant power over intermediaries. This holds true despite their independence. Traditionally, manufacturers exercised control over intermediaries because their brands drove business in retail stores and retailers felt dependent on them. The manufacturer rationed the supply of hot brands, forced the retailers to carry their full range, and made them participate and contribute in their promotional programs. However, with consolidation and emergence of retail chains, the balance of power has shifted dramatically. The retail chains enjoy enormous clout with customers and they have huge buying power. The retail chains also have strong brands of their own in most categories. The manufacturers now are dependent on the retailers and the latter are extracting their pound of flesh. The retailers demand slotting fees for new products, carry only the hot selling brands, require frequent replenishment from manufacturers, and expect the manufacturer to participate and contribute in the store's promotion programs.

The relationship between the manufacturer and the intermediaries is governed by balance of power between the two parties. Both manufacturers and retailers have been guilty of exploiting the vulnerable party whenever they have been strong. Manufacturers did it earlier, retailers are doing it now. Howerver, this is not a good ploy. The economics of a supply chain dictates that an activity should be done at a point in the chain where it can be done most efficiently and effectively, so that the cost structure of the supply chain is improved and there is more profit for every player. The extra profit should be divided among the partners depending on the efforts expended by the players. A supply chain operated by the dictum of the more powerful party will be inherently inefficient compared to the one based on cooperation between the parties. The powerful player will shift activities to the

more vulnerable player even when the powerful player could do that particular activity more efficiently and effectively. The result is an inefficient supply chain with less profits for all the players. And a large part of the smaller profit is appropriated by the powerful player, leaving the weaker players disgruntled and less willing to cooperate. And more dangerously, the vulnerable players are always looking at ways to get back at their tormentors. It is time the manufacturer and the independent channel intermediaries shifted the basis of relationship from power to rational distribution of activities in the supply chain and equitable distribution of profit amongst themselves.

2. Franchising

A franchise is a legal contract in which the manufacturer or the producer and the intermediary agree to each member's rights and obligations. The intermediary receives marketing, managerial, technical and financial services from the producer in return for a fee. For instance, McDonald's combines strengths of a large sophisticated marketing-oriented organization with energy and motivation of a locally owned outlet.

Franchise operation gives the manufacturer a certain degree of control. A franchise agreement provides a vertical marketing system in which there is a formal coordination and integration of marketing and distribution activities between the manufacturer and the intermediaries.

Franchising occurs at four levels. These are as follows:

A. **Manufacturer and retailer:** The manufacturer gets retail outlets for its car and repair facilities without the capital outlay required with ownership.

B. **Manufacturer and wholesaler:** Companies like Coke and Pepsi grant wholesalers the right to produce and bottle their concentrate and to distribute the products within a defined geographic area.

C. **Wholesaler and retailer:** This is not common but is found with hardware stores. It allows wholesalers to secure distribution of their products to consumers. Wholesalers acquire the rights to distribute products of manufacturers or buy products from the manu-facturers. Wholesalers sign up retailers to distribute these products to final consumers.

D. **Retailer and retailer:** A successful retailing operation seeks to expand geographically by means of franchise operation. For instance, Benetton and McDonald's have used this approach to expand their operations geographically.

In all franchising arrangements, it is imperative that profits are distributed equitably among both parties. The structure of the agreement between the two parties should be such that profits are divided equitably. When intermediaries are

required to pay a fat upfront fees, and the manufacturer takes only a small or no share of the profit generated at the intermediaries' end, the manufacturer has no major financial motivation to ensure that the intermediaries earn profits. However, when the intermediaries pay a small or no upfront fees and the manufacturer shares the profit generated at the intermediaries' end, the manufacturer becomes interested in the profitability of the intermediaries.

3. Channel ownership

Total control over distributor activities comes with channel ownership by the manufacturer or an intermediary. A corporate vertical marketing system is established through this. With the purchase of retail outlets, manufacturers control the purchasing, production and marketing functions of these retail outlets. If a control purchasing, it means that he has a captive outlet available for its manufactured products. Pepsi bought Pizza Hut and combined its outlets with the Pepsi's soft drink brand. Therefore, the benefit of control needs to be assessed based on high price of acquisition and the risk that with entering retailing, it will widely spread its managerial activities on a large scale as well.

6.4.4 Hybrid Distribution System

A company must manage a hybrid distribution system to avoid chaos and maximize efficiency. Responsibilities, relationships and compensations among various channel members must be made clear. A company receives its distribution system in legacy. The company starts its journey with serving a customer. The company may have targeted big businesses initially, so it set up a team of salespersons to serve and manage these big accounts. However, soon it found that smaller businesses were interested in its product. It used its existing sales force to serve these small accounts as well but soon discovered that it was not economical to serve these small accounts with their existing sales force. So, the company appoints a team of telemarkters to serve these small accounts. Nevertheless, the salespersons remained accountable for the smaller accounts lying in their territory. The telemarketers were also asked to deal with routine matters of the big accounts to free up some precious time of the salespersons. As the markets for the product grew, the company decided to appoint independent distributors to stock and sell its products. A separate group of marketers looks after this part of this business. Soon, there was confusion galore. Nobody knew to whom he had to sell to, and who was someone else's customer. The same customers were being solicited by different members of different channels with different types of offers. More than one person claimed compensation for one sale. The customers did not know whom to contact for specific queries or problems.

It is not that the company could have avoided this chaos by continuing to sell only by employing a direct sales force. It would be prohibitively costly to serve small accounts by using a direct sales force. Similarly, if the company had started

out with independent distributors serving small accounts, it would have had to appoint salespersons to serve big accounts if such opportunities came their way. Independent distributors cannot be trusted to provide the services that big accounts expect. Therefore, as the customer set of a company becomes more diverse, maintaining a single channel of distribution will either become ineffective or uneconomical. Adding new channels is imperative when requirements of customers become diverse. However, the process can be accomplished in a more thoughtful and deliberate manner rather than being a knee-jerk reaction to growing diversity among customers.

Three issues are important in this task. Which channel is supposed to serve which customers? Which channel does what tasks of the sales function, and for which customers? Which channel gets compensated for which customers and for what tasks? These are tricky questions and there will be no straight answers. However, it is important to ask these questions each time the company decides to add another channel because each time a channel is added, the existing relationships, responsibilities, and compensation structures among various channel members are altered. And the company has to debate and fix the new relationships, responsibilities and compensation structures as precisely as possible. Customers' reactions to these new relationships and responsibilities are very important. If a customer is inconvenienced by the new arrangement, he is likely to shift his business.

The new responsibilities, relationships and compensation structures may not look so neat especially if many channels are trying to serve a large pool of diverse customers but it need not necessarily be as messy as most hybrid channels are. The essential idea is to raise these tough questions and answer them as squarely as possible. There may still be confusions and conflicts and they have to be constantly addressed and redressed. A company usually gets into problems by pushing the uncomfortable questions of responsibilities, relationships and compensation structure under the carpet, and hoping that the members of various channels will automatically sort out these issues among themselves in due course of time. They may, but that will not be in the best interests of the company and its customers. When it comes to managing a hybrid distribution system, it does not help to be expedient.

Check Your Progress

5. Why are industrial channels shorter than consumer channels?

6. List the various distribution channels for services.

7. What do channel design decisions involve?

8. What is a franchise?

6.5 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. A company can save costs by the following methods:
    (a) Reduction in inventory levels
    (b) Use cheaper modes of transportation
    (c) Ship manufactured goods in bulk

2. The methods of improving customer service are as follows:
    (a) Improve product availability
    (b) Improve order cycle time
    (c) Raise information levels
    (d) Raise flexibility

3. The process of moving products from the manufacturer's location, warehouse or transport depots is termed as materials handling.

4. The two key developments of materials handling are as follows:
    (a) Unit handling
    (b) Containerization

5. Industrial channels are usually shorter than consumer channels due to the following reasons:
    (a) Small number of regular customers
    (b) High geographical concentration of industrial customers
    (c) Product complexities which require close-manufacturer-customer liaison

6. The various distribution channels for services are as follows:
    (a) Service provider to consumer or industrial customer
    (b) Service provider to agent to consumer or industrial customer
    (c) Service provider via the Internet to consumer or industrial customer

7. Channel design decisions involve the following:
    (a) The choice of the most appropriate distribution channel in terms of effectiveness
    (b) The suitable level of distribution intensity
    (c) Degree of channel integration

8. A franchise is a legal contract in which the manufacturer or the producer and the intermediary agree to each member's rights and obligations.

6.6 SUMMARY

- Distribution corresponds to the fourth 'P' of the marketing mix, that is, place.

- Customer service can be significantly improved by quick and reliable delivery and holding high inventory.

- It is important that a single manager manages the physical distribution of a company and prevents managers from managing individual functions, like transportation, from maximizing their performance and causing harm to the overall efficiency and effectiveness of the system.

- The various elements of the physical distribution system are as follows:
    o Customer service
    o Order processing
    o Inventory control
    o Warehousing
    o Means of transportation
    o Handling of products

- Customer service is the percentage of orders that are completed in the defined time period.

- Since inventory represents cost, finance managers seek stock minimization.

- Due to the presence of lead time between ordering and receiving inventory, there should not be a stock out as the company is waiting for the ordered items to arrive.

- Warehousing involves the activities pertaining to storing of goods that take place between the time goods are produced and transported to the customer.

- The presence of a wide mix of products makes direct distribution less expensive, as the cost of setting up the common distribution infrastructure will be distributed over a larger number of products.

- If market competition has the power to control traditional channels of distribution such as the exclusive dealership arrangement, a sales force to sell directly may be recruited or a manufacturer controlled or owned distribution network may be set up.

- A franchise is a legal contract in which the manufacturer or the producer and the intermediary agree to each member's rights and obligations.

- Total control over distributor activities comes with channel ownership by the manufacturer or an intermediary.

- A company must manage a hybrid distribution system to avoid chaos and maximize efficiency.

6.7   KEY WORDS

- **Physical Distribution:** It refers the group of activities associated with the supply of finished product from the production line to the consumers.

- **Price Sensitivity:** It means the degree to which the price of a product affects consumers purchasing behaviours.

- **Order Cycle Time:** It is the period between placing of one set of orders and the next. See also order lead time.

- **Economic Order Quantity:** It means the order quantity that minimizes total inventory holding costs and ordering costs.

- **Direct Marketing:** It is a form of advertising in which physical marketing materials are provided to consumers in order to communicate information about a product or service.

6.8   SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. State the various functions of distribution channels.
2. Briefly describe the different modes of transport used for transporting goods on time and without damage.
3. Write a short note on the selection of an appropriate channel.
4. Differentiate between intensive and selective distribution.
5. State the importance of a hybrid distribution system.

Long-Answer Questions

1. Describe the various elements of the physical distribution system.
2. Explain the different types of distribution channels. Support your answer with suitable illustrations.
3. Discuss the factors influencing channel decisions.
4. Analyse the method of determining the economic order quantity (EOQ). Use a suitable example to support your answer.

6.9   FURTHER READINGS

Kumar, Arun, N Meenakshi. 2011. *Marketing Management.* New Delhi: Vikas Publishing House Pvt. Ltd.

Kotler, Philip. 1972. *Marketing Management: Analysis, Planning, and Control*. New Jersey: Prentice Hall, Inc.

Gandhi, J. C. 1985. *Marketing: A Managerial Introduction.* New Delhi: Tata McGraw Hill Publishing Company Limited.

Stanton, William J. 1984. *Instructor's Manual to Accompany Fundamentals of Marketing*, seventh edition. New Delhi: Tata McGraw Hill Publishing Company Limited.

NOTES

UNIT 7 PROMOTIONAL MIX

Structure

7.0 INTRODUCTION

To sell a product, marketers seek to grab the attention of customers. The effort is more pronounced when you know your target audience/market. On the contrary, customers largely ignore unsolicited advances from marketers. Customers face pressures from more urgent quarters of life and it would be naïve to believe that they would be willing recipients of whatever the marketers have to tell them through their promotional efforts. The customer's attention is at premium and marketers will have to understand the customer's psychobiology of attention to be able to get their messages across to him. The marketers, hence, can choose from the various tools, such as, advertising, sales promotion, public relations, sponsorship, word-of-mouth promotion, exhibitions and direct marketing to spread the message. A marketer's challenge is to devise the appropriate communication mix that will serve his purpose. This unit will talk about promotion mix and its various instruments, such as, personal selling.

7.1 OBJECTIVES

After going through this unit, you will be able to:

- State the need for an effective promotional mix

- List the strategies used in personal selling

- List the direct marketing techniques

7.2   PROMOTIONAL MIX

Businesses use various tools to create awareness about products and services they offer. The most frequently used and effective tools are advertising, personal selling, sales promotions, direct marketing and public relations. These instruments of marketing are called promotional mix. The main aim is to spread the word or publicize the existence of the product or the services. If customers are not aware of the availability of the product, survival for the business will become difficult as rivals would rule the market.

Hence, choosing effective promotional mix is vital to ensure that the business generates sales and profit. In the process, the company will stimulate the target audience to buy the product. It can be used to increase sales, attract new customers, encourage customer loyalty, encourage trial, create awareness, inform, remind potential customers, reassure new customers, change attitudes, create an image, position a product, encourage brand switching, and so on. It is important to understand that a business will use more than one method of promotion. The variety of promotional methods used is referred to as the promotional mix.

7.3   SALES PROMOTION

Sales promotions are incentives to consumers or trade that are designed to stimulate purchase. A customer has to be made to believe that he is getting more value for the money he is spending than he would have otherwise got if the sales promotion was not in operation. Sales promotion schemes serve to signal the arrival of a time-period in which customers will get the value that they were getting earlier by spending less. In typical consumer promotions, companies reduce the price for a limited time period, or offer more quantity for the same price, or offer extra items or gifts or prizes with the purchase. Discounts and incentives are some of the trade promotions. Companies have to operate sales promotion schemes in a way that customers do not start equating the product with low-priced brands.

Growth of sales promotion

Vast amount of money is spent on sales promotion. Global expenditure on sales promotion is equal to media advertising. Sales promotion is growing because of several reasons:

- Consumers have increased impulse purchasing due to their rising income and proliferation of products. The retail response to greater consumer impulse purchasing is to demand more sales promotion from manufacturers to push their brand. Customers' propensity to purchase on impulse receives further impetus when they see an item on sale.

- Sales promotion used to be employed by fringe players to get some market share from established players because they could not afford to advertise in

the mass media. The established companies did not retaliate because they believed that it would devalue their brands and also because they believed that their customers were too sophisticated to fall prey to such manipulations. But the customers did trade loyalties for lower prices and however much they disliked the idea, the established companies had to retaliate by offering their own sales promotion schemes. Iconic brands are routinely using sales promotions to lure customers of rival brands, and sales promotion has gained acceptability among consumers. Sales promotion has become a respectable promotional tool, and consumers no longer look down upon companies who use it to increase awareness among customers and garner market share.

- It has become expensive to advertise, and advertising clutter has increased to the extent that viewers remember the contents of an advertisement, but do not recollect the name of the advertised brand. Advertising in the mass media has become prohibitively expensive and all the lead players are advertising profusely. Customers cannot tell one ad, and hence one product, from the other. Marketers are realizing that advertising is doing no more than keeping them in this contest, and is not influencing purchase decisions. By withdrawing money from advertising and putting it in sales promotion, marketers hope to get tangible and immediate results in the form of increased sales.

- The attraction of boosting sales in a short period of time increases due to intense competition and shortening product life cycles. Most industries face intense competition among equally mighty competitors. There is parity in the offerings of the competitors and customers do not prefer one offering over another. Under such situations, sales promotion schemes manage to swing customer purchases. Product life cycles are shortening due to technological breakthroughs coming more frequently and due to customer requirements changing rapidly and drastically. It becomes imperative for companies to realize as much sales as possible during the brief existence of the product. Sales promotion, used to increase sales in short spurts, is very useful.

- In some markets, sales promotion is used so often that all competitors are forced to follow suit. If a company launches a sales promotion scheme, and the scheme is not contested by competitors, the company will gain sales at the expense of competitors. Competitors do not allow such a scenario to evolve. They launch their own schemes and each competitor eats into the sale of the other depending on the attractiveness of their schemes. At the end of one such sales period, the competitors' sales remain where they were at the beginning of the period. In most markets, sales promotion has become a countervailing measure to thwart attempts of a competitor to garner sales by launching a sales promotion scheme.

- The effect of sales promotion is direct, and lasts only for a short time. Therefore, when a company launches a sales promotion scheme, it is able

to measure its impact on sales. And growing use of electronic point of sales scanner information by retailers makes measurement of sales much easier. It is easier for sales promotion managers to justify their budget. They are able to show immediate returns on their investments in sales promotion schemes.

Sales promotion objectives

Sales promotion provides extra value that encourages purchase. When it is targeted at consumers, the intention is to motivate consumers to buy the product. When it is targeted at trade, the intention is to motivate distributors and retailers to push the product.

A company may need to increase short term sales to reduce its inventory, meet its sales targets, move stocks of old model prior to its replacement and motivate consumers, distributors and retailers to stock its products in advance of the launch of a competitor's product. These are very legitimate business goals, and a company should not shy away from using sales promotion to achieve them. It is seen that sales promotions that give large immediate benefits such as money-offs or bonus packs increase sales more than distant promotions such as competitions. But, sales promotion should not be used as means to cover up more fundamental inadequacies such as an inferior product or poor positioning, because even when a consumer buys a product once due to it being on sales promotion, he will not buy again if the product does not have differentiating features and benefits.

(i) Encourage trial

Customers may be induced to buy a new brand because of the extra benefits, like price-offs or free gifts, associated with its buying. If the buyers like the brand, the long-term effect of the promotions may be positive. They continue to buy the brand. Customers also spread positive word-of-mouth publicity since they are pleasantly surprised to find the product good, when they did not expect it. Customers like to talk about products which they accidentally discovered to be good. Strong brands can be created through this method as more customers buy the product on their friends' recommendations. They too find the product good and spread good word about it.

Sales promotion schemes like price-offs or free gifts induce customers to buy a new brand. They may also be given out as gifts with established brands as a part of the latter's sales promotion endeavour. Promotions which simply give more products as bonus packs are less successful in promoting new products since consumers place much less value on extra quantity until they have decided they like it.

(ii) Encourage repeat purchases

An offer which requires collection of packet tops or labels attempts to raise repeat purchase during promotional period. For products like detergent powders, a pack

will be used over a long period. It is difficult to keep the customers motivated enough to keep collecting the labels and present it for redemption. For products which can be consumed in rapid succession, i.e., the product is purchased frequently, the scheme can be successful. Children have been found to become obsessed with collecting labels especially if the reward is some cool possession, like Pokémon cards.

(iii) Stimulate purchase of larger stocks

Promotions that are specifically linked to larger pack size may persuade consumers to switch from less economical smaller packs. But when customers buy large pack sizes, they do not necessarily consume more. The large pack size lasts for another time period and customers do not buy the product in the next time period. There is sharp decrease in demand and the manufacturer faces the problem of idle capacity. This problem is in addition to the problem that the company faced in meeting the big surge in demand when the scheme was on. Manufacturers should always remember that per unit cost of production is minimum when the production is carried out at a uniform rate throughout the year. Per unit cost of production goes up when the production rate is varied.

(iv) Gain distribution and shelf space

A manufacturer gives allowances to distributors and retailers to gain distribution and shelf space. The manufacturer offers discounts, free gifts and joint promotions to encourage distributors and retailers to stock its brands. Consumer promotions that provide a large incentive, also motivate distributors to stock the product, because they expect larger number of customers to buy the product.

(v) Enhancing brand image by using sales promotions

Astute promotional offers can enhance brand image in the long term. While some promotions are clearly profit yielding for companies, others may apparently be loss making schemes. Companies usually evaluate the short-term impact of sales promotions. If the promotional offer does not work well, they may jump to the conclusion that a particular scheme is a loss-making proposition and thus withdraw it from the market. The effectiveness of a promotional offer should not be evaluated only in the short term, and it should not be evaluated on the basis of incremental sales alone. Most promotional offers lead to a peak in sales during the offer period and a steep decline later. Managers tend to attribute this trend to deal-prone customers who switch brands once the promotional offer gets over. However, stock piling by consumers could be a reason for a depression after the surge in sales. However, the sales graph for the long term (say up to two years after the promotional offer) is seldom studied. The promotional offer could have caused brand adoptions among a certain percentage of new customers in the long run. Thus, by evaluating the sales in the long run, the number of additional customers can be ascertained much better. The impact of different promotional offers on such long-term increase in sales can also be studied to judge effectiveness.

Even if the promotional scheme did not result in incremental sales to the extent planned by the company, it may have enhanced brand value. Sales promotions are popularly perceived to have a negative impact on the brand image. Contrary to such popular perceptions, well-planned promotional offers often create brand recognition, awareness and recall. These may prompt consumers to include the brand in their consideration set for later purchase. In order for a promotional offer to enhance brand image and improve its value in the mind of the consumer, the offer needs to be adequately supported by advertising. Non-price based promotions are likely to be better at enhancing brand reputations.

Major sales promotion techniques

Promotional offers can be targeted at consumers or at distribution channel members. Usually, companies employ both these methods to garner larger sales gains. Incentives given to channel intermediaries induce them to push the company's products to consumers, and promotions aimed at consumers encourage them to try the company's products rather than the competitors' products.

Consumer promotion

Consumer promotions are the offers that are given to end consumers. These may be price based offers, such as money offs, or non-price based offers such as gifts, samples, coupons, and so on.

(i) Money off: The brand is offered at a lower price than what it normally sells for. Money off provides direct value to consumers, and hence they get an unambiguous incentive to purchase. Money offs have a proven track record of increasing sales, and hence this is the most popular consumer promotion tool. But price reductions can be easily matched by competitors, and if used frequently, can devalue brand image due to its association with low price for long periods of time. If the brand sells at the lower price for a considerable period of time, customers will associate the brand with the lower price. And when the company terminates the sales promotion scheme, the original price will seem high as customers have gotten used to buying at the low price.

(ii) Bonus packs: The company gives added value by giving consumers extra quantity at no additional cost. Since price is not lowered, there is lesser risk of devaluing brand image. With some product groups, like cold drinks, it encourages buyers to consume more. Bonus packs are useful when the product is consumed over a period of time. Customers notice when a pack of detergent powder which normally lasted ten days, lasts for a few more days. And with such experiences to fall back on, they will go for the bigger packs because they know that it will be useful. But with products like chocolates, which are consumed in one go, the consumer might not know the difference between consuming a normal pack and a slightly bigger one.

Bonus packs will be useful for such products if a separate pack containing the extra quantity is offered. Even for goods which are consumed over a period of time, a separate pack containing the extra quantity will be more useful than stuffing the extra quantity in the same pack.

(iii) Premiums: A premium is merchandise offered for free or at low cost with a brand as an incentive to consumers to purchase the brand. There are two types of premiums:

? Free in or on pack gifts: They are given away free with brands. The premium is a free sample of any new brand that is related to the brand, so that consumers get a chance to try it. Free sample may be a new variety or flavour which customers try, and may eventually come to like it. The purpose of the sales promotion scheme may actually be to induce consumption of the new brand so that consumers develop a good perception about it. But an unknown brand will not do much to increase the sale of the brand for which the sales promotion is ostensibly held. Some consumers may not even need the particular flavour or the product.

Companies can offer common generic products, like some quantity of sugar, as the free item. Such products are unambiguous gifts to the consumers as they are needed in all households. If brands, like a tube of toothpaste, are offered as gifts, there will be the problem of whether the customers like the brand enough to consider it an inducement.

? Free in the mail offers: The scheme involves collection of packet tops or labels by customers which are sent in the mail as proof of purchase to claim a free gift or money voucher. Redemption can be very low as consumers collect labels with a view to mailing but are never able collect the requisite number, and even when they are able to collect the requisite number, they may be too lazy to mail them. Most customers will not be patient enough to collect labels, for the small financial benefit that the scheme may offer. For such schemes to really catch on, the collecting of labels has to be projected as being 'cool' or the thing to indulge in. The customers should be exchanging notes as to how many the other has been able to collect. To create such a mass hysteria, the company has to promote the scheme in a big way and big rewards should be offered. It will be useful if celebrities are associated in the promotion of the scheme. Such schemes for children can be very successful. A smart scheme which incorporates the latest cool possession of the children's world will be successful even without promotion.

(iv) Free samples: Free samples may be delivered at consumers' homes or given out in the store. The idea is that when customers try the sample, some of them may like it, and they may start buying it. This is an expensive but effective way of getting consumer trial, but may not result in consumers buying the product if does not have differentiating features and benefits.

(v) Coupons: A customer receives a product upon presenting a coupon. Coupons can be delivered to a customer's home, which is very effective to achieve trial for a new brand. Another way of delivering a coupon is by putting it in a print medium such as a newspaper or a magazine. A customer is expected to cut out this coupon and claim redemption. Therefore, the effectiveness of this method is less than the home couponing method. The third method of couponing is the on-pack method, wherein a coupon is attached to a package of a product. This method is used to not only stimulate trial, but also to stimulate repeat purchase. The coupon may be for the same brand, or it may even be used to initiate trial or repeat purchase of some other brand of the company. The on-pack coupon can be more efficient and effective for the company than simply price-offs, as the coupon induces the customer to try and repeat purchase. However, its ability to induce initial purchase is lower as compared to a price-off, as it does not give any incentive on the first purchase. So, this type of couponing works best for existing customers of the brand.

(vi) Competitions: Competitions require customers to exhibit certain degree of skill and judgement. They may be asked a few simple questions or solve some simple puzzles. The customer must buy at least one unit of the product to gain entry to the competition. The competition does not offer an immediate incentive to purchase the product, unlike a money-off, premium, or a bonus pack. Therefore, it is more difficult to use the competition as an incentive to induce the customer to make a purchase, unless the competition is particularly appealing. There is some customer scepticism while participating in a competition, as they tend to underrate their chances of winning. Some companies try various measures to increase the chances of a customer winning in a competition. For instance, they may try to increase the number of prizes to reassure customers that they have a better chance of winning. A well-designed competition can draw away the attention of the customer from a price-based sales promotion, and can ensure that the brand image does not get damaged. It can also enhance the brand image in the long run.

(vii) Draws: A draw is a sweepstake where there is a random chance that a customer will win a prize. Just as in a competition, the customer can participate in a draw upon the purchase of a product. But unlike a competition, the customers' intelligence is not involved in this method. For instance, a customer may be asked to fill up a form while buying a product. The forms collected from all the customers may be put in a drum, and three could be picked from the lot. Just as in a competition, customer scepticism runs high in this method. Customers tend to perceive that their luck is not good, and that they cannot win in random draw of lots, or any other method. Some marketers assure that all customers will win some 'assured gift,' though a few will win the jackpot.

Trade promotions

Trade promotions are offers or schemes given to channel intermediaries. They can be price based, such as quantity discounts, or non-price based, such as allowances.

(i) Price discounts: The trade, i.e., retailers and wholesalers may be offered discounts in return for purchasing and keeping the manufacturer's brand. Large retailers buy in bulk, and they are able to extract discounts from manufacturers. The discount may be part of joint promotion whereby retailer agrees to devote extra shelf space, buy larger quantities and allow in-store promotions.

When a company gives a discount and the retailers return the favour by allowing in-store promotion or by devoting extra shelf space to the brand, it is a fair game. But when a manufacturer gives price discounts to keep the retailer in good humour and to protect its brands from being put off the shelves, it only makes the retailers more brash and greedy. The most powerful of retailers will keep brands that consumers want to buy and treat manufacturers of such brands with respect.

Manufacturers also offer price discounts when retailers buy in large volumes. Such schemes are not helpful to manufacturers. The retailers buy and store for future time periods. The manufacturers have to incur extra cost in manufacturing the extra stock and their facilities remain idle when the retailers do not buy in the next time period as they already have stocks. The net result is that the manufacturer's per unit cost goes up besides them realizing less per unit price. The solution is that the manufacturer should provide discounts only for quantities that the retailer manages to sell above the average sale he has been managing in previous time periods. The retailer will have to exert effort to manage extra sales if he wants to avail of the discount. And the retailer only buys the quantities that he can manage to sell. The manufacturer does not face spurt in demand from the retailer.

(ii) Free goods: The retailer is offered more merchandise at the same price. The scheme ultimately translates into the manufacturer offering price discounts, with its accompanying pitfalls.

(iii) Competition: The manufacturer offers financial inducements or prizes to the distributor's sales force in return for achieving sales targets for its products. Besides increasing sales for its products, the manufacturer is able to wield some influence over distributor's salespersons. Salespersons may show loyalties towards products of such manufacturers and may push their products. But the manufacturer should ensure that the distributor is a part of the deal. It should not happen that the distributor and his salespersons want to promote products of different manufacturers, with the distributor promoting products of a manufacturer who gives him more margins and the salespersons pushing products of a manufacturer who gives them inducements for selling his products.

(iv) Allowances: The retailer is given money for promoting the brands of the manufacturer. The retailer may plan special displays in the store wherein the manufacturer's brands are prominently visible. The manufacturer may also pay an advertising allowance to the retailer to showcase his brand in the advertisements of the retailer.

Compensation Plans

The different types of compensation plans for sales persons are as follows:

1. Straight salary
2. Salary plus commission:
3. Commission only
4. Profit margin

Evaluation of Salesmen Performance

There are several methods that can be used to evaluate the capacity, talent and overall performance of salespersons in a company. The most common methods used to evaluate the performance are through

- Sales Target
- Sales Territory and
- Sales Report

Check Your Progress

1. What is a promotional mix?
2. What is sales promotion?
3. What are the objectives of sales promotion?
4. Identify some of the sales promotion techniques?

7.4 PERSONAL SELLING

Personal selling involves face-to-face contact with a customer. There is direct interaction between the customer and the salesperson. During his interaction with the customer, the salesperson identifies the specific needs and problems of the customer, and tailors his sales presentation in the light of this knowledge.

But the audience with the customer should be considered more important than merely an opportunity to make a sale. The salesperson should consider it as an opportunity to develop personal equations with the buyer and cement his relationship with him. Quite a few buyers buy from a company primarily because they like the salesperson of the company. The salesperson should use this opportunity to get a thorough knowledge of the requirements of the buyer and his

prime motivations when he makes a purchase decision. The face-to-face interaction with a customer should also be used to establish the credentials of the company. The salesperson has to convince the buyer by his demeanour and presentations that the salesperson's company is a safe bet. The interaction should reduce the risks that the buyer feels he is taking when he is buying a product.

7.4.1 Personal Selling Skills

The perception of a salesperson is that of a slick, suave, fast talking confident trickster devoted to forcing unwanted products on innocent customers. This is unrealistic in a world of educated and knowledgeable customers in consumer markets and professional buyers in business markets. Success in selling comes from implementing the concept of customer-orientation when face-to-face with consumers, not denying it at the very point when the seller and buyer come into contact. The sales interview offers an unparalleled opportunity to identify individual customer needs and match behaviour to the specific customer that is encountered.

High pressure selling tactics will not work when customers know precisely what they want, which is increasingly the case in both consumer and business markets. In fact, high pressure selling tactics will put off customers and may lead them to denying access to such salespeople. A salesperson will be successful when he combines reason and passion, i.e., combining the attitude to know customer needs and an internal motivation to make a sale. Success is associated with the following good practices:

(i) Ask questions

A good salesperson lets the customer talk. He asks questions to arrive at the real needs of the customers. A good salesperson listens intently. As he listens, he does not prepare his defence for his own product. He listens actively to unearth the motivations of the customer in making the purchase. Most salespersons make the mistake of combining the two tasks of listening to the customer explaining his requirement and advocating their own product. The two tasks should be done separately at two stages. The salesperson should first listen to the customer and then advocate his product.

(ii) Provide product information, make comparisons and offer evidence to support claims

Most salespersons feel proud of selling on pure rhetoric. It is not a good ploy when the customers are educated and informed, and are not hesitant about making comparisons. Salespersons should provide detailed product information and help the customer in making comparisons with competitors' product. Howsoever uncomfortable a salesperson may feel, he should allow and facilitate the customers to make comparisons in his presence so that he could provide clarification and influence his choice subtly. A salesperson should not shy away from meeting a customer in presence of the salesperson of a competitor. It is an irrefutable fact

that the customer is going to make comparisons before making a choice. So, it might as well happen sooner and in his presence so that, if the customer develops an opinion about his product which is not true, he will have the opportunity to counter it.

(iii) Acknowledge viewpoint of customers

A customer's needs arise out of his own particular state of being and operation. It is futile to find fault with his needs or wish that they were different just because the salesperson's product does not meet the customer's requirement. It is best to acknowledge the customer's needs as legitimate, and work to find a solution to his needs. Customers get agitated when salespersons deliberately misconstrue their requirements to fit with the benefits provided by the salesperson's product. A customer's perception is based on facts that he possesses about a product and competitors' products. It is futile to fight with this perception. Instead the salesperson should provide new facts which challenge the facts that the customer has in possession. The salesperson should focus on providing such facts which will help the customer in forming positive perceptions about the salesperson's product.

(iv) Support the customer

The customer should consider the salesperson as someone who will offer genuine advice and whose deeds will not be governed by his need to make a sale. The customer should believe that the salesperson will never sell him a wrong product, i.e., one which does not meet his requirements, deliberately. It is important that a salesperson demonstrates his genuine concern for the customer, for instance, by refusing to sell his own product and suggesting one of his competitor's products as a good alternative, if it fits the customer's requirements better. One lost sale makes a friend of a customer. Even in times of extreme rationality, most customers prefer to buy from companies whose salespersons they trust. It is an irrefutable fact of business markets that executives buy from friends but the salesperson has to become a friend first.

(v) Relieve tension

Customers do not like to take decisions under duress. It is important that the customer is allowed to make his choice without the salesperson staring at him. The customer should not be put in a situation where he feels too embarrassed to decline the salesperson's offer. The customer should be allowed to exit gracefully from the negotiation process if he does not want to buy. If a salesperson senses that the customer is reluctant to place an order but feels embarrassed to say so because of the relationship with the salesperson, the salesperson should allow the customer to convey the decision at some later time by email. Email is a good media to send uncomfortable messages. At no point in the selling process should the customer come to regard his relationship with the salesperson as a constraint in his ability to make a good decision. Customers who start viewing their good

relationship with a salesperson as an inability to say no to them will not further their relationship with such salespersons. This will be a huge loss to the salesperson. Good relationship with customers is good leverage in conditions where there is product parity but it should not be used as a plank to coerce a customer to buy a wrong product.

7.4.2 Challenges in Personal Selling

The face-to-face interaction between a seller and a buyer is very flexible but the flexibility comes at a cost. Salespersons run huge bills besides their salaries. In industrial marketing, 70 per cent of the marketing budget is spent on personal selling. Industrial marketers focus on personal selling due to the technical nature of their products, and the need to maintain close personal relationship with the buyers. Industrial products are expensive, and they affect buyers' operations. Buyers and sellers co-operate during installation, operation and service of industrial products, and the salesperson is the person to contact when the buyer needs help from the seller any time during the life of the product.

A sale on an average, takes six visits but good salespersons visit their clients even when they know that the client is not going to buy in the near future. Maintaining relationships with clients between their purchases is as important as the interaction that takes place when the salesperson is trying to sell. A salesperson learns of the impending purchases of the buyer and is likely to be considered favourably by the buyer when the salesperson maintains a relationship with him.

The nature and scope of personal selling is changing. Buying power is being concentrated in fewer companies, and there is distinct movement towards centralized purchasing. It may thus follow that lesser number of salespeople are hence required. But due to product parity, customers need more convincing, and hence more salespeople are required. Also, due to product parity, and customers' new ability to gather information from the Internet, salespeople's role as information providers has dwindled, and their role in courting and maintaining relationships has increased. Buyers' needs have become sophisticated, and hence, cannot be explicitly expressed, and salespeople have to delve into their circumstances and motivations, to be able to unearth such needs.

Salespersons are equipped with latest IT gadgets and they are expected to be in constant interaction with both their clients and their own sales headquarters. While technology has reduced their latitude to take independent decisions in the field, their knowledge about the inventory levels, availability, production plans prices of the products they are selling, has enhanced their credibility with buyers.

Therefore, before agreeing to supply an item by a particular date, the salesperson can check the inventory levels or the production plans on his laptop. Salespersons are also expected to increase their efficiency in terms of being able to generate more revenues per salesperson, because of availability of the telecommunication gadgets and faster modes of transport.

More and more companies are collecting purchase requests from their departments and divisions and are buying from central locations. Buying power is being concentrated into fewer hands, and sellers need to manage relationships with them on a continuing basis. It cannot now happen that a salesperson visits a customer when he has shown an inclination, and forgets him when he has managed to sell to him. Sellers have put in place key account sales teams, who service the accounts of major buyers, and are available whenever a buyer needs them. Since it is fatal to lose these accounts, salespersons have to be sensitive and responsive to the requirement of these buyers. The centralized buying teams of the buyer company are packed with specialists who have their own vocabulary. It is important that the sales team have specialists who can converse meaningfully with the specialists of the buyer team. The specialists of the two teams should also develop mutually beneficial relationships among themselves and update each other in the latest developments in their fields. A big change in attitude is required. The sales team has to eschew its fixation for making a sale. The buyer's and the seller's team have to collaborate to find a solution to the buyer's problem.

Few salespeople sell products that are clearly superior to the competitors on most criteria. Salespeople need to capitalize on what advantage their products have over similar competitive offerings. Under such conditions of product parity, salespersons who understand the requirements of their buyers better will exaggerate the benefits that the buyer requires and win an order. The relationship that the salesperson has developed and maintained with the buyer will hold him in good stead when his product is not superior to that of his competitors.

As buyer needs are becoming more complex, salespeople need to be able to produce a package of products and services to provide a solution. Buyers do not want to buy many subcomponents from many suppliers and then assemble these themselves. They want their suppliers to do this job. They want total solutions for their needs. Sales teams need to spend a lot of time in the premise of the buyers to understand and appreciate their requirements. Sales team should also be conversant with the technologies and systems of the buyer to be able to suggest a solution to his needs.

Industrial buyers are experts in their area of operations and are very clear about what they are looking for in the product. Their choice criteria are clear and precise. Customers in the consumer market are also developing clarity and precision in their choice criteria. Customers are technology savvy, are linked to other customers who might have used the product and are generally more willing to consider alternative solutions to their needs. Salespeople have to develop the ability to sell to more educated buyers who take more care to shop around and make diligent efforts to understand product features, benefits, options, prices, etc. Sales people should be able to communicate with these more knowledgeable customers who will ask difficult questions and who will unabashedly compare the salesperson's product with those of his competitors.

As product technologies mature, most products are satisfying the obvious needs of customers, i.e., a refrigerator is keeping the food cold and an air-conditioner cools the room. But there are still many unexpressed needs which irritate a customer. Salespersons will be able to unearth such needs by observing the customer in his own surrounding and talking to him at a stretch. The salesperson's first task thus becomes to find out the problem that the customer may be encountering and then design a solution to the problem in consultation with the customer. The salesperson has to learn the art of consultative selling. He needs to work with customers to discover their needs and work out an acceptable solution.

It is difficult for a single salesperson to sell to industrial customers. Their problems are complex and are of technical nature and the solution requires inputs from specialists. There is an urgent requirement to manage a team selling approach, particularly with complex sales teams, involving not only sales people but also product and financial experts, marketing and service staff. Such an approach will be required to provide confidence to the customer that the team is competent enough to handle his problem.

It is imperative that the salesperson develops the ability to know the customer's business. Selling will require in-depth knowledge of customer's business and capability to build relationships. Accurate marketing information will be needed to provide each customer with best possible service. Besides developing insight about customer's technology, systems and processes, salespeople should learn to empathize with customers' requirements and problems. It is also important that the salesperson understands the capabilities of its own company and knows its resource people well so that he can suggest suitable solutions to the customer's problems.

When there are no substantial differences between the product of the salesperson and those of his competitors, the ability to provide services to the customer will clinch the deal for him. The salesperson may offer to install the equipment or provide maintenance service. The capability to add value through service will become increasingly important. Suppliers will be required to provide such services as business consultants and ongoing product support to create and retain customers.

7.4.3 Personal Selling Process

Personal selling strategies or process should be derived from the marketing strategy and should be consistent with other elements of marketing mix. The following variables should be considered while formulating sales strategy:

(i) Call rates

If the intensity of competitive rivalry is high in the industry, salespersons should be calling on their customers more frequently. If the rate of technological changes in the industry is high, the customer is more likely to change equipment's frequently and may require the services of the sales team more often to evaluate options.

Also, when the buyer is expanding his facilities or is venturing into new business, salespersons should be calling on the buyer more often.

(ii) Percentage of calls on existing and potential accounts

A salesperson has to divide his time between existing and potential customers in a way that maximizes sales or profits of the company. Some salespeople fix some formula for themselves so that they do not spend excess time with either type of the customers, i.e., he will spend 40 per cent of his time with existing customers and the rest with prospective customers. But this may not be a good strategy all the time. Division of time between the existing and potential accounts should depend upon the type of industry and the state of business in the industry. If the industry has big buyers and the salesperson's company has sufficient number of those big accounts, focus should be on retaining those accounts. But if the salesperson's company has only a few of these accounts, the salesperson should divide his time between serving existing accounts and acquiring new ones. The idea is that the salesperson should be aware of the need to divide his time judiciously between existing and potential customers depending upon the type of industry and the state of business in the industry. But he should be flexible because a formula will become irrelevant when the state of business changes.

(iii) Flexibility in price

Salespeople are prone to announcing discounts at every hurdle in the selling process. It is important to provide flexibility in prices that salesperson can offer to customers because many deals can be clinched by offering small discounts. Many a time discounts have to given to demonstrate to customers that they are important. But there should be guidelines prescribing the amount of discounts that can be offered to customers under exceptional circumstances. When discounts become pervasive, customers start expecting discounts as routine part of their buying process and the list price loses its sanctity. The company should reduce its list price under such circumstances to restore the sanctity of its list price. The company will be in a better position to know the realized price. Salespeople should be able to sell on the merits of the product and on the strength of the relationship that they have with the customers. Discounts should be provided in exceptional circumstances.

(iv) Percentage of resources targeted at new and existing products

New products will require a push from salespeople and it should be ingrained in salespeople that at the time of launch of a new product, they must travel those extra miles and give those extra hours to make the launch successful. If the launch is very important for the future of the company, salespeople can afford to spend less time in selling the old products for some time. But eventually the customers' response towards the product will decide the amount of attention that the new product will get. If the new product is liked by customers, salespersons will pay more attention to it but if customer response is lukewarm, their attention will shift back to their old products.

(v) Percentage of resources targeted at different types of customers

Some companies are competent enough to serve big accounts, i.e., they can afford to charge lower prices and give a lot of services to their customers. These companies dedicate multifunctional sales teams to such accounts. Retaining the existing customers is the major responsibility of the sales force. Some other companies prefer to serve small accounts which pay full price and do not expect much service from their suppliers. These companies expect their salespeople to spend more time in looking for prospective customers than in serving existing customers.

(vi) Improving customer and market feedback from sales force

Some companies compete by launching innovative products. Salespeople of such companies have to be adept at sensing customer response to the new launches of the company. Detailed and early feedback is important for improving the product. They also have to be alert to latent and emerging needs of customers that they can feed to their development team. But even in companies which are only moderately focused on bringing new solutions to customers' needs, collecting feedback and information from customers is important if the new product has to be suitable for the customers. In mature industries, where customers' needs and enabling technologies are not changing perceptibly, sales force can almost exclusively concentrate on selling what their companies make.

(vii) Improving customer relationships

Developing and maintaining relationships with customers is expensive and a company need not incur this expenditure on every customer it does business with. There are customers who will always buy from the supplier who offers the lowest price. Some of them buy too little. And there are industries in which relationships with customers are not important at all. A company competing on the basis of technological sophistication of its products will buy from a supplier who has the latest technology. The supplier would be better off putting money in R&D than investing in a relationship with the customer. A company has to deliberate if it needs to develop and maintain customer relationships in its industry, and if it has to, it should identify the accounts that deserve the investment in developing and maintaining relationships with them.

In general, the importance of key account selling is increasing. Diversion strategy can be used to win new accounts. A company can distract a rival into focusing its resources on defending one account and thereby neglecting another, which can be won.

Check Your Progress

5. Define personal selling.
6. What are the personal selling skills expected of a salesman?

7.5 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Businesses use various tools to create awareness about products and services they offer. The most frequently used and effective tools are advertising, personal selling, sales promotions, direct marketing and public relations. These instruments of marketing are called promotional mix.

2. Sales promotions are incentives to consumers or trade that are designed to stimulate purchase.

3. Sales promotion provides extra value that encourages purchase. When it is targeted at consumers, the intention is to motivate consumers to buy the product. When it is targeted at trade, the intention is to motivate distributors and retailers to push the product.

4. Promotional offers can be targeted at consumers or at distribution channel members. Usually, companies employ both these methods to garner larger sales gains. The various consumer promotion techniques are money off, bonus pack, premiums, free samples, coupons, competitions and draws. The trade promotion techniques are price discounts, free goods, incentives and allowances.

5. Personal selling involves face-to-face contact with a customer. There is direct interaction between the customer and the salesperson. During his interaction with the customer, the salesperson identifies the specific needs and problems of the customer, and tailors his sales presentation in the light of this knowledge.

6. A salesman is expected to have the following personal skills:
   (i) Should ask questions
   (ii) Provide product information, make comparisons and offer evidence to support claims
   (iii) Acknowledge viewpoint of customers
   (iv) Support the customer in making decision
   (v) Relieve tension

7.6 SUMMARY

- Businesses use various tools to create awareness about products and services they offer.

- The main aim of promotional mix is to spread the word or publicize the existence of the product or the services. If customers are not aware of the

availability of the product, survival for the business will become difficult as rivals would rule the market.

- Sales promotion provides extra value that encourages purchase.

- Promotions that are specifically linked to larger pack size may persuade consumers to switch from less economical smaller packs.

- Consumer promotions are the offers that are given to end consumers. These may be price based offers, such as money offs, or non-price based offers such as gifts, samples, coupons, and so on.

- Trade promotions are offers or schemes given to channel intermediaries. They can be price based, such as quantity discounts, or non-price based, such as allowances.

- Personal selling involves face-to-face contact with a customer.

- When there are no substantial differences between the product of the salesperson and those of his competitors, the ability to provide services to the customer will clinch the deal for him.

7.7   KEY WORDS

- **Sales Promotions:** It is one level or type of marketing aimed either at the consumer or at the distribution channel (in the form of sales-incentives).

- **Personal Selling:** It is categorised as a promotional method in which a salesperson builds relationships with a customer that results in both parties obtaining value.

- **Publicity:** It is the deliberate attempt to manage the public's perception of a subject.

7.8   SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. Why is it important for businesses to select a good promotion mix?
2. What are the reasons for the growth of sales promotion?

Long-Answer Questions

1. Explain why companies take up sales promotions.
2. Examine the advantages and disadvantages of personal selling.
3. Discuss the strategies of personal selling in detail.

7.9 FURTHER READINGS

Kotler, Philip. 1967. *Marketing Management — Analysis, Planning and Control.* USA: Prentice-Hall.

Saxena, Rajan. 2005. *Marketing Management*. Noida: Tata McGraw-Hill Education.

Ramaswamy, V. S. and Namakumari S. 1983. *Marketing Management in Indian Environment*, New Delhi: Macmillan India Ltd.

Kotler, Philip and Keller, K. L. *Marketing Management*, 13th Edition, New Delhi: PHI.

BLOCK - III
PROMOTIONAL METHODS

UNIT 8 ADVERTISING

Structure

8.0 INTRODUCTION

Advertising is a form of communication employed to display and consequently sell products and services. Through advertising, a product or service is introduced into the market, brought to the attention of the customers and its potential benefits are emphasized. Advertising is also used as a medium of information, creating consumer awareness and imparting knowledge. Primarily a persuasive tool, advertising operates by influencing customer purchase, arresting customer attention and then inducing the customer to benefit from a mutually beneficial sale. The success of an advertising campaign is based on the sale enhancement it entails. Incorporating the various benefits of a product or a service, the main aim of advertising is to boost sales and develop a reputation in the market.

Advertising helps in achieving the business interests of an organization. The manner of advertising, however, may differ keeping in view the objectives behind it. Advertising is tailor-made to be fully effective. A firm that manufactures goods for the industrial sector will not be interested in embarking on a large-scale campaign aimed at attracting the attention of housewives. Thus, it would not be incorrect to

say that advertising attains greater significance for standardized products which are aimed at large markets.

This unit familiarizes you with the objectives, functions and types of advertising.

8.1 OBJECTIVES

After going through this unit, you will be able to:

- Discuss the different objectives and functions of advertising
- Examine the various types of advertising
- Describe the management of advertising
- Evaluate advertising effectiveness
- Describe how advertising messages are developed

8.2 ADVERTISING: NATURE AND SCOPE

Advertising is a medium by which marketers communicate with their customers. Advertisers hire agencies to publicize their products and impart necessary information about them. Advertising is directed at the masses through the media and other sources of communication and, thus, the flow of communication is unidirectional.

Advertising enhances brand equity, which increases with consumer awareness, and, in turn strengthening the brand image and perception, thus, making the consumer favourably inclined toward the brand. Advertising establishes exclusive associations in the consumer's mind between the brand and its attributes and benefits.

Thus, a brand achieves exclusivity through advertising, which differentiates it from rivals, safeguarding it from future price competition.

Effective advertising empowers the brand equity, which is only successful if the concept is unique and leaves a long-lasting impact on the consumer. Only strong, i.e., different, unique, clever and memorable advertisements can do that.

The role of advertising is certainly not limited to providing product information. Established companies have effectively employed advertising to progressively build a brand equity. It is imperative to invest in various tools of roles promotion and marketing communication for successful advertising. The aim of advertising is to leave a lasting impression on the consumer's mind which necessitates an appropriate communication mind.

Advertising is perceived as expensive and its effects are indeterminate and unpredictable. Thus, many companies view advertising as an unnecessary

expenditure, curtailing the overall advertising budget. However, advertising should be considered as an investment, warranting future rise in sales and profitability. Advertising becomes particularly significant in terms of the launch of new brands and products, which require to be preceded by a successful introduction in the market, as well as older brands which need to sustain their market share.

Thus, the role of advertising cannot be judged by the immediate cost it entails, but rather in terms of the future sales generated.

Nature and Scope of Advertising

Advertising is both an art and a science. It is the art of bringing about desired effects amongst the target group by way of exposing them to mass-produced messages. It involves the science of human psychology to ensure effectiveness of the message. Advertising provides a link between the producer and the consumer. Advertising is non-personal and thus excludes interpersonal communication. Advertising promotes tangible products like car, iPod; ideas like prevention from cervical cancer, family welfare and services like hospitality, insurance policy, etc.

Advertising is a paid form of communication where the sponsor (advertiser) is always identified. The sponsor could be a commercial or non-commercial organization. It tries to bring about a desired change in the behaviour of the target audience. Advertising appears in a recognized media such as newspapers, magazines, hoardings, radio, TV, direct mail, etc.

We, as students of advertising, must also venture into the world of advertising for better understanding in terms of those who play an important role in bringing ads to the consumers. There are five key players. They are as follows:

(i) **Advertiser:** Advertising begins with the advertiser. An advertiser is usually the initiator of the advertising process. An advertiser could be an individual or an organization or an institution. An advertiser may wish to communicate information about product/service/idea to a target segment. It is the advertiser who takes the final call on all important decisions like the advertising budget, various media to be used to reach the target audience and the campaign duration.

(ii) **Advertising agency:** It is the second player in the advertising world. Advertising agencies are hired by the advertiser to plan and execute an individual commercial or a complete advertising campaign. This understanding between the advertiser and the advertising agency is called the agency-client partnership. Ad agencies provide strategic and creative expertise, media knowledge and workforce talent to the advertiser. These agencies also negotiate good deals for their clients. Large companies may even have their own in-house ad agencies. This ensures closer monitoring and better control over advertising. These in-house agencies perform most advertising functions, and many a times, they also undertake all the functions of an external advertising

agency in a more cost-effective manner. It was the Liverpool-based White Star Line's in-house ad agency that planned and created most of Titanic's advertising.

(iii) Media: Media can be termed as the third player. Media is the term used to describe the channels of communication used to carry messages from the advertiser to the target audience. The selected media must deliver advertising messages in a way that is consistent with the creative effort. Media sells space in newspapers, magazines as well as in support media like World Wide Web, to the advertiser. It also sells time in electronic media like TV and radio. Media organizations also help advertiser/advertising agency in selection of appropriate media for transmitting message to the audience and offer assistance in ad designing.

There are different media that can be used for advertising. It is not rare to find advertisements on billboards, walls, web banners, shopping carts, web popups, bus stop benches, logo-jets (advertisements on the sides of aeroplanes), taxi doors and even in airbuses on the seat-back tray tables and overhead storage bins. These days we even find advertisements on fruits. It is not rare to find advertising stickers on apples when we go to a supermart to purchase them. There are even advertisements on the back of movie tickets and supermarket receipt bills. Advertisements may seem interesting and entertaining at times and annoying at other time.

(iv) Vendor: Vendors are the fourth player in the advertising world. Vendors are a group of service organizations that are responsible for providing assistance to advertisers, advertising agencies and the media. Vendors include freelancers, consultants and other professionals who assist in meeting the advertising objectives and planning as well as designing an ad. It is not feasible to hire all kinds of professionals as it means a lot of money. Also, many a times, the advertiser or the agency handling his advertising campaign may not have an expertise in a field or they may also have their hands full when it comes to work. Thus, an advertiser or an advertising agency may avail services of copywriters, graphic designers, market researchers, public relations consultants, etc.

(v) Target audience: The fifth player in the world of advertising is the target audience. The advertising strategy, for any product or service or idea, always keeps in mind the target audience. In terms of marketing, target audience denotes the person who purchases a product (also called a customer). The advertiser/agency spends a reasonably good amount of money on ascertaining the target audience, they need to communicate with. However, many a times despite a lot of research, a campaign may fail to reach target audience. One must keep in mind

that in advertising, there may be more than one segment that the advertiser needs to target. The latest advertising of Knorr soupy noodles targets both children and their mothers.

8.2.1 Importance of Advertising

In today's modern world, advertising has become an integral part of our lives. It is omnipresent. It has even made in-roads in our bedrooms. Advertising may be entertaining, interesting, informative or annoying. We may love it or we may hate it, but the fact remains that it is difficult to imagine a world without advertising.

Advertising also plays a very significant role in business as well as society. Let us explore that. Every business enterprise makes use of marketing to satisfy the needs and wants of its customers through goods and services. The various tools used for marketing include the product, its price, mode of delivery of product and the place. Marketing includes promoting all the relevant information about the product to its target audience. This is also called marketing communication or promotion. The four Ps of marketing include product, price, place and promotion. An advertiser uses several communication techniques to promote its product. Although these techniques include sales promotion, public relations etc., advertising is viewed as an integral part of marketing communication and is probably the most visible one.

Advertising is a form of mass communication and its role is very significant in communicating different types of information, keeping in mind the requirements of the market and the target audience. At the same time, advertising goes much beyond plain facts and helps in giving a personality to the advertised product. Advertising can also increase price elasticity and provide consumers with recall cues so that they can consider more substitutes at the time of making a purchase.

Advertising helps us to make more informed decisions as customers. It apprises us of the latest trends in the market. It informs us about the latest innovations in products available in the market. As all the established business houses make use of advertising as a tool of marketing communication, it is beneficial for the consumers as it helps in comparing various brands of a product in the market and in making informed consumer decisions.

8.3 TARGETS AND FUNCTIONS OF ADVERTISING

All advertisements should increase sales. Some may induce purchase action immediately (direct action advertising), while some may stimulate demand for a later period (indirect action advertising). The objective of advertising should be to make the consumer buy the company's brand every time he faces a need for the product. Thus, every advertisement must be framed with specific objectives that ultimately lead to an increase in sales.

Advertising is always goal oriented. It is undertaken to achieve a variety of objectives. The objectives of advertising may be to:

- Catch the attention of the prospective consumers/customers.

- Promote or persuade prospective consumers/customers to find out more about the product or service. e.g., visiting the company's website.

- Create awareness about the product.

- Attract the prospective consumers/customers to try the product or avail the services by offering introductory prices, trial offers, free gifts, coupons, etc.

- Introduce a new product/service/idea effectively.

- Reassure the customers that the brand is trustworthy and reliable.

- Disseminate any additional information regarding the advertised product/ service, such as any new feature of the product.

- Reaffirm an existing brand image or to create a new brand.

- Increase immediate profits.

- Influence a desired change in the buying behaviour and consumption pattern of the people. For example, it may try to persuade us to join a computer course or donate for a charitable cause.

Advertising should concentrate on clear goals that should be measurable. These objectives are known as DAGMAR (Defining Advertising Goals for Measured Advertising Results). This concept was given by Russell Colley in 1960 in his book *Defining Advertising Goals for Measured Advertising Results*. He defined advertising as a paid form of mass communication, the ultimate purpose of which is to impart information, develop attitude and induce action that is beneficial to the advertiser, generally the sale of a product.

In the same book, Colley concluded that 'All commercial communication that weigh on (or aim at) the ultimate objective of a sale, must carry a prospect (recipient of advertising message) through four levels of understanding. The prospect must first be AWARE of the existence of a brand or a company. He must have a COMPREHENSION of what the product (or company) is and what will it do for him. He must ARRIVE at a mental conviction to buy the product. Finally, he must stir himself to ACTION.'

A good (read great) advertisement should satisfy the objectives of both the advertiser and the consumer. The advertising should meet the objectives of consumers by engaging them and delivering the desired message. Nonetheless, it must achieve the advertiser's objectives. Advertiser and consumer have different expectations from advertising. The advertiser must ensure that the advertisement satisfies all the objectives/expectations of both, the advertiser and the consumer.

Product positioning

Advertisements are primarily used for positioning products in the target audience's mind. Essentially, positioning involves defining the product utility for the target audience. Creative positioning involves development and/or reinforcement of an image or set of associations for a brand.

There are seven ways of positioning a brand. These are as follows:

- **Product characteristics and customer benefits:** A powerful attribute for positioning is being the best in the market as people are inclined to objects that are at the top position. Occasionally two attributes may be employed (cavity fighting and fresh breath in case of a toothpaste) to convey positioning. An emphasis is laid on product attributes, features and benefits while positioning their products.

- **Price-quality:** It involves attributing value through quality products sold at low prices, high quality products at competitive prices, or superior quality at a premium.

- **Product use:** The idea is that when people think of a specific use of the product, they would automatically think of the brand name.

- **Product user:** To relate a product with a user or a user type.

- **Product class:** The product may position itself as a leader within a product class, or may position itself against the product class (for instance, 7-Up, the Un-cola).

- **Symbols:** The use of symbols effectual when the symbol manifests on attribute desired in the brand.

- **Competition:** Positioning against well-established competitors is quite beneficial, since their reputation in the market can be used as reference.

Product awareness

Establishing product awareness not only warranties a company but its representatives as well. Advertising improves the receptivity of the product and consequently those involved with its marketing. Advertising also plays a significant role in introducing effective resolutions to resolve various complications. Thus, creating brand awareness can be viewed as an essential prerequisite to sales, which can be enhanced through advertising and promotional campaigns.

Trial stimulation

As consumers try the product, the product receptivity increases (as personal experience is the best indicator of product performance). However, initially only a minute section the target customers try the product. Advertising that stimulates trial increases the diffusion rate of product among the target audience. New product or brand introductions particularly warrant the stimulation of trial among the intended target audience. Various promotional offers also fall into the same category.

Reinforcement

After the consumer has tried the product, a strong ground has been established and the product acquires the consumer's attention, the next step is to revive and enhance the product image. Successful brands aim to sustain the consumer's attention and associate the product with agreeable affiliations. They have a good market reputation and through advertising strive to establish a superiority over competitors, enhancing sales and profits and occupy a large segment of the market share.

Supporting the sales force

Advertising aids the sales force by connecting the marketers to the otherwise inaccessible potential consumers. Industrial advertising engages in the use of return coupons, which can be sent back to the marketers, highlighting those consumers who are portraying an interest in the product. Hence, once this market potential is identified the operations of the sales force become easier, as they can focus on potential consumers, saving considerable time and effort.

Correcting misconceptions

Advertisements can also be used to correct any misconceptions which the consumers may hold against brands. Companies or brands that may have got tarnished due to negative publicity can be reclaimed by advertising. For instance, the leading aerated beverage manufacturers have faced the wrath of the Indian media due to the alleged pesticide content in their product. In consequence, joint advertisements have been issued by Pepsi and Coca Cola negating such claims.

Advertising models

After the Starch formula, another model was soon devised. The model, called the AIDA model, stands for Attention, Interest, Desire and Action. According to this model, an advertisement must catch the attention of the target audience, which in turn should generate interest in the advertised product/idea/service. The model states that the generated interest must translate into a desire to favourably act upon the advertised message. Initially, this model did not say anything about a very pertinent factor, i.e., conviction. Thus, conviction was added in the AIDA model as another factor and the model came to be known as AIDCA (Attention, Interest, Desire, Conviction and Action) model. However, advertising cannot sell a bad product. Someone may try a product once influenced by the advertisement, but only once. A customer will buy the product again only if it satisfies the needs and requirements of the customer. Also, even a good advertisement will not be able to sell a product that is either over-prized or non-competitive or else, is not easily available. Advertising cannot sell products/ideas/services to people who have no use for them.

Also, it would be wrong to view advertising as a magic wand in the hands of the advertiser (sponsor) that would bring about the desired results overnight.

Advertising moves through different stages before it accomplishes its objectives. These stages are as follows:

- (i) An advertisement is planned and then created, keeping in mind the objectives to be achieved from the advertisement.
- (ii) The message (advertisement) is transmitted in bulk to the target audience.
- (iii) It is received and assimilated.
- (iv) It influences the attitudes and intentions.
- (v) It affects the buying behaviour of the prospect.
- (vi) Repeated exposure affects trade effort and supply.
- (vii) It affects product consumption.
- (viii) It changes the market.

8.3.1 Functions of Advertising

Massive investments in advertising suggest that many firms have faith in the effectiveness of advertising. Advertising performs critical communication functions, which are as follows:

(i) **Informing:** Advertising makes consumers aware of new products, informs them about specific brands and educates them about particular product features and benefits. Advertising is an efficient form of communication and is capable of reaching mass audiences at a relatively low cost per contact; facilitating the introduction of new products; and increasing the demand for existing products by increasing top-of-mind awareness for established brands in mature product categories.

(ii) **Persuading:** Effective advertising persuades customers to try the advertised products.

(iii) **Reminding:** With the help of advertising, a company can assure that the consumer remembers his brand name in each market segment. When a consumer feels a need that is related to the advertised product, post-advertising impact makes it possible for the advertiser's brand to come to the consumer's mind. Effective advertising increases the consumer's interest in a mature brand and the likelihood of purchasing that brand. Another significant advantage offered by Advertising is that it can excite a consumer to shift from one brand to another if he has not made any recent purchases and in case he is not truly loyal to a particular brand. This can be done by bringing forth favourable attributes of a particular brand.

(iv) **Giving incentives to take action:** Various researches indicate that consumers are averse to switching brands even when they are not completely satisfied with the product they are using. It is not very easy to change their established behaviour. Advertising helps in bringing about the required change in the buying behaviour of the consumers by way of providing them reasons

and offering incentives to switch product brands. Incentives being offered may include high quality, competitive price, trial packs, free gifts, warranties etc.

(v) **Giving reminders and reinforcements:** Advertising is not only directed at the prospective consumers/customers, it is directed at current customers as well. Over a period of time, the consumers may forget why they bought a particular brand of TV or car. Advertising repeatedly reminds the consumers about their purchased brand, it unique features, its benefits, its value, etc. Constant exposure to such messages (in the form of advertisements) helps reinforce the consumer's decision and helps in creating brand loyalty. Other functions of include registering the brand name, reminding the brand name, reinforcing the brand name, creating brand differentiation, creating brand preference, creating brand loyalty, reinforcing brand image, changing brand image, introducing a new product/idea/service, creating corporate image, reinforcing corporate image and changing corporate image.

In the early 20th century, Daniel Starch, pioneer in advertising research, gave a formula to explain the functions of advertising. This formula is popularly known as the Starch formula. According to the Starch formula, in order to be effective, an advertisement should be:

- Seen, read or heard
- Believed
- Remembered
- Acted upon

(vi) **Adding value:** Companies can extend value-added services to the consumers by either adding innovative features to their product or by improving the quality of their product. Another aspect could be keeping everything as same, but altering the perceptions of a consumer about a company's brand. However, since all these aspects are interrelated so they cannot be treated in isolation.

Advertising adds value to brands by influencing the consumer's perception. Effective advertising causes brands to be viewed as more elegant, more stylish, more prestigious and perhaps superior to competitive offerings. With the help of effective advertising methods, a company can increase its market share along with the possibility of a higher profitability level.

(vii) **Assisting other company efforts:** Advertising is a part of the marketing communication team. Advertising sometimes scores goals by itself. Advertising primarily plays a role to support the overall marketing strategy of a company by creating a brand recall for the company's brands through campaigns and communication programmes. Advertising may be used as a vehicle for delivering sales promotions and attracting attention to these sales promotion tools and assisting the sales staff. Advertising pre-sells a company's

products and provides sales people with valuable introductions prior to their personal contact with prospective customers. Sales effort, time and costs are reduced because less time is required to inform prospects about product features and benefits. Advertising adds more credibility to a sales representative's claims. Consumers can identify product packages in the store and recognize the value of a product more easily after seeing it advertised on TV or in a magazine. Advertising augments effectiveness of price deals. Customers are more responsive to the retailer's price deals when such deals are advertised rather than when they are not advertised.

Advertising is an extremely important business function but the importance of advertising varies from country to country not only in terms of advertising expenditures but also in terms of consumer perceptions of advertising.

Check Your Progress

1. Define advertising.

2. Who are the key players in advertising?

3. List two functions of advertising.

8.4 ADVERTISING MANAGEMENT

Companies spend huge amounts of money on advertising. In fact, quite a few of them spend as much on their campaigns as they earn from their brands. However, companies should be disappointed from the payoff that they get from their spending on advertising. Only about a third of all ad campaigns have a significant immediate impact on sales, and a fewer than a quarter have any prolonged effect.

Senior management is no longer involved in the advertising efforts of the company. Most ad decisions are now relegated to low-level marketing functionaries who are more concerned with selling proposals up the chain of command than with taking risks or achieving excellence. The whole process for developing ads is more focused on working the bureaucracy than on promoting creativity.

The ad agencies do not have leaders of the type of Leo Burnett and David Ogilvy, and top managers rarely talk to their agency counterparts. As responsibility for advertising has been pushed downwards, companies have come to rely on rigid policies to make ad decisions. These policies give a business-like veneer to an artistic, subjective activity. All ad ideas go through 'pretesting' that aims to predict an ad's performance. Pretesting offers operational simplicity and streamlines a complex and messy process. But the process is unreliable. Ads with great potential slip through the cracks, while managers waste time tweaking mediocre ads. In most companies, an ad has to be approved by layers of bureaucracy and when it comes to senior executives, they are more concerned with reviewing their subordinates' reasoning than with evaluating the campaign per se.

Because of such policies, the greatest intellectual engagement with a company's advertisers takes place at the lower levels of management. Moreover, these managers are not expected to be creative but to sieve and sift. Therefore, they select the safest ads–the ones unlikely to raise the eyebrows of their bosses. Moreover, obviously such ads do not move the audience either. The ads that could cause a stir are the first to be rejected.

The top executives need to reconnect with their ad agency and talk to their top people about their company's brand portfolio and business strategy. The company's ad policies will have to be reworked to promote creativity. They have to finally maintain a track of the campaigns that have succeeded.

Advertising creates brand image

Advertising creates an image of the brand. In times of product parity, it is the image of a brand which will sell.

The positioning of a product is a statement of what it does and who it is meant for. Though every communication from the company should be designed to convey and reinforce the positioning, advertising has a special role in positioning and creating an image of the brand. It is important that the manufacturer and the advertiser decide the image that they want for the brand. When an advertisement creates an image of a brand it bestows a personality to it.

It is important to understand that the manufacturer and the advertiser have a choice in choosing the image that they want to portray of the brand. Though this choice is constrained by the product category that the brand belongs to and the features that it has, advertisers can think of images which will appeal to different kinds of customers.

In today's times of product parity, it is the image of the brand that will sell. Defining and conveying the image that will be attractive to a large section of the market is the most crucial role of advertising. Every advertisement contributes to the brand image, therefore, advertising should project the same image for a long time, though there will be pressures to change from a new advertising agency or a new marketing chief.

Identify and understand the target audience

The target audience is a group at which the advertising is aimed. The target market selection should be preceded by one sound rationale–it should comprise the best prospects that would buy the product. In consumer markets, the target market may be defined in terms of the socio-economic group, age, gender, buying frequency and lifestyle. In business markets, the target market may be defined in terms of the type of industry, order size, product specifications and buyer-seller relationships.

It is extremely important to define the target audience with clarity and precision. The advertisement must be intended only for the target audience, and

not for others, even if other customers in the periphery are interested in the offering. Else, the organization can feel tempted to reformulate its advertisements for customers who are not a part of the target audience, thus losing focus. A company that wants to focus on the youth audience may find takers for its products among other customers who are older. The advertisement cannot be reformulated to include these older consumers, even though they can be an attractive revenue making proposition. The mid-path would not be attractive to the intended target audience, the youth.

Once a company has identified its target audience, it needs to research it thoroughly to understand it better. It needs to analyse why a customer would buy its product, and the choice criteria he would use to evaluate brands. Choice criteria are the factors which customers use to evaluate the brands in the product category. These in turn are shaped by several other external factors (such as income, social class, reference group influence, culture, buy situations) and psychological factors (such as perceptions, attitude and involvement levels).

Advertising in business markets can be interesting, but also intriguing, because different members of the decision-making unit use different choice criteria to evaluate a product. For example, a purchasing manager uses cost of a product to evaluate whether he can buy it, whereas an engineer evaluates the same product on its technical sophistication. Ideally, a supplier should use two advertisements, one showcasing the technical sophistication of the product, and the other stressing on its low relative cost. Even the media vehicle used for the two advertisements must be different, because, while the engineer would read technical journals to keep himself abreast with latest technologies in his field, the purchase manager would read commercial journals to keep himself abreast with going rates of products he is likely to buy.

Consumer decision making may also involve various stages and multiple roles being played by different people, depending on the type of purchase decision being made. The advertiser has to decide the focus of the advertisement in terms of addressing a particular choice criteria employed by an important decision maker. Like in industrial markets, a company may have to make more than one advertisement to address the different choice criteria used by the different players in the decision-making process. It is important to decide as to who the advertisement is trying to impress and influence, and then frame its appeal appropriately.

8.4.1 Setting Advertising Objectives

All advertisements should increase sales. Some may induce purchase action immediately (direct action advertising), while some may stimulate demand for a later period (indirect action advertising). The objective of advertising should be to make the consumer buy the company's brand every time he faces a need for the product. Thus, every advertisement must be framed with specific objectives that ultimately lead to an increase in sales.

Position the offering

Advertisements are primarily used for positioning products in the target audience's mind. Positioning essentially involves defining what the product does and who it is meant for. Creative positioning involves development and/or reinforcement of an image or set of associations for a brand.

There are seven ways of positioning a brand. These are as follows:

- **Product characteristics and customer benefits:** A powerful attribute for positioning is being the number one in the market. People tend to remember objects that are number one but may easily forget number two positions. Occasionally two attributes are used (cavity fighting and fresh breath) to convey positioning of a toothpaste. Companies emphasize product attributes, features and benefits while positioning their products.

- **Price-quality:** Giving value through quality products sold at low prices, or high-quality products at competitive prices, or superior quality at a premium.

- **Product use:** The idea is that when people think of a specific use of the product, they would automatically think of the brand name.

- **Product user:** Associate a product with a user or a user type.

- **Product class:** The product may position itself as a leader within a product class, or may position itself against the product class (for instance, 7-Up, the Un-cola).

- **Symbols:** Use of symbols is effective when the symbol reflects a quality desired in the brand.

- **Competition:** Positioning against well-entrenched competitors is effective since their image in the marketplace can be used as a reference point.

Create awareness

Advertising creates awareness among customers, which helps to legitimize a company, its products and its representatives. Customers are less suspicious and less wary of companies whose advertisements they see and hear frequently. It creates familiarity with the company, which prompts him to drop guard when its salespeople meet him to apprise him of the company's products. Therefore, advertising improves acceptance of a company's products and salespeople. Brand awareness is a precondition to purchase, which is achieved through advertising. Advertising can be used to make the target audience aware of a solution to a problem–customers start believing that they do not have to live with their problems and actively seek solutions to these.

Stimulate trial

Once consumers try the product, the acceptance rate is high (as personal experience is the best indicator of product performance). However, initially only a small proportion of target customers try the product. Advertising that stimulates trial

increases the diffusion rate of product among the target audience. New product or brand introductions particularly warrant the stimulation of trial among the intended target audience. Various promotional offers also fall into the same category.

Remind and reinforce

A company creates a clear positioning in its customers' mind, and it then advertises to remind customers that it continues to exist to serve their needs, and in the process also reinforces its positioning. It is important that a product's advertisement is consistent in terms of providing the same value proposition through time. A brand's value proposition should not change with every new campaign. Leading brands in mature markets advertise to maintain top of the mind awareness and favourable associations. They have large market share, and the task of advertising is to keep reminding the customers that they are making the right choice and should continue to do so. Intense advertising by a leading brand prevents customers from taking notice of advertising messages of rival brands.

Provide support for sales force

Advertisement engenders familiarity—customers know that the company exists, and that it does something worthwhile enough to tell people about it. Therefore, advertising softens customers in the sense that they will not be rude to salespeople of a company whose advertisements they view, hear and listen to frequently. In business markets, some members of a decision-making unit may not be traceable, and salespeople may not be able to reach them. However, the company's advertisements reach them, and a business advertisement may contain return coupons which potential customers can send to the advertiser, indicating an interest in the product. Identification of such warm prospects enables salespeople to use their time more effectively by calling upon them rather, than cold calling on potential customers who may or may not be interested.

Correcting misconceptions

Advertisements can also be used to correct misconceptions which consumers hold against brands. Companies or brands that may have got tarnished due to negative publicity can be resuscitated by advertising. For instance, the leading aerated beverage manufacturers have faced the wrath of the Indian media due to the alleged pesticide content in their product. Joint advertisements have been issued by Pepsi and Coca Cola, negating such claims.

8.4.2 Establish the Advertising Budget

The advertising spend is a part of the total communications spend of a company. The company must therefore, decide the percentage of advertising spend as one of the components of its integrated communication campaign.

A company's advertising budget is a specified percentage of its current or expected sales revenue. The percentage may be based on company or industry tradition. The method is easy to apply and discourages costly advertising wars if all competitors adhere to their traditional percentage. The disadvantage of the

method is that there is decline in advertising expenditure when sales decline, which reduces sales further. The method ignores business opportunities, which a company might be able to harness if it spends more than what it normally does. The advertising budget should also be consistent with company's strategic objective– if its strategic objective is to build, its advertising budget should be high, but if its strategic objective is to harvest, its advertising budget should be low. This method does not specify how a company should determine the correct percentage, and it mostly uses the percentage that it has been using historically.

Affordability method

Executive judgement decides on the amount that can be afforded to be spent on advertising. Its use as the sole criterion for budget setting neglects the communication objectives and the market opportunity that may exist to grow sales and profits. It is unscientific in nature and cannot be applied in large companies.

Matching competition

A company matches the advertising budget of its major competitors, or uses the same percentage of sales figure as its advertising budget, as its major competitors. When a company matches the advertising budget of its competitors, it assumes that its competitors have arrived at the correct level of advertising spend, which may not be true. Its competitors may be as clueless about how much to spend as the company is, or its competitors may have decided their advertising spend depending on their strategic objectives, which may be different from strategic objectives of the company. In both cases, the company is not spending the right amount on advertising. This method also ignores market opportunities that it could have harnessed if it had spent more on advertising. Also, the company's advertising spend is not related to its strategic objectives and its communication objectives. The competitor's objectives and strategic direction could be at variance from those of the company, making such a method questionable. However, this can prevent costly advertising wars, because all competitors' have similar advertising budgets.

Objective and task method

The company's advertising budget depends on its communication objectives and costs of activities required to achieve them. If the company's objective is to increase its awareness level from 50 per cent to 70 per cent, the costs of developing the necessary campaign and using appropriate media like television and press are calculated, and the total of all such costs is the company's advertising budget. Though it is difficult to ascertain the tasks and the effort that would be necessary to achieve the required awareness level, the method is scientific and prompts the company to think about its communication objectives, media exposure levels and the resulting costs.

The advertising budgeting decision is a highly political process. Finance argues for monetary caution whereas marketing personnel who view advertising as a method of long term brand building, support high advertising spend.

The percentage of advertising spend would depend on several factors such as characteristics of the industry and the firm's resources. Usually, a combination of methods may be used to arrive at the spend, and modifications may be required during implementation of the communication strategy.

Advertising formats

Some advertising formats are more effective than others on television. These are as follows:

- Humorous advertisements sell but not many writers can write funny commercials. Therefore, it should not be attempted unless the advertiser has real talent for it.

- In slice of life advertisements, an actor argues with another about the merits of a product, in a setting which approximates real life. Such realistic and charming slice of life advertisements are effective.

- The most effective testimonial advertisements are those which show loyal users of the product testifying to its virtues when they do not know that they are being filmed. The interviewer pretends to find faults with the product and the loyal customer defends the product with far more conviction than if the interviewer simply asked him what he thought of it. When an advertiser must pick loyal users to testify, he should avoid those who would give polished performances. The viewers would think they were professional actors. The more amateurish the performance, the more credible is the testimonial to the audience.

- Product demonstration is also able to persuade. Product demonstrations need not be boring. An ad demonstrating the effectiveness of a glue showed the glue being applied to the soles of the announcer's shoes and hanging him upside down from the ceiling.

- Advertisements that compare the advertised product with those of the competitor by identifying the competitor by name, are less believable and more confusing than advertisements which do not. The brand which is being run down in the advertisement is remembered more by the viewers.

- Advertisements showing the advertised product providing solutions to common problems also work.

- Advertisements in which a pitchman extols the virtues of the product are above average in changing brand preference. Such ads are particularly useful for announcing new products.

- In some advertisements, a 'character' is used to sell the product for a long time. The character becomes the living symbol of the product. Provided they are relevant to the product, characters are above average in their ability to change brand-preference.

- Advertisements which give the viewer a rational reason for buying the advertised product are slightly above average in effectiveness. Though advertisers believe that the customers do not care how the product is made, if the company is employing some novel process to make the product, customers do get influenced.

- Advertisements which contain news are above average in changing customers' brand preferences. When advertisers have news to tell, which may not be often, they should not underplay it.

- It is difficult to quantify the effectiveness of emotions in an advertisement. Most advertisers believe that advertisements with nostalgia, charm and sentimentality are very effective. Emotions can be as effective as any rational appeal, particularly when there is nothing unique to say about the product. Most clients and also some advertisers believe that rational appeals are more useful than consumers think they are. They believe that if an advertisement is going to be successful, and if it is going to stand out from the clutter, it must be objective about the benefits of the advertised product. However, it is difficult to portray rational benefits of products like ice-creams, cigarettes, candies, beer, etc.

- Testimonials by celebrities are below average in their ability to change brand preference. Customers assume that the celebrity has been bought. Most of the time customers remember the celebrity but forget the product.

- Cartoons sell products to children but they are below average in selling to adults. They do not hold the viewers' attention and are less persuasive.

- Musicals are not effective. Probably customers tune in to the music so intently that they tune out the advertised product.

Execute the advertising campaign

Once an advertisement has been produced and the media vehicle selected, it is sent to the relevant media vehicle for publication or transmission. A company has to ensure that the right advertisement reaches media at the right time. The company needs to keep in mind that each media vehicle has its own deadline after which publication or transmission of an advertisement may not be possible.

8.4.3 Evaluating of Advertising

Measurement of advertising effectiveness is extremely important. Effective advertisements have a positive impact on the sales of a product. Several clients or advertising agencies may not set stringent standards to measure advertising effectiveness because all the players involved have some vested interests. The agency earns money and will hate the idea of being paid only for effective advertisements. The advertising/marketing manager is responsible for the advertising investment and obviously would not like to be told that he has wasted precious

resources on an ineffective advertisement. And at the end of the day, even the company may not want to admit that the advertisement was a failure.

Quite often, the likeability of the advertisement is equated with its success. Moreover, most companies and agencies believe that advertising can do no harm. At the worst, it may be ineffective. However, research reveals that bad advertising is capable of decreasing sales.

The three relevant questions about measuring effectiveness are what, when and how to evaluate advertising.

What should be measured

Advertising research needs to ascertain whether an advertising campaign has been successful or otherwise. What measures advertising research uses to determine a campaign's success, depends on the objectives the advertising campaign is trying to achieve. A company's advertising objectives may include gaining awareness, product trial, positioning, removing misconceptions, reminding prospects and providing support to salespeople. Advertising research sets targets for each objective, and then determines whether those objectives have been achieved. For instance, a campaign may have the objective of increasing awareness from 20 to 30 per cent. If advertising objectives are in terms of sales or market share, advertising research finds out if there has been increase in sales or market share, and if they can be attributed to the campaign. If advertisement objectives included enrolling new retailers and distributors, and motivating current ones to stock more of the advertised brand, advertising research would monitor if new distributors and retailers have signed to stock the brand, and if the existing retailers and distributors are stocking more than they did earlier, and if the changes in attitude of trade can be attributed to the campaign.

However, the objective of advertising is not to merely make people remember or like the advertisements. Recall of advertisements can at best be the first step leading to sales. Sometimes, it may be very easy to create an advertisement with high recall or liking (by using celebrities or other gimmicks), though the ad may be completely useless in generating sales. Therefore, the best measure of effectiveness of advertising is its ability to generate sales (while post-testing) or cause a change in brand preference (while pre-testing).

When and how to measure

Measurement can take place before, during and after campaign execution. Pre-testing takes place before the campaign is run and is a part of the creative process. In TV advertising, rough ads are created and tested with the target audience. A focus group is shown alternative commercials and asked to discuss their likes, dislikes and understanding of each one. Stills from the proposed commercial are shown on a TV screen with a voiceover. This is an inexpensive but realistic portrayal of what the commercial will be like if it is shot. The method provides important

inputs from target customers themselves rather than solely relying on view of the advertising agency. But critics say that the impact of a commercial that is repeated many times cannot be captured in a two hour group discussion. There are campaigns which were rejected by target consumers in pre-tests but were enormously successful when they were executed.

When pre-testing TV commercials, agencies pay great attention to the way in which the advertisement communicates to its limited target audience. Attitudes to the brand, copy comprehension and measurement of interest created in the brand by the advertisement are monitored by the agencies.

Press advertisements are pre-tested using folder techniques. If two advertisements are being compared, two folders are prepared containing a number of advertisements with which test ads will have to compete for attention. The test ads are placed in the same position in each folder. Two matched samples of around 50–100 target consumers are given one of the folders and asked to go through it. Respondents are then asked to state which advertisements they have noticed (unaided recall). They are then shown a list of advertised brands and asked such questions as which one was most liked, which was least disliked and which they intend to buy. Attention is gradually focused on the test advertisement and respondents are asked to recall its content.

Once the campaign has run, post testing can be used to assess its effectiveness. Checking how well an advertisement has worked, can provide the information necessary to plan future campaigns. Image/attitude changes, statistical analysis of sales data, usage rate and changes in usage are popular TV post testing techniques. Image/attitude change is a sensitive measure that is a good predictor of behavioural change. Agencies which favour actual sales measures argue that despite difficulties in establishing cause and effect, sales change is the ultimate objective of advertising, and therefore is the only meaningful measure. Recall is also popular, despite evidence suggesting that recall may not be a valid measure of advertising effectiveness. But if the advertisement is seen and remembered, it is reassuring to the client, though it may only measure effective media planning and execution than suggesting any increase in sales.

In press advertisements, spontaneous recall of a brand name can be measured before and after a press campaign. Readers of periodicals in which the advertisement appeared could be asked to recall the advertisements they saw. And specific questions can be directed at the test ad and its content. Press ads that incorporate coupons to promote enquiries or actual sales can be evaluated by totalling the number of enquiries or value of sales generated.

It still may not be possible to measure the real effectiveness of an advertisement because other communications are reaching the customers simultaneously and it is impossible to isolate the effect of the advertisement. However, it helps to have in place a system of measuring advertising effectiveness. The advertisers become clear about what they have to achieve for the brand, and

they realize that they cannot spend their client's money to pursue their own creative urges. They will eventually learn to channelize their creativity to earn revenues for their clients. It is always a tough job to make a creative person accountable, but having a system to measure the effectiveness of his creative output brings some sort of responsibility to the way he pursues his craft. Some of them may resent being evaluated and may opt out, but then they should have realized that advertising represents a frontier where creativity and commerce meet. One without the other is simply untenable.

Check Your Progress

4. What do you mean by a company's advertising budget?
5. What is the most effective testimonial advertisement?

8.5 DEVELOPING ADVERTISING COPY AND MESSAGES

Advertising is not an art form or a creative outlet. It certainly cannot function on intuition, without the backing of sufficient research. A creative advertisement is the one which increases sales.

Making an effective advertisement (the one that enhances sales) requires a lot of research about the product that is going to be advertised, the competitor's offerings and the target customer. A 'big idea' (one that sells more product for several years) is always the outcome of a lot of research. The research translates into the advertiser living with the product and its customers. The advertiser should fall in love with the product before he touches the story board. The sure way to kill a product is to assign it to an advertiser who does not get excited at the prospect of handling the advertisement of the product. The product and its customers have to become a part of the unconscious self of the advertiser.

Before a message can be decided, an understanding of the advertising platform should be made. The advertising platform is the basic selling proposition that is used in the advertisement. The platform should be important to the target audience and should communicate a competitive advantage. Therefore an understanding of the motives and choice criteria of the target audience is essential for effective advertising.

Advertising is often used to build the brand image. Image means personality. Brand personality is the message that the advertisement seeks to convey. It includes the brand name, symbols, advertising style, packaging, price and the nature of the product that is being sold. Brand personality acts as a form of self expression, reassurance, a communicator of the brand's function and as an indicator of its trustworthiness. The value of the brand personality to consumers will differ by product category. In self expressive product categories such as perfumes, cigarettes, clothing, brands act as badge for making public an aspect of personality.

Brand personality can also act as a reassurance. The personality of a mass brand may convey sophistication and upper classness which may not necessarily correspond with the type of people who buy the brand. What the imagery is doing is providing the reassurance that the brand is socially acceptable.

In the long run, the marketer who builds the most sharply defined image of his brand wins the maximum market share.

Standardizing advertising is a growing preoccupation of multinational companies. Proponents of standardization point to a customer convergence of these who share a common experience, needs and motivations. Even while adapting advertising messages when trying to penetrate foreign markets, advertisers tend to use stereotypical images of the people in these countries or simply assume that the type of advertising message that is appropriate in the home country would be relevant in the foreign markets as well.

Multinational companies will have to reconsider their strategy of standardizing advertising messages. Whatever the commonality between customers of different countries, regions, and cultures, there is and always will be significant differences between them. Advertisements will have to address these differences than ride roughshod over them. A strong brand is built by addressing itself to differences between segments. A brand that ignores differences between segments provides opportunities to competitors to creep in and design brands to address these differences.

Sometimes, when marketers are selling parity products, or products where superiority may be extremely insignificant or difficult to convey, it may suffice to make the message clearer, more honest and more informative than the competitors. More persuasive communication may work better than emphasizing a 'better' product because there is no really 'better' product.

An advertising message translates the platform into words, symbols and illustrations which are attractive and meaningful to the target audience. The secret is to use the right appeal.

A print advertisement comprises the headline, the body copy and the illustration. Some guidelines for a print advertisement are as follows:

- Readers first see the illustration, then read the headline and then the body copy. An advertisement should follow the same sequence – the illustration at the top, followed by the headline and then the copy after the headline.

- Overuse of colours may distract consumers.

- The advertisement should contain a headline which might promise a benefit, deliver news, offer a service, identify a problem, quote a satisfied customer.

- A longer headline has better chances of being read than a shorter headline.

- The headline or the illustration should contain the brand name noticeably, which must subsequently be repeated as many times as possible in the advertisement. Most people who read a press advertisement read the

headline but not the body copy. The company or brand name should appear in the headline otherwise the reader may not know the advertiser. The benefit should be communicated in the same line as well. Even if no more of the copy is read, the advertiser has got the message across by means of a strong headline.

- The message appeal (benefit) should be important to the target audience.

- The appeal should be specific, and evidence to support the claim should be provided.

- The message should be couched in the customer's language and not the language of the advertiser.

- The illustration can entice a reader by telling a story, using characters that the customers can identify with, emphasizing on the product or its packaging, showing results of product usage. The illustration should sell the product benefits by using pictures.

- In body copy, long paragraphs and sentences should be avoided; white space should be used to avoid it looking too heavy to read.

- Print ads should be in black/coloured letters on a white space, and not the other way around.

- The use of capitals and outlandish fonts obstructs reading.

TV commercials are of a short duration. Most communicate only one major selling appeal called the single minded proposition, which is the single most motivating and differentiating thing that can be said about the brand.

TV advertising uses one of the three creative approaches. The benefits approach where advertising suggests a reason for the customer to buy. The second approach is subtle. No overt benefit is mentioned. The intention is to involve the viewer by telling a story. The third appeal attempts to register the brand as significant in the market and is called salience advertising. The assumption is that advertising which stands out as being different will cause brand to stand out as different.

8.6   PLANNING AND SELECTION OF THE MEDIA

As media costs rise and brands become more sharply targeted, media decisions become important. Two key media decisions are choice of media class (TV, press, radio, outdoor, Internet, phone) and media vehicle (a particular magazine/programme).

The media class decision

You learned about Media decision in previous section. To recapitulate the media planner has the choice of using TV, press (magazine, newspaper, leaflets, inserts), cinema, outdoor (posters), radio, Internet, mobile phones, or some combination of media classes.

Five considerations will be taken into account. These are as follows:

- *Creative factors*: The key question is whether the medium allows the communication objective to be realized. If the objective is to position the brand as having high status aspirational personality, TV would be a better option than posters. If the communication objective is to remind the target audience of a brand's existence, a poster campaign may suffice.

- *Size of advertising budget*: Some media are more expensive than others.

- *Relative cost per opportunity to see*: Target audience may be reached much more cheaply using one medium rather than another. The calculation of the opportunity to see differs according to a media class which make comparisons difficult.

- *Competitive activity*: Two conflicting philosophies are to compete in the same media or to dominate an alternative medium. The decision to compete in the same medium is taken because of a belief that the medium chosen by major competition is most effective and to ignore it would be to hand the competition a massive communication advantage. Domination of an alternative medium is sensible for third or fourth players in a product market which cannot match advertising budgets of the two big competitors. If major players use TV, third or fourth competitors might choose posters or press where it could dominate, achieving higher impact than if it followed competition into TV.

- For many consumer goods producers, *views of retail trade* influences the choice of the media class. Advertising is used by sales people to convince retail trade to increase shelf space of existing brands and to stock new brands. Supermarkets favour TV advertising in some product markets.

The media vehicle selection

The media vehicle decision concerns the choice of the particular newspaper, magazine, TV spot, poster site etc. Although creative considerations still play a part, cost per thousand customers reached is more dominant. This requires readership and viewership figures, for instance, number of pedestrians that cross the site for posters, actual cinema admissions, number of subscribers of a magazine, number of people watching a TV programme, etc. Calculation of the overall cost per thousand customers reached is easy once audience size is known. Media buying is a specialized skill and lot of money can be saved by skilled and powerful buyers.

8.6.1 Publicity

Publicity is an element of public relations. Publicity is communication about a product or organization by placing news about it in the media, without paying for time and space directly.

Though a company can manage to get talked about in the media without doing anything which is newsworthy, it will not help its cause if the readers or the viewers do not find the story about the company stimulating enough to take a note of it and register it in their minds. A big portion of the publicity budget is spent on maintaining relations with media with the hope that media will feature the company more frequently and prominently. This is wasteful. Instead the company should spend its resources in staging events, building associations, and doing other things depending upon the type of business the company is in, that the public would be genuinely interested in knowing about.

Savvy companies know the triggering points of public and the media attention, and conduct themselves in a manner that invites the attention of the public and media. Their publicity endeavour does not end with courting the media. Media, anyway, will carry the stories that its readers and viewers will want to read and view.

Characteristics of publicity

One important task is to supply information to important stakeholders. Information dissemination may be through news releases, news conferences, interviews, feature articles, seminars and conferences.

Credible message: Publicity is more credible as compared to advertising, as advertising is paid for by the company, whereas publicity presents an independent perspective of the media. Consumers believe the message more easily. And because of its high credibility, it is more persuasive than a similar message in an advertisement.

No media cost: Since the company does not buy the space or time in the media, there is no direct media cost. However, someone in the company writes the news release, organizes news conferences or gives interviews. This can be done by a separate publicity department in case the company has one, or by a person who has been specially designated for this purpose. Sometimes companies seek the services of an external public relations agency.

Loss of control of publication: Unlike advertising, there is no guarantee that the media will carry the news item, because the decision is in the hands of the editor, and not with the organization. Whether the news item is published or not, will depend on whether it is judged to be newsworthy by the editorial team. The item must be distinctive in the sense of having news value. The topic of news item must be of interest to the publication's readers.

Loss of control of content: A company cannot ensure that its viewpoint is reflected faithfully in the published article. All it can do is to maintain good relations with the media, and hope that it will carry stories that will show the company in good light.

Loss of control of timing: A company coordinates its ad campaign to achieve maximum impact, but it cannot control the timing of publication of news items—this is the publication's prerogative.

Sales Promotion Methods and Tools

We have already discussed sales promotion methods and tools in the previous unit.

Check Your Progress

6. What does making an effective advertisement require?

7. Why is publicity more credible than advertising?

8.7 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Advertising is a medium by which marketers communicate with their customers. It may be defined as any paid form of non-personal presentation and promotion of ideas, goods or service by an identified sponsor. In the simplest of terms, it is a paid form of non-personal communication about an organization or its products that is transmitted to a target audience, through an appropriate medium.

2. The five key players in advertising are as follows:

    (a) The advertiser

    (b) The advertising agency

    (c) The media

    (d) The vendor

    (d) The target audience

3. Two functions of advertising are as follows:

    (a) Informing

    (b) Persuading

4. A company's advertising budget is a specified percentage of its current or expected sales revenue.

5. The most effective testimonial advertisements are those which show loyal users of the product testifying to its virtues when they do not know that they are being filmed.

6. Making an effective advertisement (the one that enhances sales) requires a lot of research about the product that is going to be advertised, the competitor's offerings and the target customer.

7. Publicity is more credible as compared to advertising, as advertising is paid for by the company, whereas publicity presents an independent perspective of the media.

8.8 SUMMARY

- Advertising is a medium by which marketers communicate with their customers. Advertisers hire agencies to publicize their products and impart necessary information about them. Advertising is directed at the masses through the media and other sources of communication and, thus, the flow of communication is unidirectional.

- Advertising enhances brand equity, which increases with consumer awareness, and in turn, strengthening the brand image and perception, thus, making the consumer favourably inclined towards the brand. Advertising establishes exclusive associations in the consumer's mind between the brand and its attributes and benefits.

- The objective of advertising should be to make the consumer buy the company's brand every time he faces a need for the product. Thus, every advertisement must be framed with specific objectives that ultimately lead to an increase in sales.

- Measurement of advertising effectiveness is extremely important. Effective advertisements have a positive impact on the sales of a product.

- Several clients or advertising agencies may not set stringent standards to measure advertising effectiveness because all the players involved have some vested interests. The agency earns money and will hate the idea of being paid only for effective advertisements.

- Making an effective advertisement (the one that enhances sales) requires a lot of research about the product that is going to be advertised, the competitor's offerings and the target customer.

- As media costs rise and brands become more sharply targeted, media decisions become important. Two key media decisions are choice of media class (TV, press, radio, outdoor, Internet, phone) and media vehicle (a particular magazine/programme).

- Publicity is communication about a product or organization by placing news about it in the media, without paying for time and space directly.

8.9 KEY WORDS

- **Public Relations:** It is the professional maintenance of a favourable public image by a company or other organization or a famous person.

- **Advertising:** It is a paid form of non-personal communication about an organization or its products that is transmitted to a target audience, through an appropriate medium.

8.10 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are the various advertising objectives?
2. Briefly examine the roles and benefits of advertising.
3. List the various television commercial formats.
4. What are the ways in which advertising objectives are set?

Long-Answer Questions

1. What is advertising? Discuss the nature, scope and importance of advertising.
2. What are the various functions of advertising?
3. How are advertising messages developed? Discuss.
4. Discuss how the effectiveness of advertising can be evaluated.

8.11 FURTHER READINGS

Kotler, Philip, Kevin Lane Keller, Mithileshwar Jha & Abraham Koshy. 2009. *Marketing Management.* New Delhi: Pearson Education.

Kazmi, SHH. 2007. *Marketing Management Text and Cases.* New Delhi: Excel Books.

Ramaswamy, V. S. and S. Namakumari. 1983. *Marketing Management in Indian Environment.* New Delhi: MacMillan Publishers.

Sharma, D. D. 2001. *Marketing Research: Principles, Applications and Cases*. New Delhi: South Asia Books.

UNIT 9 MARKETING RESEARCH AND MARKETING INFORMATION SYSTEM

Structure

9.0 INTRODUCTION

In this unit, you will learn about the various concepts related to marketing research. Before deciding on any marketing orientation, a company must have information about customers and other aspects of the marketing environment that affect the company's operations. This information comprises four elements: internal continuous data, internal ad-hoc data, environmental scanning and marketing research. Marketing research can be carried out by the marketing department, marketing research department or any agency. You will also learn about the types of marketing research methods, including exploratory research, descriptive research and experimental research. In this unit, you will also study about the survey methods that involve selecting how to interview the respondents who have been selected. The unit will also discuss marketing information systems.

9.1 OBJECTIVES

After going through this unit, you will be able to:

- Explain the various concepts related to market research
- Discuss the limitations of traditional research
- Discuss the different types of marketing research
- Describe the various stages in the marketing research process

9.2 MARKETING INFORMATION SYSTEM

A prerequisite for the adoption of marketing orientation is knowledge about customers and other aspects of the marketing environment that affect the company's operations. Questions like what kind of people buy the company's products, what they value in the product and where they buy it from are important and should be answered.

It is dangerous to rely solely on internal views of managers. The company needs to find real views of the customer and then only should the company design its marketing initiatives. This information is obtained by formal and informal means. As the customer base grows, informal means like casual discussion with customers, reports of salespeople and observation of competitor activities are inadequate to provide the necessary in-depth market knowledge. A more formal approach, like collection of data through questionnaire, must be applied to supply information systematically to managers.

However, it is becoming increasingly difficult to collect data about customer needs, behaviour and satisfaction through structured methods like questionnaires. Companies have enhanced the performance and quality of their products to the extent that most customers are ostensibly happy with the products they are using. And they say so in their interviews with researchers. And in any case, if anything useful gets reported in questionnaire and interviews, such data is so easy to capture that most companies would already have them. Sustainable differentiation has to be built on customer information which is not easy to obtain, and so every company cannot have them. Such customer information is revealed by the frustrations and the joys that the customer experiences when he is using the product. These emotions are too subtle to be captured through words. Customers have to be observed in their natural settings to be able to know their emotions. These emotions will form the basis for differentiation. Marketing research has to move beyond its current methods.

There is another problem with traditional marketing research. Customers can talk only about the experience that they have had. Thus, they can talk eloquently about the products that they use but they cannot talk about their latent needs, or whether they would like the product that the company is contemplating to make.

Marketers and developers have to be intuitive and take the risks of developing products without any prompting from the customers. Customers can then do a good job of evaluating the product. As a result, new techniques have been developed for better market research. One such techniques in the Marketing Information System (MKIS).

Marketing Information System

A marketing information system or MKIS is a management information system (MIS) designed to support marketing decision making. Jobber (2007) defines it as a 'system in which marketing data is formally gathered, stored, analysed and distributed to managers in accordance with their informational needs on a regular basis'. In this system, marketing information is formally gathered, stored, analysed and distributed to managers in accordance with their informational needs at regular intervals on a planned basis.

Elements

The system is built on an understanding of the informational needs of marketing and supplies that information when, where and how the managers require it. Data are derived from the marketing environment and transferred into information that marketing managers can use in their decision-making.

MKIS comprises four elements:

- Internal continuous data
- Internal ad-hoc data
- Environmental scanning
- Marketing research

9.3 MARKETING RESEARCH: INTRODUCTION, SCOPE AND APPROACHES

Marketing research is concerned with the gathering and analysis of information related to the movement of products and services from the producer to the customer or end-user.

Consumer market research is an activity that also focuses on understanding consumer behaviour. In other words, it studies the interests and preferences of customers, which forms the input for the designing of promotion campaigns.

It is a process that ensures systematic collection, analysis and interpretation of data related to the company's market, customers and competitors. This activity is aimed at improving and facilitating marketing decisions.

Scope of Marketing Research

It is a common misconception that marketing research is simply a set of tools that assist in collecting and recording data. Actually, it involves the thorough analysis of

data as well as its interpretation. This detailed analysis and interpretation results in important information that facilitates effective decision making.

It is not marketing research that provides decisions, but it acts as a resource for the process of decision making. However, the information provided by market research should be delivered on time, be relevant and accurate.

Marketing research has an important role to play in identifying customer needs and fulfilling them in every possible way. It is essential for strategic market planning and decision making. It helps an organization to recognize the opportunities and limitations in the market and evaluate the effectiveness of marketing plans. It also guides an organization in not just developing but also implementing market strategies.

Marketing research is expected to help the sellers or manufacturers to understand more about their customers. It helps to establish a connection between the decision makers of an organization and the market they cater to or function in.

Depending particularly on the resources allocated to marketing research, there are four ways of conducting marketing research, which are discussed below:

By the marketing department

The company has marketing staff, but low marketing research budget. The marketing staff carry out the marketing research activities by themselves. This is done when the study is small, perhaps involving data gathering from small sample sizes. For instance, industrial marketing research studies involving a small number of organizational customers are normally done by the marketing department itself. This approach is also adopted when the information can be acquired from secondary sources like journals, the Internet, company records, etc.

By the marketing research department

The company hires a marketing research executive who designs, implements and presents marketing research surveys to the marketing department. If the services of a marketing research agency are used, the executive would act as a link between the company and the agency.

Fieldwork by an agency

The design of the study is done in the company either by the marketing research department or the staff of the marketing department, but the fieldwork, such as conducting interviews, is done by the marketing research agency assigned the job.

The full services of a marketing research agency are used

In this case, the company uses the full services of a marketing research agency. The company briefs the agency about its marketing research requirements and the agency does the rest. The agency prepares a research proposal stating the survey design and costs, conducts exploratory research, designs the questionnaire, selects

the sample, chooses survey methods (telephone, postal, face-to-face), conducts interviews, analyses and interprets the results, prepares a report and makes a presentation.

Check Your Progress

1. What is the first step in the marketing research process?
2. What are the four elements of MKIS?
3. How are external ad-hoc data gathered?

9.4 TYPES OF MARKETING RESEARCH

There are majorly two types of market research like ad- hoc research and continuous research.

Ad-hoc Research

An ad-hoc research focuses on a specific marketing problem and collects data at one point in time from one sample of respondents. For example, a company wants to find the impact of its latest advertising campaign on its sales. Adhoc surveys are either custom-designed or omnibus studies.

- Custom-designed studies are based on specific needs of the client. The research design is based on the research brief given. The questionnaire is designed specifically for finding a solution to the client's problem.

- For an omnibus survey, space is bought on a questionnaire for face-to-face or telephone interviews. The interview may cover many topics as the questionnaire space is bought by a number of clients who benefit from cost sharing.

Continuous Research Interview

In this method, the same respondents are interviewed repeatedly. Respondents are enrolled by the research agency. Information is gathered from these respondents on a periodic basis. Thus, it is possible to track changes among the same set of audience over a period.

Consumer panels

Consumer panels are formed by recruiting a large number of households that provide information about their purchases over time. By using the same households and tracking the same variables over a period of time, measures of brand loyalty and switching can be determined. The demographic profile of the type of person who buys a particular brand can also be found out. Changes in market share can also be examined over time. Thus, it is possible to track even small behavioural changes in response to changes in marketing variables.

Retail audits

Sales of brands can be measured by means of laser scans of barcodes on packaging that are read at the checkout. Brand loyalty and switching cannot be measured, but accurate assessments of sales achieved by the store and competitive activity is provided. For identifying geographic areas or type of outlets where new products may be introduced, such audits can be particularly useful. Potential problems related to distribution, in-store promotions or layout can also be assessed by using retail audits. Sales potential and sales forecasts can also be planned with such data.

Television viewership panels

The audience size of a programme is measured minute by minute. Commercial breaks can be allocated rating points according to the proportion of the target audience watching the programme. This is the currency by which television advertising is bought and judged. People meters record whether the set is on or off, which channel is being watched and by means of a hand console, who is watching. The accuracy of the data depends on the representativeness of the panel and the extent of unbiased audience responses.

9.5 STEPS IN THE RESEARCH PROCESS

Let us now study the steps in the research process.

9.5.1 Initial Contact

There is a realization that a marketing problem requires information to help find its solution. The marketing department may contact the internal marketing research staff or an outside agency. Assuming that the research requires the assistance of a marketing research agency, a meeting is arranged to discuss the nature of the problem and the client's research needs. If the client and its market are new to the agency, some rudimentary exploratory research, like a search on the Internet, is conducted prior to meeting.

9.5.2 Research Brief

At the meeting, the client explains the marketing problem and the research objectives. The marketing problem may be to attract new customers to a product and the research objectives would be to identify customers who can use the product and to identify the features of the product that appeals to them most. The client may also provide the product's history and competitive strategy, list of industries that might be potential users of the product, whether the client is looking for a modest research or an exhaustive study, and when the information is required. The client should produce a specific written brief stating his requirements. This is used as a benchmark if disputes arise. Commissioning a good research is similar to buying any other product. The marketing department and the agency should

agree on why research is needed, what it will be used for, when it is need and how much is to be paid for it.

Prerequisites for commissioning a good research

- Categories like market, market share, competitors, etc. should be clearly defined for the purpose of the research.

- Some researchers in the MR agency may be specialist in a particular data gathering method such as group discussion and they may bend research problems to use their favourite methods. This may be expensive in addition to the method being inappropriate for the research. The company must familiarize itself with the MR agency and people handling their research project.

- Allow the researcher to ask even naïve questions. Clearing doubts about a problem to be examined, or related background information can avoid costlier problems in the future.

- Brief two or three agencies to get diverse viewpoints on the research problems.

9.5.3 Research Proposal

The research proposal defines what the marketing research agency promises to do for its client and how much it will cost. It should be written down to avoid misunderstanding. It should demonstrate an understanding of the client's marketing and research problem. It should contain an unambiguous description of research design including survey method, type of sample, sample size, collection and analysis of data, when the report will be produced and how much the research will cost. Vagueness should be avoided in the proposal. The agency should state very clearly what it is going to do and why, who is going to do it and when. The agency should avoid jargons. It is the responsibility of the agency to make the proposal understandable to the client. The client should beware of omissions. The client should also check if everything that is required from the agency is mentioned in the proposal. Anything that is not specified will not be provided. If there is any doubt about an issue, the client should ask the agency for clarification. The research proposal should first define the problem. For doing this, the researcher must consider the purpose for which the study is being conducted, the available information, additional information required and how would such information aid the client in the decision-making process. The problem can be formulated without much consultation, though frequently it may involve discussions with the decision-makers in the company, experts outside the client's company, use of secondary data or even some exploratory research, for instance, a few focus groups. This should be followed by developing an approach to the problem. This involves developing a framework for analysing the problem. Relevant questions for which answers are needed by conducting the research must be clearly propounded in this step. The research design should explain the methods of collecting data,

sampling plan and a plan for data analysis. The client should be clearly told about the sources from where the relevant data can be obtained, the time frame within which the entire study will be completed and the modus operandi of conducting the study.

9.5.4 Types of Research Methods

Marketing research is primarily used to enable managers to take decisions. However, some limitations such as the inability to define the problem accurately, unavailability of past researches, etc. may force researchers to gather more background information about the problem in hand. In such cases, exploratory research is used first. Thereafter, conclusive research is done either through surveys or experiments enabling managers to take decisions. Decision-making is not possible through exploratory research.

Exploratory research

Exploratory research is preliminary exploration of the research area prior to main quantitative data collection and after the acceptance of the proposal by the client. But it can also take place before the client-agency briefing meeting and submission of the proposal. It can also be used in the problem definition process. Hypothesis generated in this stage can be tested further by undertaking quantitative research. Exploratory research allows the researcher to understand the people who are to be interviewed in the main data collection stage and the market that is being researched. The researcher's ill-informed prejudices and guesswork's can be avoided if exploratory research has been done diligently. Exploratory research is used when the available data is insufficient for proceeding further. It enables the MR firm to gain better insights about the problem in hand. The objective of exploratory research is not to collect data and form conclusions but to get better acquainted with the market and its customers. The quantitative research is based on informed assumptions rather than guesswork.

Secondary research

Secondary data is compiled by other people and for other purposes and is not meant specifically for the research in question. Internal records and reports of previous research carried out by the company, external sources like government, trade associations, newspapers, magazines and the Internet may be the sources for obtaining secondary data. Secondary data is easy to access and obtain and relatively inexpensive. If secondary research is not carried out, an expensive primary research may be commissioned to provide data that is already available. Secondary data is generally used to understand the problem, to define the problem better, to develop an appropriate approach to the problem, to formulate a suitable research design or to answer certain questions. It can also be used to interpret primary data more insightfully.

Qualitative research

Focus groups involve unstructured or semi-structured discussions between a trained moderator, who is often a psychologist, and a group of consumers. The moderator has a list of areas to cover within the topic and leads the discussion, but allows the group considerable freedom to discuss issues that are important to them. By arranging groups of people to discuss their beliefs, attitudes, motivations, behaviours and preferences, a good deal of knowledge is gained about the consumer. Focus groups are valuable due to the unexpected findings that emanate from free-flowing discussions among customers. Such discussions are likely to reveal complex and subtle relationships between consumers and products. The discussions are not based on percentages, averages or other numbers that are impersonal in nature. Marketers are directly in contact with their customers and focus groups often stimulate new ideas for them.

The resultant data from focus group discussions is interpreted by experts. The data obtained from discussions is helpful when designing the questionnaire for conducting quantitative research, which will focus on what is important to the respondent. The instrument is thus worded in the language that the respondent uses and understands.

However, focus groups are not representative of the population, and hence cannot be the sole basis for decision-making. For instance, the size of the target audience holding a particular type of views cannot be gauged by conducting focus group discussions.

Depth interviews involve interviewing consumers individually for one or two hours about a topic. The objectives are similar to the group discussions, but depth interviews are used when presence of other people could inhibit honest answers and viewpoints, when the topic requires individual treatment—such as in finding an individual's decision-making process—and where organizing a group is not feasible as is the case with busy executives. The questionnaire is usually in the form of an outline, allowing respondents to freely express their views about the topics being questioned. Thus, there is a lot of flexibility for the researcher in this method, and responses that are obtained may yield new ideas which otherwise could not have been obtained by means of structured questionnaires.

Depth interviews are difficult to standardize as no two interviewers are likely to proceed in absolutely similar manner, and their biases are also likely to reflect in the results if the interviewers are not adequately trained.

The result of the qualitative research has to be studied carefully as they are based on small sample sizes. Much depends on the ability to interpret subjective data and may vary from one analyst to the other. More interesting or surprising viewpoints may be disproportionately reported. The quality of the data obtained also depends on the skills of the interviewer. Qualitative methods of data collection take longer time and are more expensive.

Consultation with experts involves interviewing people who may not form part of the target market but can provide important market-related information and insights. Experts may be from universities, financial institutions and press who are willing to share their knowledge. They may also include lead users of products of a company. They provide background information and are useful for predicting future trends and developments.

Observation is useful when the product field is unfamiliar. It is an unintrusive method of studying consumer behaviour. Observation studies are usually conducted in retail stores to track consumer purchases. Various data, such as the amount of time spent by the customer, number of choices considered, amount purchased, shopping influences, amount spent, reasons for selection or rejection, etc., can be observed. Much depends on the skills of the researcher in gathering and interpreting data.

Descriptive research

Descriptive research describes something. For instance, such research may be meant to describe customers' beliefs, attitudes, recall of advertisements and knowledge about its content. However, such researches are not merely fact-finding exercises, but also meant to gather data for specific objectives.

Descriptive research differs from exploratory research in terms of the formality and structure with which the research is planned. Data obtained from such researches is usually used in taking marketing decisions. Relationships among various variables are examined in such researches, though a cause–effect relationship cannot be established. Descriptive research is quantitative in nature, involving surveys using questionnaires and statistical analysis. Large and representative sample sizes permit generalization of results, aiding in the decision-making process and ensuring that the collection as well as interpretation of data is objective.

Experimental research

Experimental research establishes cause and effect. It involves setting up of control procedures to isolate the impact of a factor like money-off on a dependent variable like sales. The key is elimination of other explanations of changes in dependent variable.

Random sampling may be used. Money-off may be applied in a random selection of stores with the remaining stores selling the brand without money-off. Statistical significance testing can be used to test whether differences in sales are caused by money-off or simple random variations.

9.5.5 Data Collection Stage

The main issue in the data collection is the sample design. This involves choosing the right technique to collect data from the chosen sample in such a manner that the data is unbiased and representative.

Sampling process

The sampling process aims at deciding who and how many people should be interviewed. First, the universe, i.e. the group that forms the subject of study, must be clearly defined. The universe depends on the objectives of the study. The sampling frame must be chosen next. This comprises the list or other records of the chosen universe from which a sample can be selected.

Sample size

Next, it is important to determine the sample size. This involves arriving at the number of respondents who must be surveyed to yield a representative sample of all demographic subgroups of respondents who are being studied. The larger is the sample size, the more does the sample represent the population. Sampling error is the error caused by not interviewing everyone in the population. The number of people interviewed is based on a balance between sampling error and cost consideration.

Sample selection

After selecting the sample size, it must be determined as to how the sample would be selected for response. The sample can be selected by using either the probability methods or by using the non-probability methods. The probability method is when every sampling unit has an equal probability of being selected. The selection of every item in the sample is independent of the person who conducts the survey. There are three probability sampling methods:

- ***Simple random sampling***: In this method, each individual in the sampling frame is given a number, and numbers are drawn at random until the sample is complete. Everyone on the list has an equal chance of selection.

- ***Stratified random sampling***: Population is broken down into groups, such as those on the basis of age, gender or income, and the random sample is drawn from each group. Each group gets representation in the sample.

- ***Cluster sampling***: The population is divided into mutually exclusive groups, such as residential blocks, and the researcher randomly selects residential blocks to be interviewed.

In the non-probability sampling methods, every sampling unit does not have an equal probability of being selected. Thus, there is some researcher bias in selecting the sample item. There are three non-probability sampling methods:

- ***Convenience sample***: The researcher selects the most easily available sampling units or respondents from the population and interviews them.

- ***Judgement sample***: The researcher uses judgement to select population members from whom appropriate information can be obtained.

- ***Quota sampling***: The sampling frame does not exist, but the percentage of population that falls in various groupings like age, gender, etc. is known.

The sample is constructed by asking interviewers to select individuals on the basis of these percentages—for instance, roughly 50:50 females to males. This is a non-random method since not everyone has equal chance of selection but is much less expensive than random methods when the population is widely dispersed. The difference between quota sampling and stratified sampling method is in the method of selection of the sampling units. In the former, the sampling units are selected by non-random methods such as by convenience or judgement, while in the latter, they are selected on a random basis.

9.5.6 Survey Methods

A survey method involves selecting how to interview the respondents who have been selected.

Face-to-face interviews

Response rates are higher as the personal element in a face-to-face interview makes refusal to respond less likely. Such interviews can be self-administered, i.e., completed by the respondent himself, or administered by the researcher.

In sample surveys, personal interviews are used frequently. Probing of the respondent is easier with face-to-face interviews. Clarifying probes help interviewers to understand what the interviewee is saying. Exploratory probes stimulate interviewees to give full answers. Probing is possible but restricted due to time pressures and the less personalized situation in telephonic interviews. Visual aids can also be used in face-to-face interviews. However, interviewer bias may creep in during selection of respondents and administration of the questionnaire. Preparing a structured questionnaire can eliminate some element of interviewer bias.

The experimental design, i.e. testing the effectiveness of a stimulus, would normally be undertaken by this method rather than by a mail survey where there is high non-response rate and lack of control over who completes the questionnaire that would invalidate the results. Use of many open-ended questions in a mail survey would lower response rates, and time restrictions for telephone interviews limit their use for conducting interviews.

But personal interviews are expensive. The presence of an interviewer can cause bias, i.e. the respondent may give socially desirable answers and that may lead to misreporting of sensitive information.

Telephone interviews

Telephonic interviews have response rates and cost in between face-to-face interviews and mail surveys. Telephonic interviews allow some degree of flexibility when interviewing, as there is a two- way flow of information between the interviewer and the respondent, which is absent in mail surveys, but this flexibility is lesser than in personal interviews. Use of visual aids is not possible. There are

limits to the number of questions asked before the respondent either terminates the interview or gives quick and sometimes invalid answers to speed up the process.

The use of computer-aided interviewing is growing. The presence of accurate databases helps telephonic interviews immensely. Certain type of surveys—for instance, feedback studies and studies that explore prospective customers—can be done using telephones.

Mail surveys

These are least expensive and can cover a widely dispersed population. The response rate is very low, and there is a danger of unrepresentative sample. The questionnaire is fully structured and probing is not possible. Control over who fills the questionnaire is low. Visual aids can be supplied and because of self-completion, interviewer bias is less.

The response rate can be increased by prior notification by telephone, monetary and non-monetary incentives, by providing stamped return envelopes, granting anonymity to respondents, close-ended questions in the questionnaire and making follow-up telephone calls.

9.5.7 Questionnaire Design

Three conditions are necessary to get a true response to a question: One, the respondents must understand the question; two, they must be able to provide information; and three, they must be willing to provide it. Questions need to be framed in the language that respondent understands. The researcher must not ask about issues that the respondents cannot remember or are outside their experience. Researchers need to find the best way to elicit sensitive or personal information.

9.5.8 Data Analysis and Interpretation

Before analysis and interpretation, the data has to be prepared first. The raw data that has been collected must be edited. Preliminary checks must be conducted to improve the quality of the data collected. It must also be verified that the sampling instructions have been adhered to. Such checks must be done during the data collection process as well as at the end. Thereafter, the data has to be codified and tabulated. These procedures must be done by those who are familiar with the entire research, from the objectives to the research design.

Basic marketing research analysis can be carried out using software analysis packages. Sophisticated analysis is conducted using packages such as SPSS. Analysis may be carried out to find means, standard deviation, frequency tables, cross tabs and conduct other advanced statistical analysis. Several sophisticated statistical analysis may be used to formulate decisions such as segmentation of the relevant target audience, identifying key factors in new product launches, tracking brand image, etc.

Care is required when interpreting marketing research results. One common failing is to infer cause and effect when only association has been established. For instance, a relationship that sales rise when advertising levels increase does not necessarily mean that raising advertising expenditure will lead to increase in sales. Other marketing variables—for instance, salesforce effect—may have increased at the same time as the increase in advertising.

A second cautionary note concerns interpretation of means and percentages. Given that a sample has been taken, any mean or percentage is an estimate subject to sampling error, i.e. the error in an estimate due to taking a sample rather than interviewing the entire population. Statistical hypothesis testing allows sampling differences to be evaluated in light of sampling error to establish whether they are likely to be real differences, i.e. statistically significant difference, or likely to be a result of taking a sample rather than interviewing the entire population.

9.5.9 Report Writing and Presentation

The results of the research have to be presented in the form of a report or a presentation.

The key elements in a research project are:

- Title page, containing the Topic of the research study, Time of the study, to whom is the report being submitted to, and by whom has the research been done

- List of contents, containing a detailed list of the contents of the report along with page numbers, List of tables, and List of figures in the report

- Preface, containing Outline of agreed brief, statement of objectives, scope and methods of research

- Executive summary, containing a summary of conclusions and recommendations, preferably listed pointwise. The purpose of the executive summary is to provide the gist of the report for those who do not have the time to read the complete report

- Previous related research should detail how previous research has had a bearing on this research. This section should list out the methodology, context and results and conclusions of related researches done earlier to provide a relevant perspective for the present study.

- Research methods, which explain the methodology used for the purpose of the present research: This includes details about the type of study, sampling issues, data sources, data collection methods, use of instruments, preparation of the instruments and method of administration

- Research findings, which should detail the results of the study according to the objective with the study was initiated

- Conclusions of the study, along with suitable recommendations

- Appendices, including reports, articles, tables and figures that are not directly related to the study, or can interrupt the flow of the report, though are useful as background information

The report should be written in a language that the reader will understand. Jargons should be avoided.

The most important parts of the report are the findings and conclusions based on the survey. These should be presented in a clear and lucid manner. As far as possible, the results should clearly point to some outcomes or suggestions that can help management in taking decisions or solving the problems that were outlined in the objectives of the study. Sometimes results may point towards additional research required.

Check Your Progress

4. Why is it said that depth interviews are difficult to standardize?
5. How does descriptive research differ from exploratory research?
6. What are the various probability sampling methods?

9.6 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The first step in the marketing research process is defining the problem.

2. Internal continuous data, internal adhoc data, environmental scanning and marketing research are the four elements of MKIS.

3. External adhoc data are gathered by means of surveys into specific marketing issues including usage and attitude studies, advertising, product testing, etc.

4. Depth interviews are difficult to standardize as no two interviewers are likely to proceed in absolutely similar manner, and their biases are also likely to reflect in the results if the interviewers are not adequately trained.

5. Descriptive research differs from exploratory research in terms of the formality and structure with which the research is planned.

6. Simple random sampling, stratified random sampling and cluster sampling are the various probability sampling methods.

9.7 SUMMARY

- A marketing information system or MKIS is a management information system (MIS) designed to support marketing decision making.

- Marketing research is concerned with the gathering and analysis of information related to the movement of products and services from the producer to the customer or end-user.

- Marketing research has an important role to play in identifying customer needs and fulfilling them in every possible way.

- Marketing research is expected to help the sellers or manufacturers to understand more about their customers.

- There are majorly two types of market research like ad-hoc research and continuous research.

- The research proposal defines what the marketing research agency promises to do for its client and how much it will cost.

- The main issue in the data collection is the sample design. This involves choosing the right technique to collect data from the chosen sample in such a manner that the data is unbiased and representative.

- Before analysis and interpretation, the data has to be prepared first. The raw data that has been collected must be edited.

- The most important parts of the report are the findings and conclusions based on the survey.

9.8 KEY WORDS

- **Marketing Research:** It means the gathering and analysis of information related to the movement of goods and services from the producer to the customer or end-user.

- **Exploratory Research:** It refers to preliminary exploration of the research area prior to the main quantitative data collection stage.

- **Survey Method:** It refers to the method chosen to interview respondents who have been selected to participate in a survey.

9.9 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What is marketing research? Why is it required by companies?
2. Distinguish between ad-hoc research and continuous research.
3. Is continuous research better than ad-hoc research? Explain.
4. How do companies establish initial contact with marketing research agencies?
5. What are the important requirements for commissioning a good research?

Long-Answer Questions

1. Discuss the various approaches to conducting marketing research.

2. What are the essential characteristics of an effective research proposal?

3. What is descriptive research? How is it carried out?

4. What are focus groups? What type of data can be obtained from focus groups? Suggest some measures to improve the effectiveness of focus groups.

5. Differentiate between probability and non-probability sampling methods. Under what conditions should each of these methods be used?

6. Explain the various types of sampling and non-probability sampling methods.

9.10 FURTHER READINGS

Kumar, Arun, N Meenakshi. 2011. *Marketing Management.* New Delhi: Vikas Publishing House Pvt. Ltd.

Kotler, Philip. 1972. *Marketing Management; Analysis, Planning, and Control*. New Jersey: Prentice Hall, Inc.

Gandhi, J. C. 1985. *Marketing: A Managerial Introduction.* New Delhi: Tata McGraw Hill Publishing Company Limited.

Stanton, William J. 1984. *Instructor's Manual to Accompany Fundamentals of Marketing*, seventh edition. New Delhi: Tata McGraw Hill Publishing Company Limited.

UNIT 10 CONSUMERISM

Structure

10.0 INTRODUCTION

Consumers influence the markets by their purchase and consumption patterns. In spite of being such a vital organ of our economic system, the consumers face irregularities at marketplaces. However, over the past few years, there have been several measures taken by the government and non-government agencies to initiate and mobilize consumer movement. This unit will discuss consumerism and consumer protection in India in detail.

10.1 OBJECTIVES

After going through this unit, you will be able to:

- Explain what consumerism is
- Describe the consumer movement in India
- Discuss role of media and government in protection of consumer

10.2 CONSUMERISM AND ITS APPLICATION IN INDIA

Consumerism is a social and economic order that is based on the systematic creation and fostering of a desire to purchase goods or services in even greater amounts. This term is also used to refer to the consumerist movement or consumer activism, which seeks to protect and inform consumers by requiring such practices as honest packaging and advertising, product guarantees, and improved safety standards.

Consumers are divided into various segments in society— rich, poor, middle, upper rich, upper middle and many other classes. Owing to lack of awareness and ignorance of one's own buying rights, the consumer class is very vulnerable to

cheating and unethical practices being adopted at open marketplaces. Only if consumers unite and stand together for their interests will they be able to put a stop to such malpractices. An organized movement can, very well, protect and promote consumer interests throughout. An effort to unite the consumer is required so that the legislations introduced to keep a tab on the culprits don't go waste and every consumer gets maximum benefit from his purchase along with maximum satisfaction.

To track the record of any organization, you must know the history or the background of the organization. So, let us study the history and the growth of the consumer movement in India.

10.2.1 Consumer Movement in India

India was a colonized state at the time the consumer movements started taking place worldwide. It was in the 1930s that the West saw the dawn of consumer protection movements. As already mentioned earlier, in India, the same concept came up after independence, i.e. the early 1960s. The reasons for Indian consumer protection movement was different from that of the West. Western countries saw consumer movements taking place post industrialization. They saw a need for more information about the merits of competing goods. They wanted to influence the producers in order to get new and sophisticated goods. The need was luxury. In India, the basic necessities never overcame the luxuries of life. Therefore, the need for consumer movement in India was for different reasons such as:

(a) Inflation of the early 1970s which created a shortage of consumer products in the markets

(b) Adulteration and the prevalent black-marketing policies

(c) Poor technological advancement, which gave rise to lack of product choice

(d) Non-availability of goods in the market and the lack of price control and assurance of standards of purity.

These were some of the primary reasons for starting a new consumer movement. But with time, the need changed. India started its long journey towards development and technological advancement. Markets started improving and offered new products to people. The income-generating classes grew stronger and earned the capacity to make heavy purchases. This changed the factors which stimulated the consumer movements back then. With changing needs, the factors also changed. The factors that have been influencing consumer movements in recent years are:

(a) The increased level of consumer awareness

(b) The degraded quality of goods and deficiency in services

(c) Increased consumer expectation as a result of increased consumer awareness

(d) Unity of consumers and organized efforts of consumer organization

(e) Influence of the leadership who lead consumer movements

A long and continuous struggle against fairness and ethics is proving its worth. Consumer movements have gained momentum and the collective efforts of few people have led to benefits for everyone. The government has also enacted few legislations to strengthen consumer confidence in markets. However, many manufacturers and sellers still place profit before quality, and that is where the problem lies.

The consumer movements have struggled and have overcome tough resistance to prove their worth. The first stage where consumer education began was the toughest. It is very difficult to make people aware of their rights and provide them with the strength to fight for it. Speeches, organized seminars, meetings, public display and the print media have played a significant role in this long struggle. Educating consumers about their rights covers the first stage of the development of these organizations. The second phase of development began with open boycotting of goods which posed detrimental to the public. More actions like picketing and demonstrations were also introduced and used. However, these direct action-based methods had their own limitations, and that is when the need for organized and professionally managed consumer organizations was felt. This paved the way for the third stage of development of these organizations, which proved to be worth fighting for, as it involved everything from educating and demonstrating to complaining and laboratory testing, etc.

The organized consumer organizations not only guided consumers about their rights but also provided them legal support whenever they found themselves in a state of helplessness. The organization has divided itself into various smaller segments, each taking care of a particular object. For example, there will be a different set of individuals assigned the responsibility of educating consumers whereas others are involved in giving speeches, organizing demonstrations, engaging in social boycotting and arranging press releases, etc. A different set of experts handle the legal requirements of consumers. Every segment works under professionals of that particular field. which gives them an edge over the manufacturers and sellers who are equally well organized into organizations. This not only gave good results but as a result, the business class started giving heed to consumer requirements. Thus, the much-awaited consumer legislation, i.e., the Consumer Protection Act, 1986 was passed making things easy for consumers. The amendment in 1993 has further proved helpful and widened the scope of the act.

Important consumer organizations

The first organization that made a heavy impact on society for consumer causes was the Consumer Guidance Society of India (CGSI), Bombay. It was an initiative of nine women stay-at-home and Mrs. Leela Jog was the founder secretary of the society. This organization not only held public speeches and carried on consumer education programmes but worked on testing and reporting the quality of items of

daily use such as foodstuff. Besides taking on the testing of quality, this organization provided legal assistance to those in need. It publishes a magazine in English for consumer information, called 'Keemat'.

The second major organization influencing consumers at large is the Karnataka Consumer Services Society (KCSS) formed in 1970. Mrs. Mandana was the great pillar of strength of KCSS. She spread awareness about consumer issues especially among the Government circle. That was the time when the word 'consumer' itself did not hold any weightage in social circles. This organization stressed on consumer awareness from the grassroot level. Seminars were conducted in schools and representations were made on The Prevention of Food and Drug Adulteration Committee and the Karnataka Food and Civil Supplies Corporation.

Another consumer organization which rose to the limelight was constituted in Vishakhapatnam in 1973. VCC, i.e., the Visaka Consumers Councils, Vishakhapatnam, Andhra Pradesh, has made a significant contribution to the consumer movement in the country. It worked on the plight of the poor ration card holders and LPG gas users who used to wait for long hours standing in queues because the authorities were never concerned about their plight. Mr V.K. Parigi, member of the organization, held meetings, checked ration cards and succeeded in achieving fair prices at shops and the public distribution system along with twenty other members. Besides VCC, there were more organizations that formed in Andhra Pradesh and took up the task of solving milk distribution problems and checking fair prices at shops.

The other major organization which began working with the novel aim of helping consumers buy good-quality consumer products at lower prices, is ABGP or the Akhil Bhartiya Grahak Panchayat. It started in 1974, in Pune. This organization was involved in purchasing products of good quality at wholesale and selling it to the consumers at much lower rates. In addition to ABGP, there was MGP, the Mumbai Grahak Panchayat and Grahak Panchayat in Jamshedpur. Both started in the year 1979.

The other organization working for consumer welfare established itself in Ahmedabad in 1979. Called CERC, Consumer Education and Research Centre, the organization's special focus was on the government and other corporations and the organization often took legal assistance to help consumers with their rights in the markets. The organization has a proud ownership of a big library and product testing laboratory. Besides this, the infrastructure has a big computer centre to keep up with the new developments. Comparative testing, ranking and evaluation of consumer goods is the main agenda of the organization. The results of these tests are published for the benefit of consumers. CERC also undertakes the routine exhibition and product testing of food, pharmaceuticals and domestic appliances. The results are published and legal action is taken against the unsafe products in the marketplaces. CERC undertakes the publication of seminars through its magazine *Consumer Confrontation* for the benefit of the consumer.

The consumer movement took momentum in the 1980s due to political interference. The politicians supported and created many organizations for name sake, just to enhance their vote banks but few of them actually worked for consumer welfare. One such organization is Jagruk Grahak started in 1980 in Baroda, Gujarat. It undertook the task of consumer education by conducting seminars and speeches in public. It also operates through its complaint cells. The other such organization started in 1980 was the 'Consumer Forum' in Udupi, South Karnataka. It succeeded in bringing relief to many consumers from bureaucrats.

The Consumer Unity and Trust Society (CUTS) was started from Jaipur in March 1984. It grabbed public attention by making effective use of the media. For example, it announced a prize for the photograph depicting the biggest garbage heap or biggest pothole to keep check on garbage problem across country. This made authorities take action to solve such issues and pay heed towards basic civil amenities. Another organization started in 1985 was CAG, the Chennai Action Group in Madras. This organization was also concerned with the issues related to civic amenities. In addition to civic amenities, the other issues it raised were that of health and environment. It was concerned with the chemical pollution in the Adyar river.

Besides operating through groups, there were many activists who chose to work individually. For example, Mr R.R. Dollani, a Gandhian style activist, started a number of associations in Madras. Mr. H.D. Shourie, Director, Common Cause, Delhi is very well known in consumer action circles. This organization has more than 5000 members from all over the country, and works on issues related to electricity, hospitals, taxation, etc.

A new era started in the Consumer Protection Movement in 1986 with the enactment of the Consumer Protection Act, 1986. It was a consolidated effort towards legal recognition of consumer rights. The act provided the much-needed impetus to these consumer organizations. It established consumer councils at the state and centre levels to promote consumer welfare. The main purpose of these Councils was to protect and promote consumer interest. A three-tier judicial machinery was also enacted for consumer dispute redressal. The best thing about this Act is that it is a quasi-judicial body and works like a tribunal. This enables the dispute redressal agencies to work speedily and render justice at very low costs.

The eighties saw the emergence of so many consumer organizations. The nineties saw the fulfilment of efforts towards a unified approach. In 1990, the FEDCOT, Federation of Consumer Organizations was established in Tamil Nadu. The main object behind its inception is to collect the scattered efforts towards consumer welfare and bring them under one roof. In 1991, the Confederation of Indian Consumer Organizations was formed in New Delhi. Thereafter, the Consumer Coordination Council was formed in 1992. All these federations aimed at uniting various consumer organizations to create a bigger network and platform for consumer protection movements.

Achievement in consumer protection by the consumer movements

The consumer movements in India have shown remarkable results. The poor economy of India is still struggling to attain self-reliance in many fields. Electricity, energy, water are issues that haunt every Indian citizen. With these irregularities, efforts to educate and consolidate consumer movements was very difficult. Still, the united efforts have shown results and India is now among those few nations who have a well-regulated set of legal provisions to keep the market consumer-friendly. There are laws like the Consumer Protection Act, 1986, and the MRTP Act which would not have been created without people support. These laws not only ensure proper follow-up of procedures but aims at increasing consumer awareness from grassroot levels. For example, many schools and colleges have consumer education as basic part of their study courses. The media, Internet and TV are doing their best in achieving maximum consumer awareness in our country. One such advertisement which keeps popping up during television shows is that of 'Jago Grahak Jago'. It is good to see the 'Jago Grahak Jago' competing with Lux, Sonata, Bajaj and many more well-known brands to ensure maximum viewership.

The other big initiative which succeeded is that of setting up of a consumer grievances cell as an in-house mechanism. For example, Life Insurance Corporation (LIC) of India has set up a claims review committee at the zonal and central levels. Not only LIC but the Railways, the Income Tax Department, petroleum companies as well as banks have all started setting up grievance cells.

The Government of India has set up a separate directorate called the Directorate of Public Grievances in New Delhi. They work on complaints received from various ministries on matters like railways, insurance, pensions, etc. The nationalized banks observe the 15th of every month as 'Customer Grievance Day'. FICCI, the Federation of Indian Chambers of Commerce and Industry, has set up a consumer business forum which meets once a quarter in different cities. The stock exchanges of the country are also following a similar path of setting up grievance cells. The Advertisement Standard Council of India, the Confederation of Indian Industry and FICCI have evolved a modern code of conduct to ensure smooth functioning.

Another important achievement of these consumer movements is that they have ensured that the consumers get full participation in policy making aspects. The markets have been regulated and advisory bodies have been set up to look after weight and measurement issues, food adulteration issues, quality check issues, etc.

Future challenges

With the increase in technological advancement, it has become easy to target audience for these consumer welfare programmes. Efforts have been made to tackle consumer-related issues and a lot of success has been achieved by the consumer protection agencies. However, there is a lot to be done. There are future challenges which also need our attention.

(a) A legal machinery has been set up in the garb of the Consumer Protection Act, 1986, and it has been working towards consumer satisfaction. But the dispute redressal machinery is not proving that effective due to the burden of a large number of cases on a daily basis. The dispute redressal machinery requires a proper check/system to ensure speedy remedy otherwise it would face a situation similar to that of our courts today that are overloaded with lakhs of pending matters.

(b) Consumer awareness is more widespread in cities because of technological advancement and education patterns. People are more aware and conscious of their purchase. The same effect is hard to gain at the rural level. There are still dozens of villages in rural India where the word 'market' means just a shop or two. The rural folk are forced to buy from these shops. Not only is there a lack of choice but also a lack of products at the rural level. To ensure better availability of products at fair prices, competition must be increased in rural areas too.

(c) The government has adopted a policy of liberalization on the guidelines of globalization. Liberalization is fine as it will bring more technology and products to our markets but at the same time, it is important to put a stern checking system in place to check the quality of these products. There are lots of drugs banned in India but could obviously find their way in through loopholes. The import and export laws need major rechecking in order to ensure complete safety standards.

(d) There is concern over environmental issues. The technology imported must be eco-friendly. Environmental issues are burning topics in any discussion. The way our climate has deteriorated in recent years is a cause of concern. Only effective tackling of environmental issues can lead to a healthy and safe India.

Role of voluntary organizations in product testing

The consumer protection movements have been formulating new ideas and methods for consumer protection. Till now, we have understood the concept of the consumer and the need to protect the consumer for the economic interest of the country. We know that the consumer serves our country by channelizing the economic system of our country. We all are consumers in one way or the other. In order to channelize economic growth in a positive direction, the consumer who is the primary factor in channelizing economic growth, must stay protected.

Awareness is the best method of protection. You must stay as much aware as possible. However, since technology has become very advanced and the products in the market are varied and of complex, consumers are often finds clueless about the authenticity of these goods. Markets are full of a variety of goods. It is very difficult to decide which one would be the best. So, in order to know which product gives best quality, the idea of test laboratories have been

formulated. Goods are taken to these laboratories and checked for quality, standard, etc. Although this work can be done by individuals themselves, these tests are expensive and often people lack the time and interest to pursue them. Usually, it is the government agencies or the voluntary organizations established for consumer protection that come forward to get these goods tested and publish the results for the benefit of the whole consumer fraternity. These results help consumers decide what to buy or what to purchase as per their requirements.

The advertisements are luring and do not always give the correct picture. Fancy and attractive advertisements often lead consumers into taking wrong buying decisions. For example, you all know that fried chips and ready-to-eat foods packs are not good for health. But still, you fall for them and ignore the health warnings issued regarding consumption of these eatables. In the US, a large population suffers from obesity mainly due to their eating habits. They consume whatever is easily available or can be easily prepared, ignoring the health hazards. The government has issued some guidelines to not just the packed food processing units but also other producers to meet a particular standard of quality before making the product ready for sale in the market. According to the guidelines issued, the packing must contain all necessary details regarding the item packed inside. But there have been instances where even these details have proved to be wrong. The test laboratories have conducted various tests on the daily usage of consumer goods and found that the companies or the manufacturing units do not adhere to the guidelines issued to them while producing these goods. This is detrimental to the consumers' interests. In fact, selling hazardous goods or products of low quality which can cause damage comes under offence and any company found doing so could be penalized. There are different legislations enacted for maintaining the standards of the product. For example, there are weight and measure laws which ensure that the products must weigh and measure as per the prescribed standards. Producers not adhering to such standards invite punishments or heavy fines.

Consumer Rights

Every consumer has the right to enjoy his hard-earned money in the best possible manner. Therefore, when he invests in a product he must stay assured of safety and quality. But the unethical behaviour of producers to maximize profits has led to the interests of consumers being put in jeopardy. There are so many guidelines issued for consumer protection but still the consumer is not protected fully. The United Nations has highlighted few guidelines which every manufacturer or producer must adhere to in order to ensure the protection of consumers' interests. These guidelines cover the following:

1. **Physical safety:** The government of every nation should adopt and encourage to adopt certain safety standards for consumer protection. Appropriate measures must be taken by the government to ensure that the goods produced by manufacturers are safe for either intended or normally foreseeable use.

2. **Promotion and protection of consumers' economic interests:** Government policies should be based on providing maximum benefit to the consumer out of his economic resources. The achievement of goals, like satisfactory production, performance standards, fair business practices and informative marketing, should be ensured.

3. **Standards for safety and quality of consumer goods and services:** The government should implement standards at the national and international levels for the safety and quality of goods and services. It should encourage and ensure the availability of facilities to test and certify the safety, quality and performance of essential consumer goods and services.

4. **Distribution facilities for essential consumer goods and services:** Establishment of consumer cooperatives and related trading activities should be encouraged and information related to these should be provided. Policies should be adopted to ensure the efficient distribution of goods and services to consumers.

5. **Measures enabling consumers to obtain redress:** The government should establish legal machinery for consumer disputes redressal. Disputes must be resolved in a fair, inexpensive and speedy manner.

6. **Education and information programmes:** The government should develop general education and information programmes. These programmes should also include information related to environmental impact by consumer choices.

7. **Promotion of sustainable consumption:** It means meeting the needs of present and future generations for goods and services in ways that are economically, socially and environmentally sustainable.

8. **Measures related to specific areas:** Areas like food, water, pharmaceuticals need proper maintenance and adoption of good safety standards.

The UN also advocates the establishment of test laboratories for product testing in order to implement good standards and quality of products for consumption of the masses.

In a market like today's, competition has grown tremendously. Goods of various types, qualities and sizes are produced. It becomes difficult to determine which product would be reliable. Secondly, the issue of environment protection has also been taking a giant shape, so testing of goods for environment safety has also grabbed its due attention.

Manufacturers, who thrive upon the immoral practices such as lack of safety standards, production of low-quality goods, etc., are now scared of being exposed; thanks to the product testing laboratories which are operating for benefits of consumers. The technique of comparative testing has been introduced by various non-governmental agencies too and these voluntary organizations test products in

these laboratories. They publish the results for public inspections. Based on their tests, people can decide what products offer the best quality and standards.

Comparative Testing of Products

India liberalized its economy in 1991. Globalization and its impact began to be seen at the national and domestic levels. Globalization ensured supply of more products into our markets and gave the local manufacturers tough competition. It was with this influx of goods and services into Indian markets that the concept of comparative product testing came into the market. Goods were not only tested for their quality and standard but also compared in quality and standard with other goods present in the market. This enabled the consumers to get first hand information on the reliability and quality standard of every new product. The automobile industry in India, for example, saw large-scale entry of big and famous brands. VOICE, the Delhi-based NGO, for instance, carried out car crash tests through an MoU signed with UK-based ICRT. The main aim was to judge the performance of international car brands. Most popular brands like Honda Civic, Mitsubishi Lancer, Opel Astra and Ford Escort were tested. These brands were assessed in terms of their performance, safety standards, pedestrian rating and child safety measures. This type of comparative testing gives the consumer true worth of his investment. The consumers' union of the US, UK and Australia publish test reports and disseminate information on a monthly basis. They have state-of-the art testing laboratories and receive commendable support from their citizens.

In India, the concept of comparative product testing is not very widely known. It began with the Sathi Nair Committee of the Ministry of Civil Supply and Public Distribution, supporting comparative testing in 1991. Here, products are tested before they are produced in the market but stress is not given on comparative testing of products. Neither the government nor the manufacturer provides information on the test report. In this situation, the voluntary organizations offer a helping hand. They conduct comparative tests in their own laboratories and make the result available to consumers. For example, the CERC, that is, the Consumer Education and Research Centre have set up a testing laboratory in the year 1994, for comparative studies. It has also set up an energy efficiency testing laboratory.

VOICE also began spreading its independent and nonpartisan comparative testing programme in the country with the advent of the Sathi Nair Committee in 1991.

The comparative testing of products aims to:

1. Provide a tool in the hands of the consumers for protecting their basic rights like safety, choice, information, right to redress etc.

2. Provide information on actual and non-market generated consumer needs.

3. Strengthen the informed choice aspects of products, counter slick advertising, misinformation campaign and multiple choices

4. Enable consumers to choose better and safe products

5. Serve as a link between the consumer, the manufacturers and the Government.

The main idea behind comparative testing of consumer products was to give the consumer the choice of products. As a result of rapid progress of this phenomenon, consumer education has touched the sky. Voluntary organizations act as an effective checkpoint in stemming the exploitation of the consumers. The voluntary organizations work in such a way that they remain directly in touch with the masses. Thus, they know about their concerns. The comparative tests conducted by these voluntary organizations are the main source of consumer's knowledge about the quality of many products.

Growing Consumer Awareness: Role of Media and Government

Today, the world is facing many challenges. Consumer protection is one amongst them. But as we look at the current economic and social upliftment, a variety of measures have been streamlined which have improved the present-day market situation. Consumer awareness is a new trend. Legislative and social measures have been taken not only to ensure flow of products in the market but also to check the standard, quality, etc. of the products. Consumers today are well informed. They know about their rights. Though, the degree of awareness is not very high, the trend of 'consumer awareness' is spreading.

Consumer awareness does not merely mean awareness about products and services in the market but also the knowledge of the three Ps, i.e., place to buy, price and promotion. Usually, 'word of mouth' and commercial advertisements on television, radio, newspapers, etc. add to consumer awareness.

Awareness is a lifelong process. A person learns new things on a daily basis. The most important step in consumer education is awareness of consumer rights, which is very important because consumers are badly exploited in the market. Advertisements talking of a definite standard, quality and usage of products are often misleading. Consumers are duped into buying products wrapped in fancy packaging and finding themselves falling into the trap easily. The skill of branding and selling has taken CenterStage in the markets. You see hoardings of your favourite TV stars, sportspersons and legends campaigning for some or the other brand. While the companies using these tactics play with the emotional quotient of the consumers, on the other hand, these stars, sportspersons and legends earn crores of rupees through brand endorsements. The recovery of cost comes out of the consumers' pockets—the very consumers who fall pray to these advertising techniques and buy any low-standard product without any proper check. As mentioned earlier, the producers avoid many guidelines for the sake of profit. They often display wrong information on the product, keep selling expired items and also understate the health warnings, etc.

A consumer has been provided with six statutory rights:

1. The right to be protected
2. The right to be informed
3. The right to be assured
4. The right to be heard
5. The right to seek redressal
6. The right to consumer education

However, the most precious of consumer rights which is often avoided is *'refusal to buy'*. A consumer has all the right to refuse to buy any good, which he thinks is unfit for him or which he thinks he does not need. The right to buy as per one's own choice holds the reign. Efforts have been made to make the consumer as self-sufficient as could be. Consumers find themselves lost in advertisements and fancy packaging and often forget to check the standards and quality of the products.

Nowadays, efforts to educate consumers have gathered momentum. Not only have local self-help groups come to the rescue, but the government has also enacted special legislations for consumer protection. In addition, the consumers themselves have grown more cautious about their purchases.

Government's role in consumer awareness

Any government should undertake consumer protection in the interest of the general society. Enforcement of various laws and the amendments to existing laws have been the main agenda of the legislative body. A number of measures have been taken by the government to protect the consumers' interests. A number of acts have been brought into force, like:

- The Prevention of Food Adulteration Act, 1954
- The Consumer Protection Act, 1986
- The MRTP Act, 1969
- The Competition Act, 2002

More than protecting the consumers, the need is to educate them and make them self-reliable. The government has understood the need of the hour and set up various plans for consumer awareness. The Department of Consumer Affairs has been assigned the duty of evolving a National Action Plan for consumer awareness and redressal and enforcing the Consumer Protection Act, 1986, during the 50th National Development Meeting held on 21 December 2002.

Consumer Protection Act, 1986

The definition of consumer right is 'the right to have information about the quality, potency, quantity, purity, price and standard of goods or services', as it may be

the case, but the consumer is to be protected against any unfair practices of trade. It is very essential for the consumers to know these rights. However there are strong and clear laws in India to defend consumer rights, the actual plight of consumers of India can be declared as completely dismal. Out of the various laws that have been enforced to protect the consumer rights in India, the most important is the Consumer Protection Act, 1986.

According to the Consumer Protection Act, 1986, everybody, including individuals, a firm, a Hindu undivided family and a company, have the right to exercise their consumer rights for the purchase of goods and services made by them. It is significant that, as consumer, one knows the basic rights as well as about the courts and procedures that follow with the infringement of one's rights.

Check Your Progress

1. What are the various segments of consumers?

2. What was the first consumer organization?

3. What are the three phases of consumer movement?

4. What are the rights of consumers?

10.3 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Consumers are divided into various segments in society—rich, poor, middle, upper rich, upper middle and many other classes.

2. The first organization that made a heavy impact on society for consumer causes was the Consumer Guidance Society of India (CGSI), Bombay. It was an initiative of nine women stay-at-home and Mrs. Leela Jog was the founder secretary of the society. This organization not only held public speeches and carried on consumer education programmes but worked on testing and reporting the quality of items of daily use such as foodstuff. Besides taking on the testing of quality, this organization provided legal assistance to those in need. It publishes a magazine in English for consumer information, called 'Keemat'.

3. The first stage where consumer education. The second phase of development began with open boycotting of goods which posed detrimental to the public. The third phase involved in setting up the various organizations as it involved educating, boycotting, demonstrating for the cause.

4. A consumer has been provided with six statutory rights:

   (i) The right to be protected

   (ii) The right to be informed

   (iii) The right to be assured

   (iv) The right to be heard

   (v) The right to seek redressal

   (vi) The right to consumer education

10.4 SUMMARY

- The reasons for Indian consumer protection movement was different from that of the West.

- In India, the basic necessities never overcame the luxuries of life. Therefore, the need for consumer movement in India was for different reasons

- The consumer movement is being fed by prudent consumer changes. The quality and quantity of good with reasonable prices is one of the main approaches of these movements.

- The consumer movements in India have shown remarkable results.

- laws like the Consumer Protection Act, 1986, and the MRTP Act which would not have been created without people support

- in order to know which product gives best quality, the idea of test laboratories have been formulated

- The United Nations has highlighted few guidelines which every manufacturer or producer must adhere to in order to ensure the protection of consumers' interests

- Governments often check the standards of goods of many manufacturers before these hit the markets but none of these standards have ever been known to the public.

10.5 KEY WORDS

- **Consumerism:** It is a social and economic order that is based on the systematic creation and fostering of a desire to purchase goods or services in even greater amounts.

- **Globalization:** It refers to the process by which businesses or other organizations develop international influence or start operating on an international scale.

10.6 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. Why did we need consumerism in the modern period in India?
2. Write short note on the achievement of the consumer movement in India.
3. What are the UN guidelines to ensure the protection of consumers?

Long-Answer Questions

1. Discuss the evolution of the consumer movement in India.
2. What is comparative testing? How it has helped consumers?
3. Elaborate on the role of government in raising awareness in the consumer and their protection.

10.7 FURTHER READINGS

Kumar, Arun, N Meenakshi. 2011. *Marketing Management.* New Delhi: Vikas Publishing House Pvt. Ltd.

Kotler, Philip. 1972. *Marketing Management; Analysis, Planning, and Control.* New Jersey: Prentice Hall, Inc.

Gandhi, J. C. 1985. *Marketing: A Managerial Introduction.* New Delhi: Tata McGraw Hill Publishing Company Limited.

Stanton, William J. 1984. *Instructor's Manual to Accompany Fundamentals of Marketing*, seventh edition. New Delhi: Tata McGraw Hill Publishing Company Limited.

UNIT 11 CO-OPERATIVE MARKETING

Structure

11.0 Introduction
11.1 Objectives
11.2 Cooperative Marketing: Meaning and Features
11.3 National Agricultural Cooperative Marketing Federation (NAFED)
11.4 Answers to Check Your Progress Questions
11.5 Summary
11.6 Key Words
11.7 Self Assessment Questions and Exercises
11.8 Further Readings

11.0 INTRODUCTION

In this unit, we will discuss the marketing of cooperatives. Cooperative marketing arises due to the prevalence of many defects in the private and open marketing system. The concept of cooperative marketing was first introduced in Europe. It is a type of organization where people voluntarily associate together as human beings, on the basis of equality for the promotion of their own economic interests. There are various advantages of cooperative marketing, especially in the rural sector. We will discuss the advantages, structure and features of cooperative marketing in this unit.

11.1 OBJECTIVES

After going through this unit, you will be able to:

* Describe features, structure and advantages of cooperative marketing
* Discuss the activities undertaken by NAFED

11.2 COOPERATIVE MARKETING: MEANING AND FEATURES

According to the Reserve Bank of India (RBI), cooperative marketing is defined as a cooperative association of the cultivators; this association is formed for the purpose of helping out the members to market their produce in a more profitable manner than done individually. There are several types of cooperative marketing societies. These may be for a single purpose or multiple purposes. The various types of marketing cooperatives are listed below:

- Single commodity
- Multi commodity
- Multi-purpose multi commodity

Single commodity marketing cooperatives deal in marketing of only one agricultural commodity for example cotton cooperative marketing society or sugarcane cooperative marketing society. Multi commodity marketing cooperatives deal in marketing of a number of commodities for example food grains, oilseeds, pulses, and so on. Multi-purpose multi commodity marketing cooperatives deal in the marketing of a number of commodities and also carry out several activities as providing credit and inputs.

Cooperatives in the Agriculture Sector in India

Farmers with common interests form cooperative societies to take over some of the functions performed by the intermediaries. These societies shoulder the responsibility of processing and marketing the produce for the member farmers. To increase the incomes of the farmers it is important to involve them in processing. The processed agricultural produce becomes a 'value-added' product and the benefits accrue to the farmers. A number of cooperative societies are engaged in this activity and a good example is the sugar cooperatives in Maharashtra, which are very powerful both economically and politically. There are similar examples in other states also for other agricultural commodities. The cooperatives provide inputs to the farmers and are also responsible for the implementation of the subsidy program of the Government; they have in their regular employment agriculture scientist giving advice on various aspects of the food crop.

The cooperatives also have a very strong distribution network to serve the needs of distribution of essential inputs as seeds, fertilizers and pesticides they also have soil testing facility.

A real beginning was made in the integration of production, processing and marketing of milk–a highly perishable product–with the initiation of 'Operation Flood I' programme. Subsequently this was followed by 'Operation Flood II and III'. Under this programme, the dairy farmers in villages were organized into village-level cooperative societies called 'Dairy Cooperative Societies (DCS)'. The DCSs form a Milk Producers' Cooperative Union at the district level. The Union takes the responsibility of collecting the milk from the DCSs, processing it in their dairy and marketing it. In addition, the Union also takes the responsibility of supplying necessary inputs required for milk production to the dairy farmers. The inputs could be cattle feed, fodder slips, health care, artificial insemination facilities; purchase of milk at an assured price and others related services. The Union at the district level forms a Milk Producers' Cooperative Federation at the state level. The federation gives the necessary help to the Unions and in turn to DCSs for production, processing and marketing of milk and milk products. These types of organizations are popularly known as 'Amul' pattern societies.

Diagrammatically, this can be represented as shown in Figure 11.1.

```
            FEDERATION        ↑
            (State Level)      │
    I                         O
    N         ↑               U
    P       UNION             T
    U    (District Level)     P
    T                         U
    S         ↑               T
            DCS
         (Village Level)
              ↑
    │                         │
    ↓       FARMERS           │
```
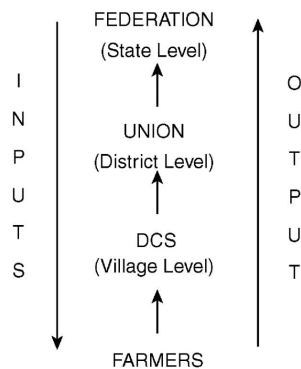
***Fig. 11.1** AMUL Pattern Organization*

The system of cooperatives is working satisfactorily, since all the inputs required for milk production are supplied with an assurance that irrespective of the quantity of milk supplied, the pre-announced, assured prices will not change. This type of an arrangement is in vogue in most of the states in the country and it is estimated that about eight to ten million litres of milk is collected everyday through these societies. The fact to be reckoned here is that the dairy farmers are the shareholders of the organization. Hence, the value addition in processing the fluid milk into butter, *ghee*, ice cream, milk based sweets and other milk products stays within the organization. In addition to dividends, the dairy farmers also get a bonus at the end of the year in proportion to the quantity of milk supplied which depends on the profits made by the organization. The payment for the milk supplied could be on a daily, weekly or a fortnightly basis.

At the time of payment, the cost of inputs supplied is deducted. Despite being successful and widely prevalent throughout the country, the proportion of milk handled by them is hardly 30 percent of the total production of about 120 million tonnes.

The initial aid for this scheme was provided by the European Economic Community in the form of skimmed milk powder and butter through the National Dairy Development Board set up by the Government of India. Operation Flood I concentrated on supplying the metropolis with milk, while Operation Flood II and III concentrated on supplying state capitals and district headquarters. During flush season, this system also provides for conversion of milk into white butter and skimmed milk powder, which have a shelf life. In the lean season, the skimmed milk powder can be reconstituted into milk to meet the demand. By and large, this scheme has been so successful that organizations are selling branded milk products. For example, the Gujarat Cooperative Milk Marketing Federation (GCMMF) sells all its products under the immensely popular brand 'Amul'. Similarly 'Nandini' in Karnataka, 'Aavin' in Tamil Nadu and 'Vijaya' in Andhra Pradesh are popular brand names for milk and milk products marketed by state federations.

Following the success of milk cooperatives in organizing the farmers for production, processing and marketing, similar efforts were undertaken in the area of edible vegetable oils. Most states have established the Co-operative Oilseed Growers' Federations with processing facilities and are marketing branded edible oil like 'Safal' (Karnataka) and 'Dhara' which are popular. Since these organizations are viewed as commercial ventures, they follow modern management practices.

Similarly, the Horticultural Producers' Cooperative Marketing and Processing Society Ltd. (HOPCOMS) established in 1959 at Bangalore, is engaged in collection of vegetables and fruits from their members for sale in Bangalore city. Initially known as the Grape Growers' Cooperative Society, it later diversified to include all horticultural produce. The society has opened centres at strategic locations to purchase farm-fresh vegetables and fruits. The produce is immediately transported into Bangalore City. About 150 retail outlets operate in Bangalore City to sell these vegetables and fruits to urban consumers. In addition to retailing, they also undertake bulk supply to institutions, industrial canteens, etc. With the primary objective of providing quality service and operating on a very low profit margin, the society has taken over the functions of intermediaries and rendered them redundant. Farmers are only too happy to sell their produce to the society. The society operates on the following lines:

  (a) The price is fixed as per market conditions.

  (b) Payment up to ₹2,000 is made immediately in cash and if above ₹2000, by cheque.

  (c) There are no malpractices in weight and no unnecessary deductions are made for quality since the produce is graded before sale.

A similar arrangement exists in Andhra Pradesh also under the name 'Fresh Marketing Society'. They ensure that vegetables sold to the consumers are always fresh. From the consumer point of view these societies are popular, as quality products can be bought at fixed prices and on accurate weight. The present policy of the Government is to encourage the establishment of food processing industries, since these are considered foreign exchange earners. This has given impetus to many entrepreneurs and multinationals to invest in food processing industries. Companies like MARICO industries, ITC Ltd, Lipton etc., are already in the edible oil manufacturing and marketing field while new entrants like Pepsi have targeted other areas. Entry of Pepsi has given a boost to tomato cultivation in four districts of Punjab. Pepsi exports tomato puree and paste and has a requirement of 600 tonnes of tomatoes every day. To this end, PEPSICO signed contracts with the farmers to supply tomatoes for processing. The agreement stipulates that they sell 60 per cent of their produce to Pepsi at a fixed price, while the balance can be sold in the open market. Farmers are supplied with high-yielding tomato seedlings and other inputs for cultivation, under the supervision of agronomists and extension staff of the company. The average yield of tomatoes, which was 19.5 tonnes per hectare, has shot up to 47.5 tonnes per hectare and certain individual farmers have even obtained yields as high as 75 tonnes per hectare. During 2010

PEPSICO procured about 80,000 tonnes of tomatoes and disbursed ₹48 crore to the farmers. This type of integration of production, processing and marketing is required in the case of marketing agricultural produce. Moreover, such operations will certainly boost the rural economy and consequently expand the rural market.

Another example worth mentioning here is that of 'Mahagrapes', comprising a number of Grape Growers' Cooperative Societies in the Pune-Nasik region. To meet the stringent quality requirements of export market, Mahagrapes imported equipment for harvesting, packing and precooling of grapes at a cost of ₹75 crore from the US. This has enabled Mahagrapes to export seedless grapes to UK and West Asia. With over 12,000 members, Mahagrapes has ambitions plans to reach an export target of about 12000 tonnes valued at about ₹30 crore. Again, this is a case of a farmers/producers' cooperative directly handling exports, bypassing intermediaries while the margins at each level of operation accrue to the society, thus increasing the income of the farmer-producers.

Other such examples abound. The returns to the farmers can increase substantially if the farmer-producers unite and take more initiative in processing and marketing. While the support or procurement prices have to be increased commensurate with the increase in input prices, this may not offer a long-term solution for achieving higher incomes. The farmers should be in a position to participate in processing and marketing, where the value-addition to the raw produce takes place, to realise higher returns.

The recent liberalization measures initiated by the government should have a significant impact on farm incomes. The dairy sector hitherto reserved for the cooperative sector only, has now been thrown open to the private sector also. With the marketing clout of the private sector, this should be a boon to the dairy farmers. Another is the decontrol of molasses. The price for sugarcane is normally linked to the recovery of sugar, which is the main product. Molasses was almost ignored since this was earlier under government control and released at a very nominal price. But molasses, when distilled into alcohol, attains a high value and this forms the basis for Indian Made Foreign Liquor (IMFL) and acetates. From acetates one can derive a number of chemicals for the pharmaceutical industry. Recently, the oil companies started marketing petrol and diesel with five per cent gasohol content, a distillate from molasses. But this aspect is totally ignored while fixing the price of sugarcane and only the sugar output is taken into account. Since the sugar mills will be free to sell molasses at the market price, the realizations will be more, which can be passed on to the farmers, at least in the case of Cooperative Sugar Factories. Since sugar is a controlled commodity, its releases are dependent upon government directives and as of today, many factories owe money to the sugarcane farmers. The molasses de-control and gasohol mix in petrol and diesel could help factories in clearing their dues to the farmers.

In addition, many by-products, which were thought to be of no value earlier, are now being used economically with the availability of necessary technology. For example, rice bran, which was normally fed to cattle, is now being used to

extract rice bran oil and the de-oiled cake is fed to the cattle. While paddy straw, husk, cotton stalks are now used for manufacturing hardboards. Bagasse, (the fibre left behind after extracting the juice from sugarcane) till now used as fuel in sugar-mills, is now being used for manufacture of paper, a high value product. Such technological innovations in utilization of by-products are necessary to ensure better income to the farmers.

There are several areas in which our country has to acquire technology of food processing. For example, India has been traditionally importing raisins. Adequate production of seedless grapes should meet the raisin needs and also avoid distress sale of grapes in peak season due to its high perishability. Now there are efforts in the direction of converting mangoes into mango powder by the Mahagrapes Society. This powder can be re-constituted with water to make mango paste and then mango juice at any time. Similarly banana powder can also be prepared, which has application in the bakery industry. Such technologies should be developed to give shelf life to highly perishable products like fruits and vegetables.

Structure of the marketing cooperatives

At the all India level, there is the National Agricultural Cooperative Marketing Federation (NAFED), then at the state levels are the different state marketing cooperative societies, followed by the district marketing cooperative societies and then primary marketing cooperative societies at the mandi level. At the mandi level there are 2,633 general purpose primary cooperative marketing societies at present, covering all the important mandies in the country, 3,290 specialised primary marketing societies for oilseeds, etc.,

The objectives of the marketing cooperative societies are built around the welfare of the members, some of the major objectives are listed below:

- To sell the products of the members in the markets which offer higher price.
- To enhance the economic condition of the members by giving them the bargaining power
- To help the members to identify the products which are more in demand and also to produce the best products.
- To prevent the manipulation of the prices and establish fair trade practices.
- To provide assistance to the farmers in procuring funds at lower rate of interest.
- To develop a better understanding amongst the farmers for all the processes of marketing.

Advantages of the marketing cooperative societies

The advantages of marketing cooperative societies are as follows"

- *Advantage of market intelligence:* The members of the cooperatives can obtain information about market price, demand and supply etc.
- *Reduction of cost:* Marketing cooperatives help in reduction of cost and in improvement of services.
- *Advantage of improved marketability:* Marketing cooperatives help in improving the marketability of products and reduce all the unfavourable expenditures.
- *Advantage of safeguard against price rise:* Marketing cooperatives help in safe guarding the interests of the members in regard to the rise in prices.
- *Advantage of availability of credit:* Marketing cooperatives help the farmers in getting credit and save them from selling their produce at low price.
- *Advantage of storage facility:* Marketing cooperatives help the farmers in getting better price for their produce as they provide storage facility to the framers and they need not sell it immediately after harvest.

Limitations of marketing cooperatives

Limitations of marketing cooperatives include:

- Most of the farmers are illiterate and do not understand the benefits of marketing cooperatives and therefore do not become a member.
- Most of the time the price decided by the marketing cooperatives is lower than the open market price.
- Less capital is available with the societies to meet the requirements.
- Sometimes the marketing cooperatives have insufficient storage spaces.
- The default rate is very high in case of the loans provided by the societies.
- Most of marketing cooperatives are dominated by traders and non-cultivators who care little for the interests of the farmers.
- New marketing cooperatives face shortage of funds and are unable to provide trade credit to the buyers.
- Most of the personnel working in the marketing cooperatives are most of the time not trained, qualified and are not competent enough to manage the affairs of the society.
- Most of the time the apex societies like NAFED do not provide enough motivation to the primary marketing cooperatives.

11.3 NATIONAL AGRICULTURAL COOPERATIVE MARKETING FEDERATION (NAFED)

On the auspicious occasion of Gandhi Jayanti (2nd October 1958), NAFED or the National Agricultural Cooperative Marketing Federation was established. NAFED is registered under the Multi State Cooperative Societies Act and has the objective of the promotion of the cooperative marketing of agricultural products and to benefit the farmers and promote trade of the agricultural products and forest resources to the entire nation. One of the largest procurement and marketing agencies for agricultural products in India is none other than NAFED. The main members of NAFED are the farmers who exercise authority in the working of NAFED as members of the general body. NAFED is under Ministry of Agriculture, Government of India. It has its headquarters in New Delhi and four regional offices at Delhi, Mumbai, Chennai and Kolkata, apart from 28 zonal offices in capitals of states and important cities. NAFED established a commodities exchange in 2008 by the name of National Spot exchange as a joint FTIL, Financial Technologies India Ltd.

Objectives

NAFED fulfils the core objective of organizing, promoting and developing marketing, processing and storing of the agricultural, horticultural and forest products, to distribute agriculture implements and machinery, export import trade, providing technical advice etc. To fulfil the objectives there are several activities undertaken by the NAFED. These activities are mentioned as follows:

- Facilitation, coordination and promotion of the marketing and trading activities of the cooperatives.

- Promotion of inter-state and international trade and commerce on its own or on the behalf of societies, member institutions or government or government organizations.

- To undertake import, export, sale, purchase and distribution of agricultural commodities, horticultural produce, forest produce, other articles and goods from other sources for pursuing its business activities. It also acts as the agency to canalize export and import and interstate trade. It also undertakes to set up branches or sub offices and appoints agents both within the country and abroad.

- It also undertakes sale, purchase and supply of agricultural requisites such as manure, seeds, fertilizers, implements and machinery, packing machines, processing machines etc.

- Under the Warehousing Act, it acts as a warehouseman. It undertakes to own and construct godowns and cold storages.

- Acting as an agent of the Government agency or cooperative to buy, sell, store and distribute agricultural, horticultural, forest and animal husbandry products, wool and other consumer goods.

- Acting as an insurance agent.

- For the benefit of the cooperatives and their members, it organizes consultancies in various fields.

- It undertakes to manufacture production requirements for agriculture, processing and packaging, machinery and implements, other requisites and customer articles by establishing manufacturing units by itself or by joint collaboration.

- It sets up storage units for the storage of various commodity and goods.

- Maintaining units of transportation, these are self-owned or in collaboration with other organizations for the movement of the goods on land, sea, air and operate freight stations, container depots etc.

- It collaborates with international agencies for the development of marketing, processing and cooperative activities and in turn has mutually beneficial relations between the two countries.

- It undertakes market research and provides information about the market.

- When required, it subscribes to the share capital and also goes in for business collaboration with other cooperative institutions, public, Private and joint ventures.

- It arranges for the training of the employees of the cooperatives.

- It establishes processing units for the processing of the agricultural produce, horticultural produce and forest produce.

- It undertakes grading, packing, scientific treatment; standardization and processing of agricultural produce.

- For the business of NAFED it acquires or hires or takes on lease the land, building, vehicles and other fixtures.

- It advances loans to its members and other cooperatives.

- It guarantees loans and advances and gives undertaking to any Society or company in which it has a shareholding or financial involvement as a promoter and assists in their development and expansion.

Management of NAFED

The management of NAFED has the power in the Board of Directors. The board comprises of the Chairman and Managing Director. The Board has two standing committees Executive Committee and Business Committee in its supportive role. As per the provisions of the MSCS Act/Rules and Bylaws of NAFED the board can constitute two more committees / sub committees.

Check Your Progress

1. List the various types of cooperatives.

2. What do single commodity marketing cooperatives deal in?

3. What is the objective of NAFED?

11.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The various types of cooperatives are as follows:

   - Single commodity
   - Multi commodity
   - Multi-purpose multi commodity

2. Single commodity marketing cooperatives deal in marketing of only one agricultural commodity for example cotton cooperative marketing society or sugarcane cooperative marketing society.

3. NAFED has the objective of the promotion of the cooperative marketing of agricultural products and to benefit the farmers and promote trade of the agricultural.

11.5 SUMMARY

- According to the Reserve Bank of India (RBI), cooperative marketing is defined as a cooperative association of the cultivators; this association is formed for the purpose of helping out the members to market their produce in a more profitable manner than done individually.

- Farmers with common interests form cooperative societies to take over some of the functions performed by the intermediaries. These societies shoulder the responsibility of processing and marketing the produce for the member farmers.

- At the all India level, there is the National Agricultural Cooperative Marketing Federation (NAFED), then at the state levels are the different state marketing cooperative societies, followed by the district marketing cooperative societies and then primary marketing cooperative societies at the mandi level.

- On the auspicious occasion of Gandhi Jayanti (2nd October 1958), NAFED or the National Agricultural Cooperative Marketing Federation was established.

- NAFED is registered under the Multi State Cooperative Societies Act and has the objective of the promotion of the cooperative marketing of agricultural products and to benefit the farmers and promote trade of the agricultural products and forest resources to the entire nation.

- One of the largest procurement and marketing agencies for agricultural products in India is none other than NAFED.

11.6 KEY WORDS

- **Mandi:** It is a Hindi word for a big market. It generally refers to agricultural markets in India.

- **Liberalization:** It means the removal or loosening of restrictions on something, typically an economic or political system.

- **Operation Flood:** It was a project of India's National Dairy Development Board, which was the world's biggest dairy development program.

11.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. Write a short-note on cooperative marketing in the agricultural sector in India.

2. Discuss the structure of marketing cooperatives.

Long-Answer Questions

1. Discuss the meaning, features and advantages of cooperative marketing.

2. What is NAFED? Describe the activities conducted by NAFED.

11.8 FURTHER READINGS

Kumar, Arun, N Meenakshi. 2011. *Marketing Management.* New Delhi: Vikas Publishing House Pvt. Ltd.

Kotler, Philip. 1972. *Marketing Management; Analysis, Planning, and Control.* New Jersey: Prentice Hall, Inc.

Gandhi, J. C. 1985. *Marketing: A Managerial Introduction.* New Delhi: Tata McGraw Hill Publishing Company Limited.

Stanton, William J. 1984. *Instructor's Manual to Accompany Fundamentals of Marketing*, seventh edition. New Delhi: Tata McGraw Hill Publishing Company Limited.

UNIT 12   E-MARKETING

Structure

12.0 Introduction
12.1 Objectives
12.2 E-Marketing and its Models
12.3 Answers to Check Your Progress Questions
12.4 Summary
12.5 Key Words
12.6 Self Assessment Questions and Exercises
12.7 Further Readings

12.0 INTRODUCTION

With the advent of internet and its growing uses marketing using the internet is inevitable. The utilization of the online mediums for marketing the products is called as e-marketing. The rising adoption of internet in the most populous countries like china and India. The over the top adoption and influence of social media plays major role in buying decisions of the consumer getting once business online is a must for every business.

12.1 OBJECTIVES

After going through this unit, you will be able to:

- Describe e- marketing
- Explain legal dimensions of e- marketing
- Define the pricing strategy for web
- Elaborate on the interests of rural consumer in e marketing

12.2 E-MARKETING AND ITS MODELS

The Internet is a worldwide network of computers that gives customers access to information and documents from distant sources. The Internet has the capability to transform the society. With the advent of the Internet, distance is no longer an obstacle for commerce. The Internet is the most important communication medium to have come along in the last few decades and businesses have to make wise use of this medium.

Types of networks

The value of the Internet lies in the connections it enables. The Internet enables three types of networks. The simplest is the one-to-many or broadcast network

through which a central supplier broadcasts information to a large number of users. A web portal delivers news and other contents to a number of visitors. More complex and more valuable is the one-to-one or transactional network, which connects individual users with each other to exchange information or complete other transactions. Common examples are e-mail and instant messaging. The third type of network is the many-to-many or group-forming network which allows network members to maintain communicating groups. Examples of group-forming networks are online communities and business-to-business exchanges.

In a broadcast network, as the number of users increase, its value increases in a linear fashion (n). Every new member adds the same amount of value, no matter how large the network becomes. In a transactional network, value grows much faster. Because each member increases the number of potential connections available to all other members, the value of each member keeps rising as the network expands. The relationship is captured in Metcalfe's law, which states that the value of a one-to-one network grows in proportion to the square of the number of users (n2). In a group-forming network, if all the potential two-person groups, three-person groups, and so on are added, the total number of possible groups equals 2n.

A network-platform business like America Online (AOL) provides a mix of network-based services to its customers. It broadcasts content like weather reports and news. Since content is served to one user at a time, it creates a value proportional to the number of users on the network (n). It also provides messaging services. The value of messaging grows proportionally to the square of the number of users (n2). AOL also enables users to form groups through mechanisms such as chat rooms. The value of such networks grows exponentially (2n). These networks come to dominate the overall value created by AOL. User attention shifts from accessing content to group-forming activities.

Group-forming networks can be very useful in business-to-business relationships. Customers can form groups to request customized products and services from suppliers. Suppliers can form alliances to create new products and services. As these networks grow, the value they deliver to their member companies will greatly magnify.

Navigation as a separate business on the Internet

In the world of physical commerce, customers face immense difficulty in making their choices. For instance, if a customer wants to buy a watch, he has thousands of different choices; and for making comparisons among them, he has to visit a multitude of stores. A broad search is time-consuming, difficult and almost always incomplete. In most categories of consumer goods, it is not possible for a customer to compare all the offerings from different players before making a choice. Customers rely on product suppliers and retailers to help them navigate among their choices. Product suppliers and retailers advertise, brand their offerings and build relationships with customers. Customers come to trust the product suppliers

and retailers and limit their search. In most consumer businesses, more profitability is derived from helping the customers make a choice. There is more money in creating a brand identity than in manufacturing and distributing products.

However, on the Internet, millions of people can exchange a massive amount of information directly, quickly and for free. Customers can search comprehensively and at negligible cost. They do not have to hop from one store to another. Navigation and selection can occur independently of physical warehousing and distribution. The influence of physical shoppers will be reduced as they do not control all the information about products. Product suppliers can sell directly to customers. Electronic retailers can focus on navigation and order fulfilment can be outsourced.

It is important to realize that navigation can be a separate business independent of production, marketing and distribution. The true business of Amazon.com is navigation. It has rapidly broadened its offerings from books to drugs to toys. It is not clear what limits the domain for which Amazon is the preferred navigator.

Navigation has three dimensions: reach, affiliation and richness. Reach is about access and connection. It means simply how many customers a business can access or how many products it can offer. Affiliation is about whose interests the business represents. Richness is the depth and detail of the information that the business gives to the customer or collects about the customer.

Reach

Physical retailers are constrained by the economies of things. Even the largest bookstore cannot carry more than a few thousand titles and is not accessible to more than a few thousand customers, howsoever conveniently located it may be. But Amazon.com offers few million titles and can be accessed by millions of computer users. This order-of-magnitude jump in reach is possible because the catalogue function is separated from the inventory function. Unconstrained by physical limitation, reach explodes. This explosion can extend beyond conventionally defined industry boundaries. If consumers value comprehensive search capabilities, then navigation should span across the search domain that consumers prefer. The first navigator to do so will have an advantage. The navigator has to realize that he is not constrained by the economies of things and should not mimic the physical retailers when deciding the items to be displayed in the catalogue. The business boundaries will be unstable as electronic retailers encroach on one another's territories.

The product supplier sees an opportunity to break away from the stranglehold of retailers and build direct relationship with customers. They provide navigational vehicle to their customers but if they offer navigation to only their own offerings, they cannot succeed as navigators. But some suppliers, like winemakers, welcome the explosion of information channels by which customers can find their products and services. In general, smaller players welcome navigators; but for larger players, the navigation functions of sales, marketing, advertising, branding and promotion

are precisely where their differentiation and competitive advantage lie. To lose control of navigation would be to lose ownership of a primary source of competitive advantage. The major players of a category can form an alliance to act as a navigator to their joint offerings. They will have more control than if an independent navigator were doing it for the customers.

If physical retailers have to succeed as navigators, they have to define the product mix without taking into account the constraints of space they face in the physical world. And they have to learn to fulfil orders in the most efficient way and not necessarily through their physical store. They should exploit the synergy that is possible between electronic retailing and physical retailing. Catalogue retailers are in an advantageous position. They refine their offerings continuously through data-mining techniques and their fulfilment systems are designed for remote delivery.

Affiliation

When a sales agent sells only one product line, he will push that as aggressively as he can. He has little choice but to serve as an agent for the product supplier. But if he has the whole universe of alternative products to offer, he is more likely to present them neutrally. And when the customer is equipped with all the information he needs to compare products, the salesperson will try harder to please the customer than he will to please any single product supplier. Companies providing navigation services are in similar position, and their affiliation should be with the customers rather than with the product suppliers. They have to provide extensive information related to the products and make it convenient for the customers to compare offerings from different suppliers. They should not be seen as being biased towards any supplier. Consumer-affiliated navigators are most useful when the selection criteria are simple and well defined. When the choice requires qualitative weightings of non-standard factors, pure navigators may be at a disadvantage as compared to suppliers because they lack the richness of information that suppliers are able to provide about their products. Customers are unlikely to delegate the task of selecting a new car to a human or electronic agent because it is too complex and subjective.

The product supplier is in the worst position to exploit affiliation because he has an interest in selling his product, which may not match what is in the customers' best interest. One solution to this problem can be to offer a navigation service that solves customer problems rather than one that merely pushes products. Objective information about products and services, which the company does not sell, can be provided in the consumer's search domain. Comprehensive but not necessarily comparable data on the company's products and those of direct competitors can be provided. The overall navigational proposition should favour consumer affiliation but maintain subtle seller affiliation.

Richness

Traditional retailers have detailed information about customers and the Internet enhances their ability to collect and use customer-related information. The company

can maintain a customer information file, say anniversary and birthday information, as well as a record of gifts sent to specific recipients. It can thus alert customers when a birthday or anniversary is approaching and suggest a gift. The Internet offers a great opportunity for this kind of cheap and infinite discrimination of offers, products and advertisements. Data-mining techniques can be applied to browsing behaviour as well as to purchasing history and demographics. It can identify a universe of people with similar tastes and it can recommend to individuals, products that the larger group has purchased. But physical retailers can collect rich data from other sources. Web-derived information, even when thoroughly mined, is actually a thin database compared with those developed by stores. By putting the two kinds of information together and using the web as means of customizing, businesses have the potential to build powerful relationships.

Product suppliers can provide extensive information about their products to their customers. If the product is continually evolving, the product supplier has the latest information that retailers and navigators cannot match. Whenever customers welcome evangelism, enthusiasm and strong connotative context, rich product strategies can be effective.

There is a strong logic for navigation services to operate as a separate business.

Economics of information and deconstruction of value chain

Before the advent of Internet technologies, a marketer had to make an important trade-off about the type of information he could send and the media by which he could send it. If he wanted to send small messages to a wider audience, he could use advertising, and if he wanted to send extensive messages to a small audience he could use salespersons to visit these customers and deliver the message. The marketer could send extensive messages to smaller audiences and also send brief messages to a large audience at a reasonable cost. But if he wanted to send extensive messages to a large audience, it was not possible to do so without enrolling an army of salesmen; and if he wanted to deliver a brief message to a small audience, he would find it very costly both through advertising and employing salespersons. This economics of information puts constraints on the development of the most efficient methods to deliver products and services. For instance, industrial buyers needed plenty of product and other information and employed salespersons to provide this information. But the industrial buyer had no interest in whether the product was delivered directly by the manufacturer or through a distributor. However, since the company was dealing directly with the customer, it also chose to deliver the product directly, which is always more costly than doing it through a distributor.

In most cases, the choice of the information channel was determining the choice of the product channel. But the product and information channels have different economics of operation (it is always economical to transfer products in bulk to the maximum possible distance and then break this bulk into smaller lots,

if needed, to be transported over smaller distances to customers), and combining them together created an inefficient system of transferring products and information.

The Internet has changed the economics of information. Now it is possible to transfer brief as well as detailed messages to both small and large audiences. The marketer does not make compromises between the richness of the message and its reach. Now he can get both. It is important that marketers understand the implication of the new economics of information and combine it judiciously with the economics of movement of goods. Marketers will have to design separate channels for products and information and let their individual economics govern their configuration. For instance, if the product and other information can be provided by information on the seller's website, e-mail and video conferencing, the product can be made available through a distributor. Similarly, a retail store does the twin task of providing product information to the customer and stocking products. Providing information to customers and stocking products again have different economics of information and combining them together in one channel-in this case, the retail store-is inefficient.

Marketers have made serious errors. While they understood and were eager to exploit the new economics of transfer of information, they forgot the economics of transfer of products. In fact, they made the blunder of believing that products can be transferred as easily and as cheaply as information, and that transfer of an individual product via courier is the same as bulk transfer. Marketers again decided the channel of products according to the channel of information they were using and incurred unsustainable costs.

Internet marketing will prosper as it is based on strong and irrefutable advantage of easy and cheap dispersion of all types of information to all types of audiences. However, channels of information and product should be decided based on their individual economies. One should never be allowed to influence the other.

Scope of e-marketing

Commercial websites have to incur enormous marketing expenditure to set themselves apart from the crowd, inspire web shoppers to visit their sites and then get them to actually make a purchase. The acquisition cost of customers on the web is sometimes higher than the average lifetime value of their customers. Companies will have to make a multifaceted, integrated customer acquisition strategy that reflects a sophisticated understanding of the economics of an online business.

- **Banner advertisements:** Acquiring customers through banner ads can turn out to be prohibitively expensive. For instance, initially CDnow paid 7 cents for each person exposed to its banner ad. Assuming that 1 per cent of people who saw the ad clicked through to the CDnow site, CDnow was paying $7 for every visitor to its site. And again assuming that 1 per cent of customers who visited the site would actually buy, the cost of acquiring a

customer was $700. The acquisition costs are reduced when an e-business has to pay less than 7 cents for each person exposed to its banner ad, but if a company had to solely rely on banner ads for acquiring customers, it would still be very costly.

- **Affiliate marketing:** An e-business can motivate other websites to put up links to its website. CDnow launched a revenue-sharing arrangement. When a customer clicked through from an affiliate's website to the CDnow website and actually bought a CD, CDnow gave a small percentage of the revenue from the sale back to the affiliate. Websites related to music are particularly good affiliates since their visitors might be interested in buying CDs. Websites interested in joining the affiliate programme can sign themselves up automatically with a few clicks on CDnow's site. Therefore, the system is affordable and grows naturally. The system is built on the interconnections intrinsic to the web and on the web's ability to monitor and track activity in real time. CDnow knows how many visitors arrive from each member's site and how many visitors are converted into buyers.

- **Integrated strategy:** Banner ads and affiliate programmes reach only those potential customers who are already online. It is also important to acquire customers in the physical world. This usually means investing in traditional media like targeted magazine, radio and television ads. The connection between marketing expenditures and customer acquisition are not as direct as in the case of banner advertising and affiliate programme. Powerful forms of offline advertising—television and radio ads, word of mouth, publicity campaigns—influence customers and cannot be ignored if a strong brand and a large customer base have to be built.

Virtual marketing system

Internet marketing of products failed as the economics of transfer of information and the economics of transfer of products were different, and at this point in history the difference was irreconcilable. Companies should have stayed content with providing information to their customers on their websites and through e-mails and get some efficiencies. Deconstruction of the value chain of product markets has not happened and will require a technological leap in methods of transfer of products to happen.

However, markets for information products should have seen deconstruction of their value chains as the economics of transfer of information products and the information about them are the same. A piece of news and an e-mail asking for subscription for a newspaper can be sent in a similar manner and at more or less the same cost. But people have not been very enthusiastic about information products being provided on the Internet. People access news websites to know about a particular story they might be interested in subscribing to at that time. Most likely news items to be accessed may be linked to fortunes of one's favourite team or presidential candidate and that too when a television set is not around.

Deconstruction of the value chain of newspapers has not happened because people do not buy newspapers only for informational content. With a newspaper in hand, people probably feel that they are still in some control of events in the world or are at least aware of them. Like newspapers, most other information products mean more to the customer than merely the information it contains. Unless that 'more' is also provided, acceptability would be low.

So far, Internet marketers were focused on finding out the feasibility of marketing a particular product via the Internet, and as soon as feasibility was established went ahead to launch the Internet version of the product-with disastrous results. The appropriate strategy will be to revisit the market as novices and learn minute details of motivations of their prospective customers. Since doubts about feasibility have been erased, it is time to go back to the basics of marketing and find out the conditions of acceptability of information products. Internet marketers have been assuming the acceptability of their products so far. The assumption has cost them dear.

B2B exchanges

By bringing together huge numbers of buyers and sellers and by automating transactions, web markets expand the choices available to buyers, give sellers access to new customers and reduce transaction costs for all the players. By extracting fees for the transactions occurring within the B2B marketplaces, market makers can earn vast revenues. And because the marketplaces are made from software, they can scale with minimal investment.

Business purchases can be classified into manufacturing and operating inputs. Manufacturing inputs are the raw materials and components that go directly into a product or service. These goods vary considerably from industry to industry and are purchased from industry-specific or vertical suppliers and distributors. Chemical companies require hydrochloric acid and car companies require braking systems. They also require specialized logistics and fulfilment mechanisms depending on the types of goods being traded. Operating inputs do not become part of the finished products and are called maintenance, repair and operating (MRO) goods. They include things like office supplies, spare parts, airline tickets and services. They are not industry-specific and bought from horizontal suppliers like Staples and American Express that serve all industries.

The second distinction in business purchasing is how products and services are bought. Companies can engage in systematic sourcing or spot sourcing. Systematic sourcing involves negotiated contracts with qualified suppliers. The contracts are of long term and buyers and sellers develop close relationships. Component buying by automobile companies can be one example. In spot sourcing, the buyer's goal is to fulfil an immediate need at the lowest possible cost. Spot transactions do not involve a long-term relationship with suppliers. Buyers may not even know who they are buying from. Commodity trading for oil, steel and energy are examples of spot sourcing.

B2B markets can be classified into four categories by applying the two classifications of manufacturing-operating inputs and systematic-spot sourcing.

- **Businesses buy operating inputs by systematic sourcing:** The operating inputs are low value goods and e-businesses can provide value by increasing efficiency in the procurement process. E-businesses like Ariba give buyers access to consolidated MRO catalogues from a wide array of suppliers. They can use third-party logistics suppliers to deliver goods.

- **Businesses buy operating inputs by spot sourcing:** The procurement process is already sufficiently efficient. E-businesses add value in situations of high price and demand volatility, such as electricity, and in markets where there are huge fixed-cost assets that cannot be liquidated or acquired easily such as manufacturing capacity.

- **Businesses buy manufacturing inputs by spot sourcing:** E-businesses allow purchasing managers to smooth out fluctuations in demand and supply by rapidly exchanging commodities or near-commodities needed for production. The e-business maintains relationships with buyers and sellers, making it easy for them to do business without negotiating contracts or deciding upon the terms of relationships. E-steel does this job in steel industry.

- **Businesses buy manufacturing inputs by systematic sourcing:** E-businesses automate the sourcing of non-commodity manufacturing inputs and create value by reducing transaction costs. They bring together many suppliers at one website. E-businesses are industry-specific and may also be buyer-focused or seller-focused, i.e. they can work as virtual distributors for suppliers or work primarily for buyers in their negotiations with sellers.

Websites associated with E-marketing

Consumers in the developed world have appreciated the concept of online shopping and have started increasingly relying on this mode for fulfilling their shopping needs. Although this concept is relatively new in India, several online shopping websites are available in the market. Many have started getting positive response from consumers, who strike attractive bargains by shopping through these websites.

Some of the popular online shopping websites are as follows:

- http://www.indiavarta.com/
- http://www.ebay.in/
- http://www.homeshop18.com/
- http://www.futurebazaar.com/indexFutureBazaar.jsp
- www.shopwiki.com/
- www.amazon.com/
- www.shop.com/
- www.vizageshop.com/

- www.india-diet-shop.com/
- http://www.indiaplaza.in/
- http://www.naaptol.com/
- http://www.thisismyindia.com/shopping/

Aggregation of demand on Internet sites

Traditionally, a seller advertises a unit of supply in the marketplace at a specified price and a buyer decides to take it or leave it. Internet companies like Priceline turned the model around. The company allows a buyer to advertise a unit of demand to a group of sellers. The sellers can then decide whether to fulfil that demand or not. In effect, Priceline provides a mechanism for collecting and forwarding units of demand to the interested sellers. It acts as a demand collection system. But there is a limitation for customers. When a customer makes an offer for an airline ticket through Priceline, he is basically asking for a generic service-getting from point X to Y on a particular day. He does not specify the airline, the precise route or departure/arrival times. The seller is able to see the latent demand in the marketplace that exists for products and services beneath their established prices. And because the customer's offer is irrevocable, guaranteed with a credit card, the seller can count on it. This constitutes important incremental sales for the seller.

The seller is anonymous through the buying process. It gives him two benefits in addition to the incremental sales. The seller gets a price shield. It can maintain the integrity of its established prices because it never advertises that a lower price is being filled. The seller avoids the problem of free riders-people who take discounted prices even though they would have been willing to pay the full price. The seller also gets a brand shield. If it had publicly advertised a lower price for its product or service, it would have eroded its brand.

The customer would eventually come to know the identity of the seller but he probably would feel grateful than be worried about the brand image of the seller. What will be worrisome, and which probably will decide the future of these sites, is the reaction of the customers who have paid the full fees for the same service. It will not be unusual for the passengers to check with each other the prices at which they have been able to get their tickets. Customers will have serious reservations about being charged different amounts for the same service. And there may be serious erosion in the brand equity of the sellers. They may not be willing to respond to such offers.

However, there is no denying the value in the concept. Some businesses like airlines and hotels have a very large proportion of their cost as fixed cost that they would incur even if the airlines or the hotels were only half-full. It makes huge sense for them to fill their seats or their rooms even at a lower price. The model makes economic sense for sellers as well as customers who avail of the service at lower prices. The only problem is with customers who have paid the full price.

Can some justification be given to them? Can some concessions be given to them after all the tickets have been sold? For the model to be a success the customers who have paid the full fees will have to be placated; otherwise, the seller will have to sell the entire product range only at half prices or even less.

Experience products

It has been widely believed that e-commerce will pose a serious threat to retailers. By allowing shoppers to compare prices, the Internet will turn every purchase into a price war. Customers will hunt for bargains and there will be no loyalty towards retailers. But this is not true.

There are two distinct groups of products. The first group contains items that customers do not need to see in person before purchasing. These products, which include everything from computers to compact discs to canned foods, can be evaluated using text, pictures and other digitally communicable information. These goods are ideally suited for Internet shopping and they will be subjected to price competition. The second group possesses different characteristics. These are experience goods and include goods like clothes and grocery products that people prefer to see and touch before purchasing. People may buy such products from websites but only after they have had personal experiences with them. As a result, online shoppers seeking experience products will tend to buy items that they are already familiar with, and from those websites from whose physical stores they have bought such items earlier. Their loyalty to retailers will thus become stronger.

A retailer who sells experience products need not make his website elaborate and expensive. Retailers of experience products should consider their physical stores to be the key channel for acquiring and building relationships with customers. Their website can be used as fulfilment channels, organized to handle repeat orders at a low cost. The advent of e-commerce may make traditional merchandising all the more important.

Syndication

Syndication is the sale of the same goods to many customers, who then integrate it with other offerings and redistribute it. Syndication is widely practised in the entertainment world. Production studios syndicate TV programmes to broadcast networks and local stations. Syndication lies at the heart of the business model of Internet companies. Online brokerages, such as E*Trade, offer their customers information like stock quotes, charts, financial news and research. The company does not develop the content on its own but purchases most of it from outside providers like Reuters. The content providers also sell the same information to many other brokerages. E*Trade distinguishes itself from its competitors not through the information that it provides, but through the way it packages and prices that information. But syndication on the web is not limited to the distribution of content. Commerce can also be syndicated. One company can syndicate a payment system

or a logistic platform or fraud detection and credit-scoring algorithms to many other e-businesses.

Within a syndication network, businesses can play three roles, as originators, syndicators and distributors.

Originators

They create the original content. The Internet has expanded the scope of original content that can be syndicated and it has become easier for any company or individual to disseminate that content globally. Anything that can exist as information can be syndicated.

Syndicators

They collect and package digital information in a way that adds value to it. They bring together content from a variety of sources and make it available through standard formats. Content syndicator Screaming Media collects articles in electronic form and delivers to its customers only the content relevant to them. A site catering to auto racing enthusiasts would receive a steady stream of up-to-date racing news and features. It charges monthly fees based on the volume of filtered content its customers' desire and pays the content providers in the form of royalty.

Distributors

These are customer-facing businesses. Women.com creates its own content which is integrated with the syndicated information from partners such as ABC News, and also distributes shopping services syndicated from a variety of partners like eToys. Women.com organizes these online retailers' merchandise into relevant categories such as gifts, clothing, cosmetics, etc. When a customer makes a purchase, she does so through a special hyperlink connected to the partner site rather than through Women.com. Women.com does not hold inventory or process transaction, but it receives a percentage of each sale for bringing in the customer.

Amazon's syndication strategy

The site could offer a dramatically larger selection of books than any physical bookstore, but so could other on-line retailers. Under such circumstances, competition could have been only on price. Amazon signed up thousands of affiliate sites that provide their own visitors with hyperlinks that enable them to make purchase through Amazon. Amazon pays them some commission on sales made. It is, in effect, syndicating its store to other locations. Amazon also hosts small e-commerce providers on its own site for a fee from them.

Pricing on the Web

Two types of pricing approaches have been followed by e-businesses. New Internet companies offered untenably low prices in an effort to capture first mover advantage. The established companies simply followed their offline prices on the web in the

belief that their brand strength will enable them to charge prices higher than those prevailing on the web. Both strategies are faulty. The Internet allows companies to price with far more precision than they can offline. It is easy for customers to compare prices on the Internet. It is also easy for companies to track customer behaviours and adjust prices accordingly.

It is believed that the Internet will drive down prices and customers will opt exclusively for the lowest prices. It is believed that price will be the most important factor differentiating products and services for online consumers, outweighing quality, service and reputation. When asked, even customers tell that they buy online because of lower prices. However, the online behaviour of customers is very different from what is commonly believed. Most buy from the first site they visit and they visit the same sites again and again. Few online customers are aggressive bargain hunters. Price is also not the main consideration in corporate buying. Online corporate buyers hope to reduce their search and transaction costs, and most of them do not want to get lower prices at the expense of suppliers' profit margins. They believe that both the buyers and suppliers should benefit from the reduced transaction cost on the web. Reverse auctions, which are designed to push down prices, are not popular among corporate buyers. And even when they buy through reverse auctions, they do not choose the lowest bidder and stay with their current suppliers despite higher prices.

Prices are not very important on the web but suppliers should not raise prices indiscriminately. The fundamental value of the Internet lies not in lowering or raising prices but in optimizing them. The Internet gives companies greater precision in setting and announcing prices and better information, which can lead to better customer segmentation.

- On the Internet, prices can be tested more accurately as compared to the physical world. All products have a pricing indifference band, a range of possible prices within which prices change that have little or no impact on customers' purchase decisions. These ranges can be as much as 20 per cent. Being at the top rather than at the middle or the bottom of this band can have a huge impact on prices. Determining the borders of these indifference bands in the physical world is difficult and time-consuming. In the physical world, it is extremely difficult to reliably test customer response to price changes. On the Internet, prices can be tested continually in real-time and customer responses can be instantly received. An e-business can find out the sales impact of a 5 per cent price increase by quoting the higher price to every hundredth visitor to its site and comparing the purchase rates. Such tests can also help an e-business predict sales fluctuations when products are priced outside the indifference band. An electronics company reduced the price of a high-end model of its product line by 7 per cent and the sale of the product doubled. The company analysed the data and learnt that the price reduction uncovered a whole new segment of high schools and universities, which were not buying at the previous higher price.

Companies testing prices online must take care not to alienate customers. In a price test, Amazon.com offered DVD buyers discounts of 30 per cent, 35 per cent, or 40 per cent of the retail price. When the test was given, a section of customers who had been quoted the smaller discount were angry. Companies should remember that the purpose of such tests is to gather information and not earn revenues. Some companies, when they test a price higher than one previously published, they refund the difference as soon as the purchase order is complete. Companies can also test customers' different approaches to discounting. A company found out that customers buy more quickly and accept higher prices on clearance items when they see a price reduction than when they are told that only a limited quantity is remaining. Such tests in a physical store would be extremely expensive and complex, and would not yield as much in-depth understanding.

- Changing prices in the physical world takes time. A lot of time is needed to communicate changes to distributors and retailers, to print and send new price lists and to change signs in stores. Online pricing is easier and faster to change and companies can benefit even from small fluctuations in market conditions, customer demand and competitors' behaviour. Prices on preprinted tickets are set far in advance and there is no way of changing it. Tickets.com can adjust ticket prices based on supply and demand and have been able to generate much more revenue per concert. Internet sales can push prices higher, especially when demand fluctuates sharply. Prices of hot products, from video games to luxury cars to concert tickets, are higher online than offline because there are higher chances of finding a buyer willing to pay a higher price on the Internet. Because of the price flexibility on the Internet, companies have to accurately assess and respond to the balance between supply and demand in their industry. When products are in great demand, prices can be temporarily raised. When demand lags, a company may experiment with lower prices and auctions.

- Different customers value a product's benefits differently and some of them may be willing to pay higher prices than others. In a physical store, it is difficult to decipher the combination of price and benefits that would trigger a purchase and whether a customer would buy at the full price or will buy only when there is a discount. Online customers can be segmented quickly because it is able to capture the behaviour of the customer and keep a track of it. E-businesses know the purchase history, reaction to promotional offers, etc. of their customers. Once a company has identified an online customer segment, it can offer a segment-specific price or promotion immediately. Ford offered discount financing and cash-back programmes to all customers on a broad range of models over specific periods of time. The Internet has enabled Ford to target promotions at just those models that would benefit most and to just those customers who would actually respond. The Internet can also identify customers who buy regularly from

the company and those who normally buy from competitors but buy from the company in case of emergencies. Such irregular customers can be charged higher prices.

A company has to exploit the opportunities provided by the improved pricing precision, adaptability and segmentation on the Internet. But the company's e-pricing policies should not be in conflict with its key strategic objectives, core business principles or brand image. An online price sensitivity may suggest that lowering the price for a new product would increase profits but the price cut will not make sense if the company was trying to position the product as a premium product. A retailer may not like to charge different prices to different customers if it fears that it would be perceived as inconsistent and untrustworthy. But a bank can offer different interest rates to customers, because customers understand that more profitable, loyal, wealthy customers justifiably receive better interest rates on loans.

Interest of rural consumers

India's contribution and participation in the IT and e-marketing revolution has been commendable. However, most of the efforts have been service-oriented and less at adoption of IT for benefit of Indian citizen. The last few years have witnessed a phenomenal growth in the country with respect to the usage of IT in almost every aspect of the lives of people, primarily in urban and organized sections of the society. However, despite this widespread usage of IT in the urban areas of the country, the IT wave has failed to touch the shores of rural India, keeping it marginalized, from modern digital highways and the benefits associated with it.

However, the rural people in general, and the poor in particular, are in no way to be blamed for the situation. Though successful attempts have been made to exploit the power of IT and the Internet for the benefit of the rural poor, most of them have had an indirect and delayed impact, not resulting in any direct, tangible and immediate benefit. For example, the creation of information kiosks (like Warana and Gyandoot projects) in the rural areas to disseminate information to the local rural people has proved to be a very effective means of disseminating information of importance to the local people. However, such information kiosks can hardly help the rural poor who suffer from want of basic literacy and livelihood. As rightly observed in the Background Report of Information Technology for Masses, focused attempts must be made to exploit the power of IT to provide new opportunities, preferably in a form that translates into financial benefits, for these people so that they are able to better confront the poverty. With their daily bread & butter assured, the rural poor will be in a better position to appreciate and reap the benefits of the information kiosk.

Intellectual wealth associated with Internet has been one of the major factors that has propelled its popularity and growth. Another factor that is assuming equal importance is the enormous growth potential that Internet holds for small and big businesses alike. Electronic commerce or e-commerce, as it is commonly known,

over the Internet is becoming a very attractive proposition for any entrepreneur including the rural poor. The advantages of conducting business over the web are many. The ones that specifically appeal to the problem domain at hand are as follows:

- The major advantage that the Internet offers for a business is its global availability. Even a little known enterprise can realize the vision of expanding its market reach beyond geographic boundaries and local customer segments.

- The Internet allows an enterprise to conduct its business at a very low cost. The cost for operating and service support can be reduced greatly through the use of internet.

- It facilitates greater visibility; once the enterprise and its products are better known, more business flows in.

Accuracy, speed and availability have remained prominent characteristics of the various elements of IT and Internet framework. These offerings must be carefully picked up, seamlessly assembled and relentlessly sustained to strengthen and enrich the endeavours of the rural poor while at the same time overcoming the limitations confronted by them.

Check Your Progress

1. What measure should a physical retailer do in order to become a good navigator?
2. On what basis is the classification of B2B markets done?
3. What are two group of products available on internet?
4. What are the two pricing strategies followed on the internet?

12.3 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. If physical retailers have to succeed as navigators, they have to define the product mix without taking into account the constraints of space they face in the physical world. And they have to learn to fulfil orders in the most efficient way and not necessarily through their physical store. They should exploit the synergy that is possible between electronic retailing and physical retailing.

2. B2B markets can be classified into four categories by applying the two classifications of manufacturing-operating inputs and systematic-spot sourcing.

3. There are two distinct groups of products. The first group contains items that customers do not need to see in person before purchasing. These products, which include everything from computers to compact discs to

canned foods, can be evaluated using text, pictures and other digitally communicable information. These goods are ideally suited for Internet shopping and they will be subjected to price competition. The second group possesses different characteristics. These are experience goods and include goods like clothes and grocery products that people prefer to see and touch before purchasing.

4. Two types of pricing approaches have been followed by e-businesses. New Internet companies offered untenably low prices in an effort to capture first mover advantage. The established companies simply followed their offline prices on the web in the belief that their brand strength will enable them to charge prices higher than those prevailing on the web.

12.4 SUMMARY

- The Internet is a worldwide network of computers that gives customers access to information and documents from distant sources.

- It is important to realize that navigation can be a separate business independent of production, marketing and distribution

- B2B marketplaces, market makers can earn vast revenues. And because the marketplaces are made from software, they can scale with minimal investment.

- Business purchases can be classified into manufacturing and operating inputs. Manufacturing inputs are the raw materials and components that go directly into a product or service.

- Syndication is the sale of the same goods to many customers, who then integrate it with other offerings and redistribute it. Syndication is widely practised in the entertainment world.

- Within a syndication network, businesses can play three roles, as originators, syndicators and distributors.

- Two types of pricing approaches have been followed by e-businesses. New Internet companies offered untenably low prices in an effort to capture first mover advantage. The established companies simply followed their offline prices on the web in the belief that their brand strength will enable them to charge prices higher than those prevailing on the web.

- On the Internet, prices can be tested more accurately as compared to the physical world.

- Online pricing is easier and faster to change and companies can benefit even from small fluctuations in market conditions, customer demand and competitors' behaviour

- A retailer may not like to charge different prices to different customers if it fears that it would be perceived as inconsistent and untrustworthy

- the Internet is becoming a very attractive proposition for any entrepreneur including the rural poor. The advantages of conducting business over the web are many

- Rural Bazaar offers several services to its users who may be broadly classified as the producer, the content manager, the business manager, the technical manager and the customer.

12.5 KEY WORDS

- **Syndication:** It is the sale of the same goods to many customers, who then integrate it with other offerings and redistribute it.

- **B2B:** B2B or business-to-business is the exchange of products, services or between businesses, rather than between businesses and consumers.

12.6 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are the applications of e-marketing?
2. Classify B2B markets into four categories.
3. What is aggregation of demand on websites?
4. What is syndication strategy?
5. Write short note on interest of rural consumer in e-marketing

Long-Answer Questions

1. Explain why navigation is a different business in e-marketing?
2. Describe the process of pricing on the web.

12.7 FURTHER READINGS

Kumar, Arun, N Meenakshi. 2011. *Marketing Management.* New Delhi: Vikas Publishing House Pvt. Ltd.

Kotler, Philip. 1972. *Marketing Management; Analysis, Planning, and Control*. New Jersey: Prentice Hall, Inc.

Gandhi, J. C. 1985. *Marketing: A Managerial Introduction.* New Delhi: Tata McGraw Hill Publishing Company Limited.

Stanton, William J. 1984. *Instructor's Manual to Accompany Fundamentals of Marketing*, seventh edition. New Delhi: Tata McGraw Hill Publishing Company Limited.

BLOCK IV
CUSTOMER RELATIONSHIP MANAGEMENT

UNIT 13 CONCEPT OF CUSTOMER RELATIONSHIP MANAGEMENT

Structure

13.0 INTRODUCTION

In any business organization, there are a multitude of business processes and technologies. customer relationship management (CRM) binds and integrates these processes and technologies in a creative way so that a business organization can provide the best possible service and care to their customers at various points of interaction.

Till recently, most marketers focused on traditional modes of marketing and acquired few customers from their target segments, which is now proving to be highly ineffective. Today's approach to marketing involves relationship marketing, customer retention, up-selling and cross-selling. Earlier, there was more focus on the product and its sale; now, the focus is more on customers and relationship marketing. The customer has now become the centre of activities. There is a sudden shift towards customer orientation as organizations have realized that the customers

are a business asset, which when managed effectively can derive continuous and sustainable economic value for an organization in the long run.

The emergence of CRM as a business strategy has radically transformed the way organizations perform.

13.1 OBJECTIVES

After going through this unit, you will be able to:

- Understand the evolution and growth of CRM
- Examine different definitions of CRM to fully know its meaning and scope
- Understand the importance of CRM functions in the functioning of today's organizations
- Analyse the role of CRM in improving customer relationships

13.2 EVOLUTION OF CUSTOMER RELATIONSHIP MANAGEMENT (CRM)

The basic reality is that consumers or customers are self-centred. They tend to look at themselves first before the organization. So, the aim is to address their problems in a way that profits both the organization and the customer. CRM involves managing people, processes and technology.

Relationship with customers has existed since the advent of trade and business and as such, there is no requirement of literature and research on customer relationship. What we need to study is the change in context of the buyer/seller relationship over the ages. This is how our system of trading customer management has evolved over the years.

Barter System: In the barter system of trading, there was a mere exchange of goods and services. Exchange could take place between two persons only if each possessed the goods which the other wants, e.g., if a farmer needs shoes and he has grains to offer in exchange for shoes, he needs to identify a cobbler so that they can exchange goods. This system gave an opportunity to establish a one-to-one relationship.

Customized Products: The next era saw the production of goods and services as per the requirements and needs of the customer. Skilled craftsmen created goods that were customized for buyers in direct contact with them. Here again, the requirements of the buyer were kept in mind while designing the same. The relationship was still kept within a similar group of customers.

Industrialization and Mass Production: Slowly, industrialization gave way to mass production and in turn establishment of larger networks of producers and consumers paved the way for competition and survival of the fittest. With the

extension of markets, buyers and sellers were separated and there was little one-to-one contact. To service this widespread client base, intermediate wholesalers/retailers came up. They were themselves valued customers of the manufacturer, though not a direct consumer. These intermediaries took on the responsibilities of storing, transporting, distributing and selling the products to the final customers. This brought greater efficiencies and lower costs for the manufacturers. It also created layers between the manufacturer and the actual consumer, thereby reducing direct contact with the customer and creating a void between the manufacturer and the consumer.

Post-industrial Era: This era has seen rapid advances in technology and an intensive competitive market. This has resulted in the growth of the service sector and adoption of total quality management. Tremendous progress in information, communication and production technologies have helped the business organizations come closer to their customers. Advancement in technology has helped and assisted the marketers to overcome the shortfalls of mass marketing. Since consumers from different market segments are different and varied, the success of the corporations now lay in building capabilities/systems in anticipating and satisfying customer needs. The concept of addressing individual needs in a mass production environment has led to building a one-to-one relationship with the consumers.

The endeavour to excel and reach out to the farthest and the most complicated consumer has led to the evolution of another specialized system which is called Customer Relationship Management (CRM).

13.3 MEANING AND SCOPE OF CRM

CRM has been spoken of and understood in various forms by management experts. CRM should not be merely identified with customer relationship management, as that does not really consist of all that CRM provides to a business. The subject and practice mean different things to different people. To a vast majority, it stands for an IT capability for facilitating relationship management. To some it is a 'contact centre' for managing relationship with consumers through telephone/e-mail/web/mail, etc. Others view it as a one-to-one 'relationship marketing' and still others consider it as 'post-sales' management of customers. CRM is all this and much more.

CRM aims to look at such aspects that will enhance an organization's capability to manage and nurture its relationship with its consumers.

CRM seeks to provide customer delight. It is the road from brand trial to brand usage to brand advocacy. It is a passion to please the customer and a search for excellence and quality in every interaction with the customer. Successful CRM is what successful enterprise is all about. Managing external and internal customers individually and together is what is required; for example, sales need to

balance the external customers' needs with the internal needs of production and finance. Similarly, the marketing section needs to balance advertising product claims with product delivery and product development.

As such CRM is –

1. Understanding the customer and his needs
2. Understanding the business organization and its goal
3. Understanding the relationship of the organization with the customers
4. Providing a strategy to optimize customer satisfaction and promising 'customer delight'.

The interesting fact here is to note that the customer needs keep changing at an increasingly fast pace and the challenge for an organization forever remains to keep up with the requirements of the customers and meet their demands. As a result, the scope of CRM applications is ever increasing. Practising CRM in order to exceed customer expectations is the answer to ensuring customer delight.

13.3.1 Definitions of CRM

There is no universally accepted definition of CRM. It is neither a product nor a service; it is an overall business strategy. It provides an integrated view of the customer. It also provides a holistic view of the organization and its approach to business. The main emphasis of CRM is on the cooperative and collaborative relationship between the firm and its customers. Such cooperative relationships concentrate on long-term orientation rather than short-term transactions.

Various definitions by CRM experts are as follows:

- Robert Shaw defines CRM as an interactive process for achieving the optimum balance between corporate investments and the satisfaction of customer needs to generate the maximum profit.

- According to Gartner, 'CRM is a business strategy designed to optimize profitability, revenue and customer satisfaction.'

- Atul Parvatiyar and Jagdish N. Sheth define CRM as a competitive strategy and process of acquiring, retaining and partnering with selective customers to create superior value for the company and the customer.

According to Bob Thompson, CRM is a business strategy that applies to every organization. It means working with customers such that they receive great service and are motivated to return again and again to do more business with the company.

CRM (UK) Ltd defines CRM as the establishment, development, maintenance and optimization of a long-term, mutually valuable relationship between consumer and organization. Successful CRM focuses on understanding the needs and desires of the consumer and is achieved by placing these at the heart of the business through integrating them with the organization's strategy, people, technology and business processes.

Examining each of these definitions, we can say that CRM is 'a management process of acquiring customers by understanding their requirements, retaining customers by fulfilling their requirements more than their expectations and attracting new customers through customer specific strategic marketing approaches'.

The concept of CRM involves acquisition, analysis and use of knowledge about the customers with a view to effectively sell more and more goods and services. The process invites total commitment on the part of the entire organization in learning about the customer and then customizing the marketing mix to evolving and implementing customer-centric strategy to not only retain the existing customers, but also to attract new customers.

CRM ushers in improvements in customer service to facilitate long-term sustained customer satisfaction. It paves the way for enhanced customer satisfaction, encouraged repeat purchase, improved customer loyalty, reduced customer switchover, economized marketing costs, and augmented sales revenue, thereby contributing towards a greater profit margin for the firm throughout its life.

13.3.2 Factors Motivating Companies to Adopt CRM

A combination of demand and supply factors accelerates the adoption of CRM. On the demand side, rising customer expectations force businesses to adopt CRM, and on the supply side, technological advancements and declining costs of information and communication technology reduce the barriers to adoption of CRM initiatives. It is generally one or more of these below mentioned basic fundamental business reasons which induce a company to be more and more customer centric and focused.

- **Competition:** With increasing globalization and e-commerce, corporate offerings are increasing and becoming commoditized. It is becoming more and more difficult to differentiate products and services. Helping customers to select the right product has become an essential part of marketing activities. Customer's expectations too are high and they put great pressure on marketers.

  Today's customers prefer choices tailored to their needs. Marketers of products and services face tremendous opportunities as well as challenges. While rewards of good performance just about help them to remain competitive, the punishment for failure is fierce. In such a scenario, CRM shows companies the way to increase customer loyalty, earn higher margins and build a stronger brand.

- **Consumer expectation:** Today, customers in the emerging markets have greater access to information about products, services and lifestyles. E-commerce has made trading altogether different where all products and services are available at the click of the mouse. The information explosion has played a significant role in raising customer expectations and aspirations. This has introduced the necessity of using CRM by companies to truly

understand their customers and respond to their needs, and be able to customize all elements of marketing mix to satisfy these customers. Amazon.com is an example in this context. A survey of 3000 businessmen by Price Waterhouse Coopers and the University of Bradford showed the benefits of quality customer service. The survey found that in cases of high customer satisfaction, bills were paid at least fourteen days earlier than in cases of poor customer satisfaction.

- **Technology:** The cost of CRM technology has dropped, so it is now easier to justify systems that can consolidate the customers' 'touch points'. Advances in affordable technology will help the manufacturers to meet the diverse needs of the customer. IT has become an enabler in allowing marketers to offer unique solutions to individual customers. We can take the example of ICICI Bank, which reported that 70 per cent of its transactions are conducted through electronic channels (Economic Times, 26/02/2004). This is bound to grow as consumers demand for hassle-free product information and prompt delivery and efficient service standards.

- **Greater awareness:** Customers in emerging markets have greater access to marketplace information about products, services and lifestyles through both traditional media like newspaper and television and new media like cable television and the Internet. The information explosion has played a significant role in raising customer aspirations as well as expectations. Whether it is TV, newspaper, direct mail or e-mail marketing, all forms of advertising have created awareness not only about the products but have also made comparative analysis between competitive products much easier. With CRM strategies in place, organizations can target their messages more specifically, hold people's attention better and retain customers longer and at a lesser cost.

13.4 ROLE OF CRM IN IMPROVING CUSTOMER RELATIONSHIPS

CRM programmes implemented by firms help to improve the relationship between the customers and the firm. The effective implementation of CRM results in the following:

1. CRM establishes an in-depth understanding between the firm and its customers, by tracking customer needs, buying habits, likes and dislikes, tastes and preferences on a continuous basis and formulation of dynamic marketing strategies.

2. CRM can be employed to understand the shifts in consumer preference in various micro-segments, and can help in balancing the conflicting and changing purchase criteria.

3. CRM ushers in improvements in customer service to facilitate long-term sustained customer satisfaction. It paves the way for repeat purchase, improved customer loyalty and reduced customer switchover.

4. CRM practices can help a firm in reaching out to wider group of customers in a more desirable manner at a lower cost and thereby generate higher sales volumes and contribute to greater profit margin for the firm throughout its life.

5. CRM as a tool enables the firm to close the gap between management perception and customer expectations.

6. CRM as a functional tool helps in reducing costs by customizing products and providing personalized services.

7. CRM helps to build a referral client base for long-term use.

13.4.1 Benefits of CRM

Studies by the US-based Bain and Company, a leading global business and strategy consulting firm, show that with time, a customer becomes more profitable because the initial cost becomes more than the gross margin while the retention costs become much lower. When an organization retains the customer, it gets a larger share of the customer's money at a higher profit. It has been observed that 1 per cent increase in sales to existing customers can increase profits by only 3 per cent, thereby highlighting the belief that the cost of acquiring new customers is very high and that of retaining the old customers is always beneficial and more revenue generating. Studies have also highlighted that a company can increase its profits by up to 85 per cent if it is able to increase its annual customer retention by only 5 per cent.

Similarly, studies have also shown that chance of selling a product to new a customer/prospect is 15 per cent, while it is 50 per cent to an existing customer. As such, marketers today have started looking at the lifetime value of the customers. They are shifting their focus from just trying to sell their product to understanding customer needs and wants and then satisfying their needs, thereby leading towards a relationship orientation. The one-to-one contacts create opportunities for better understanding and an emotional bonding which help in building relationships. In the case of a professional service provider like a doctor or a consultant, for example, he is involved in production and delivery of service by direct contact with the customer. He is in a better position to understand and appreciate his needs and constraints, all of which facilitate relationship building. Firms dealing in hospitality business, financial services, telecom and airlines are the early adopters and users of CRM.

Business firms which have decided to implement the CRM strategy can enjoy a number of advantages. CRM helps these firms to:

- Build one-to-one relationship with the consumers with a view to improve customer satisfaction.

- Build customer retention and loyalty.

- Deliver a single, informed view of the customer.

- Improve customer acquisition rates.

- Improve cross-selling and up-selling.

- Boost the contract or the call-centre effectiveness.

- Improve the effectiveness of field service.

13.5 DIFFERENCES BETWEEN MARKETING AND CRM

The main purpose of traditional marketing was to sell products. The aim was to find customers, thereby creating an environment for an exchange that satisfies both the customer and the organization. In this process of exchange, two or more parties are involved; an agreement is reached and a transaction takes place. This transaction was may be a one-time exchange with a short-term focus to make one-time profit. This is broadly referred to as 'transactional marketing'.

With increased competition, the transactional marketing concept shifted attention from the factory to the customers and to their varying needs. Now a company's focus was to develop appropriate segment-based offerings and marketing mixes. The concept of marketing mix became the mantra for business success. The marketing mix was otherwise known as the 4 Ps of marketing and emphasized on the four principle aspects of marketing—Product, Price, Placement and Promotion. The decade of 1980 saw sales and marketing respond to the buyer's demand for more cooperative relationships. Michael Porter's concept of 'competitive forces' had become the theme of market strategists. As companies headed towards the twenty-first century, 'solutions' became the buzzword in the marketing lexicon as the concept of value started replacing products and services.

Where once the job of marketing was just to develop contextual offering of products, services and experience to match individual customer requirements, today it involves a total organizational commitment throughout the firm's operating system to continuously explore, create and deliver individual customer value in a very dynamic and competitive environment. This relationship orientation was built around the idea of treating customers in an individualized way with marketer's focus on image building and development of long-term, mutually beneficial relationships with the customers. The successful value creation requires an understanding (a) of the basic components of customer value and (b) of the ways by which the resources in a business could be aligned to deliver the value to its chosen value segment. This requires a market-focused and customer-driven commitment, which addresses whether the business firm's customer value commitment is the best value for the customer relative to any other factor in the marketplace. Their strategies emphasized on the addition of customer value through the following:

(a) Service enhancements.

(b) Incentive.

(c) Interactions that reflect the differences in the prospective lifetime value of each customer. This type of analysis requires a great deal of technological support.

Lester Wunderman has put it the following words:

'The call of the industrial revolution was, "This is what I make, won't you please buy it?", which has now given way to that of the customer revolution which declares, "This is what I need, can't you please make it".' From a company being the hunter, the consumer has now become the hunter informing the company of his specific requirements, proposing the price he will pay, and establishing how he wants to receive the company information and advertising.

Fundamental Requirements of Relationship Marketing

The fundamental requirements of relationship marketing are:

- **Focus on customer**

  The focus of relationship marketing approach is on customers. It emphasizes on understanding and satisfying the needs, wants and resources of select consumers rather than those of mass markets or market segments. It focuses on all the functions connected with the value creation and delivery chain of the organization concerned. There is total integration between the different processes and stages of product's sale and servicing. Customer centricity emphasizes placing the customer at the core of the operations and then designing all the processes and activities around him. Skills of market segmentation, targeting and positioning have become the key to maximizing both the efficiency (doing things right) and the effectiveness (doing the right things) simultaneously, at the customer level.

  Let us look at an example from our banking structure wherein earlier banks used to operate through their branches. The working hours were fixed and the customer had to go to his individual bank branch to operate. The processes of the bank were largely driven by the convenience of the bank and its internal processes of carrying out transactions rather than by the convenience of the customers. There was no sensitivity for the customer. Customer service also suffered greatly. When banks decided to adopt a more customer-centric approach and set up various ATMs, they opened their offices on Sundays and holidays, extended their working hours and opened call centres, and customer retention and acceptability grew manifold. The concept of home banking and Internet banking is a further development in customer centricity and it has made the process more convenient for the consumers.

- **Focus on profitability**

  The next step involves the shifting of focus from sales volume to profitability. Delivering higher customer satisfaction in each chosen segment to produce loyal customers, whose repeat purchase would lead to increased profitability, has become the focus of organizations.

  When managing for profitability (and not for sales volume) the firm focuses on the value its products could create for its customers in the competitive marketplace. Managers have always believed in the saying that increasing the market share can increase the profitability. In all these cases, market share has always been a measure of organizational performance. A market share orientation can be represented on the dimensions of 'needs satisfied' and 'customers reached'. Companies with this kind of orientation will satisfy limited needs through their products but try to reach a large segment of potential customers.

- **Focus on marketing practices**

  Initial approaches to marketing focused more on products and less on markets. Under the selling concept, a company's task was to sell and promote products in an effort to win as much volume as possible and thus maximize profits. The job was to hunt customer prospects wherever they could be found and use the persuasion power of personalized selling to make a sale. Management gave little thought to segmenting the market and developing different product and service versions that met the varying needs in the marketplace. Product standardization was the key coupled with mass production, distribution and marketing. The result was a product-centric firm that looked at decreasing the cost of production. The main activities of such a firm involved promoting, pricing, and distributing the products for the mass markets. Subsequently, many more new firms started entering the market and the resultant increase in product choices caused firms to look at market segmentation. The main aim of traditional marketing was to sell products. The aim was to find customers for company's products. With increased competition, the marketing concept shifted attention from the factory to customers and to their varying needs. Companies' aim shifted from the factory to customers and their varying needs. The focus was now to develop appropriate segment-based offerings and marketing mixes. Skills of market segmentation, targeting and positioning became imperative.

  The marketing segmentation recognizes that the customers have distinctive needs, preferences and buying patterns. It is the process of analysing the market in order to define, in a creative manner, the distinct groupings of the customers for whom the firm has the potential to offer superior value. This means identifying the 'target market' and developing specific products for the target group of customers. The market targets should be those groups of customers that offer the best returns on marketing investments and greater profit opportunities.

Advantages of Relationship Marketing

According to Leonard I. Berry, relationship marketing attracts, maintains and enhances customer relationship. From an organizational point of view, relationship marketing leads to the following:

- The business process automation and downsizing have reduced the manpower costs.
- The production and operation costs have been reduced through Just-in-Time (JIT), Total Quality Management (TQM), flexible manufacturing systems, and efficient supply chain management.
- Lower costs of customer retention and increased profits due to lower defection rates.
- Generation of more and more loyal customers.
- Increase in the number of profitable customers.
- With availability of a wide database, there is greater efficiency in decision-making.
- Reduction in perceived risks with future decisions.

The customers are also benefited by relationship marketing in terms of improved service quality, personalized care, increased value for money and reduced stress. Relationship marketing goes far beyond repeat purchase. Greater value is added through the involvement of customers, sharing of information and bonding between customers and marketers.

Strategies for Practising Relationship Marketing

Strategies towards practising and maintaining sustainable relationship differ from one organization to another, depending on certain factors. These include nature of business, its size, its market share, nature of product, volume of sales, geographic concentration, socio-economic status, lifestyle of the customers concerned, competitor's strength, and so on. A wide spectrum of strategies is practised by customer-driven organizations with national and global perspectives wherein people, processes, organization, competitors, product and pricing play major roles.

People

People within the organization form the primary basis for building relationships. Everyone in the organization must realize the fact that their work is towards satisfying customers. Everyone from the lowest to the highest level, irrespective of their functional specialization and responsibilities, must integrate their activities towards the objectives of the organization, which is providing customer satisfaction and delight.

Product

The product offered must constantly provide value addition. The expectations of customers may always be on the increase due to various reasons. A customer satisfied with a given product may soon become a dissatisfied customer in view of the changes that take place in his expectations.

Processes

A process involves a logical sequence of activities right from the need identification of potential customers to need fulfilment. Need fulfilment requires manufacture of products with desired attributes. The process has to be derived from the customer's viewpoint, which paves way for total customer satisfaction. The performance of each link must be objectively analysed and corrected in tune with the internal and external customers' expectations; just as a customer once put up his thoughts on delighting him——'Do not offer me shoes, offer me the comfort and the pleasure of walking feet. Do not offer me book, offer me the benefit of knowledge'.

Defining service standards

A customer not only expects quality products but also quality services. An organization is expected to render services in three phases—pre-sales, during sales and after sales. During pre-sales when the customer develops expectations, the organization must ensure quality and availability of the product in time. During sales, when the customer experiences the sales process, the organization must provide the customer an opportunity to inspect, and treat him with courteous attentiveness, prompt reply, etc. On completion of the sale, the organization must provide supporting services, such as speedy replacements, simplified complaint procedure, efficient maintenance and repair services, and so on. Such services, which are provided immediately and instantly, will bring total customer satisfaction.

The service elements are the 'invisible impacts' but remain important attributes to the product and its sale. To measure the service quality, a customer may say that he dislikes waiting for a telephone to be answered or to be put on hold for a long time. For a company it is very easy to assess and measure the service attributes of this telecall – how many rings were made before the call was answered? For how long was the call put on hold? How many transfers were made before the client could be satisfied? What was the total time spent by the client in redressing his complaint? These are all tangible and visible aspects of service quality and can be measured for perfection of service.

Competitors

An organization must focus constant attention on the competitors' performance, their strategy and style of operations, and compare the same with its own performance. Customers always make this comparison and decide their future purchase pattern. An organization's performance must always be a step ahead of its competitor and it must know that the customer feels the difference.

Customer analysis

Customers referred here include the present customers and also the prospective customers who are presently consuming the products of competitors. These customers must be periodically analysed from several perspectives, such as the factors that make them buy, their level of satisfaction, their placement in the loyalty ladder, and so on. This analysis is to be performed not only on the existing customers but also on the former customers, so that corrective actions may be initiated to retain current customers. Organizations should also have a thorough knowledge of the purchase behaviour pattern of their customers. The requirements of the customers are bound to change in tune with the changes in their lives, demographic and psychographic profiles, and their related aspects. As an example, we may observe that the size and shape of the average US consumer today is dramatically changing from what it was 60 years ago when size 8 was the average size. Today it is size 14. Changes in lifestyle and way of living keep changing and to meet up to customer requirements, it is essential that these changes are carried out from time to time. Customers up to a given point of time would concentrate on life maintenance needs and then to lifechanging needs, which will be followed by life enhancing needs. During these stages, the customers' requirements also undergo changes. The organization must see that there is a sense of matching between the customer requirements and that of the organization's requirements. Periodical customer satisfaction would provide a meaningful insight into the customers' attitude and their behaviour and also form the basis for developing appropriate strategies to retain relationship with the customers.

Irrespective of the standard of a product or services offered by an organization, it is more than likely that few customers reach a level of dissonance and dissatisfaction. An organization must be proactive towards customer dissatisfaction. As such, customers will not come forward to show their displeasure, but will simply make a brand switchover. To avoid this, the causes for dissatisfaction are to be identified and have to be attended well. If a complaint is well attended, the customer becomes more loyal to the organization.

13.6 TYPES OF CUSTOMER RELATIONSHIP MANAGEMENT

The CRM philosophy is based on the principle that for the survival of any service organization, the interests, needs and demands of the customers must be given top priority. In no circumstances should the customer have a feeling that he is being ignored and given pseudo attention. The industry or the business enterprise must provide a unique identity to each and every customer. Random treatment to customers can prove disastrous for a company. There are numerous instances of companies getting dissolved just because they neglected their customers. Any organization who does not give priority and respect to customer needs and aspirations will not survive for long.

The CRM concept is not new to the business organization. All the reputed and successful industries had been providing the best possible support to the customers; but now with the increase in the magnitude of business transactions and ever-increasing expectations of the customers, it not humanly possible to fulfil the demands and requirements of the customers without the support of highly sophisticated technology and wholehearted involvement of the people in the organization.

Experts have broadly classified CRM activities into three different types for its proper understanding and implementation. The CRM activities are as follows:

- Operational CRM
- Analytical CRM
- Collaborative CRM

However, ultimately, all the three types of CRM modules must integrate and merge to make CRM applications a success.

13.6.1 Operational CRM

It represents automation of business processes while interacting with customers at front offices, back offices and also while interacting with other companies and partners, such as suppliers/vendors, distributors and various other associations helping in the growth of business.

The central idea of operational CRM is to install software that provides a single window service to customers and business partners and renders support to marketing, sales force, service staff and other distribution channels for reaching the existing customers and prospects in a planned and systematic manner, for relationship building and for the sale of company's products.

In operational CRM, technology is used by an organization to automate some or all the business processes and initiatives. However, the organization must understand that a piecemeal implementation of CRM techniques may prove counter-productive. There is no harm in implementing automation in stages, but the objective should be to bring all operations and processes under the umbrella of customer-friendly technology.

The main focus is to provide technological support to customers facing processes at various levels of their interaction with an organization. In simple language, an operational CRM creates the latest technology and introduces easy-to-operate software to help the customers at all levels of their contacts and touch points with the organization.

The technology provides the contact history of a customer which helps the staff to immediately access important information on the customer about the product owned, prior support calls, and the nature of his complaint, without obtaining all this information directly from the customer. This gives a feeling to the customer that he is being taken care of.

The other objective of operational CRM is to provide transaction-level data about individuals and products, and offer support for customers through processes such as direct mail, phone interaction, web-based communications, point-of-sale of information, etc.

Another area where technological support is provided is regarding information about the products, pricing and their comparative analysis. Customers should be able to know the details of distribution channels so as to reach them easily for buying the products. The products' details and their pricing should be displayed with full transparency to help customers take a considerate decision before buying.

Banks have gone much ahead in the implementation of operational CRM. ATM, phone banking, Internet banking are some of the applications of operational CRM. Bank account balance and other transactions are being intimated to an account holder by SMS on mobile. Most of the operations can be done through Internet banking. Some banks have even introduced mobile banking.

Life insurance companies have also made good progress in automating many of their processes. Most of the insurance companies are giving the status of an insurance policy on telephone through Interactive Voice Response (IVR) and on the Internet. One can know the updated premium position, surrender value acquired and the amount of loan available on one's policy just on telephone and on the Internet. Various options are being provided to pay the premiums, such as through the Internet, by ECS, credit cards, and smart cards.

In earlier times, policy holders suffered a lot at the time of payment of premiums, claim settlements and various other operations. The procedure for survival benefit, loan and surrender payments were very cumbersome. Many of the processes have now been computerized giving relief to the customers but true implementation of CRM in insurance industry is still a far cry.

A Customer Interaction Centre (CIC) is a critical component of operational CRM, whether implemented for sales, marketing, or customer service function. The CIC is the key to consolidating customer interaction and developing a unified view of the customer. Every customer issue cannot be resolved by technology. CICs play a very useful role by having one-to-one interactions with the customers and finding solution to the problems by personal intervention.

Today, consumers approach the business in more ways than from the past. The consumers are well informed, and they prefer to interact with the organization before buying, at the time of buying and after buying. The various interaction sources through which one gets in touch with the organization are called customer touch points. Operational CRM provides these touch points. All these customer touch points are a valuable asset to an organization. Ignoring them would keep an organization in the dark about the feedback and reaction of the customers towards the organization and its people. All information and views available at these touch

points need a thorough analysis to understand the customers' level of appreciation for the organization.

13.6.2 Analytical CRM

Analytical CRM deals with creating a comprehensive customer knowledge base called data warehouse. A data warehouse is a system for storing and delivering huge quantity of data that can be used for analysis and decision-making. In a data warehouse, all the information available from different parts of an organization is stored for further analysis and classification as per the need of an organization.

Most of the data in the data warehouse relates to customers' interaction with an organization and helps an organization to understand customers' behaviour, likes and dislikes and their criticism, and appreciation towards an organization. It also reflects the attitude and approach of the people in an organization towards the customers. Customers interact with a company at various levels. It captures all the relevant customer information giving a 360-degree view of the customers.

Data marts are subject-specific data warehouses which stores department-wise information. The data stored in the data warehouse is intelligently segregated and classified and stored according to the line of business.

Using the classified and segment-wise data is referred to as data mining. Data mining is the analysis of data for relationships that previously was not known to the organization. It helps us to know customers' buying pattern, buying behaviour and latent needs. By data mining activities, relevant data is extracted to understand customer behaviour, identify desired customer segments, segregate potential and valued customers for marketing and servicing activities.

Predicting customer behaviour, identifying the desired customer segments, finding high net worth clients, etc., are some of the functions that could be performed with the support of analytical CRM.

Many business organizations are continuously seeking the help of analytical CRM to approach their existing customers for developing long-term relationship with them. The analysts also provide the data of new prospects, who have been trying to contact the enterprise for one reason or the other.

Marketing automation means the application of information system technologies to sales activities. It includes accurate business forecasts, generating customized presentations and proposals and personalized communications by the field representatives. It also handles the entire sales pipeline from lead generation to closure.

Analytical CRM helps to create a database called a data warehouse and select subject-specific data called data marts. Mining the data generates customer profiles and categorizes the customers into various segments. New customers are acquired through sales leads provided through analysis and reports.

A customer can be an individual, family or a corporate. Insurers need to know more about them, their lifestyle preferences to cross-sell and up-sell. Analytical CRM helps in acquiring new customers and gives support for retaining the existing customers through proper service and relevant customer information. It works to create customer profiles, and analyses customer ordering history for a positive and pleasant interaction with him.

The most important method is to build a correctly designed data warehouse and invoke its data, both current and past, for regular analysis and for ad hoc needs. The data can be used targeting right types of customers through call centres, telemarketing, direct mailing and personal contacts.

Analytical CRM can provide support to evaluate the performance of different products and their financial viability. In insurance companies, analytical CRM technology plays a vital role in generating information about performance of the product, providing comparative review of business based on number of policies, annualized premium, geographical spread of business, mode and method of payment, etc. It also generates business figures in terms of agents, managers and branches, for review.

Profitability analysis by product, channel, geographical area, and so on, can be made and shared with all concerned. Persistency rate of policies, details of loyal and profitable customers can be known for taking necessary steps to bind them permanently with the organization. Analysis of the behaviour of the existing customers can help to acquire and retain new customers.

Capturing data of customer interaction with the organization, the analysts measure and predict customer behaviour, his temperament, attitude and financial needs and views about the organization. This information is passed on to the marketers to systematically deal with the individual customers with the purpose to serve them better and simultaneously offer them new products of the company to suit their needs at different stage of their lives.

Though all customers should get due attention by the organization, there is a select group of customers who need special attention. There are some customers who are expected to bring more revenue for the organization. Hence, customer value is expressed in terms of customer profitability over a long-term relationship. The organization and salespersons arrive at customer lifetime value by calculating the revenue they and their referrals will generate over a period of time. Improving relationship with the existing customers will optimize up-selling and offer up-selling opportunities.

Up-selling is part and parcel of customer service. Customers' needs change with time. The existing products sometimes do not match the newly created financial needs and requirements. It is therefore highly desired that the organization approach their old and loyal customer for offering new products matching their newly created needs. The organization should not give a chance to the existing customer to buy the products which are available with them, from other organization.

Cross-selling gives an opportunity to the existing customers to buy products of other companies at the counter arranged by his own organization. Selling insurance products by banks (bancassurance) is an example of cross-selling. This has become a great source of revenue for the banks. However, the success of cross-selling depends upon the degree of trust and confidence which the customers have reposed in the organization.

CRM involves all areas of the organization and all functions of the organization. It requires all areas of the organization to work together in harmony towards a common goal of stronger customer relationship. By integration of marketing, sales and service strategies, high-value customers can be targeted in the most effective manner.

13.6.3 Collaborative CRM

The information systems have evolved tremendously and so have the communication systems. The commercial penetration of the Internet into homes has changed everything. This has led to the evolution of CRM, which uses the Internet to integrate the customer contact points directly with the enterprise.

A true collaborative CRM will result into a position where customers, distribution channels, staff and all agencies connected with an organization work as partners with the single objective of taking the organization to such levels of profitability and prosperity that enriches and engulfs every stakeholder and ultimately even the society at large.

The collaborative CRM provides a point of interaction between customers, staff and business partners through Web technologies (e.g., personalized publishing, customized communications, developing e-mail communities, conferencing, web-enabled customer interaction centres, etc.). It creates a partnership relationship with the customers and the clients. This includes technologies such as e-mail, phone, the Web, portal, IVR, Computer Telephony Integration (CTI), conferencing, etc. Staff members can share information collected about the customers while interacting with them with members of other departments.

Collaborative CRM's main objective is to use information collected by all departments to improve quality of services provided by an organization. It also plays the role of a data distributor to sales, marketing and service people and to customers as well. The ultimate goal is to bring customers closer to a company and find new markets.

Prospective buyers can access information about products, can calculate premiums and view the benefits and salient features of a product on the Internet.

Collaborative CRM is a merger of all CRM modules. There will be sharing of relevant information among customers, sales force, distribution channels and other connected agencies. In collaborative CRM, customers no more remain outsiders. They become part of the business operation. They chat and interact with the industry people on matters relating to their choice and selection of products,

and all issues relating to service and additional requirements. The customer gets a wide platform to understand and deal with the product and people of the enterprise.

The most important role that collaborative CRM plays relate to retention of existing customers, acquiring new customers and winning of loyalty of high value customers. This in the long run will result into improved revenue and reduced cost.

Customer is king and business strategies must be built for earning customer loyalty. It costs five to ten times more to create a new customer than to retain an old one. The proper implementation of collaborative CRM leads to retention of customers.

Analytical CRM provides relevant data about each and every customer. This gives an ideal CRM opportunity by creating segmentation of customers based on their lifestyle, financial status, needs, buying pattern, lifetime value, future prospects, etc. The organization uses this database for building long-term relationships with the customers. In the life insurance industry, the customers sign contracts with the insurance companies which run into many years. Hence, the customers' needs and problems must be taken care of at every stage of their lives.

Life insurance companies must ensure that policies do not get lapsed and all the services are provided in a very smooth way. The customers must be assured continuously that the insurance products they have purchased are the best and they must keep the policies in force by paying regular premiums. They should be given all insurance policy-related services promptly in a personalized manner. The employees should be trained and motivated to understand the importance and long-term benefits of retaining the customers.

Check Your Progress

1. Define CRM.
2. What are the factors that motivate companies to adopt CRM?
3. Mention two ways in which CRM improves customer relationship.
4. Mention two advantages of implementing CRM in business firms.

13.7 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Customer relationship management (CRM) is a management process of acquiring customers by understanding their needs, retaining customers by fulfilling their requirements more than their expectations and attracting new customers through customer-specific strategic marketing approaches.

2. The factors that motivate companies to adopt CRM are as follows:
   - Competition
   - Consumer expectation

- Technology

- Greater awareness

3. Two ways in which CRM improves customer relationship are as follows:

- CRM establishes an in-depth understanding between a firm and its customers, which can be employed to understand the shifts in consumer preference that ushers in improvements in customer service to facilitate long-term sustained customer satisfaction.

- CRM practices can help a firm in reaching out to wider groups of customers in a more desirable manner at lower cost.

4. The advantages of implementing CRM in business firms are as follows:

- It builds one-to-one relationship with the consumers with a view to improve customer satisfaction.

- It builds customer retention and loyalty.

13.8 SUMMARY

- CRM aims to look at such aspects that will enhance an organization's capability to manage and nurture its relationship with its consumers.

- Successful CRM is what successful enterprise is all about. Managing external and internal customers individually and together is what is required; for example, sales need to balance the external customers' needs with the internal needs of production and finance.

- Atul Parvatiyar and Jagdish N. Sheth define CRM as a competitive strategy and process of acquiring, retaining and partnering with selective customers to create superior value for the company and the customer.

- The main purpose of traditional marketing was to sell products. The aim was to find customers, thereby creating an environment for an exchange that satisfies both the customer and the organization.

- The CRM philosophy is based on the principle that for the survival of any service organization, the interests, needs and demands of the customers must be given top priority. In no circumstances should the customer have a feeling that he is being ignored and given pseudo attention.

- Analytical CRM provides relevant data about each and every customer. This gives an ideal CRM opportunity by creating segmentation of customers based on their lifestyle, financial status, needs, buying pattern, lifetime value, future prospects, etc.

13.9 KEY WORDS

- **Customer Relationship Management:** It is an interactive process for achieving optimum balance between corporate investments and satisfaction of customer needs to generate maximum profit.

- **Customer Touch Points:** It refers to communication channels using which companies interact directly with prospects and customers.

13.10 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What is a barter system?
2. What are customized products?
3. What are the characteristics of the post-industrial era?
4. What is the outcome of effective implementation of CRM?

Long-Answer Questions

1. What motivates companies to adopt CRM? Explain.
2. Explain the benefits of CRM.
3. Discuss the role of CRM in improving customer relationships.

13.11 FURTHER READINGS

Shahjahan, S. 2004. *Relationship Marketing: Text and Cases.* New Delhi: Tata McGraw-Hill.

Mukerjee, K. 2007. *Customer Relationship Management:* A *Strategic Approach to Marketing.* New Delhi: Prentice Hall of India.

Sheth, J. N. 2001. *Customer Relationship Management.* New Delhi: Tata McGraw-Hill.

UNIT 14 TECHNOLOGY FOR CUSTOMER RELATIONSHIP

Structure

14.0 INTRODUCTION

As you learnt in the previous unit, in customer relationship management (CRM) binds and integrates business processes and technologies in a creative way so that a business organization can provide the best possible service and care to their customers at various points of interactions. The emergence of CRM as a business strategy has radically transformed the way an organization performs. We will study the technology involved in customer relationship management.

14.1 OBJECTIVES

After going through this unit, you will be able to:

- Discuss the technologies used in CRM
- Explain how to manage customer relationships

14.2 CRM TECHNOLOGY

The application of CRM technologies is basic to any business strategy. Successful CRM requires information about customers to flow around the organization and

maintenance of tight integration between operational and analytical systems. Successful CRM strategies require finding the right information at the right time. As organizations become more sophisticated, they must deploy creative ways to integrate technologies to support the relevant CRM strategies so as to reach an improved system of one-to-one management and data mining with the main focus on customer delight.

Technology can be used to track customer needs, interests and buying habits, and then restructure the marketing efforts accordingly to meet the specific needs of customers. It can also track customer product use as the product progresses through its life cycle, and then tailor the service strategy accordingly. In life insurance, for example, an endowment type product may have to make periodical payments, have loan facility and provide death or maturity benefits. The insurance company must track the product for their select customers, if not for all, for providing matching services at different points in the life cycle of the product.

Technology can be used to understand the buying behaviour of individual customers, and help coordinate the changing purchase patterns of the customers by approaching them with suitable products.

Contact Centre Technology

A contact centre — also referred to as a customer interaction centre or e-contact centre — is a central point from which all customer contacts are managed. The contact centre typically includes one or more call centres, but may include other types of customer contact, as well. A contact center is generally part of an enterprise's overall CRM strategy. They offer omnichannel customer support, including email, chat, voice over IP (VoIP) and website support. A call centre typically employs phones as the main channel of communication and can handle a mass volume of calls. Contact centres can also be hosted on a cloud provider's Internet server.

A contact center generally employs specialized contact center software that enables contact information to be routed, contacts to be tracked and data to be gathered. Technologies within contact centres encompass:

- **Automatic call distributor (ACD) system:** It is a computerized system that analyzes incoming calls and distributes the calls based on varying factors.

- **Email response management system:** It is a system that collects and analyzes customer inquiries submitted via email, and then routes the inquiries to the appropriate agent.

- **Interactive voice response (IVR) system:** It is a computer-based system that enables customers to use a keypad or voice commands to provide information without the assistance of a human agent.

- **Knowledge management system:** It is a central repository of information that can be easily searched, helping to cut down on agent training time.

- **TTY/TDD communications:** They are telecommunication devices for individuals who are deaf or have a hearing impairment.

- **Workforce management system**: It is a computerized system that helps with scheduling and staffing agents and managing agent performance.

14.2.1 CRM Measurement

Enhancing customer experience is always a challenge. In order to enhance business performance, businesses have to expand their customer base. Growth happens only when customer relationships with the organization are robust and satisfied. And customer satisfaction can only be increased with effective CRM in an organization. But how does one measure the effectiveness of CRM in a company? Some of the criteria that can be applied to measure CRM effectiveness is as follows:

- Increase in customer retention

- Increase in orders per customer per year

- Increase in average spending per order or visit

- Increase in cross sales

- Increase in up sales

- Increase in reactivation of previous customers

- Increase in referrals of new customers by existing customers

- Achieving each of the above while keeping increased costs (required to make them happen) from offsetting the increased sales

14.3 MANAGING CUSTOMER RELATIONSHIPS

Customer Relationship Management process is defined as any group of action that is instrumental in the achievement of the output of an operation system, in accordance with a specified measure of effectiveness.

The final objective of the CRM process is to originate a powerful new tool for customer retention. The focus of any process is to achieve something we have always wanted, but did not have the proper resources. It is only as the inter-operability of systems allow us to break down the barriers between functions, it becomes something that we can even hope to achieve. The CRM implementation and success rate purely depends upon the process, which includes the future, revenue, customer value, customer retention, customer acquisition and profitability.

Benefits of a CRM Process

- Ability to retain loyal and profitable customers and channels for rapid growth of the business project.

- Acquiring the right customers, based on known characteristics, which drives growth and increased profit margins.

- Increasing individual customer margins, while offering the right products at the right time.

Closed-loop CRM process

- *Gathering information*: Initially, gather information about customers. Customer data comes from sources both internal and external to organization.

- *Perform data aggregation*: It is here that the data is merged and compressed into a complete view of the customer. A large customer data repository is produced.

- *Create exploration warehouses*: These are extracts of the customer data needed to support specific analyses, such as customer profitability and predictive modelling. Exploration warehouses are the engines for analytical applications that support identification of opportunities and developing strategies.

- *Execution of strategies*: Execute these strategies by developing and launching marketing campaigns across targeted segments of customers. Campaign execution inevitably results in an interaction with customers.

Finally, once a customer interaction takes place and the customer responds, capture that response and recycle it to use in the on-going learning, analysis and refinement process.

Each time the process loop is completed, more is learned about the needs and wants of customers. Marketing improves as understanding of customers is enhanced and the ability to anticipate their needs increases.

Why You Need to Create this Process?

Marketing organizations are significantly behind their organizational counterparts in providing bottom-line business benefits that is proficient practice of repeat processes.

CRM process is the systematic determination of the methods by which a project is to be implemented, economically and competitively.

Process planning is the intermediate stage between project kick off and implementation. To do this effectively, you must:

- Creatively translate business innovation, structural transformation, and value measures into CRM investment priorities.

- Continually refine iteration approach based on the following major areas:
  - o Customer
  - o Competition
  - o Market

o Growth

o Technology innovation

In the high-stakes game of business, understanding the impact of marketing investments can have a dramatic impact on a company's performance.

Process selection procedure

This determines how the service will be produced. It involves:

- Major technological changes
- Minor technological changes
- Specific component choice
- Process flow choice

Major technological changes

This includes the following:

- Does technology exist or not?
- Are there competing technologies between which we should choose?
- Should the technology be developed in the country itself?
- Should innovations be licensed from foreign countries?

Minor technological changes

Once the major technological choice is made, there may be a number of minor technological process alternatives available. The director should be involved in evaluating alternatives for costs and for consistency of the desired product.

Deciding on the best combination of processes in terms of costs and the operations process could be a difficult job.

Specific component choice

This needs answer for:

- What type of hardware is to be used?
- How effectively should we use the technology?

Process flow choice

The final process selection step determines how the CRM product will move through the system. How should the process flow be with the existing organization system?

14.3.1 CRM Business Transformation

Repeat or iterative process

All organizations have been following a set of their own procedures to market their products, services or promotional activities. Some activities are common to all, but CRM process has got its own set of rules and regulations to change an organization into a full-fledged based organization. To achieve this an organization has to definitely go through two levels of iterations.

The trouble is that different organizations have different sales strategies and processes, and therefore different technology is needed for each company.

Iterative cycle is as follows:

- CRM modification
- Determine the boundaries of patterns
- Fix the limits of channel models
- Define/Refine POI models
- Arrange pattern with technology
- Define/Refine organizational impact
- Preference and corrective gap
- Provision technology ecosystem
- Make a 'Go-to-Market' blueprint
- Plan, deliver, and manage implementation
- Assess customer lifetime value
- Measure and access program value
- Repeat the iteration

A common cause of poor CRM implementation is the classic mistake of falling in love with the technology itself rather than looking critically at how it can help execute go-to-market strategies and processes. One service provider purchased a particular CRM package solely because it was used by its leading competitor. The thinking was, if it is good enough for them, it is good enough for us.

First, understand your customer's needs, sales channel preferences (example, direct sales, telesales), and profitability. Second, define your coverage strategies — how you plan to increase target customer acquisition, retention, and penetration. Third, use this information to carefully evaluate and select technology and vendors.

Make a go-to-market strategy: Based on the outcome of the first two steps, revise your go-to-market strategy, that is, the plan for acquiring and increasing customers. This strategy needs to include the definition of your target customers as well as the design of customer contact channels (such as sales, marketing and

customer service), jobs and processes. You should also define your metrics for measuring organization performance.

Clarify the role of CRM. Decide how CRM technology should support your go-to-market strategy. One way it can do this is by increasing efficiency through the automation of time-consuming steps and elimination of redundant steps. Another way is by sharing customer information across all channels. This enables all the sales, customer service, and marketing resources interacting with an account to have the same information such as product purchases, order status, and other facts.

Prepare for action: A key step in identifying the right technology enablers is to evaluate existing technology capabilities, map out the desired functionality, and identify the technology requirements needed to close the gaps between what already exists and what is desired. Once the potential requirements have been identified, they can be prioritised based on their impact. The final step is to develop a business case that clarifies the estimated return from investing in new CRM technologies to derive specific go-to-market objectives.

14.3.2 Four Cs (Elements) of CRM Process

The appropriate approach for the CRM process involve:

- *Correlate:* A series of transaction and interaction that make up a dialogue between customer/channel/end user and an organization. This is the data that is collected from all contact points and communications, with outside points of contact.

- *Combine:* The mapping and management of interaction points between a customer/channel/end user and an organization.

- *Cognize:* The insight gained through capture and analysis of detailed information is to create continuous learning (about customer, products, channels, market, and competitor) from the data warehouse and knowledge base that is created, interrogated and analysed.

- *Connect:* The application of insight to create relevant interaction or communication with consumers, customers, channels, suppliers and partners that build value relationships.

These four activities will help you to achieve the extended CRM process.

The basic structure of the CRM organization should align around the key communication process. In order to recognise the right customer, relate the right offer, and schedule the interaction or communication of the offer at the right time, with the connection across the right channel. People will have to share a process and activate their skills to complete the activities and tasks required for success.

For ease of understanding and to map the CRM process, the marketing organization may follow along the lines of know, relate, and connect.

14.3.3 CRM Process for Marketing Organization

The CRM process of a marketing organization and the key responsibility of some functional heads are dealt here. The organizational structure of a marketing organization would assume the following style:

Director–Marketing

The role of Marketing Director is to coordinate the entire process measured on customer-holding, purchase and profitability. The Director's role is an important one in the inherent success of CRM.

Skills requirement

- Marketing experience
- IT outsourcing
- IT knowledge
- Warehousing
- Internet technology concepts
- Data mining technique
- Customer linking trend
- E-channels
- Statistics

Marketing analyst

- To identify the right customers, you need to have expertise service of the marketing analyst(s).
- The analyst is expected to have a sound business knowledge, industry knowledge and market knowledge that would help in the development relating to customers identification and segmentation. The marketing analyse would take care of analysis, reporting and predictive modelling.

Skill requirements

- Statistical Modelling: QA statistics, Mathematics
- Data mining: Use of SAS, Clementine, TeraMiner, or other detailed knowledge discovery tools.

Manager–Segments

The segment managers are the glue of the team and form the kingpin for the CRM process. He handles all customer and has the ultimate say in campaigns and the customer.

Campaign Manager

Having identified the opportunities, the campaign manager then creates the right offer that will ultimately be made to the right customer. The right offers include offers, strategy, timing, printed matter, product management, advertising, public relations messaging, interactions, plans and measurements.

Key Responsibilities

- Connecting with product managers, advertising managers, relationship managers and public relation departments and outside firms
- Scheme designing
- Determining campaign strategy
- Trial marketing
- Relationship with telemarketing firms

Technical skills requirement

- Marketing automation tools
- Marketing experience
- Knowledge of campaign management tools and databases
- Work with IT to ensure flow is accurate
- Vendor management

Channel Manager

As we continue through the CRM process, we are at the point where, the right customer is identified, the right offers have been created, the right time has now come, and the critical transition from single view of customer to a single company image is reached. The Channel Manager coordinates the customer, offer and timing into the channel decision, and ensures that the same offer is communicated and then reinforced across all of the enterprises' many "touch points".

The Channel Manager must interact with the call centre, the Internet, the Web and the direct or indirect sales force (other internal customers who are affected by the process). It must be known and planned who are the external channels of resellers, distributors, franchisees, and advertising and public relations team, to make sure the process hits the front lines in parallel. This means having the script aligned, the Web pages, the print ads purchased and scheduled, and the TV slots confirmed (in the case of a large campaign). It may also (in the case of incremental campaign) not be required to have such a high degree of coordination, in which case, these interest groups may not be required each and every time.

Key responsibilities

- Coordinates communications across all the contact channels
- Presents "Single-company image" to customers
- Manages liaison with call centre, Internet team sales force, customer services, and resellers to "coordinate" touch-points, treatment, and total customer communication

Skills requirement

- Web implementation
- Integration of channels
- Operational call centre
- Internet experience
- Language/Prose skills
- Analysis and research
- Negotiating skills

Relationship Manager

Most of the Indian companies, do not have Relationship Manager, who is a most important player in the CRM process. This person handles the business problems or the business opportunities such as customer retention, customer purchase (acquisition) and customer profitability.

- He manages the dialogue between the organization and the customer.
- Determines the communications plan, touches, treatments, and rules for engagements.
- Maintains privacy within the organization.
- Interacts with others to align execution (correlates, combines, cognizes, and connects)

Skills requirement

Relationship techniques (Data mining, hypothesis development and communication techniques).

CRM Project Manager

CRM Project Manager will lead and mentor the project team in delivery of SDLC (Software Development Life Cycle), system integration, and/or packaged software configuration projects for CRM and eCRM business applications.

Key responsibilities

- Managing client relationships at all levels of the organization
- Managing project deliveries within a specified time and budget
- Recruiting and managing vendor resources to augment internal project resources.
- Continuous development and leadership of best practices for both traditional and emerging rapid implementation methodologies.
- Directing large projects and also supervisory responsibility of short-term project engagements.

Skills requirement

Project management experience in new software development and/or packaged software configuration and implementation projects. Experience in managing shared vendor project teams of 10 to 30 core members over an extended engagement. Successfully managed multiple releases across an extended time period.

Successfully managed multiple short-term projects to a variety of clients across an extended time period. Built strong cross-function project teams. Retained core team members throughout project management.

The candidate must have Project Management certification or any equivalent certification, background in technical delivery of business applications software, background in management consulting, and IT consulting and business solutions sales or pre-sales support experience.

CRM Technical Consultant

CRM technical consultant works with sales staff, internal and partners, professional services, and delivery staff to both plan and implement eCRM projects for mid-tier clients. Using proprietary opportunity assessment tools, he analyses client's current CRM business process areas and recommends custom-made, high value eCRM systems and services configuration from partner's list of established products and service providers. He documents and manage, best practices of CRM process and works with marketing staff to build and maintain CRM body of knowledge on leading technology products and service providers.

He works with project management team to develop, document, and mentor project implementation's best practices. He also works with technical consultants to determine technology platform options, implementation methodologies and shared vendor project teams.

14.4 APPLICATION PROVIDERS AND CRM

Application service providers (ASP) are companies that offer packaged software based on time. It offers packaged software for high-end functions (applications) like databases and Enterprise Resource Planning (ERP). ASP allows small- to medium-sized businesses to choose from a menu of applications without having to invest in either the staffing or infrastructure to support them. The Internet service provider is an enterprise to provide an entrance ramp to the Internet. The main function of an ISP is to facilitate access to the Internet. The services rendered by an ISP may be classified as follows:

(*i*) Primary access services

(*ii*) Dial up access through modems

(*iii*) Dedicated access through based lines

(*iv*) Cable network or wholesale service provided by backbone operators.

Videsh Sanchar Niagm Ltd (VSNL) is the largest ISP in trade. Among the more popular private players are Bharti-BT, Sprint RPG and Rolta. These companies are specialized service providers and connect customers with PCs and browsers to the Internet, and have dedicated: (*a*) hardware, i.e., web server; (*b*) communication channel; (*c*) trained staff.

The infrastructure includes the following:

(*i*) The stand-by electric power as backup to keep the site available in the event of a black out.

(*ii*) Red bound fault-tolerant server that ensures website of the client will not black out when a hard drive or a server breaks down.

(*iii*) Redundant communication lines to keep the client site active in the event of a phone line or a router going down.

(*iv*) One or more firewalls are installed to protect the client website from hackers or unauthorized access.

The service manages storage, tracking, web traffic and maintains the server on a day-to-day basis around the clock. When a person/company buys Internet access from an application service provider, he/it is first issued an account number that allows him/it to store files. He/It is also connected to a Net News network that brings thousands of interest groups on virtually any topic imaginable. He/It also receives emails, addresses that link with the world at large, and of course, allows access to the entire Internet.

The cost of establishing and maintaining the website is far less than that of line trading from a marketing view. The website provides user information more

timely, and the seller can use the information to approach the customer and satisfy his needs efficiently.

At the website, the customer is in control during screen-to-face interactions as the web largely makes use of self-service model for managing commerce or community based interactions. The customer controls the search process, the time spent, degree of price/product comparison, the people with whom he comes in contact, and the decision to buy in traditional business (face-to-face) interaction the control can rest with either buyer or seller. At a minimum, the seller attempts to influence the buying process by directing price objections and reacting in real time to competitive offerings. The virtual stores can attempt to shape the customer experience with uniquely targeted promotions, reconfigurations of storefronts to reflect past search behaviour, recommendation based on previous behaviour of other similar users, and access to proprietary information. However, the seller has much base power in the online environment due to the control and information flow that the online world puts in customers' hand.

The online firm can easily observe and track individual consumer behaviour. Companies can track host of behaviours like websites visited, length of stay on a site, page viewed on a site, contents of wish list card shopping carts, purchases made, repeat purchases, and other metrics. This level of customer behaviour tracking is not possible in brick and mortar business. The electronic retailers can welcome a user back by name due to available information. In more strategic terms, they can actually position offers and merchandise in ways that uniquely appeal to specific customers. Information can be exchanged on a worldwide basis without the need for respective zones or holidays. The distribution of control can be done at a much lower cost and products information and services can be customized to meet the requirements of the customers.

In order to improve both the cost-efficiency and the effectiveness of company's interactions with customers and to make interaction more efficient the companies drive customers into more automated, cost-efficient channels by pushing call-centre interaction towards its website and by pushing personal sales calls more to the call-centre. To improve the effectiveness of each interaction, relevant information is gathered to better grasp a customer's individual needs or to more accurately quantify a customer's potential value. In addition, every interaction with a customer takes place in the context of all previous interactions with that customer. A conversation is picked up where the last one left off, at the call centre or on the company website.

Based on the customer's needs and value, some aspects of enterprises behaviour are customized towards the customer. It helps in locking a customer into a long-term relationship. The production or service delivery end of the business

has to be treated to a particular customer differently based on what that customer said during an interaction with the sales or marketing part of the firm.

An enterprise may put up a website not primarily to interact with customers, but to attract the most valuable ones and to identify them individually. Some companies are recognizing the potential for learning customer needs and winning their loyalty through call centre interaction. Almost any kind of company of any size and in any industry, can dramatically improve the incremental sale of products or services and win greater share of customer with help from a call centre. Call centre makes use of new technologies that enhance the efficiency and effectiveness of interaction with the customers and help in building customer relationships.

Check Your Progress

1. What is a contact centre?
2. What is the final objective of the CRM process?
3. What are application service providers?

14.5 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. A contact centre — also referred to as a customer interaction centre or e-contact centre — is a central point from which all customer contacts are managed.

2. The final objective of the CRM process is to originate a powerful new tool for customer retention.

3. Application service providers are companies that offer packaged software based on time. It offers packaged software for high-end functions (applications) like databases and Enterprise Resource Planning (ERP).

14.6 SUMMARY

- The application of CRM technologies is basic to any business strategy. Successful CRM requires information about customers to flow around the organization and maintenance of tight integration between operational and analytical systems.

- The contact centre typically includes one or more call centres, but may include other types of customer contact, as well.

- A call centre typically employs phones as the main channel of communication and can handle a mass volume of calls. Contact centres can also be hosted on a cloud provider's Internet server.

- The CRM implementation and success rate purely depends upon the process, which includes the future, revenue, customer value, customer retention, customer acquisition and profitability.

- CRM technical consultant works with sales staff, internal and partners, professional services, and delivery staff to both plan and implement eCRM projects for mid-tier clients.

- ASP allows small- to medium-sized businesses to choose from a menu of applications without having to invest in either the staffing or infrastructure to support them.

14.7 KEY WORDS

- **ERP:** It is a process whereby a company, often a manufacturer, manages and integrates the important parts of its business.

- **Contact Centre:** It is a centre through which an organization is able to manage customers with both voice calls and data applications like e-mail, Web-based chat/instant messaging, and so on.

- **ISP:** It refers to a company that provides Internet and email services.

14.8 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are the responsibilities of a campaign manager?
2. Write a short-note on contact centres.
3. How can one measure CRM effectiveness?

Long-Answer Questions

1. Examine how to manage customer relationships.
2. Discuss the benefits of CRM.
3. Explain the technology used in contact centres.

14.9 FURTHER READINGS

Dyche, Jill. 2001. *The Customer Relationship Management Book*. Boston: Addison Wesley Professional.

Mohamed, H. P. 2002. *Customer Relationship Management: A Step-By-Step Approach*. New Delhi: Vikas Publishing House.

Prahalad, C. K. et al. 2002. *Harvard Business Review on Relationship Management*. Boston: Harvard Business Publishing.

Pricken, Mario. 2008. *Creative Advertising*, second edition. London: Thames & Hudson.

Reynolds, Janice. 2002. *A Practical Guide to CRM*. London: CMP Publishing.

M.Com.
310 21

MARKETING MANAGEMENT

II - Semester

ALAGAPPA UNIVERSITY