FACULTY OF BUSINESS AND ECONOMICS

PRINCIPLES OF MARKETING
(MGMT 2020)

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CHAPTER ONE

OVERVIEW OF MARKETING AND MARKETING CONCEPTS

1.1 Market vs. Marketing

Traditionally, a market was a physical place where buyers and sellers gathered to buy & sell goods. Economists describe a market as collection of buyers and sellers who transact over a particular product or product class.

Market is the set of actual and potential buyers of a product. These buyers share a particular need or want that can be satisfied through exchange relationships.

Marketing means managing markets to bring about profitable customer relationship. It is the craft of linking the producers (or potential producers) of a product or service with customers, both existing and potential. Marketing is broadly defined as a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging value with others. Narrowly, marketing is the process by which companies create value for customers and build strong customer relationships in order to capture value from customers in turn. In other words, it is the process of planning and executing the conception, pricing, distribution, and promotion of ideas, goods, services, organizations, and events to create and maintain relationships that will satisfy individual and organizational objectives. Marketing techniques are also applied in politics, religion, personal affairs, and many other aspects of life.

Marketing is an exciting, dynamic and contemporary field. It influences us each day in both our roles as providers of goods and services and as a customer.
In the role of providers of goods and services, we make such marketing related decisions as choosing who our customers are, what goods and services to offer, where to sell goods and services, what features to emphasize and what price to charge.
In the role of a customer, the marketing practices of goods and services providers impact on many of the decisions made by different individuals.
Marketing practices are in play when we select a tailor, when we purchase a car, when we select the Airlines, when we go to a restaurant, when we say the consumable items and so on for virtually every good and service we purchase, the marketing process affects the assortment and styles offered in the market place.
Marketing helps in having a good range of products in constant demand and suggest to the management the scope of improving and developing new products to satisfy the changing customer needs. Customer is the king of the market. Customers decide what products suit their needs. Therefore, we can say marketing satisfies our needs by providing form utility, person utility, exchange-utility, place utility and time utility. Place utility and time utility.

Marketing management is the practical application of marketing techniques. It is the analysis, planning, implementation, and control of programs designed to create, build, and maintain mutually beneficial exchanges with target markets. The marketing manager has the task of influencing the level, timing, and composition of demand in way that will

achieve organizational objectives. Marketing management is the process of planning, implementing and control of marketing activities.

"Marketing management is that field of business activity involving the establishment and execution of the plans of all the phases or steps of a complete sales campaign" (Lewis K. Johnson.)

"Marketing management is concerned with the direction of purposeful activities towards the attainment of marketing goals." Cundiff & Still)

What is marketed? Marketing Offers

Consumers' needs and wants are fulfilled through a marketing offer – some combination of products, services, information, ideas, places, persons and organizations to a market to satisfy a need or want. Market offers are not limited to physical products. They include services, activities or benefits offered for sale that are essentially intangible and do not result in the ownership of anything. At one extreme, the offer may consist of a pure tangible good such as soap and at the other extreme are pure services such as a doctor's exam. Between these two extremes, however, many goods and services combinations are possible. More broadly marketing offers also include other entities such as persons, places, organizations, information and ideas.

Organizations often carry out activities to sell the organization itself. Organization marketing consists of activities undertaken to create, maintain or change the attitudes and behavior of target consumers toward an organization. Business firms sponsor public relations or corporate advertising campaigns to polish their images.

Persons marketing consists of activities undertaken to create, maintain or change the attitudes and behavior of target consumers toward particular people.

Place marketing consists of activities undertaken to create, maintain or change the attitudes and behavior of target consumers toward particular places. Cities, states, regions and even entire nations compete to attract tourists, new residents, conventions, and company offices and factories.

Ideas can also be marketed. In one sense, all marketing is the marketing of an idea, whether it is the general idea or specific idea.

1.2 The Core Marketing Concepts

Customer Needs: Human needs are the most basic concept underlying marketing. Human needs are states of felt deprivation. They include basic physical needs for food, clothing, warmth and safety; social needs for belonging and affection and individual needs for knowledge and self-expression. They are not created by marketers.

Wants are the form human needs take as they are shaped by culture and individual personality. Wants are shaped by one's society and are described in terms of objects that will satisfy needs. When backed by buying power, wants become **demands**. Given their wants and resources, people demand products with benefits that add up to the most value and satisfaction.

Products

A product is anything that can be offered to a market to satisfy a need or want. People satisfy their needs and wants with products. Though the word suggests a physical object, the concept of product is not limited to physical objects. Marketers often use the expressions goods and services to distinguish between physical products and intangible ones. Thus the term 'product' covers physical goods, services and a variety of other vehicles that can satisfy customers' needs and wants. If at times the term 'product' does not seem to be appropriate, other terms such as market offering, satisfier are used.

Value and Satisfaction

When the customers have so many choices to choose from to satisfy a particular need, how do they choose from among these many products? They make their buying choices based on their perceptions of a product's value. The guiding concept is customer value. A customer will estimate the capacity of each product to satisfy his need. He/ She might rank the products from the most need-satisfying to the least need-satisfying. Of course, the ideal product is the one which gives all the benefits at zero cost, but no such product exists. Still, the customer will value each existing product according to how close it comes to his/her ideal product and end up choosing the product that gives the most benefit for the rupee – the greatest value.

Exchange& Transactions

Marketing occurs when people decide to satisfy needs and wants through exchange. ***Exchange*** is the act of obtaining a desired object from someone by offering something in return. Thought it is only one of the many ways people can obtain a desired object, it allows a society to produce much more than it would with any alternative system.

For exchange potential to exist, five conditions must be satisfied:

1. There are at least two parties
2. Each party has something that might be of value to the other party
3. Each party is capable of communication and delivery.
4. Each party is free to accept or reject the exchange offer.

5. Each party believes it is appropriate or desirable to deal with the other party. These conditions simply make exchange possible. Whether the exchange actually takes place depends on the parties' coming to an agreement. If they agree, we must conclude that the act of exchange has left both of them better off or at least not worse off. After all, each was free to reject or accept the offer. In this sense, exchange creates value just as production creates value. It gives customers more consumption possibilities.

A transaction is marketing's unit of measurement. It consists of a trade of values between two parties. A monetary transaction involves trading goods and services in return for money whereas a barter transaction involves trading goods and services for other goods and services. Transaction marketing is part of the larger idea of relationship marketing. Marketing is shifting from trying to maximize the profit on each individual transaction to maximizing mutually beneficial relationships with consumers and other parties. This is based on the assumption that if good relationships are built, profitable transactions will simply follow.

1.3 Marketing Orientation and Philosophies

There are five alternative concepts/philosophies under which organizations conduct their marketing activities: the production, product, and selling, marketing and societal marketing concepts.

1. The Production Concept

The philosophy that consumers will favor products that are available and highly affordable and that management should therefore focus on improving production and distribution efficiency. This concept is still a useful philosophy in two types of situations. The first occurs when the demand for a product exceeds the supply. Hence management should look for ways to increase production. The second situation occurs when the product's cost is too high and improved productivity is needed to bring it down. For many years, Texas instruments (TI) followed a philosophy of increased production and lower costs in order to bring down prices. It won a major share of the American hardheld calculator market using this approach. However, companies operating under production philosophy run a major risk of focusing too narrowly on their own operations. For example when the TI used this strategy in the digital watch market it failed.

2. The Product Concept

It is a management orientation which assumes that consumer will respond favorably to the product which is reasonably priced, requiring very less effort by the company to achieve satisfactory targets i.e., profits. It means of products are of good quality and reasonably priced then consumer does not have much say, only the product matters.

In this concept, the marketers believe that by making superior products and improving their quality overtime, they create customers by quality. Here marketer gives importance to one aspect of marketing mix only. It has been observed through various studies that new

product development or improvement of the product is desirable if the customer is receptive.

3. The Selling Concept

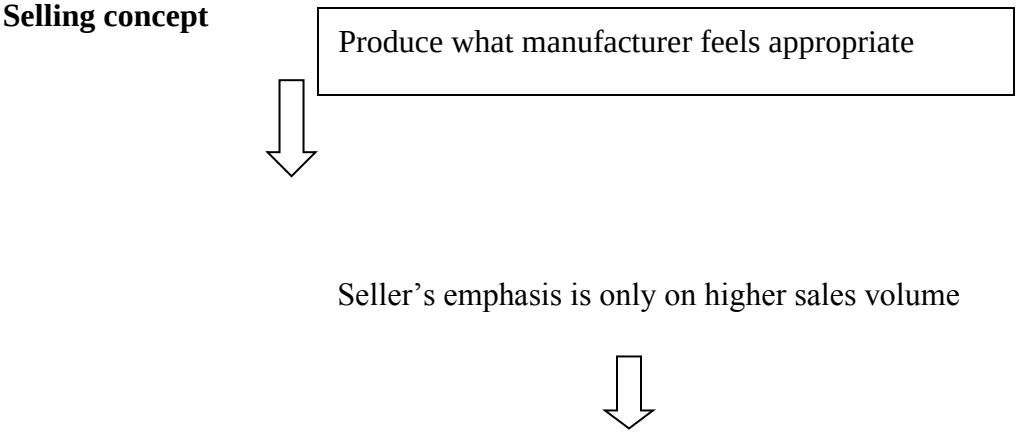
The selling concept holds that customers, if left alone, will not buy enough of the products of an organization. The organization must undertake, therefore, an aggressive selling and promotion effort. Under selling concept, a company uses various selling methods to persuade customers to buy its products. In effect, it leads consumer demand to match its own supply.

Most of the firms practice selling concept when they have over capacity. Their aim is to sell what they make rather than make what the market wants. Most of the studies show that dissatisfied customers do not buy again.

4. The Marketing Concept

The marketing concept holds that achieving organizational goals depends on determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors do. Under marketing concept, companies produce what consumers want, thereby satisfying consumers and making profits. Many successful and well-known companies have adopted the marketing concept. The marketing concept does not mean that a company should try to give all consumers everything they want. Marketers must balance creating more value for customers against making profits for the company.

Fig. Difference between selling of marketing concepts



Consumption
(By End - user)

Marketing concept

Identifying consumer needs

Developing an appropriate product/service to attain consumer satisfaction

Accomplish organizational goals through integrated marketing approach

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5. The Societal Marketing Concept

The societal marketing concept questions whether the pure marketing concept overlooks possible conflicts between consumer short-run wants and consumer long-run welfare. It holds that marketing strategy should deliver value to customers in a way that maintains and improves both the consumers' and society's well-being.

1.4 The New Concept of Marketing

1. Relationship Concept

The basic purpose of an organization, to quote Peter Drucker, is to "create customers and retain them." Marketing is the functional discipline which is primarily entrusted to accomplish this strategic goal. That is why marketers now emphasize on total customer satisfaction which indicates that the customer is satisfied and delighted with respect to purchase and use of the product or service concerned.

Relationship marketing is the process of building long term, trusting, and WIN-WIN relationship with customers, distributions, dealers and suppliers". Philip Kotlar

Relationship marketing promises and delivers high quality, efficient services and fair prices to the other party over time. It is accomplished by strengthening, the economic, and technical and social ties between members of the two organizations or between the marketers and the individual customer.

2. Niche Marketing

Success in marketing requires specific tactics. Niche marketing is a technique where marketer plays a specialist role in a particular segment. There are several examples of niche marketing.

Quality Specialist: The marketer operates at the low or high quality of the product. For example, HEWLET-PACKARD specializes in the high quality, high priced and the handheld calculator market.

Service Specialist: The marketer can offer the services which are not available from other firms. Co-operative bank can provide special type of loans to its members.

Product Line Specialist: The marketer produces only one product line or product. For example, in the laboratory equipment industry, there are forms that produce only microcopies.

The firms new to a market are generally wise to use a nicking strategy. In fact, many successful entrepreneurs owe their beginning s to carrying out a niche that is big enough to be profitable, but small enough to prevent bigger companies from entering immediately to offer competition.

1.5 Importance of Marketing

Marketing is a very important aspect in business since it contributes greatly to the success of the organization. Production and distribution depends largely on marketing. Marketing covers advertising, promotion public relation and sales. It is the process of introducing and promoting the product or service to the market and encourages sales from the buying public. So marketing have the following importance:

- ✍ Marketing promotes product awareness to the public.
- ✍ Marketing builds company reputation
- ✍ Marketing helps boost product sales

Marketing helps boost product sales and revenue growth whatever your business selling; it will generate sales once the public learns about your product through TV, Radio, Newspaper online advertisement and other forms of Marketing.

1.6 Scope of Marketing:

It is seen as the task of creating, promoting & delivering goods & services to consumers

& businesses. Marketers are skilled in stimulating demand for company's products; they are responsible for demand management. Marketing managers seek to influent the level, timing & composition of demand to meet the organization's objectives. Marketing people are involved in marketing 10 types of entities

- Goods
- Services
- Experiences
- Events
- Persons
- Persons
- Places
- Properties
- Organizations
- Information
- Ideas

1.7. The Goals of Marketing System

Marketing is not a onetime activity it is a continuous process and affects different parties with different interests such as, customers, suppliers, and the public etc. Most of the time the interest of these different parties are conflict each other.

The marketing system generally has four goals.

1. **Maximizing Consumption**: Marketing stimulates maximum demand. Maximum consumption inter maximize production, employment and wealth.
2. **Maximizing Satisfaction**: Owning one product gives sense when it maximized satisfaction to customers. Marketing systems maximize satisfaction by creating and providing –quality products --variety products etc.
3. **Maximizing Choices**: marketing system provides varieties. As a result the consumer will find products that fit to their exact test.
4. **Maximizing life Quality**: the participation of marketing system in environmental protection maximizes the quality of life of consumer. As a result of this the life style consumers leads to quality of life achieved.

1.8 EXERCISE

Part-I choose the best answer from the given alternative

1. It is the satisfaction customers are getting from using the product

A) Utility C) Time utility E) None

B) Form utility D) All

2. The production concept is useful when

A) The demand for a product exceeds the supply

B) The products cost is too high and improved productivity is needed to bring it down

C) To maintain both the customer's and the society's well-being

D) A and B

E) None

3. Which of the following is false about the marketing concept?

A) Starts with the market

B) Focuses on customer needs

C) Integrates, all the marketing activities that affect customers

D) Focuses on the company's existing product

E) None

4. The marketing philosophies that holds marketing strategy should deliver value to customers in a way that maintains both the customer's and the society's well-being

A) Production concept C) Marketing concept E) None

B) Selling concept D) Societal marketing concept

5. Which of the following is true about the selling concept?

A) Starts with the factory

B) Focuses on existing product

C) Ends with profits through sales volume

D) All

E) None

Part-II Discussion Questions

1. Discuss the goals of marketing system.

2. Describe the difference between marketers and utility.

3. Discuss the different types of utility.

CHAPTER TWO THE MARKETING ENVIRONMENT

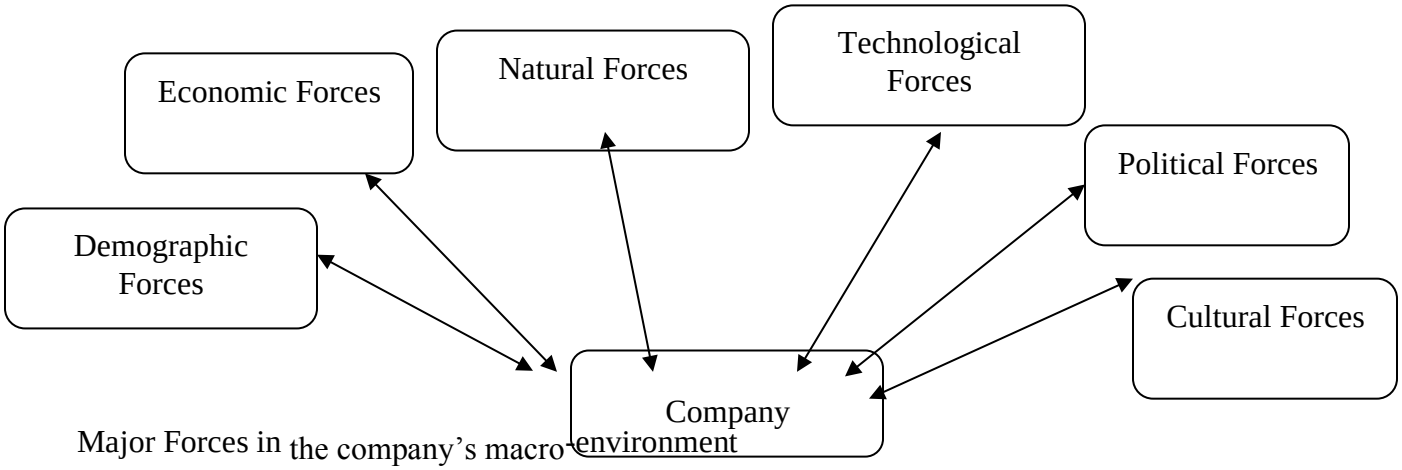
2.1 Meaning of Marketing Environment

Marketers need to be good at building relationships with customers, others in the company, and external partners. To do this effectively, they must understand the major environmental forces that surround all of these relationships. Successful companies know the vital importance of constantly watching and adapting to the changing environment.

The marketing environment is made up of a microenvironment and a macro environment. The microenvironment consists of the actors close to the company that affect its ability to service its customers- the Company, suppliers, marketing intermediaries, customer markets, competitors and publics. The macro environment consists of the larger societal forces that affect the microenvironment- demographic, economic, natural, technological, political, and cultural forces.

2.2 The Company's Macro Environment

The company and all of the other actors operate in a larger macro environment of forces that shape opportunities and pose threats to company. The figure below shows the six major forces in the company's macro- environment. In the remaining sections of this unit, we examine these forces and show how they affect marketing plans.



Major Forces in the company's macro-environment

A. Demographic Environment

Demography is the study of human population in terms of size, density, location, age, gender, race, occupation and other statistics. Demographic tell marketers who current and potential customers are; where they are; and how many are likely to buy what the marketer is selling. The demographics environment is of major interest to marketers because it involves, people, and people make up markets. The world population is growing at an explosive rate. It now totals more than 7 billion population.

Demographic environment is useful for marketing decisions, market segmentation and formulation of marketing strategies. Changes in the world demographic environment have major implications for business. For example, consider China. Twenty-five years ago, to curb its skyrocketing population, the Chinese government passed regulations limiting families to one child each. Among other things, this trend has created huge market opportunities for children's educational products.

The world's large and highly diverse population poses both opportunities and challengers. Thus, marketers keep close track of demographic trends and developments in their markets, both at home and abroad. As a result marketers basically focus on the following demographic issues.

- ✍ Changing age and family structures
- ✍ Geographic population shifts
- ✍ Educational Characteristics, and
- ✍ Population diversity

B. Competition

A company's competitive environment is a major influence on its marketing system. A firm's competitors frequently affect its marketing strategy and its success in attracting larger market. Therefore, the competitive structure facing a firm needs to be defined and analyzed.

The marketing concept states that to be successful, a company must provide greater customer value and satisfaction than its competitors do. Thus, marketers must do more than simply adapt to the needs of target consumers.

They also must gain strategic advantage by positioning their offerings strongly against competitors' offerings in the minds of consumers.

No single competitive marketing strategy is best for all companies. Each firm should consider its own size and industry position compared with those of its competitors

C. Economic Environment

Marketers require buying power as well as people. The Economic Environment consists of factors that affect consumer purchasing power and spending patterns. Nations vary greatly in their levels and distribution of income. Some countries have subsistence economies- they consume most of their own agricultural and industrial output. These countries offer few market opportunities. The other extreme are industrial economies-
Which constitute rich markets for many different kinds of goods. Marketers must pay close attention to major trends and consumer spending patterns both across and within their world markets. Following are some of the major economic trends:

Changes in Income: GDP, Per Capita Income, Disposable Income and so on are economic variables that may describe a nation's aggregate favorable or unfavorable nature of the economy. Individual's purchasing power is relied on such general truths. These economic variables are taken as misleading figures for there might be a large amount of money shifting towards one group, rich people. So, it is advisable to refer to market segment's income rather than nation wide margin of earning.

Growth and Recession: These two economic variables affect the marketing environment differently. An increase in the capacity of an economy to produce goods and services, Compared from one period of time to another. Economic growth attracts many companies

even from highly developed countries. China can be a role model; growth at 9% is a blistering phenomenon which attracts large number of multinational companies. Recession is a significant decline in activity spread across the economy, lasting longer than a few months. It is visible in industrial production, Employment, real income and wholesale-retail trade. The technical indicator of recession is two consecutive quarters of negative economic growth as measured by a country's gross domestic products (GDP).

Changing consumer spending patterns: Consumers at different income levels have different spending patterns. Ernest Engel, who studied how people shifted their spending as their incomes rose, noted some of these differences over a century ago. He found that as family income rises, the percentage spent on food declines, the percentage spent on housing remains about constant (except for such utilities as gas, electricity, and public services, which decrease), and both the percentage spent on most other categories and that devoted to savings increase.

Changes in major economic variables such as income, cost of living, interest rates, savings and borrowing patterns have a large impact on the market place. Companies watch these variables by using economic forecasting. Businesses do not have to be wiped out by an economic downturn or caught short in boom. With adequate warning, they can take advantage of changes in the economic environment.

D. Natural Environment

The natural environment involves the natural resources that are needed as inputs by marketers or that are affected by marketing activities. In many cities around the world, air and water pollution have reached dangerous levels. World concern continues to amount about the possibilities of global warming, and many environmentalists fear that we soon will be buried on our own trash.

Marketers should be aware of several trends in the natural environment.

The first involves **growing shortages** of raw materials. Air and water may seem to be **infinite resources**, but some groups see long-run dangers. Air pollution chokes many of the world's large cities and water shortages are already a big problem in some parts of the world. **Renewable resources**, such as oil, coal, and various minerals, pose a serious problem. Firms making products that require these scarce resources face large cost increases, even if the materials do remain available.

A second environmental trend is **increased pollution**. Industry will almost always damage the quality of the natural environment. Consider the disposal of chemical and nuclear wastes, the dangerous mercury levels in the ocean, the quantity of chemical pollutants in

the soil and food supply; and the littering of the environment with nonbiodegradable bottles, Plastics, and other packaging materials.

A third trend is **increased government intervention in natural resource management**. The governments of different countries vary in their concern and efforts to promote a clean environment. Some like the German government vigorously pursue environmental quality. Others, especially many poorer nations, do little about pollution, largely because they lack the needed funds or political will. Even the richer nations lack the vast funds and political harmony needs to mount a worldwide environmental effort. The general hope is that companies around the world will accept more social responsibility and that less expensive **devices can be found to control and reduce pollution**.

Concern for the natural environment has spawned the so-called green movement. Today, enlightened companies go beyond what government regulations dictate. They are developing environmentally sustainable strategies and practices in an effort to create a world economy that the planet can support indefinitely. They are responding to consumer demands with ecologically safer products, recyclable or biodegradable packaging, better pollution control, and more energy-efficient operations. Some organizations run a pollution prevention pays program that has led to a substantial reduction in pollution and costs. Others use a special software package to choose the least harmful materials, cut hazardous waste, reduce energy use, and improve product recycling in its operations. Still others eliminated polystyrene cartons and now use smaller, recyclable paper wrappings and napkins.

E. Technological Environment

The technological environment is perhaps the most dramatic forces now shaping our destiny. Technology has released such wonders as antibiotics, organ transplants, laptop computers and the Internet. It also has released such horrors as nuclear missiles, chemical weapons and assault rifles. It has released such mixed blessings as the automobile, television and credit cards. Our attitude towards technology depends on whether we are more impressed with its wonders or its blunders.

The technological environment changes rapidly. Think of all of today's common products that were not available 100 years ago, or even 30 years ago. New technologies create new markets and opportunities. However, every new technology replaces an older technology. Transistors hurt the vacuum-tube industry, Xerography hurt the carbon paper business, the auto hurt the railroads and compact disks hurt phonograph records. When old industries

fought or ignored new technologies, their business declined. Thus, marketers should watch the technological environment closely. Companies that don't keep up with technological change soon will find their products outdated. They will miss new product and market opportunities.

The marketer should monitor the following trends in technology: the pace of change, the opportunities for innovation, and increased regulation.

Accelerating Pace of the Technological Change: many of today's common products were not available 40 years ago. For example, personal computers, digital wristwatches, radio recorders or fax machines were not available some decades ago. More ideas are being worked on; the time lag between new ideas and their successful implementation is decreasing rapidly; and the timer between introduction and peak production is shortening considerably.

Unlimited Opportunities for Innovation: Scientists today are working on a starting range of new technologies that will revolutionize products and production processes. Some of the most exciting work is being done in biotechnology, solid-state electronics, robotics and materials sciences, Researchers are working on AIDS cures, happiness pills, painkillers, totally safe contraceptives and nonfattening foods. They are designing robots for firefighting, underwater exploration and home nursing. In addition, scientists also work on fantasy products, such as small flying cars, three- dimensional television, and space colonies. The Challenge in each case is not only technical but also commercial-to develop affordable versions of these products.

Increased Regulation of Technological Change: as products become more complex, the public needs to know that these are safe. Consequently, government agencies powers to investigate and ban potentially unsafe products have been expanded. Safety and health regulations have also increased in the areas of food, automobiles, clothing, electrical appliances and construction marketers must be aware of these regulations when proposing, developing, and launching new products.

F. Political-Legal Environment

Marketing decisions are strongly affected by developments in the political and legal environment. This environment is composed of laws, government agencies, and pressure groups that influence and limit various organizations and individuals.

No one should start playing a new game without first understanding the rules, yet some businesses exhibit remarkably limited knowledge about marketing's political-legal environment-the laws and their interpretations that require firms to operate under certain competitive conditions and to protect consumer rights. Ignorance of laws, ordinances and regulations or failure to comply with them can result in fines, embarrassing negative publicity and possibly expensive civil damage suits.

Businesses need considerable diligence to understand the legal framework for their marketing decisions. Numerous laws and regulations affect those decisions, many of them vaguely stated and inconsistently enforced by a multitude of different authorities. Regulations affect marketing practices, as do the actions of independent regulatory agencies. These requirement and prohibitions touch on all aspects of marketing decision making – designing, labeling, packaging, distributing, advertising and promoting goods and services. To cope with the vast, complex and changing political-legal environment, many large firms have in-house legal department; small firms often seek professional advice from legal experts. All marketers, however, should be aware of the major regulations that affect their activities.

Legislation regulating business: business legislation has three main purposes; **to protect companies form unfair competition, to protect consumers from unfair business practices** and **to protect the interest of society form uncontrolled business behavior**. Marketers must have a good working knowledge of the major laws protecting competition, consumers, and society.

Some of potential issues from the political-legal environment to affect businesses include:

- ✍ The national foreign policy can dominate the international business decisions of the local firms
- ✍ The political ideology of the Government can affect the international brands wanting to enter a market
- ✍ The competitors who work closely with the government can help erect trade barriers for a firm

- ✍ Global trade organizations can enforce trade barriers when their regulations and guidelines are not observed
- ✍ A host nation may levy anti-dumping duties on a foreign firm and such a decision may be dominated by the local businesses lobbying with the government
- ✍ Copyright infringements, trademark and intellectual property rights violations
- ✍ Direct comparative advertisements may not be allowed in few countries
- ✍ Use of children is advertising and advertising to children are banned in certain countries
- ✍ Price regulations preempt any pricing strategy of a firm
- ✍ A detailed displaying of the ingredients in product labels is mandatory in most countries
- ✍ The channel members are given the additional responsibility of verifying the eligibility of the prospective buyers for certain products
- ✍ Use of certain raw materials or methods of manufacturing are prohibited in certain countries
- ✍ Industry watch dogs and consumer groups are always on the prowl for any unethical trade practices

Each one of the above issues has serious implications for the marketer in his marketing decision making. Ignorance of the law is no excuse and breaking of the law is an offence.

G. Social-Cultural Environment

The social environment of a nation determines the value system of the society which in turn affects the marketing of products. Social factors are caste, customs, conventions, cultural heritage and respect for seniority, etc. For example, the nature of goods and services in demand depends upon people's attitudes, customs, social values etc. Social environment has the following dimensions:

- Changes in people's life style,
- Concerns for social problems, and
- Growth of consumerism

The cultural environment is made up of institutions and other forces that affect a society's basic values, perceptions, preferences, and behaviors. The term culture includes knowledge, belief, art, morals, laws, custom, values, norm, and accepted behavior patterns. According to Elhent W. Steward and James A. Glynn, culture consists of "the thought and behavior patterns that members of a society learn through language and other form of

symbolic interaction-their customs, habits, beliefs, and values, the common viewpoints which bind them together as a social entity. Cultures change gradually, picking up new ideas and dropping old ones, but many of the cultures of the past have been so persistent and self-contained that the impact of such sudden change has torn them apart; uprooting their people psychologically Human behavior is strongly guided by culture. Therefore, the workers attitude towards work depends on his culture in which he has been brought up. Michael Brook and Hutchinson write, "Attitudes to leisure vary from country to country, higher incomes may produce more work or more spare time. The work ethic means, in fact, that preoccupation with work is considered as a virtue in some parts of the world and a voice in others. As a result, different types of appeals, rewards and penalties are effective in different cultures" Culture influences every aspect of marketing. Marketing decisions are based on recognition of needs and wants of the customer, a function of customer perceptions. These help in understanding of life styles and behavior patterns as they have grown in the society's culture in which the individual has been groomed. Thus a person's perspective is generated, groomed and conditioned by culture.

People grow up in a particular society that shapes their basic beliefs and values. They absorb a worldview that defines their relationships with others. The following cultural characteristics can affect marketing decision making.

Persistence of cultural Values

People in a given society hold many beliefs and values. Their core beliefs and values have a high degree of persistence. These beliefs shape more specific attitudes and behaviors found in everyday life. Core beliefs and values are passed on from parents to children and are reinforced by schools, churches, business, and government.

Secondary beliefs and values are more open to change. Believing in marriage is a core belief; believing that people should marry early in life is secondary belief. Marketers have some chance of changing secondary values but little chance of changing core values. For example, family- planning marketers could argue more effectively that people should get married later than that they should not get married at all.

Although core values are fairly persistent, cultural swing do take place. Consider the impact of popular music groups, movie personalities, and other celebrities on young people's hair styling and clothing norms. Marketers want to predict cultural shifts in order to spot new opportunities or threats.

The major cultural values of a society are expressed in people's views of themselves and others as well as in their views of organizations, society, and nature.

- **Views of themselves**: People vary in the relative emphasis they place on selfgratification. Earlier "pleasure seekers" Sought fun, change and escape. Others sought "self-realization". People bought products, brands and services as a means of self-expression. They bought dream cars, dream vacations and spent more time in health activities, in introspection, and in arts and crafts. Today, in contrast people are adapting more conservative behaviors and ambitions. They have witnessed harder times and cannot rely on continuous employment and rising real income. They are more cautious in their spending pattern and more value-driven in their purchases.

- **Views of others**: some observers have pointed to countermovement from a "me society" to "we society". People are concerned about the homeless; crime and victims, and other social problems. They would like to live in a more human society. At the same time problems. They would like to live in a more human society. At the same time people are seeking out there "own kind" and avoiding strangers. People hunger for serious and long-lasting relationships with a few others. These trends portend a growing market for social support products and services that promote direct relationships between human beings, such as health clubs, cruises, and religious activity. They also suggest a growing market for " social surrogates " things that allow who are alone to feel that they are not such as television, home video games, and chat rooms on the Internet.
- **Views of Organizations**: People vary in their attitudes toward corporations, government agencies, trade unions and other organizations. Most people are willing to work for these organizations, although they may be critical of particular ones. But there has been an overall decline in organizational loyalty. The massive wave of company downsizing has bred cynicism and distrust. Many people today see work not as a source of satisfaction but as required chore to earn money to enjoy their nonwork hours.
  This outlook has several marketing implications. Companies need to find new ways to win back consumer and employee confidence. They need to make sure that they are good corporate citizens and that their consumer messages are honest. More companies are turning to social audits and public relations to improve their image with publics.
- **Views of Society**: People vary in their attitudes toward their society. Some defend it (preservers), some run it (makers), some take what they can from it (takers), and some want to leave it (escapers). Often consumption patterns reflect changers usually live more frugally, driving smaller cars and wearing simpler clothes. Escapers and seekers are a major market for movies, music, surfing and camping.

⇨ **Views of Nature**: people vary in their attitude toward nature. Some feel subjugated by it, others feel harmony with it and still others seek mastery over it. A long-term trend has been humankind's growing mastery of nature through technology.

More recently, however, people have awakened to nature's fragility and finite resources. They recognize that nature can be destroyed by human activities.

Love of nature is leading to more camping, hiking, boating and fishing. Business has responded with hiking boots, tenting equipment, and other gear. Tour operators are packing more tours to wilderness areas. Marketing communicators are using more scenic backgrounds in advertising. Food producers have found growing markets for "natural" products, such as, natural cereal, natural ice-cream, and health foods.

2.3 The Company's Microenvironment

Marketing Managements job is to build relationship with customers by creating customer value and satisfaction. However, marketing managers cannot do this alone. Marketing success will require building relationships with other parties, which combine to make up the company's value delivery network.

A. The Company

In designing marketing plans, marketing management takes other company group into account- groups such as top management, finance, research and development / R and D/ , purchasing, operation, and accounting. All these inter related groups form the internal environment. Top management sets the company's mission, objectives, broader strategies and policies. Marketing managers make decision within the strategies and plans made by top management.

Marketing managers must also work closely with the other company departments.

Finance is concerned with finding and using funds to carry out the marketing plans. The R and D department focuses on designing safe and attractive products, whereas an operation is responsible for producing and distributing the desired quality and quantity of products. Accounting has to measure revenues and costs to help marketing know how it is achieving its objectives. Together, all of these departments have an impact on the marketing department's plans and actions. Under the marketing concept all of these must "think customers''. They should work in harmony to provide superior customer value and satisfaction.

B. Suppliers

Suppliers form an important link in the company's overall customer value delivery system. They provide the resources needed by the company to produce its goods and services. Supplier problems can seriously affect marketing. Marketing managers must watch supply availability- supply shortages and delays, labor strikes, and other events can cost sales in the short-run and damage customer satisfaction in the long run. Marketing managers also damage customer satisfaction in the long run. Marketing managers also monitor the price trends of their key inputs. Rising supply costs may force price increases that can harm the company's sales volume. Most marketers today treat their suppliers as partners in creating and delivering customer value.

C. Marketing Intermediaries

Marketing intermediaries help the company to promote, sell and distribute its goods to final buyers. They include resellers, physical distribution firms, marketing service agencies, and financial intermediaries.

Resellers: are distribution channel firms that help the company fined customers or make sales to them. These include wholesalers and retailers who buy and sell merchandise. Selecting and partnering with resellers is not easy. No longer do manufacturers have many small, independent resellers from which to choose.

Physical Distribution firms: help the company to stock and move goods from their points of origin to their distribution. Working with warehouse and transportation firms, a company must determine the best ways to store and ships goods, balancing factors such as cost, delivering, speed and safety.

Marketing Service Agencies: are the marketing research firms, advertising agencies, media firms, and marketing consulting firms that help the company target and promoter its products to the customer. When the company decides to use one of these agencies, it must choose carefully because these firms vary in creativity, quality, service, and price.
Financial intermediaries: Include banks credit companies, insurance companies and other businesses that help finance transactions or insure against the risks associated with the buying and selling of goods. Most firms and customers depend on financial intermediaries to finance their transactions. Like suppliers marketing intermediaries form an important component of the company's overall value delivery system. In its guest to create satisfying customer relationships, the company must do more than just optimize its own performance. It must partner effectively with marketing intermediaries to optimize the performance of the entire system.

D. Customer

The company needs to study five types of customer markets closely

- ✍ **Consumer Markets**: consist of individuals and households that buy goods and services for personal consumption.
- ✍ **Business markets**: buy goods and services for further processing or for use in their production process.
- ✍ **Reseller markets**: buy goods and services to resell at profit
- ✍ **Government market**: are made up of government agencies that buy goods and services to produce public service or transfer the goods and services to others who need them.
- ✍ **International markets**--- consists of these buyers in other countries including consumers, producers, resellers, and governments. Each market type has special characteristics that call for careful study by the seller.

E. Public

The company's marketing environment also includes various publics. A public is any group that has an actual or potential interest in or impact on an organization's ability to achieve its objectives. We can identify seven types of publics.

- ✍ **Financial publics**: influence the company's to obtain funds. Banks, investment houses, and stockholders are the major financial publics.
- ✍ **Media publics**: carry news, features, and editorial opinion. They include newspapers, magazines, and radio and television stations.
- ✍ **Government Publics**: management must take government developments into account. Marketers must consult the company's lawyers on issues of product safety, truth in adverting, and other matters.
- ✍ **Citizen action publics**: a company's marketing decisions may be questioned by consumer organizations, environmental groups, minority groups, and others. Its public relations department can help it stay in touch with consumer and citizen groups.
- ✍ **Local Publics**: include neighborhood residents and community organizations. Large companies usually appoint a community relations officer to deal with community, attend meetings, answer questions, and contribute to worthwhile causes.
- ✍ **General public**: A company needs to be concerned about the general public's attitude towards its products and activities. The publics' image of the company affects its buying.

- ✍ **Internal Publics**: include workers, managers, volunteers, and the board of directors. Large companies use newsletters and other of directors. Large companies use newsletters and other means to inform and motivate their internal publics. When employees feel good about their company, this positive attitude spills over the external publics.

A company can prepare marketing plans for these major publics as well as its customers markets. Suppose the company wants a specific response from a particular public, such as goodwill, favorable word of mouth, or donations of time or money. The company would have to design an offer to this public what is attractive enough to produce the desired response.

2.4 EXERCISE

Part-I Choose the best answer from the given alternative

1. Environmental scanning is

A) Continual monitoring of what is going on
B) Collects information about external forces
C) It is conducted through the marketing information system
D) All
E) None

2. Which of the following statement best describes oligopoly

A) One marketer in the market place
B) A few marketers dominate the market place
C) Many marketers competing in the market place
D) Perfect competition in the market place
E) None

3. Which one of the following is not elements of demographic environment

A) Age distribution C) Occupation E) Distribution of income
B) Educational levels D) Gender

4. Which one of the following is not part of micro environment

A) Company C) marketing intermediaries E) Economic environment
B) Suppliers D) Customers

5. _____is a specific detailed statement of how the marketing mix will be used to realize the marketing strategy A) Marketing objectives and strategies
B) Marketing plan
C) Implementation and control
D) Planning tools
E) None

Part-II Discussion question

1. Discuss competitive forces
2. Discuss environmental scanning
3. Discuss the macro environment
4. Discuss the political-legal environment

5. Discuss the different types of planning tools

CHAPTER: THREE CONSUMER BEHAVIOR

3.1 Consumers Buying Behavior

Managers in an organization spend a great deal of time thinking about customers. They want to know who their customers are, what they think and how they feel, and why customers buy their product rather than competitors' owners themselves do not know exactly what motivates their buying. But management needs to put top priority on understanding customers and what makes them tick.

Thus, understanding buyers' behavior is an essential but difficult task the company must carefully produce its product and its image to match buyer needs and desires Buyer behavior springs from deeply held values and attitudes, from what they think of themselves and what they want others to think of them, from rationality and common sense, and from whimsy and impulse.

Marketing concept starts with consumer needs and his behavior in meeting his needs. Every action of a person is based on needs. The real problem is to learn what customer takes into consideration when he chooses a particular brand. Such a study is concerned with consumer behavior

Consumer buyer behavior refers to the buying behavior of final consumer- individuals and households who buy goods and services for personal consumption. All of these final consumers make up the consumer market. Consumers or buyers behaviors involves the activities of people engaged when selecting, purchasing, using and disposing products, so as to satisfy the need and desire.

Customer behavior is that subset of human behavior that is concerned with decisions and acts of individuals in purchasing and using products.

Consumer behavior can be defined as, "the activities and actions of people and organization that purchase and use economic goods and service, including the influence on these activities and actions"

"It is the process whereby individuals decide whether, what, when, where, how and from whom to purchase goods and services"

Therefore, marketers need to satisfy consumer needs. And in order to do this, they need to understand the consumers or buyers behavior. If consumers are satisfied:

- They will buy more of a companies' products
- They advocate or talk favorably about the company and company's product
- They may advice the company for improvement
- They give little attention to other companies and their goods They may buy new products of the company.

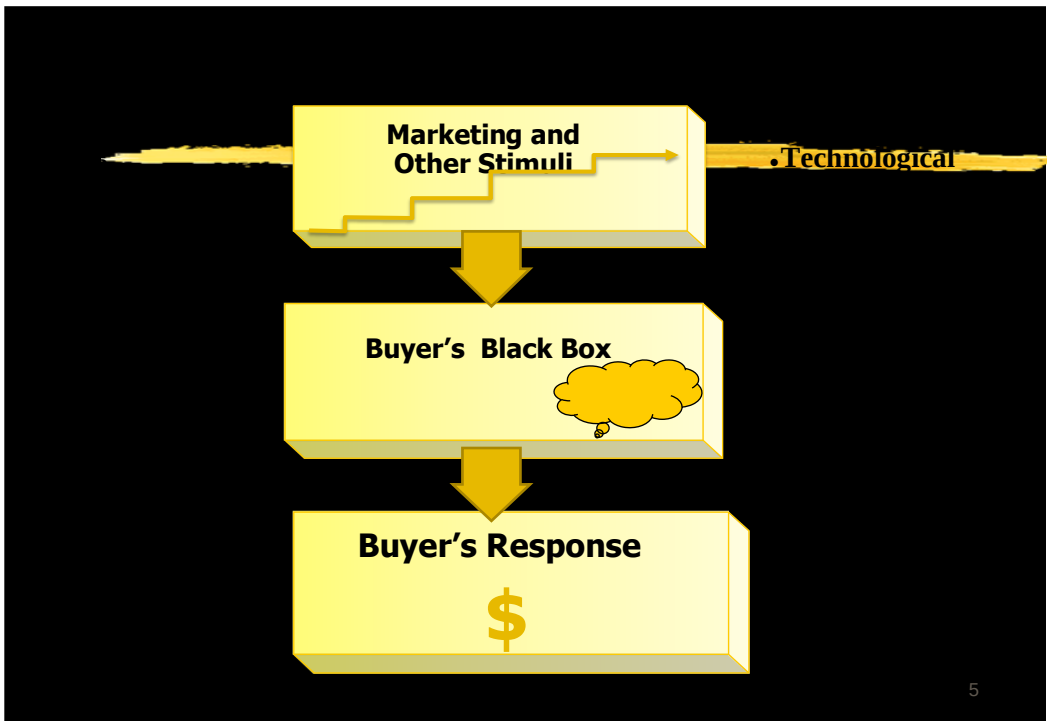
3.2 Model of Consumer Behavior

Consumers make many buying decisions every day. Most large companies research consumer buying decisions in great detail to answer questions about what consumer buy, where they buy, how and how much they buy, when they buy and why they buy. Marketers can study consumer purchase to find answers to questions about what they buy, where and how much. But learning about eh whys of consumer buying behavior is not so easy the answers and often locked deep within the consumer's head.

The central question for marketer is: How do consumers respond to various marketing efforts the company might use? The company that really understands how consumers will respond to different product features, prices, and advertising appeals has a great advantage over its competitors. The starting point is the stimulus-response model of buyer behavior shown in fig/B. this figure shows that marketing and other stimuli enter the consumer's ***"black box"*** and produce certain responses. Marketers must figure out what is the buyer's black box.

Marketing stimuli consists of 4Ps: product, price, place and promotion. Other stimuli include major forces and events in the buyer's environment: economic, technological, political and cultural. All these inputs enter the buyer's black box, where they are turned into a set of observable buyer response: product choice, brand choice, dealer choice, purchase timing, purchase amount.

The marketer wants to understand how the stimuli are changed into responses inside the consumer's black box, which has two parts. First, the buyer's characteristics influence how he or she perceives and reacts to stimuli. Second, the buyer's decision process itself affects the buyer's behavior.



Psychology of Consumers

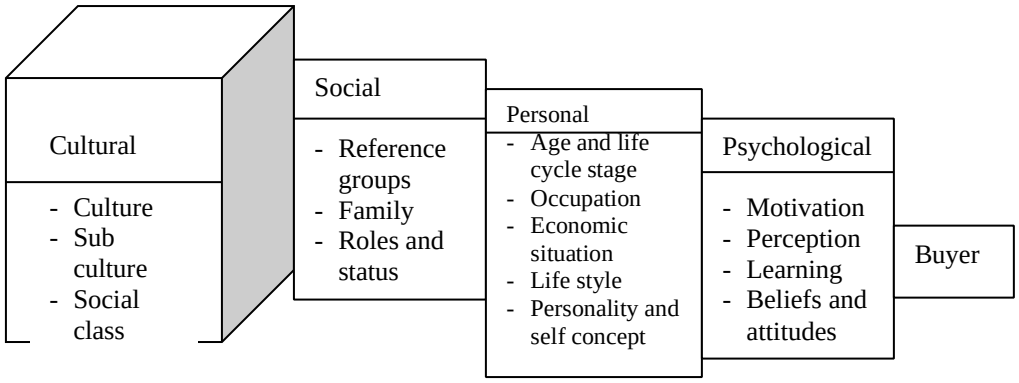
For making a successful marketing program it is necessary for a marketer to study the consumer behavior so that he would know the attitudes, intentions, and desires of the customer. Consumer psychology has the following components.

1. ***Knowledge***: Knowledge is one type of information and on the basis of the knowledge, the psychology of consumer develops. For giving knowledge of the product to the customers, promotion plays an important role.
2. **Attitude**: Attitude is a state of mind or feeling. It induces a predisposition to behave in some way. Attitudes are very important in explaining buyer behavior.
3. ***Intention***: Intention means desire to do something. After knowing the intention of the customers, the marketing program can be formulated and can be coordinated with the production.
4. **Motive**: It is the internal state which directs the behavior of a person. Some people call it urge. Because of the urge the person's behavior is directed towards a particular change.

3.3 Factors Affecting Consumer Behavior

Consumer purchases are influenced strongly by cultural, social, personal, and psychological characteristics. These characteristics are exhibited in the following figure.

Fig. Factors influencing consumer behavior



For most part, marketers can control such factors, but they must take them into account.

I. Cultural Factors

These factors exert the broadest and deepest influence on consumer behavior. They include

A. ***Culture***: Culture is a set of symbols and artifacts created by a society and handed down from generation to generation as determinants and regulators of human behavior. The symbols may be intangible (attitudes, beliefs, values, language) or tangible (tools, housing, products, and works of art). They do not include instinctive acts. However, the way people perform instinctive biological acts such as eating is culturally influenced. Thus, everybody gets hungry, but what, when and how people eat vary among cultures. For example, in the Ukraine, raw pig fat is considered a delicacy. Similarly in Ethiopia raw beef meat is delicacy.

Marketing executives must be alert to the changes in cultural trends so that they can adjust their planning to be in step with, or even a little ahead of, the times. Some cultural trends affecting the buying behavior of US consumers in recent years include the following:

- Time has become as valuable as money.
- Two-income families are the norm.
- Gender roles are losing their identity
- Youth fullness is admired.

B. ***Sub Culture***: Sub cultures are groups in a culture that exhibit characteristic behavior patterns sufficient to distinguish them from other groups with in the same culture. The

behavior patterns that distinguish subcultures are based on the factors such as race, nationality, religion, and urban-rural identification.

A subculture takes on importance in marketing if it constitutes significant part of the population and specific purchasing patterns can be traced to it. Many sub cultures make up important market segments, and marketers often design products and marketing programs tailored to their needs.

Some examples of subculture groups in US

- Hispanic consumers. The U.S Hispanic market-Americans of Cuban, Mexican, Central American, and South American and Puerto Rican descent - consist of 25.5 billion of goods and services each year.
- Black consumers. If the U.S. population of 31 million black Americans, with a total purchasing power of $218 billion annually, were a separate nation, their buying power would rank twelfth in the free world. Blacks spend relatively more than whites on clothing, personal care, home furnishings, and fragrance, and relatively less on food, transportation, and recreation.
- Mature consumers. As the U.S. population ages, "mature" consumers-those 65 year and older are becoming a very attractive market. Seniors are better off financially, spending about $200 billion each year, and they average twice the disposable income of consumers under 35 age group.

C. Social class: Social class is a ranking within a society determined by the members of the society. Social classes exist in virtually all societies, and people's buying behavior is often strongly influenced by the class to which they belong or to which they aspire. Marketers are interested in social class because people with in a given social class tend to exhibit similar buying behavior.

II Social Factors

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

A. ***Reference Groups:*** A person's behavior is influenced by many small groups. Reference group is a relatively small social group to which a person belongs or aspires to belong and that provide guidance to acceptable beliefs, values, attitudes and behavior.

Reference groups are of different types:

(i) ***Membership Groups***: Groups that have a direct influence and to which person belongs are called membership groups.

(ii) ***Primary Groups***: These are groups who have a regular but informal interaction such as family, neighbors, friends and co-workers.

(iii)***Secondary Groups***: These groups are more formal and have less regular interaction. These include organizations like religious groups, professional associations, and trade unions.

(iv)-***Aspirational Groups: -*** these are groups to which a person likes to belong but is not the member of that group.

(v) ***Dissociative Groups***: A group whose values are rejected by the individual.

The importance of reference group influence varies among products and brands. Marketers of products and brands where group influence is strong must determine how to reach and influence the opinion leaders. Group influence is strong for products that are visible to others whom the buyer respects.

Individual is influenced by a reference group in the following manner.

- These groups expose the persons to possible new behaviors and life styles.
- They also influence the person's attitudes and self-concept, because the person normally desires to fit in. They create pressure for conformity that may affect the person's actual product and brand choices.

B. ***Family***: A family is a group of two or more people related by blood, marriage, or adoption living to gather in a household. During their lives many people will belong to at least two families the one in to which they are born and the one they form at marriage. The birth family primarily determination core values and attitudes, the marriage family, in contrast, has a more direct influence on a specific purchases. For example, family size is important in the purchase of a car. Marketers are interested in the roles and influence of the husband, wife, and children on the purchases of different products and services.

C. ***Roles and status***: A person participates in many groups throughout the life. The person's position in each group can be defined in terms of roles and status. A role consists of activities that a person is expected to perform according to the persons around him or her. Each role carries the status reflecting the esteem given to it by society. People often choose products that show their status in society.

III Personal Factors

A buyer's decisions are also influenced by personal factors such as age and life cycle stage, occupation, economic circumstances, life style and personality and self-concept.

A. **Age and Life cycle Stage:** People buy different goods and services over their lifetime. Consumption is also shaped by the stage of the family life-cycle-the stages through

which families might pass as they mature over time. Table B_2 lists the stages of family life cycle. Marketers often define their target markets in terms of life-cycle stage and develop appropriate products and marketing plans for each stage.

Table Stages of the Family Life cycle

№	Stage in family Life cycle	Buying or Behavioral Pattern
1	Bachelor stage: young, single people not living at home.	Few financial burdens, recreation oriented. Buy basic items like furniture, games, enjoy vacations.
2	Newly married couples: young not children.	High purchase rates and highest average purchase of durables.
3	Full nest-I stage: youngest child under six.	Home purchasing at peak: Dissatisfied with financial position and amount of money saved. Interested in new products like washers, T.V., baby food etc.
4	Full nest-II stage: youngest child six or above.	Financial position better, less influenced by advertising. Buy large sized packages.
5	Full nest stage-III: Old married couples with dependent children.	Financial position still better High average purchase of durables. Buy new, more tasteful furniture, unnecessary appliances and magazines. Home ownership at peak.
6	Empty nest stage-I: Old married couples, no children living with them.	Most satisfied with financial position and money saved. Interested in travel, recreation, selfeducation. Not interested in new products. Spend for enjoying vacations, Luxuries and home improvements. Income still good but likely to sell home. Some medical and product needs as other retired group. Drastic cut in income. Special need for attention, affection and security.
7	Empty nest stage-II: Older married-No children living at home, head retired.	
8	Solitary survivor, in labor force.	
9	Solitary survivor, retired	

Source: Fedreick W. Derrick and Alane E. Linfield, The family lifecycle: An alternative approach, Journal of consumer Research, Sepo, 1980, PP. 2

A. Occupation: A person's buying behavioral pattern is also influenced by his occupation. For example, a company president will by expensive suits, credit card membership etc. the marketer tries to find out the different occupational group of the segment and draft the plan accordingly.

B. **Economic Determinants:** Economic considerations are very powerful and influence the consumer behavior to a great extent. Marshall was the first person to examine the role of economic factor on human behavior. The human beings want to maximize their satisfaction through their limited resources. Economic model is based on the assumption that the prices of the product affect its demand. The important economic factors are income and liquid assets.

Income is the most powerful economic factor to influence consumer behavior because it gives him purchasing power from the marketer's point of view. Here the disposable income is important than the gross income. Out of disposable income, a major share is spent to meet the basic needs like food, shelter, education etc. The remaining income after it is called discretionary income.

T.1 = Taxes, Repayment of Debt - Disposable income

D.1 = Money spend for fulfilling basic needs- Discretionary income

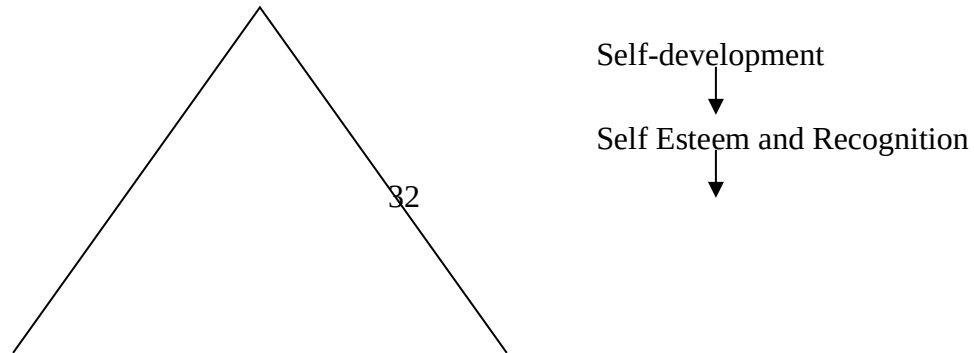
C. **Life Style**: People coming from some sub culture, social class and occupation may lead quite different life styles. A person's life style is the person's pattern of living in the world as expressed in the person's activities, interests and opinions. Life style portrays the person's interaction with the environment. Life style show a person's way of being and acting in the world. Marketer will search for relationships between their products and life style groups.

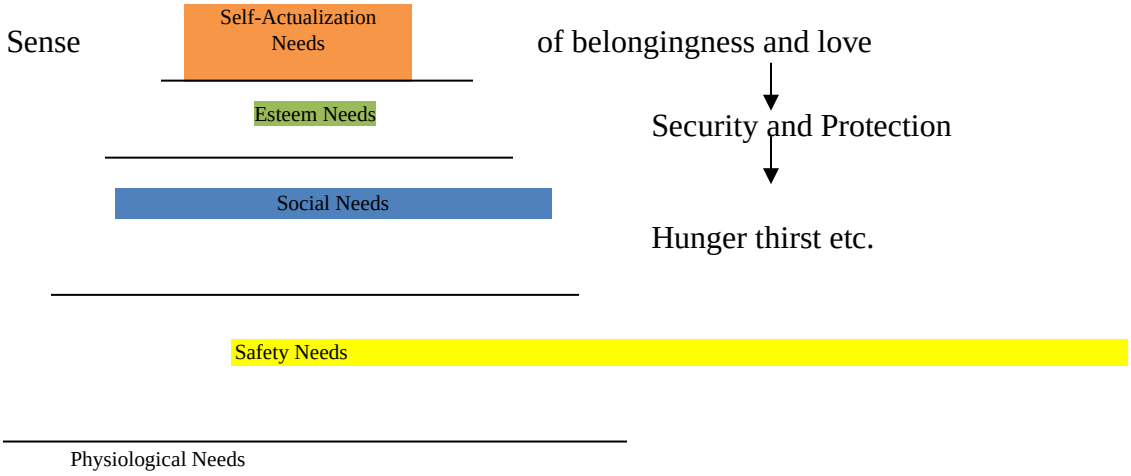
D. **Personality and self-concept**: Personality is defined broadly as an individual's pattern of traits that influence behavioral responses. For example, we speak of people as being self-confident, domineering, introverted, flexible, and/or friendly and as being influenced (but not controlled) by these personality traits in their responses to situations.

IV Psychological Factors

A person's buying choices are further influenced by four major psychological facts: motivation, perception, learning, and beliefs and attitudes.

A. **Motivation**: Psychology can help in understanding how the consumer learnt about a brand and how his memory influences his buying habits. Abraham Maslow's model (Need hierarchy Theory) explains the various need, as exhibited in the following fig:





The human factor always moves towards satisfying certain basic needs as explained by Maslow. Therefore, a study of why and how a consumer is motivated to buy certain products and services helps us in understanding the consumer behavior.

B. ***Perception:*** Since behavior can take many forms, a person gathers information from the environment to help in making a choice. Perception is the process of receiving, organizing, and assigning meaning to information or stimuli detected by our five senses. It is in this way that we interpret or give meaning to the world around us. Perception plays a major role in the stage of the buying-decision process where alternatives are identified.

What we perceive-the meaning we give to something depends, on the object and our experiences. Every day we come in contact with an enormous number of marketing stimuli. However, with the aid of selective perception techniques we are able to deal with the commercial environment.

- We pay attention by exception (selective attention)
- As a part of perception, new information is compared with a person's existing store of knowledge, or frame of reference (Selective distortion)
- We retain only part of what we have selectively perceived (Selective retention)

Why do people perceive the same situation differently? All of us learn by the flow of information through our five senses: sight, hearing, smell, touch and taste. However, each of us receives, organizes, and interprets this sensory information in an individual way. Perception is the process by which people select, organize and interpret information to form meaningful picture of the world.

People can form different perceptions of the same stimulus because of three perceptual processes: selective attention, selective distortion and selective retention.

Selective Attention: the tendency for people to screen out most of the information to which they are exposed. People are exposed to a great amount of stimuli every day. For example, the average person may be exposed to a lot of ads a day. And it is impossible for a person to pay attention to all these stimuli. Thus, marketers have to work especially hard to attract the consumer's attention. Their message will be lost on most people who are not in the market for the product. Moreover, even people who are in the market may not notice the message unless it stands out from the surrounding sea of other ads.

Selective Distortion: it describes the tendency of people to adapt information to personal meanings. In other words, noted stimuli do not always come across in the intended way. Each person fits incoming information into un-existing mind-set. People tend to interpret information in a way that will support what they already believe. Thus, marketers must try to understand the mindsets of consumers and how these will affect interpretations of advertising and sales information.

Selective Retention: people also will forget much that they learn. They tend to retain information that supports their attitudes and beliefs. Because of selective retention, a person is likely to remember good points made about a particular product, which he/she is familiar, and forget good points made about competing products.
Because of selective exposure, distortion, and retention, marketers have to work hard to get their message through. This fact explains whey marketers use so much drama and repetition in sending message to their market.

C. Learning: Learning involves changes in behavior resulting from observation and experience learning theorists say that most human behavior is learned. Learning occurs through the interplay of drives, stimuli, cues, responses and reinforcement. A drive is a strong internal stimulus that calls for action. Cues are minor stimuli that determine when, where, and how the person responds.

The practical significant of learning Theory for marketers is that they can build up demand for a product by associating it with strong drives, using motivating cues, and providing positive reinforcement.

But learning is not a perfect predictor of behavior because a variety of other factors also influence a consumer. For example, a pattern of repeatedly purchasing the same brand may be disrupted by a person's desire for variety or novelty. Or a short temporary situation such as being short of money or pressed for time may produce behavior different than a learned response. Thus learned response does not necessarily occur every time a stimulus appears.
Beliefs and Attitudes: Through doing and learning, people acquire beliefs and attitudes. These, in turn, influence their buying behavior. A belief is a descriptive thought that a person has about something. These beliefs may be based on real knowledge, opinion or faith, and may or may not carry an emotional charge. Marketers are interested in the beliefs

that people formulate about specific products and services, because these beliefs make up product and brand images that affect buying behavior. If some of the beliefs are wrong and prevent purchase, the marketer will want to launch a campaign to correct them.

People have attitudes regarding religion, politics, clothes, music, food, and almost everything else. An Attitude is a learned predisposition to respond to an object or class of objects in a consistently favorable or unfavorable way. In our buying decision process model, attitudes play a major role in the evaluation of alternatives. All these attitudes have the following characteristics.

- Attitudes are learned (Reading about product in consumer report)
- Attitudes have an object [Favorable attitude to word, general concept (Exercise), but a negative attitude toward a specific dimension of the concept (Jogging)
- Attitudes have direction and intensity
- Attitudes tend to be stable and generalizable

A consumer's attitudes do not always predict purchase behavior. A person may hold very favorable attitudes towards a product but not by it because of some inhabiting factor.

Changing strongly held attitudes can be difficult or impossible.

3.4 Types of Buying Decision Behavior

There are four types of consumer buying behavior based on the degree of buyer involvement and the degree of differences among brands.

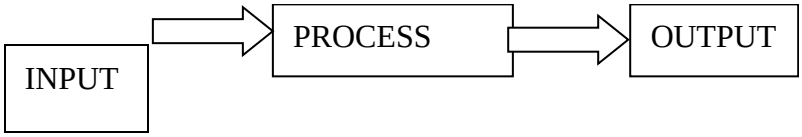
- **Complex Buying Behavior**: Consumers undertake complex buying behavior when they are highly involved in a purchase and perceive significant brand differences. Consumers may be involved when the product is expensive, risky, purchase infrequently, and highly self-expressive (e.g. Car). Typically the consumer has to learn about the product
- **Dissonance-reducing Buying Behavior**: It occurs when consumers are highly involved with an expensive, infrequent, or risky purchase, but see little difference among brands. For example a consumer buying carpeting may face a highinvolvement decision because carpeting is expensive and self-expressive. Yet buyers may consider most carpet brands in a given price range to be the same. In this case, because perceived brand differences are not large, buyers may shop around to learn what is available, but buy relatively quickly. They may respond primarily to a good price or purchase convenience. After the purchase, consumer might experience postpurchase dissonance (after sale discomfort) when they notice certain disadvantage of the purchased carpet or hear favorable things about brands not purchased. To encounter such dissonance, marketer's after-sale communications should provide evidence and support to help consumers feel good about their brand choices.
- **Habitual Buying Behavior**: It occurs under conditions of low involvement and little significant brand difference. For example, take Salt. Consumers have little involvement

in this product category- they simply go the store and reach a brand. Consumers appear to have low involvement with most low cost, frequently purchased products.

- **Variety-seeking Buying Behavior**: Consumers undertake variety-seeking buying behavior in situations characterized by low consumer involvement, but significant perceived brand differences. In such cases, brand switching occurs for the sake of variety rather than because of dissatisfaction.

3.5 The Buying-Decision Process

Consumer buying process is an important process which has a vital role in consumer behavior study. This is the first essential step to understand consumer behavior. The buying process is the process of decision-making leading to purchase function. It represents a problem-solving approach. The mechanism is the same as in any processing activity in which we supply some input followed by processing activity and finally the outcome comes before us.



Stages of Buying Process

The buying process is composed of a number of stages and is influenced by an individual's psychological framework composed of the individual's personality, motivation, perception and attitudes.

The buyer or consumer takes his buying decision for some commodities immediately without much consideration such as items of daily use while for some other commodities mainly luxury or durable items, he thinks much before taking a decision to purchase it. Sometimes he consults others. Generally the purchaser passes through five distinct stages in taking a decision for purchasing a particular commodity.

i) Need Recognition
ii) identification of alternatives iii) Evaluation of alternatives
iv) purchase and related decision
v) Post purchase behavior

1. Need Recognition: A buying process starts with need arousal. A need can be activated through external and internal stimuli. The basic needs of a common man arise to a particular level and become a derive and he knows from his previous experience how to satisfy these needs like hunger, thirst, sex etc. This is a case of internal stimulus. A need can also be aroused by an external stimulus such as the sight of new product in a shop while purchasing other usual products.

There is a two-fold significance of need arousal stage to a marketing man.

A. The marketer must identify the drive that might actually or potentially connect to the product class or brand and make the buyer feel that the product can satisfy his needs.

B. It also recognizes that the need levels for the product fluctuate over a time and are triggered by different cues. The marketer can arrange cues to confirm better to the natural rhythms and timing of need.

Product Awareness/Information Search

After need arousal, the consumer tries to solve it and gathers the sources and information about the product. Depending upon the intensity of need, it produces two states of an individual. The first state is called heightened attention when the consumer becomes more receptive to the information regarding the item he needs. He becomes alert to information bearing on the need and its gratification. If a consumer needs to purchase a television, he will pay more attention to TV advertisements. He keeps remembering the remarks made by friends and associates about TVs.

Of need is more intense, the individual enters a state of active information search and he tries to collect more information about the product, its key attributes, and qualities of various brands and about the outlets where they are available. There are four consumer information sources.

i) Personal sources (family, friends, neighbors etc.) ii) Commercial sources (Advertisements, salesmen, dealers etc.)

iii) Public sources (mass media, consumer rating organizations)

iv) Experiential sources (handling, examining, using the product)

The marketer will find it worthwhile to study the consumer information sources whenever i) a substantial percentage of the target market engages in search, and ii) the target market shows some stable patterns of using the respective information sources. Identifying the information sources and their respective roles and importance calls for interviewing consumers about the sources of information, the findings can later on be used to plan the firm's advertisements.

Interest may be viewed as a state of mind that exists when a consumer perceives a need and or is aware of alternative products capable of satisfying that need. Consumer interest is indicated in the consumer's willingness to seek further information about a product. At this stage consumer is actively involved in the buying process and pays attention to the product. However, if he loses interest during this involvement, his/her attention will be diverted and the buying decision process will break down. For example, a house wife requiring a washing aid, may look for further information about these machines ones she becomes aware of such machines. The kind of information she may look for is about the alternative washing machines available in the market place, their relative prices, operational efficiency, and warranty and service facilities.

2. Evaluation of Alternatives

One interest in a product(s) is aroused; a consumer enters the subsequent stage of evaluation and intention. The evaluation stage represents the stage of mental trial of the product. During this stage, the consumer assigns relative value weights to different products/brand on the basis of accumulated stock of product information and draws conclusions about their relative satisfaction-giving potential value. After this evaluation, the consumer develops the intention either to purchase or reject the product/brand. The final purchase will, however, depend on the strength of the positive-intention that is the intention to buy. For example, the housewife, after arousal of her interest in washing machines, she will compare the stock of information she has accumulated about the different washing machines in the market and then evaluate the value of each one of them before she develops the intention to buy. However, if she feels that washer man/woman would serve the need then she may altogether reject the idea of buying any washing machine.

On the basis of the evaluation behavior of consumers, the marketer can improve or develop the product and segment the market on the basis of product-attributes.

3. Purchase Decisions

In the evaluation stage, the consumer ranks brands and forms purchase intentions. Generally, the consumer's purchase decision will be to buy the most preferred brand, but two factors can come between the purchase intention and the purchase decision. The first factor is the attitude of others. The second factor is unexpected situational factors. The consumer may form a purchase intention based on factors such as expected income, expected price and expected product benefits. However, unexpected events may change the purchase intention. Thus, preferences and even purchase intentions do not always result in actual purchase choice.

4. Post Purchase Behavior

The marketer's job does not end when the product is bought. After purchasing the product, the consumer will be satisfied or dissatisfied and will engage in Post purchase behavior of interest to the marketer what determines whether the buyer is satisfied or dissatisfied with a purchase? The answer lies in the relationship between the consumer's expectations and the product's perceived performance. If the product falls short of expectations, the consumer is disappointed; if it meets expectations, the consumer is satisfied; if it exceeds expectation, the consumer is delighted.

Almost all major purchases result in cognitive dissonance, or discomfort caused by post purchase conflict. After the purchase, consumers are satisfied with the benefits of the chosen brand and are glad to avoid the draw backs of the brand not bought. However, every

purchase involves compromise consumers feel uneasy about acquiring the drawbacks of the chosen brand and about losing the benefits of the brand not purchased. Thus, consumers feel at least some post purchase dissonance for every purchase. **Organizational Buyers**

Organizational buyers are business firms and nonprofit establishments that buy goods and services and then resell them, with or without reprocessing, to other organizations or ultimate consumers.

Organizational buyers are those who buy goods and services for the purpose of further production, resale and redistribution. The organizational buyer buys goods and services for the purpose of increasing sales, cutting costs and supplying their products to the customers at the lowest costs consistent with quality.
Organizational consumers include profit and non-profit businesses, governmental agencies and institutions (schools, hospitals etc.)

Buying Situations

The organizational buyer faces many problems in buying a product or service. The buying center is the decision making unit of a buying organization. The organizational buyer makes decisions that vary with the buying situation. Mainly there are three types of buying situations:-

(i) ***Straight Re-buy***: The buying situation in which the purchasing department reorders on a routing basis (e.g. Office Supplies, bulk chemicals)
(ii) ***Modified Re-buy***: a situation in which the buyer wants to modify product specifications, prices, delivery requirements, or other terms.
(iii) ***New task***: It is a buying situation in which a purchaser buyers a product or service for the first time (e.g. office building, new security system etc.)

Participant in Organizational Buying Process

i) ***Initiators***: Those who request that something be purchased.

ii) ***Users***: Those who will use the product or service.

iii) ***Influencers***: People who influence the buying decision. iv*)* ***Deciders:*** People who decide on product requirements and/or on suppliers.

v) ***Approvers***: People who authorize the proposed actions of deciders or buyers.

vi) ***Buyers***: People who have formal authority to select the supplier and arrange the purchase terms.

vii) ***Gate Keepers***: People who have the power to prevent sellers or information from reaching members of the buying center.

Buying Process

1. Need Recognition
2. General need Description
3. Product Specifications
4. Supplier search
5. Proposal solicitation
6. Supplier selection
7. Order-routine specifications
8. Performance Review

3.6 Organizational Buying Behavior

Organizational buying behavior is the decision-making process that organizations use to establish the need for products and services and identify, evaluate, and choose among alternative brands and suppliers. Some key characteristics of organizational buying behavior are:

1. Market Characteristics

- Demand for industrial products and services I derived
- Few customers typically exist, and their purchase orders are large.

2. Product or Service Characteristics

- Products or services are technical in nature and purchased on the basis of specifications.
- There is a predominance of raw and semi-finished goods purchased
- Heavy emphases is placed on delivery time, technical assistance, post-sale services, and financing assistance.

3. Buying process characteristics

- Technically qualified and professional buyers exist and follow established purchasing policies and procedures.
- Buying objectives and criteria are typically spelled out, as are procedures for evaluating sellers and products.
- Multiple buying influences exist, and multiple parties participate in purchase decisions.

- Reciprocal arrangements exist, and negotiation buyers and sellers is common place.

4. Other marketing mix characteristics

- Direct selling to organizational buyers is the rule, and physical distribution is very important.
- Advertising and other form of promotion are technical in nature
- Price is often negotiated, evaluated as part of broader seller and product qualities, typically in elastic owing to derived demand, and frequently affected by trade and quality discounts.

Self-Test

I. Write true if the statement is correct unless write false if the statement is incorrect.

1. Marketing nothing its build relationship with customers by creating customer value and satisfaction.
2. In a marketing management; a public is any group that has an actual or potential interest in or impact on an organization's ability to lose its objectives.
3. Post purchase behavior is the process analyzing to determine whether the buyer is satisfied or dissatisfied after purchase.
4. The most basic information system used by marketing mangers is the internal records system.
5. A marketing intelligence is systematic collection and analysis of publicly available information about competitors and developments in the marketplace.

II. Choose the best answer from the given alternatives.

1. Which of the following is not true about states of felt deprivation in marketing?

A. basic physical needs

B. individual needs for knowledge and self-expression. C. social needs for belonging and affection

D. They are created by marketer.

2. Which of the following statement is true?

A. Human needs are not created by marketer.

B. Customer value is the ratio between what the customer gets and what he/she gives

C. Wants are shaped by culture, and individual personality.

D. Needs are demands but not wants

3. Which of the following conditions must be satisfied for potential exchange?

A. There are at least two parties

B. Each party is capable of communication and delivery.

C. Each party is free to accept or reject the exchange offer.

D. All

4. Which of the following is different from the other?

A. Company B. Supplier C. Technology D. Customer E. All

CHAPTER FOUR MARKET SEGMENTATION, TARGETING, AND POSITIONING

I. INTRODUCTION

A company that decides to operate in a broad market recognizes that it normally cannot serve all customers in that market. The customers are too numerous and diverse in their buying requirements. Instead of competing everywhere, the company needs to identify the market segments that it can serve most effectively.

To choose its markets and serve them well, many companies are embracing target marketing. In target marketing, sellers distinguish the major market segments, target one or more of those segments, and develop products and marketing programs tailored to each segment. Instead of scattering their marketing effort they can focus on the buyers whom they have the greatest chance of satisfying.

Target marketing requires marketers to take three major steps (See Figure 4-1).

1. ***Market segmentation***: Identify and profile distinct groups of buyers who might require separate products and/or marketing mixes.
2. ***Market targeting***: Select one or more market segments to enter.

3. ***Market positioning***: Establish and communicate the products' key distinctive benefits in the market.

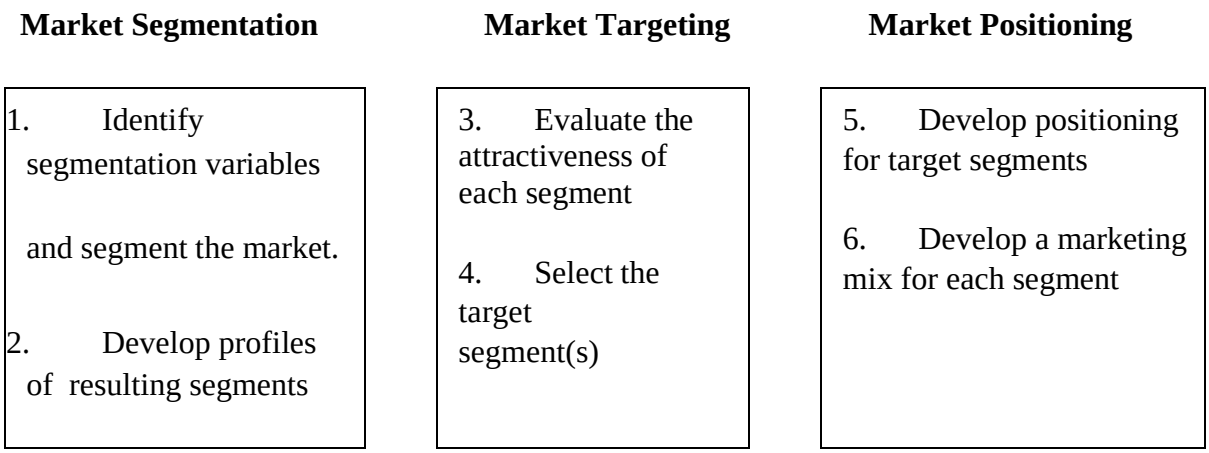


Figure 3-1 Steps in Market Segmentation, Targeting, and Positioning

4.1 Market Segmentation

Consumers differ so widely in terms of space, time, perception and value that ownership transfer is possible only when these differences are known and cared for. Therefore, the whole market has to be subdivided to develop an understanding of its dimensions. This process of sub dividing market is referred to as ***market segmentation***.

From the managerial stand point, market segmentation may be defined as sub dividing of the target market into subgroups of consumer population with identifiable, distinct and homogenous characteristics with a view to develop and pursue distinct and differentiated marketing programs for each sub group in order to enhance consumer satisfaction and the profit position of business.

Thus, in market segmentation, consumers are grouped in terms of market dimensions and then the firms attempt to match the needs of different consumer groups, through compatible marketing inputs encompassing product, price, promotion, and distribution. It serves as a logical vehicle of implementing the modern marketing concept.
"Market segmentation is the sub-dividing of market into homogenous sub-sections of customers, where any subsection may conceivably be selected as a market target to be reached with distinct marketing mix"

"Market segmentation consists of taking the total heterogeneous market for a product and dividing it in to several sub markets or segments, each of which tends to be homogenous in all significant aspects"

4.1.1 Importance of Market Segmentation

By tailoring marketing programs to individual market segments, management can do a better marketing job and make more efficient use of its marketing resources. A small firm with limited resources might compete very effectively in one or two small market segments. However, this same firm would be overwhelmed by the competition if it aimed for a major segment.

By developing strong positions in specialized market segments, medium sized firms can grow rapidly. For example, the Oshkosh Truck co. in Wisconsin has become the world's largest producer of fire and rescue trucks for airports.
The importance of market segmentation lies in a better understanding of the consumer needs and behavior so that marketer can plan accordingly in brief, market segmentation helps:

- ✈ Understand potential customers,
- ✈ pay proper attention to particular areas,
- ✈ Formulate marketing programs,
- ✈ Select channels of distribution,
- ✈ Understand competition,
- ✈ Use marketing resources efficiently,
- ✈ Accurate measurement of goals and performance
- ✈ Advertise the products and launch sales promotion programs ✈ Design marketing mix-product, price, place, and promotion.

4.1.2 Basis for Segmenting Consumer Markets

Markets may be segmented on the basis of Geographic, demographic, psychographics and buyer behavior variables.

1. Geographic Segmentation

Here, a marketer divides the target market into different geographical units such as nations, states, cities, counties, regions and countries. A marketer may decide to operate in one or more than one geographical areas. The regional distribution of population is important to marketers because people within a given region generally tend to share the same value, attitude and style preference.

For example Campbell Soup Company has altered some of its soup and bean recipes to suit regional tastes, and General Foods uses different methods to promote Max well House Coffee in different regions.

2. Demographic Segmentation

In demographic segmentation, a marketer divides the market on the basis of demographic factors like age, sex, income levels, occupation, family size, material status, consumption levels caste level, religion and language. For example, cosmetic manufacturers and food manufacturers particularly keep in mind the age-categories.

Some recent studies indicate that these demographic variables are rather poor predictors of buyer behavior and doubts have been raised about their optimality as a basis for segmentation strategies. Demographic segmentation can be mainly age and life cycle segmentation, Gender segmentation, Multivariate demographic segmentation (combining two or more demographic variables). Here is how certain demographic variables have been used to segment markets.

1. Age and lifecycle stage

Consumer's wants and abilities change with age. Photo companies are now applying age and lifecycle segmentation to the film market. With film sales down, photo companies are working hard to exploit promising niche markets: moms, kids, and older people. Nevertheless, age and lifecycle can be tricky variables. For example, the Ford motor company designed its Mustang automobile to appeal to young people who wanted an inexpensive sport car. But ford found that all age groups were purchasing the car, it then realized that its target market was not chronologically young but the psychologically young.

Marketers must be careful to guard against stereotypes when using age and life-cycle segmentation. For example, some 70 year olds require wheelchair, others play tennis.

Thus, age often is a poor predictor of a person's life cycle, health, work or family status, needs, and buying power

2. Gender

Gender segmentation has long been applied in clothing, hairstyling, cosmetics, and magazines. Occasionally other marketers notice an opportunity for Gender segmentation. The automobile industry is beginning to recognize Gender segmentation. With more women car owners, some manufacturers are designing certain features to appeal to women, although stopping short of advertising the cars as women's cars.

3. Income

Income segmentation is a long-standing practice in such product and service categories as automobiles, boats, clothing, cosmetics, and travel. However, income does not always predict the best customers for a given product.

4. Social Class

Social class has a strong influence on preference in clothing, house furnishing, leisure activities, reading habits, and retailers. Many companies design products and services for specific social classes.

3. Psychographics Segmentation

Marketers often go beyond demographic attributes in an effort to better understand why consumers behave as they do. They engage in psychographics segmentation, which involves examining attributes related to how a person thinks, feels, and behaves. It is dividing a market into different groups based on social class, lifestyle or personality characteristics. Using **personality dimensions**, **life-style characteristics**, and **values**, marketers are able to develop richer and more complete descriptions of segments.

Personality characteristics

An individual's personality is usually described in terms of traits that influence behavior. Theoretically, they would seem to be a good basis for segmenting markets. However, personality characteristics pose problems that limit their usefulness in practice market segmentations.

Never the less, firms often tailor their advertisement messages to appeal to personality traits. Thus, Toyota supra is advertised as "pure excess". Ford buyers were identified as independent, impulsive, muscular, alert to change and self-confident. Chevrolet owners were conservative, thrifty, prestige-conscious, less masculine, and seeking to avoid extremes.

Life style relates to activities, interests, and opinions. Your life style reflects how you spend your time and what your beliefs are on various social, economic, and political issues. It is a broad concept that overlaps what some consider to be personality characteristics. The goods they consume express their lifestyle. Companies making cosmetics, alcoholic beverages and furniture are always seeking opportunities in lifestyle segmentation. But lifestyle segmentation does not always work. The following table explains some typical areas of life style research.

Values

According to psychologists, values are a reflection of our needs adjusted for the realities of the world in which we live. Research at the survey Research Centre at the University of Michigan has identified nine basic values that relate to purchase behavior. The nine, which they call the list of values (LOV), are

- Self-respect Self-fulfillment
- Security Sense of belonging
- Excitement Sense of accomplishment
- Fun and enjoyment in life Being well respected
- Having warm relationships

4. Buyer Behavior Segmentation

Behavioral segmentation divides buyers into groups based on their knowledge, attitudes, uses, or responses to a product. May marketers believe that behavior variables are the best starting point for building market segments?

Occasions

Buyers can be grouped according to occasions when they get the idea to buy, actually make their purchase, or use the purchased item. Occasion segmentation can help firms build up product usage. For example, orange juice more often is consumed at breakfast, but orange growers have promoted drinking orange juice as cool and refreshing drink a to their times of the day. Kodak uses occasion segmentation in designing and marketing its single-use cameras. The customer simply snaps off the roll of printers and return the film, camera and all, to be processed.

Benefit Sought

A powerful form of segmentation is to group buyers according to the different benefits that they seek from the product.

Benefit Segmentation requires finding the major benefits people look for in the product class, the kinds of people who look for each benefit, and the major brands that deliver each benefit. One of the best example of benefit segmentation was conducted in the tooth paste market. Research found four benefit segments: Economic, medical, cosmetic, and taste.

Each benefit group had special demographic, behavioral, and psychographics characteristics for example the people seeking to prevent decay tended to have large families, were heavy tooth paste users, and were conservative. Each segment also favored certain brands. This is exhibited in the following table.

Benefit Segmentation of the toothpaste Market

Benefit Segments	Demographics	Behavior	Psychographics	Favored Brands
Economy (low price)	Men	Heavy users	High autonomy, value oriented	Brands on sale
Medicinal (decay prevention)	Large families	Heavy users	Hypochondriacally conservative	Crest
Cosmetic (Bright teeth)	Teens, young adults	Smokers	High sociability action	Aqua-Fresh ultra Brite
Taste (good tasting)	Children	Spearmint lover	High self-involvement, hedonistic	Colgate, Aim

Source: Adapted from Russel J. Aely, Journal of Marketing. July 1968, pp-3035

User status Markets can be segmented into groups of nonusers, excusers, potential users, first time users, and regular users of a product. Potential users and regular users may require different kinds of marketing appeals. For example, one study found that blood donors are low in self-esteem, low risk takers, and more highly concerned about their health; non donors then to be the opposite on all three dimensions.

Usage Rate Markets can also be segmented into light, medium, and heavy user groups. Heavy users are often small percentage of the market, but account for high percentage of total buying.

Loyalty status a market can be segmented by consumer-loyalty patterns. Consumers can have varying degrees of loyalty to brands, stores (Sellers), and other entities. Suppose there are five brands: A, B, C, D, and E. Buyers can be divided into four groups according to their brand-loyalty status:

Hard-core loyal: Consumers who buy one brand all the time. Thus a buying pattern of A, A, A, A, A, A might represent a consumer with undivided loyalty to brand A.

Split loyal: Consumers who are loyal to two or three brands. The buying pattern A, A, B, B, A, B represents a consumer with a divided loyalty between A and B. This group of people is rapidly increasing. More people now buy from a small set of acceptable brands that are equivalent in their minds.

Shifting loyal: Consumers who shift from favoring one brand to another: The buying pattern A, A, A, B, B, and B would suggest a consumer who has shifted brand loyalty from A to B.

Switchers: Consumers who show no loyalty to any brand. The buying pattern A, C, E, B, D, B would suggest a non-loyal consumer who is either deal prone (buys the brand sold on discount) or variety prone (wants something different each time).

One caution: What appear to be brand-loyal purchase patterns may reflect habit, indifference, a low price, a high switching cost, or the non-availability of other brands thus a company must carefully interpret what is behind the observed purchase patterns. It must determine whether users are loyal, switchers, or emergent, and it must craft its marketing campaigns accordingly.

Buyer-Readiness Stage

A market consists of people in different stages of readiness to buy a product. Some are unaware of the product, some are aware, some are informed, some are interested, some desire the product, and some intend to buy.

Attitude

Five attitude groups can be found in a market: enthusiastic, positive, indifferent, negative, and hostile.

4.1.3 Requirements for Effective Segmentation

To be useful, market segments must have the following characteristics:

Measurability: The size, purchasing power, and profiles of the segments can be measured. Certain segmentation variables are difficult to measure. For example, there are 24 million left-handed people in U.S, almost equaling the entire population of Canada yet few products are targeted towards this left handed segment. The major problem may be that the

segment is hard to measure. There are no data on demographics of lefties, and the census Bureau does not keep track of left-handedness in its survey.

Accessibility: The market segments can be effectively reached and served. Suppose a perfume company finds that heavy users of its brand are single women who stay out late and socialize a lot. Unless this group lives or shops at certain places and is exposed to certain media, its members will be difficult to reach.

Substantiality: The market segments are large or profitable enough to serve. A segment should be the largest possible homogenous group worth pursuing with a tailored marketing program. It would not pay, for example, for an automobile manufacturer to develop cars for person whose height is less than four feet.

Action ability: Effective programs can be designed for attracting and serving the segments. For examples although one small airline identified seven market segments, its staff was too small to develop separate marketing programs for each segment.

Differentiable: The segments are conceptually distinguishable and respond differently to different marketing-mix elements and programs. If married and unmarried women respond similarly to a sale on perfume, they do not constitute separate segments.

4.1.4 Segmentation Procedure

- ❖ Analyzing the needs of customers
- ❖ Analyzing the Characteristics of consumers
- ❖ Disaggregate the consumers into suitable segments
- ❖ Formulate different marketing mix for different segments
- ❖ Feedback of various segments
- ❖ Select the higher potential segment

Evaluating market segments

In evaluating different market segments a firm must look at three factors

A. Segment size and growth
B. Segment structural attractiveness, and
C. Company objectives and resources.

The company must first collect and analyze data on current segment sales, growth rates, and expected profitability for various segments. It will be interested in segments that have the right size and growth characteristics. However, the ***'right size and growth'*** is a relative mater.

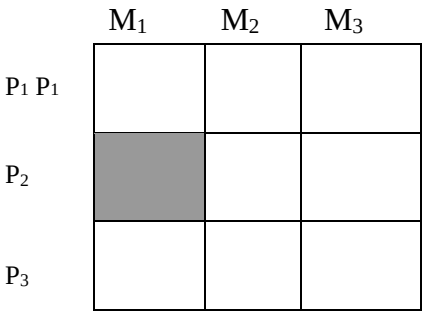
The company also needs to examine major structural factors that affect long run segment attractiveness. For example a segment is less attractive if it already contains many strong

and aggressive competitors. The existence of many actual or potential substitute products may limit prices and profits that can be earned in a segment. The relative power of buyers also affects the segment attractiveness. Finally, a segment may be less attractive if it contains powerful suppliers who can control prices or reduce the quality and quantity of ordered goods and services.

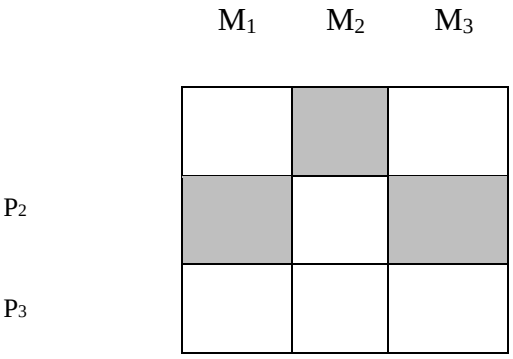
Even if a segment has the right size and growth and is structurally attractive, the company must consider its own objectives and resources some attractive segments can be dismissed quickly because they do not mesh with the company's long run objectives. Or the company may lack the skills and resources needed to succeed in an attractive segment. The company should enter only segments in which it can offer superior value and gain advantages over competitors.

4.1.5 Selecting the Market Segment

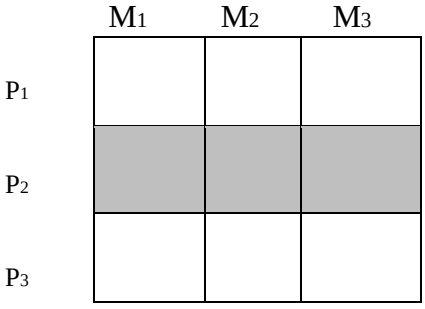
After analyzing different segments, the firm must select one or many segments to serve. The firms can select one or more patterns from the following patterns



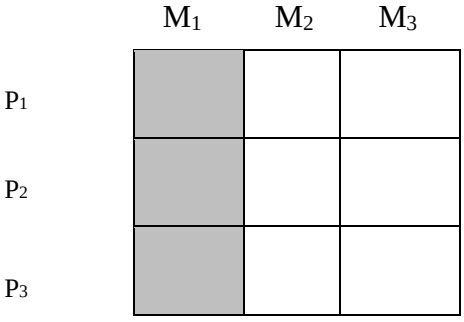
Single segment



Selective Specialization



Product Specialization



Market Specialization

4.2 Market Targeting

Market targeting is the act of **evaluating** and **comparing** the identified groups and then selecting one or more of them as the **prospects** with the **highest potential**. A marketing mix is devised that will provide the organization with the best return on sales, by creating the maximum amount of ***value to customers***. There are three basic ***market targeting strategies***:

Undifferentiated Marketing concentrated marketing and differentiated marketing. These strategies can be used only after evaluating the market segments concerned.

1. Undifferentiated Marketing

Using an undifferentiated marketing strategy, a firm might decide to ignore market segment differences and go after the whole market with one offer. The offer will focus on what is common in needs of consumers rather than on what is different. The company designs a product and a marketing program that appeal to the largest number of buyers. It relies on mass distribution and mass advertising, and it aims to give the product a

superior image in people minds. For example: REVLON, PEPSI, SONY Undifferentiated marketing provides cost economies.

The narrow product line keeps down production, inventory and transportation costs. The undifferentiated advertising program keeps down advertising cost. The absence of segment market research and planning lowers the costs of marketing research and product management.

Most modern marketers, however, have strong doubts about this strategy. Difficulties arise in developing a product or brand that will satisfy all consumers. Reorganization of this problem has led firms to be more interested in smaller market segments.

2. Differentiated Marketing:

Using differentiated marketing strategy, a firm decides to target several market segments and designs separate offers for each. General Motors tries to produce a car for every "purse, purpose, and personality" Nike offers athletic shoes for a dozen or more different sports, from running, fencing, and aerobics to bicycling and baseball. By offering product and marketing variations, these companies hope for higher sales and a stronger position within each market segment. They hope that stronger position in several segments will strengthen consumers' overall identification of the company with the product category. They also hope for more loyal purchasing, because the firm's offer better matches each segment's desires.

Differentiated marketing typically creates more total sales than does undifferentiated marketing, and growing number of firms have adopted this strategy. Procter and Gamble gets a higher total market share with eleven brands of laundry detergent than it could with only one. But it also increases the cost of doing business.

Developing separate marketing plans for the separate segments requires extra marketing research, forecasting, sales analysis, and promotion planning and channel management. And trying to reach different market segments with different advertising increases promotion costs

3. Concentrated marketing:

This is a market-coverage strategy in which a firm goes after a large share of one or a few submarkets. For example, Oshkosh truck is the world's largest producer of airport rescue trucks and front loading concrete mixers. This strategy can be used by small companies also because small companies can create niches in one product, one segment.

Through concentrated marketing, the firm achieves a strong market position in the segments (or riches) it serves because of its greater knowledge of the segments' needs and the special reputation it acquires. It also enjoys many operating economies because of specialization in production, distribution, and promotion. If the segment is will chose, the firm can earn a high rate of return on its investment.

At the same time, concentrated marketing involves higher than normal risks. The particular market segment can turn sour or larger competitors may decide to enter the same segment.

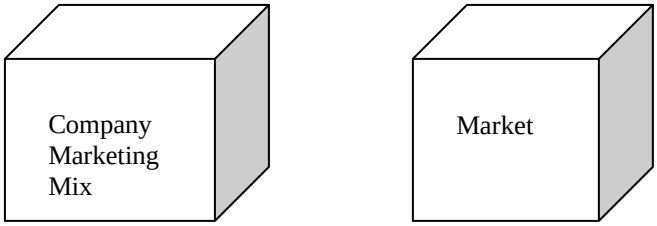
4.2.1 Factors to be considered in Choosing a Target Market Strategy

Companies need to consider many factors when choosing a target marketing strategy.

Which strategy is best depends on **company resources**. When the firm's resources are limited, concentrated marketing makes the most sense. The best strategy also depends on the degree of **product variability.** Undifferentiated marketing is more suited for uniform products such as grapefruit or steel. Products that can vary in design, such as cameras and automobiles, are more suited to differentiation or concentration. The **product's life-cycle stage** also must be considered. When a firm introduces a new product, it may be practical to launch only one version, and undifferentiated marketing may make the most sense. In the mature stage of the product life cycle, however, differentiated marketing begins to make more sense.

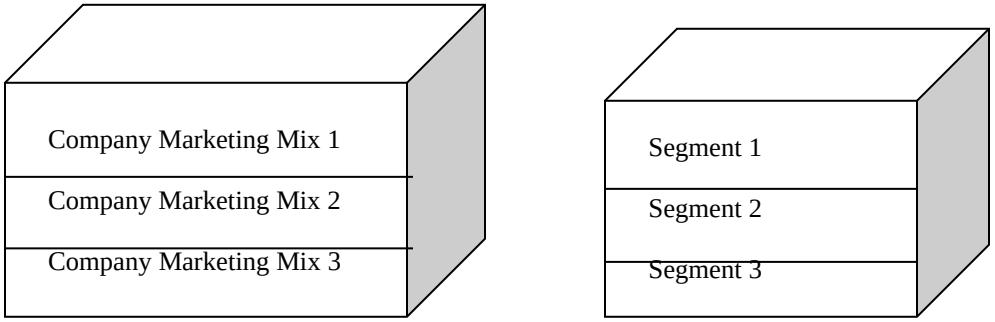
Another factor is **market variability**. If most buyers have the same tastes, buy the same amounts, and react the same way to marketing efforts, undifferentiated marketing is appropriate. Finally, **competitors' marketing strategies** are important. When competitors use differentiated or concentrated marketing undifferentiated marketing can be suicidal. Conversely, when competitors use undifferentiated marketing, a firm can gain an advantage by using differentiated or concentrated marketing.

Fig. Three alternative market coverage strategies



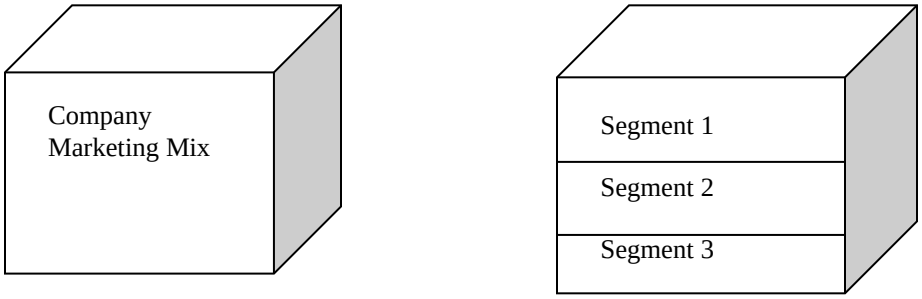
(Suited for uniform products)

(1) Undifferentiated Marketing



(Suited for products that vary in design)

(2) Differentiated Marketing



(Suited for co. having limited Resources)

(3) Concentrated marketing

4.2.2 Bases for Segmenting Business Markets

Business markets can be segmented with many of the same variables employed in consumer market segmentation, such as geography, benefits sought, and usage rate. Yet business marketers can also use several other variables. Table 3-1 shows variables for segmenting

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

The table lists major questions that business marketers should ask in determining which segments and customers to serve. Business marketers generally identify segments through a sequential segmentation process.

Sometimes business markets are segments based on *their* ***stage in the purchase decision process*** as follows.

1. **First-time prospects**: Customers who have not yet purchased. They want to buy from a salesperson or vendor who understands their business, who explains things well, and whom they can trust.
2. **Novices**: Customers who have already purchased the product. They want easy-toread manuals, hot lines, a high level of training, and knowledgeable sales reps.
3. **Sophisticates**: Customers who want speed in maintenance and repair, product customization, and high technical support.

One study identified that there are four business segments ***based on their attitude to price and service.***

1. **Programmed buyers**: Buyers who view the product as not very important to their operation. They buy it as a routine purchase item, usually paying full price and receiving below-average service. Clearly this is a highly profitable segment for the vendor.
2. **Relationship buyers**: Buyers who regard the product as moderately important and are knowledgeable about competitive offerings. They get a small discount and a modest amount of service and prefer the vendor as long as the price is not far out of line. They are the second most profitable group.
3. **Transaction buyers**: Buyers who see the product as very important to their operations. They are price-and service-sensitive. They receive about a 10% discount and above average service. They are knowledgeable about competitive offerings and are ready to switch for a better price, even at the sacrifice of some service.

4. **Bargain hunters**: Buyers who see the product as very important and demand the deepest discount and the highest service. They know the alternative suppliers, bargain hard, and are ready to switch at the slightest dissatisfaction. The company needs these buyers for volume purposes, but they are not very profitable.

This segmentation scheme can help a company in a mature commodity industry do a better job of figuring out where to apply price and service increases and decreases, since each segment would react differently.

DEMOGRAPHIC

1. ***Industry***: Which industries should we serve?
2. ***Company size***: What size companies should we serve?
3. ***Location***: Which geographical areas should we serve?

OPERATING VARIABLES

4. ***Technology***: What customer technologies should we focus on?
5. ***User/nonuser status***: Should we serve heavy users, medium users, light users, or nonusers?
6. ***Customer capabilities***: Should we serve customers needing many or few services?

PURCHASING APPROACHES

7. ***Purchasing-function organization***: Should we serve companies with highly centralized or decentralized purchasing organizations?
8. ***Power structure***: Should we serve companies that are engineering dominated, financially dominated, and so forth?
9. ***Nature of existing relationships***: Should we serve companies with which we have strong relationships or simply go after the most desirable companies?
10. ***General purchase policies***: Should we serve companies that prefer leasing? Service contracts? Systems purchases? Sealed bidding?
11. ***Purchasing criteria***: Should we serve companies that are seeking quality? Service? Price?

SITUATIONAL FACTORS

12. ***Urgency***: Should we serve companies that need quick and sudden delivery or service?
13. ***Specific application***: Should we focus on certain applications of our product rather than all applications?
14. ***Size of order***: Should we focus on large or small orders?

PERSONAL CHARACTERISTICS

15. ***Buyer-seller similarity***: Should we serve companies whose people and values are similar to ours?
16. ***Attitudes toward risk***: Should we serve risk-taking or risk-avoiding customers?

17. ***Loyalty***: Should we serve companies that show high loyalty to their suppliers?

Table 4-1 Major Segmentation Variables for Business Markets

4.3 Positioning

After a target market has been selected a company will naturally find others competing in that segment. The next task is to develop a marketing plan that will enable your product to compete effectively against them. It is unlikely that success will be achieved with a marketing program that is virtually identical to competitors', for that already have attained a place in the minds of individuals in the target market and have developed brand loyalty. Since people have a variety of needs and tastes, market acceptance is more easily achieved by positioning.

In marketing, **positioning** is the technique in which marketers try to create an image or identity for a product, brand, or company. It is the 'place' a product occupies in a given market as perceived by the target market. Positioning is something that is done in the minds of the target market. A product's position is how potential buyers see the product.

In other words, it is the act of designing the company's offering and image so that they occupy a meaningful and distinct competitive position in the target customer's mind. Positioning is expressed relative to the position of competitors.

Product positioning may be defined as a marketing strategy aimed at aligning company's products in terms and relative to competing products through product design and communication media so as to elicit from consumers favorable product perceptions compared to the competing products. The strategy, therefore, attempts to project a different or revised product image in the market than hitherto perceived. It assigns a different or specific role to the product.

A product's position is the way the product is defined by consumers on important attributes the place the product occupies in consumers' minds relative to competing products. In automobile market **Toyota Tercel** and **Subaru** are positioned on economy, **Mercedes** and **Cadillac** on luxury and **Porsche** and **BMW** on performance Volvo positions powerfully on safety.

For example, one auto company might choose to differentiate its cars on durability, while its competitors may choose to emphasize fuel economy, comfort, or smoothness of ride. The end result of positioning is the successful creation of a market-focused value proposition, a simple clear statement of why the target market should buy the product.

How Many Differences to Promote?

It is possible to make differences regarding product, service, image (company or brand), channel and personnel (competence, courtesy, communication, credibility, reliability, responsiveness, etc.).

Many marketers advocate promoting only one benefit to the target market. A company should develop a unique selling proposition for each brand and stick to it. Each brand

should pick an attribute and tout itself as "number one" on that attribute. Buyers tend to remember "number one" message. The most commonly promoted number-one positioning are "best quality", "best service", "lowest price", "best value", "safest", "fastest", "most customized", "most convenient", and "most advanced technology." If a company hammers away at one of these positioning and convincingly delivers on it, it will probably be best known and recalled for this strength.

Not everyone agrees that single-benefited positioning is always best. Double-benefit positioning may be necessary if two or more firms are claiming to be best on the same attribute.

There are even cases of successful triple-benefit positioning. Smith Kline Beecham promotes it **Aqua fresh** toothpaste as offering three benefits: **ant cavity** protection, better breath, and whiter teeth. Clearly, many people want all the three benefits, and the challenge is to convince them that the brand delivers all three. The company's solution was to create toothpaste that squeezed out of the tube in three colors, thus visually confirming the three benefits. In doing this, the company "counter segmented"; that is, it attracted three segments instead of one.

4.3.1 Positioning Options

A company may position or reposition its products in the market in the following ways:

1. By making an advertising claim different from that made earlier or those made by its competitors.
2. By highlighting product features not highlighted by the company or competitors litter to.
3. By promoting a product in the market segment not hitherto entered into by the company or competitors.

Essential Conditions for Positioning Strategy

For the strategy of product positioning to succeed, the following conditions are essential, namely,

1) There should be competition warranting positioning
2) The market segment to be served should be sizable and profitable
3) The market segment should be able to effectively receive communication messages transmitted by the company.
4) Sufficient data about consumer behavior should be available; 5) Creative product proposition.

While product positioning determines the market segment in which the product has to compete and the kind of image to be projected, it is necessary to properly propose it to the consumer. Product proposition means the offer of benefits accruing from the use of

product. It is concerned with the features of the product. In formulating proposition creativity is essential because it is through proposition that consumer perceives the product in a manner the company desires it to be perceived.

Re-positioning involves changing the identity of a product, relative to the identity of competing products, in the collective minds of the target market.

The ability to spot a positioning opportunity is a sure test of a persons' marketing ability. Successful positioning strategies are usually rooted in a product's sustainable competitive advantage. The most common bases for constructing a product positioning strategy are:

4.3.2 Developing a positioning Strategy

Companies use several tactics to differentiate their products and brands. Even in the case of commodity products, the company must see its task as that of converting undifferentiated product into a differentiated offering. But all brand differences are meaningful or worthwhile. Not every difference is a differentiator. Each difference has the potential to create company costs as well as customer benefits. Therefore the company must carefully select the way in which it will distinguish itself from competitors. A difference is worth establishing to the extent that it satisfies the following criteria.

***Important*:** The difference delivers a highly valued benefit to a sufficient number of buyers.

***Distinctive*:** The difference either is not offered by others or is offered in a more distinctive way by the company.

***Superior*:** The difference is superior to other ways of obtaining the same benefits.

***Communicable*:** The difference is communicable and visible to buyers.

***Preemptive*:** The difference cannot be easily copied by competitors.

***Affordable*:** The buyers can afford to pay for the difference

***Profitable*:** The Company will find it profitable to introduce the difference

Each firm will want to promote those few differences that will appeal most strongly to its target markets. In other words, the firm will want to develop a focused positioning strategy.

Different Positioning Strategies

Attribute Positioning: This occurs when a company positions itself on an attributes or specific product features such as size, number of years in existence and so forth. **Benefit Positioning:** Here the product is positioned, as the leader in a certain benefit or solutions.

Benefit Positioning:

Use/Application positioning: This involves positioning the product as best for some use or application. I.e. AutoCAD software can best be positioned as suitable to Architectural drawings.

User Positioning: This involves positioning the product as best for some uses group. I.e. AutoCAD software to Architects

Competitor Positioning: Here the product positions itself as better in some way that a named or implied competitor.

Product category Positioning: Here the product positioned as the leader in a certain product category.

Quality/price positioning: Here the product positioned as offering the best value i.e., high quality / high price, or lowest price. Generally, the product positioning process involves:

1. Identifying competing products
2. Identifying the attributes (also called dimensions) that define the product 'space'
3. Collecting information from a sample of customers about their perceptions of each product on the relevant attributes
4. Determine each products' share of mind
5. Determine each products' current location in the product space
6. Determine the target market's preferred combination of attributes (referred to as an *ideal vector*)
7. Examine the fit between:
    - ✈ The positions of competing products
    - ✈ The position of your product
    - ✈ The position of the ideal vector
    - ✈ Select optimum position

Self-Test

I. Write true if the statement is correct unless write false if the statement is incorrect.

1. Business portfolio is the best fits the company's SWOT Analysis in the environment.
2. Business portfolio planning involves shape the future portfolio by developing strategies for growth and downsizing.
3. In a marketing management; a public is any group that has an actual or potential interest in or impact on an organization's ability to lose its objectives.

4. Market Segmentation is gathering a market into smaller groups of buyers with distinct needs, characteristics, or behaviors who might require separate products or marketing mix.
5. The process of selecting one or more market segments to enter is Market Targeting. **II. Choose the best answer from the given alternatives**.
   1. Which of the following is not among the major activity of strategic planning in marketing?

   A. Business portfolio analysis
   B. Evaluates and Monitor the products and businesses making up the company. C. Analyzing the SWOT analysis of the organization
   D. They are created by marketer.
   2. A unit of the company that has a separate mission and objectives and that can be planned independently from other company businesses is;

   A. Strategic business unit
   B. SWOT analysis
   C. Business portfolio
   D. Packaging and labeling
   3. According to the Boston Consulting Group, which of the following is different from the growth- share matrix model? A. Star B. Cash cow C. Dog D. Moon
   4. According Ansoff's Product/Market Opportunity Matrix, which of the following is not part of the diversification strategy? A. Concentric Diversification Strategy
      B. Conglomerate Diversification Strategy
      C. Horizontal Diversification Strategy
      D. Vertical Diversification Strategy
   5. In evaluating different market segments a firm must look;

   A. Segment size and growth C. Company objectives and resources.
   B. Segment structural attractiveness D. All

CHAPTER FIVE MANAGING MARKETING MIX STRATEGIES

(PRODUCT, PRICE, PROMOTION AND PLACE)

5.1 Product Planning

5.1.1 Meaning of Product

As consumers we buy different kinds of products so as to satisfy out varied needs such as food grains, textile, shaving cream, tooth paste, books, pen, pencils and many other such items in our daily life. Commonly, these items are called as products. However, our decision to buy an item is based not only on its tangible attributes but also on a variety of associated non-tangible and psychological attributes such as services, brand, package, warranty, image etc.

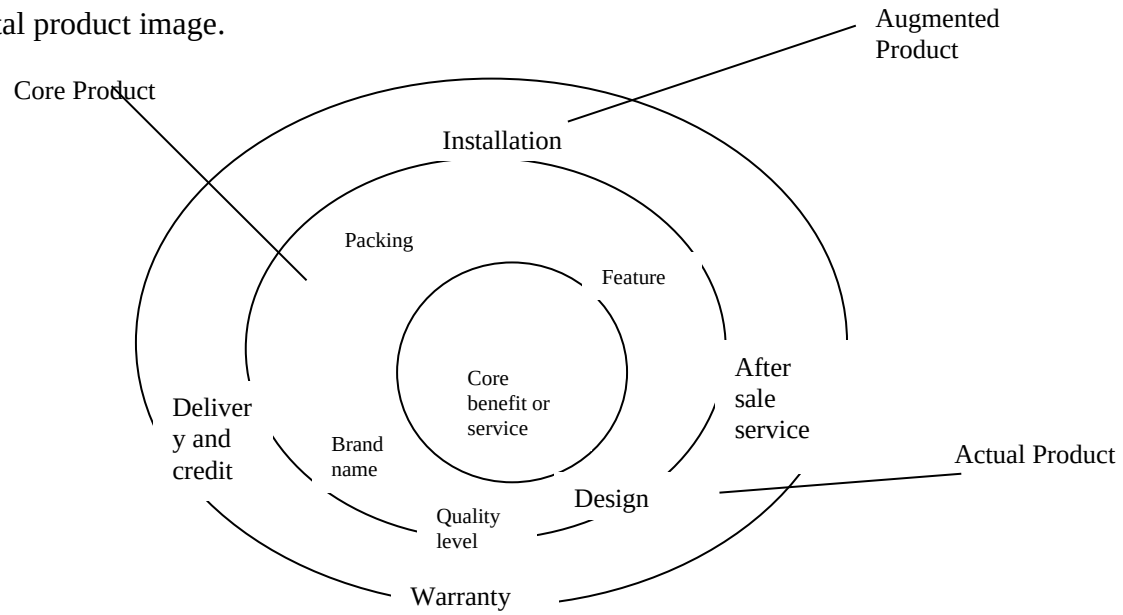
Product is a bundle of utilities consisting of various product features and accompanying services. The bundle of utilities is composed of those physical and psychological attributes that the buyer receives when he buys the product and which the seller provides by selling a particular combination of ***product features*** and ***associated services***. In the words of ***Philip Kotlar*** "Anything that can be offered to a market for attention, acquisition, use or consumption and that might satisfy a need or want" Broadly defined, products include physical objects, services, persons, places, organizations, ideas, or mixes of these.

Product planning is the process of determining that line of products which can secure maximum net realization from the intended markets. It is an "act of marking out and supervising the search, screening, development, and commercialization of new products; the modification of existing lines; and discontinuance of marginal or unprofitable items"

The managerial decision making in this area centers around deciding the type of products company should develop and sell so that products serves as an instrument of achieving marketing objectives. It also involves surveillance of product behavior and deciding whether it deserves to be on the product line, abandoned, or repositioned.

5.1.2 Product Concept/Levels of Product

To plan a successful product strategy, mangers must know what their product is. A product is like an onion. It has several skins, or layers each of which contributes to the total product image.



Product planners need to think about the product on three levels. The most basic level is the ***core product***, which addresses the question: what the buyer really buying? As the figure illustrates, the core product stands at the center of the total product. It consists of problem solving services or core benefits that consumers seek when the y buy a product. A woman buying lipstick buys more than lip color. Charles Revson or Revlon saw this early: "in the factory, we make cosmetics; in the store, we sell hope". Thus, when designing products, marketers must define the core of benefits the product will provide to consumers.

The product planner must next build an ***actual product*** around the core product. Actual products may have as many as five characteristics: a quality level, features design, a brand name, and packaging. For example, Nikon's 'Nikon Rs' is an actual product. Its name, parts, styling, features, packaging, and other attributes have all been combined carefully to deliver core benefit - a convenient, high quality way to capture important moments (underwater photography).

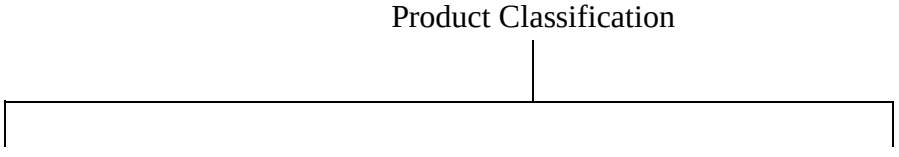
Finally, the product planner must build an ***augmented product*** around the core and actual products by offering additional consumer services and benefits. Nikon must offer more than just Nikons Rs. It must provide consumers with a complete solution to their picturetaking problems. Thus, when consumer buy a Nikon's under water photographic camera, Nikon and its dealers also might give buyers a warranty on parts and workmanship, free lessons on how to use the Nikons Rs. for underwater photography, quick repair services when needed and a toll free number for all if they have problems or questions. To the consumers, all these augmentations become an important part of the total product.

Therefore, a product is more than a simple set of tangible features. Consumers tend to see products as complex bundles of benefits that satisfy their needs. When developing products, marketers first must identify the core consumer needs the product will satisfy. They must then design the actual product and find ways to augment it in order to create the bundle of benefits that will best satisfy consumers.

Today, most competition takes place at the product augmentation level. Successful companies add benefits to their offers that not only will ***satisfy,*** but also will ***delight*** the consumers.

5.1.3 Classifications of Product

Marketers have traditionally classified products on the basis of three characteristics: durability, tangibility and use. The following figure shows the product classification:



(1) Durability and Tangibility	(2) Consumer goods	(3) Industrial goods
(a) Non-durable goods	(a) Convenience goods	(a) Materials and parts
(b) Durable goods	(b) Shopping goods	(b) Capital items
(c) Services	(c) Specialty goods	(c) Supplies and
(d) Unsought goods		business services

(1) Durability and Tangibility

A. **Non-durable goods**: Non-durable goods are tangible goods normally consumed in one or a few uses. For example, soap, salt and biscuits.

B. **Durable goods**: Durable goods are tangible goods that can normally be used for many years. For example, color TV, refrigerators, washing machines and vacuum cleaners.

C. **Services**: Services are intangible, inseparable, variable and perishable products. For example, airline and banking services.

(2) Consumer goods classification

Consumer products are those bought by final consumers for final consumption. Marketers usually classify these goods further based on how consumers go about buying them. Consumer products include convenience products, shopping products, specialty products and unsought products.

A. **Convenience**: these are goods that the customer usually purchases frequently, immediately and with a minimum of effort. Examples include soaps and newspapers. Convenience goods can be further classified into three categories.

   i) ***Staple goods***: consumer purchases on regular basis ii) ***Impulse goods***: consumer purchases without any planning or search effort. iii) ***Emergency goods***: consumer purchases on urgent need.

B. **Shopping goods**: These are goods that the customer, in the process of selection and purchase characteristically compares on such bases as suitability and quality. Examples: Furniture, electrical appliances, etc.

C. **Specialty goods**: These are goods with unique characteristics or brand identification for which a sufficient number of buyers are willing to make a special purchasing effort. For example, cars.

D. **Unsought goods**: These are goods the consumer does not know about or does not normally think of buying. The classic examples of known but unsought goods are life insurance.

(3) Industrial Goods Classification

A. **Materials and parts**: These are goods that enter the manufacturer's product completely. They fall into two classes: raw materials and manufactured materials and parts.

B. **Capital items**: These are long lasting goods that facilitate developing or managing the finished product. They include two groups' installations and equipment.

C. **Supplies and business services**: These are short-listing goods and services that facilitate developing or managing the finished products.

5.1.4 Product Life Cycle

Many products generally have a characteristic known as 'perishable distinctiveness'. This means that a product which is distinct when new, degenerates over the years into a common commodity. The process by which the distinctiveness gradually disappears as the product merges with other competitive products has been rightly termed by **Joel Dean** as "The cycle of competitive degeneration". The cycle begins with the invention of a new product, and is often followed by patent protection, and further development to make it saleable. This is usually followed by a rapid expansion in its sales as the product gains market acceptance. Then competitors enter the field with limitation and rival products and the distinctiveness of the new product starts diminishing. The speed of degeneration differs from product to product. While some products fail immediately on birth or little later, others may live long enough.

The product life cycle is a concept that attempts to describe a product's **sales, profits**, **customers, competitors**, and **marketing** emphasis from its beginning until it is removed from the market. The concept was popularized by **Theodore Levitt** in 1965.
One the product or service reaches the market, it enters the product life cycle like people, goods and services grow, mature and eventually decline. The product life cycle is a theoretical concept. It serves as a conceptual base of examining product growth and development. **Characteristics of PLC**
The life cycle is nothing more than the pattern of demand for the product over time. A basic product life cycle consists of (a) introduction (b) growth (c) maturing and (d) decline stage. Several points are to be made in studying the product life cycle concept:

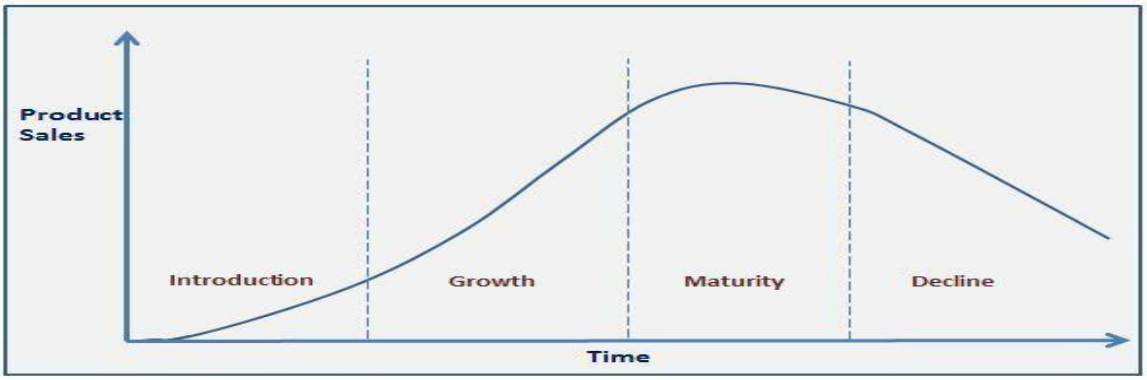
1. Not every product goes through every stage. In fact many products never get past the introduction stage.
2. The length of a time a product spends in any one stage may vary.
3. Some products may move through the entire cycle in weeks.

Repositioning of a product can lead to a new life cycle. Repositioning is basically changing the image or perceived uses of the product.

Assumptions of PLC

According to ***P.Kotler*,** the assumption, behind the product life cycle concepts are as follows:

1. Products have a limited life
2. Product sales pass through distinct stages, each posing different challenges to the seller
3. Profits rise and fall at different stages of product life cycle.
4. Products require different marketing, human resource, furnace, production strategies in each stage of their life cycle.



Stages in the Product Life Cycle

A typical product life has the four stages:

1. Introduction: During the introduction stage, a product is launched into the market in a full scale marketing program. It has gone through product development, including idea screening, prototype, and market tests. The entire product may be new, such as a substitute for fat in prepared foods. Or it may be well known but have a significant new feature that, in effect, creates a new product category.

This introductory (sometimes called ***pioneering***) stage is most risky and expensive one, because substantial amount of money must be spent in seeking consumer acceptance of the product. But many products are not accepted by a sufficient number of consumers and fail at this stage. For really new products, there is very little direct competition. Thus the promotional program is designed to stimulate demand for the entire product category rather than only the seller's brand.

2. Growth: if the new product satisfies the market, it will enter a growth stages in which sales will start climbing quickly. The early adopters will continue to buy, and later buyers will follow their lead, especially if they hear favorable word of mouth. Attracted by the opportunities for profit, new competitors will enter the market. They will introduce new product features, and the market will expand. The increase in competitors leads to an increase in the number of distribution outlets, and sales jump just to build reseller inventories. Prices remain where they are or fall only slightly. Companies keep their promotion spending at the same or slightly higher level.

Profits increase during the growth stage, as promotion costs are spread over a large volume and as unit-manufacturing costs fall. The firm uses several strategies to sustain rapid market growth as long as possible. It improves product quality and adds new product features and models. It enters new market segments and new distribution channels. It shifts some advertising from building product awareness to building product conviction and purchase and it lowers prices at the right time to attract more buyers. In growth stage, the firm faces a tradeoff between high market share and high current profit. By spending a lot

of money on product improvement, promotion, and distribution, the company can capture a dominant position.

3. Maturing Stage: At some point, a product's sales growth will slow down, and the product will enter a maturity stage. This maturity stage normally lasts longer than the previous stages, and it poses strong challenges to marketing management. Most products are in the maturity stage of the life cycle, and therefore, most of marketing management deals with the mature product.

Although many products in the mature stage appear to remain unchanged for long periods, most successful ones are actually evolving to meet changing consumer needs. Product managers should do more than simply ride along with or defend their mature products- a good offense is the best defense. They should consider modifying the market, product, and marketing mix.

Modifying the Market during this stage, the company tries to increase the consumption of the current product; it looks for new users and market segments. ***Modifying the product:*** The Company can also change product characteristics such as quality, features, or style-to attract new users and to inspire more usage. It might improve the product's quality and performance its durability, reliability, speed, taste. Or it might add new features that expand the product's usefulness, safety, or convenience.

Modifying Marketing Mix Marketers also can try to improve sales by changing one or more marketing mix elements. They can cut prices to attract new users and competitors' customers. They can launch a better advertising campaign or use aggressive sales promotion-trade deals, cents-off, premiums, and contests. Company can also offer new or improved services to buyers.

4. Decline Stage

For most products, a decline stage, as gauged by sales volume for the total category, is inevitable for one of the following reasons:

- the need for the product disappears
- A better or less expensive product is developed to fill the same need.
- People simply grow tired of a product (a clothing style, for instance), so it disappears from the market.

Seeing little opportunity for revitalized sales or profits, most competitors abandon the market during this stage. However, ***few firms may be able to develop a small market niche and remain moderately successful in the decline stage***. Whether a product at this stage, has to be abandoned or can be continued on a profitable basis often depends on the skills and creativity of the marketing mangers responsible of the product.

Sales decline for many reasons, including technological advances, shifts in consumer tastes, and increased competition. Carrying a weak product can be very costly to a firm,

and not just in profit terms. There are many hidden costs. A weak product may take too much of management's time. It often requires price and inventory adjustments. It requires advertising and sales force attention that might be better used to make "healthy" products more profitable. A product's failing reputation can cause customer concerns about the company and its other products.

Management may decide to maintain its brand without change in the hope-that competitors will leave the industry. For example, Procter of Gamble made good profits by remaining in the declining liquid soap business as others withdrew.

	Introduction	Growth	Maturity	Decline
Characteristics				
Sales	Low sales	Rapidly rising sales	Peak sales	Declining sales
Costs	High cost per customer	Average cost per customer	Low cost per customer	Low cost per customer
Profits	Negative	Rising profits	High profits	Declining profits
Customers	Innovators	Early adopters	Middle majority	Laggards
Competitors	Few	Growing number	Stable number beginning to decline	Declining number
Marketing objectives	Create product awareness and trial	Maximise market share	Maximise profit while defending market share	Reduce expenditure and milk the brand
Strategies				
Product	Offer a basic product	Offer product extensions, service, warranty	Diversify brand and models	Phase out weak items
Price	Use cost-plus	Price to penetrate market	Price to match or beat competitors	Cut price
Distribution	Build selective distribution	Build intensive distribution	Build more intensive distribution	Go selective: phase out unprofitable outlets
Advertising	Build product awareness among early adopters and dealers	Build awareness and interest in the mass market	Stress brand differences and benefits	Reduce to level needed to retain hard-core loyals
Sales promotion	Use heavy sales promotion to entice trial	Reduce to take advantage of heavy consumer demand	Increase to encourage brand switching	Reduce to minimal level

5.1.5 New Product Development Process

It is suggested that in a company every new product formulation should undergo a customer oriented product planning process before it is introduced in the market. The customer oriented product planning process reveals that it is composed of a sequence of six activities namely:

1. Idea generation
2. Screening
3. Business analysis
4. Product development
5. Test-marketing

6. Commercialization

1. Idea Generation.

The product planning process starts with the generation of product ideas. Product idea generation means "fusion of a perceived need with recognition of a technical opportunity". The perceived need may be new or old, apparent or latent, or may be currently unfulfilled or in adequately inefficiently fulfilled. When a technical opportunity is recognized to satisfy this need, a product idea is generated. The product idea may, however, result in both a new product and an improved product depending on the consumer need.

The product ideas, however, may emerge both in unorganized and organized ways. The unorganized product idea generation may be attributed to serendipity a happy faculty of discovering by accident something worthwhile. For example, while experimenting with rubber and sulphur in his kitchen, ***Charles Good year*** spilled some of the mixture on the stove. To his astonishment it did not melt but charred instead. Thus was discovered the process of rubber vulcanization, which made the use of rubber possible.

As such, it is always profitable to organize a product ideas generating system in a company. Such system may be structured in the manner best suited to company needs, for example, there may be product planning committee, think tank or some such kind of structure whose task may be to scan the internal and external environment, stimulate relevant thinking and procure ideas.

Idea Generation

Sources of new product ideas

1. From research and development personnel
2. From mktg. personnel
3. From associated companies in other countries 4. From customers
5. From outside technological and scientific discoveries
6. From employee suggestions
7. From brain storming sessions
8. 9. From competitors From knowledge of Government needs
10. From individual exclusions 11. From a study of unused patents.

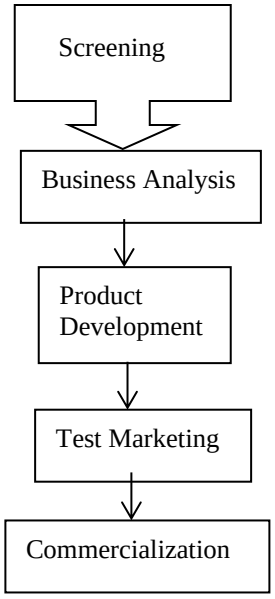


Fig Stages of product planning process

2. Screening

After product ideas have been generated from different sources, including marketing research, the next step in the sequence of product planning activities is screening of these ideas. Screening means critical evaluation of product ideas generated by a company. The purpose of screening is to abandon from further consideration those product ideas that are incompatible with objectives and constraints. Every product idea should, therefore, conform to objectives both company and marketing and constraints to which company is exposed in order to successfully come out of the screening process.

The objectives to which product ideas are usually expected to confirm include, namely, consumer need satisfaction, sales volume, profitability, market share, company image etc.

The single largest benefit of screening process for any company is that it saves company of the involvement in the subsequent expensive activities in the product planning process.

There are two important methods for screening which have received wide support form marketing managers. These include ***check listing and idea rating***.

3. Business Analysis

Once the product ideas successfully come out of the screening tests, they are passed onto the next stage of business analysis. Business Analysis may be defined as an evaluation of product idea in depth with a view to determining its financial, competitive, manufacturing, and marketing viability in a given set of business environment. It is relatively a more

expensive exercise carried out at the brass-tracks level and is aimed at sifting out those ideas which promise profits and an early investment pay back. The exercise involves projection of future demand, sales, costs, investments and returns there on. It helps management to have a preview of the product's complete profile before it can make any firm financial commitments.

Since company is required to make financial commitments as soon as the idea passes out to next stage, the analytical exercise is usually undertaken by specialists in the areas of finance and accounting who employ a variety of tools to arrive at different kinds of projections. Some of the important analytical devices used by these specialists include Break Even Analysis, risk analysis, marketing-Mix model, Bayesian Decision Theory etc.

4. Product Development

The product idea after having been thoroughly screened and analyzed in the preceding stages of product planning is received in this stage for conversion into 'product'. It is in this stage that an idea gets the shape of a concrete product associated with all the necessary attributed on the basis of consumer specification received from the preceding stage.

The purpose of this stage is to attempt to develop product prototype so as to ascertain whether the idea has technical potential and line company has necessary technology, whether existing, developed or procured, to manufacture product that will satisfy consumer and business need. By and large, it is a 'techno-commercial' job done by the engineering or research and development personnel of the company in close association with the product planning people. The whole product development task may be divided into six broad jobs, namely, engineering, consumer preference testing, branding, packaging, patenting and developing a communication program. However, these jobs are not performed in segmental manner. Rather these are performed simultaneously and synchronize so that by the time the product is fully developed it has all the attributes tangible, intangible and associated and imparts a synergic impact on the market.

5. Test-Marketing

Once the product prototype is engineered, consumer preference testing results are available, and tentative marketing program is formulated, the product should normally be ready for mass production and distribution. But marketers usually do not hazard such a risk until they are quite sure of the positive market response. In order, therefore to further narrow down the range of uncertainty inherent in such decisions companies prefer to test the product in the market and gather further consumer reactions so as to bring about necessary changes in the components of the product and other aspects of marketing mix. Such pretesting of a product before it is mass produced and marketed is called testmarketing.

In this stag the new product and relevant marketing program is tried out for the first time in well selected market segments under representative marketing environments. This stage is more relevant to consumer products relative to industrial products. The associated marketing program lies in a number of trade-offs a company experiences on account of it.

6. Commercialization

The decision to commercialize a product idea is the end result of the whole process of product planning. However, not all ideas that qualify for being processed successfully reach through to this stage, in fact, a large number of product ideas die out in one or the other stages of the product planning process. Only those ideas which can sustain rig ours of various tests administered during the process, really reach the stage of commercialization. Figure 6AA shows that a large number of product ideas drop out before they could qualify to reach to the stage of commercialization.

Commercialization of product idea may be defined as the process of finally deciding the product profiles building up requisite manufacturing and ancillary for facilities and appropriate marketing program in the back ground of the test-marketing results, and introducing the product in market for sale. Thus, the process of commercialization involves some of the following activities.

- ❖ Deciding product characteristics and package
- ❖ Branding and trade-marketing
- ❖ Building-up/ procuring manufacturing facilities ❖ Building up an appropriate marketing-mix ❖ Introducing product in the market.

These activities involve enormous managerial time and corporate money.

5.1.6 Product identification (Branding, Packaging and labeling)

Branding

A brand is a name, term, symbol, sign, design or combination of these, used to identify the products of a firm and differentiate them from those of competitors. Branding is an intrinsic aspect of product strategy, for it adds great value to a product. It can be of three forms

Brand name: the part of a brand, which consists of word, letters and/or numbers, which can be vocalized. E.g. OMO

Brand mark: the part of a brand that can be recognized but is not utter able. It can appear in the form of symbol, design, distinctive coloring or lettering.

Trademark: a brand or part of a brand that has been given legal protection so that the owner has exclusive rights to its use. After companies identify their trademark, they entail a term "™" or "®" **Importance of a brand**

1. *The brand makes it easier for the seller to process orders and track down problems.*
2. *The seller's brand name and trademark provide legal protection of unique product features.*
3. *Branding gives the seller the opportunity to attract a loyal profitable set of customers and helps to increase the control and share of the market.*
4. *Branding helps the seller to segment markets and expand the product mix.*
5. *Good brand help to build the corporate image because it advertises the quality and size of the company.*
6. *Brands make it easy for customers to identify products or services.*
7. *Brands also assure purchasers that they are getting comparable quantity when they reorder.*

Requirements of a good brand

Among the desirable qualities for a brand following are very important. A good brand should:

1. *Be easy to pronounce, recognize and remember*
2. *Be distinctive.*
3. *Suggest something about the product's benefits or characteristics*
4. *Suggest about the product qualities such as action or use.*
5. *Be large enough to be applicable to new products that may be added to the product line.*
6. *Have a possibility of registration and legal protection.*

Trade Name

Trade name is the name of the business organization. A trade name may also be used as a brand name. In such a case it performs a dual function. It gives identification to the product as well as the manufacturer

Packaging

Packaging is a marketing process concerned with the design and production of the container or wrapper for a product. The container or wrapper is called the package. In recent times packaging has become a potential marketing tool because it can create convenience value for the consumer and promotional value for the producer or seller. Packaging is closely related to labeling and branding because label often appears on the package and the brand typically on the label.

Importance of packaging

Packaging was production-oriented activity in most companies, performed mainly to obtain the benefits of protection and convenience. Nowadays, however, the importance of packaging is growing. Generally, there are three reasons for packaging.

1. *Packaging serves several safety and utilitarian purposes*. It protects a product on its route from the producer to the final consumer, even while it is being stored by middlemen and used by the customer. For liquid, granular and other divisible products, packaging is needed to secure the items in a given quantity and form. Compared with bulk items, packaged goods are generally more convenient, cleaner, and less susceptible to losses such as evaporation, spilling and spoilage. Furthermore, multiple packaging in large sizes encourages increased product usage when packages are reusable.

2. *Packaging may implement a company's marketing program*. The packaging is an important method of communication with the customer by identifying the brand and providing ingredients and directions, which represent an image of the brand.
   Packaging may also serve as a promotional tool; and the package is the final form of promotion the consumer sees prior to making a purchase decision. The package differentiates a product from that of competitors by its design, color, shape and materials. Therefore, packaging can act as silent salesman.

3. *Well-packaged products may increase profit possibilities in that it stimulates customers to pay more just to get the special package*. Besides, an increase in ease of handling or reduction in damages or losses again increases profit by cutting marketing costs.
   Labelin*g*

Label is part of a product that carries verbal information about the product of the seller. The essence of label is expository by nature because it expresses some features of the product such as ingredients, weight measure, use, warning, performance, etc. and sometimes it also includes advertising messages. A label may be part of a package, or it may be a tag attached directly to the product. Typically, there are three kinds of labels.

1. ***Brand label*****:** simply the brand alone applied to the product or to the package.
2. ***Grade label*****:** a label, which identifies the quality with, a letter, number or word.
3. ***Descriptive label*****:** it gives objective information about the use, construction, care, performance or other features of the product. Sometimes it is called informative label.

5.2 Pricing Decision

5.2.1 The Meaning of Price

In economics and business, the **price** is the assigned numerical monetary value of a good, service or asset. The concept of *price* is central to micro economics where it is one of the most important variables in resource allocation theory (also called price theory). *Price* is also central to marketing where it is one of the four variables in the marketing mix that business people use to develop a marketing plan.

Price may be defined as the value of **product attributes** expressed in monetary terms which a consumer pays or is expected to pay in exchange and anticipation of the expected or offered utility. Price is therefore, a link that binds consumers and the company. It helps to establish a mutually advantageous economic relationship and facilitates the transfer of ownership of goods and services from the company to buyers.

5.2.2 Factors that Affecting Pricing Decisions

Before a firm develops the pricing strategy, it should take into consideration the different factors which affect price decisions. These factors are external as well as internal.

External considerations should be studied before enacting a pricing strategy.

Pricing forces

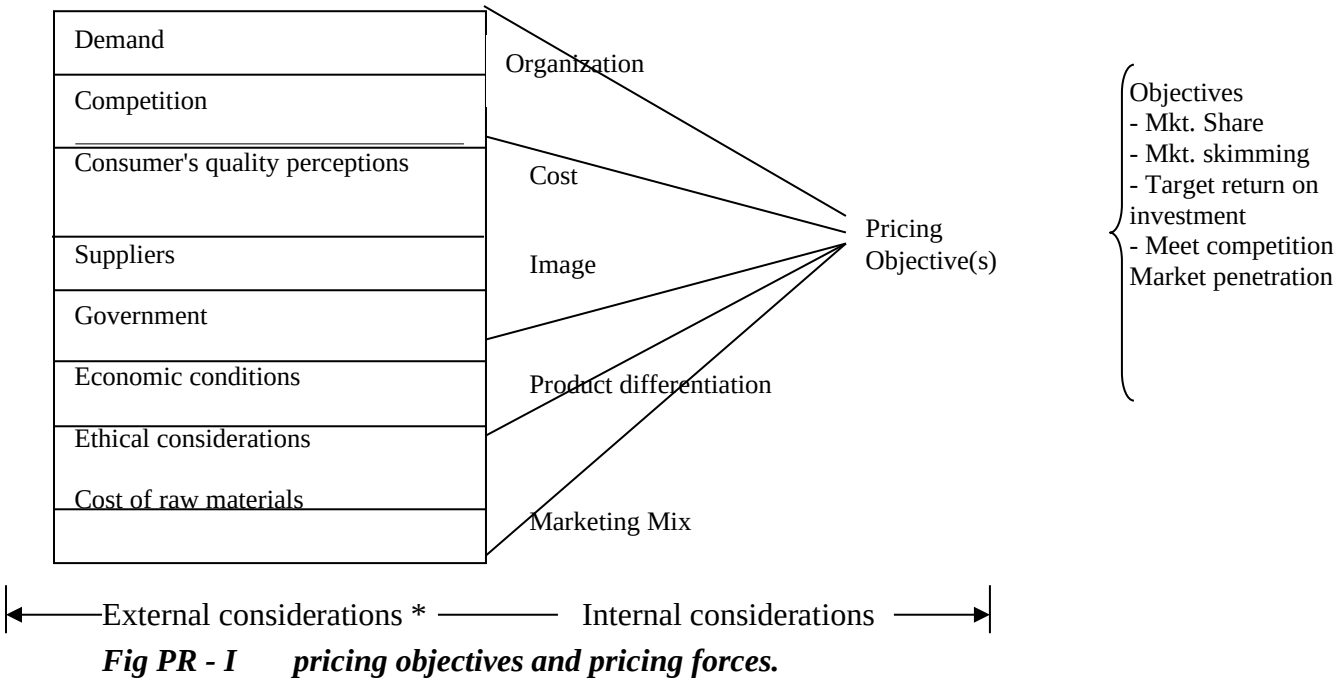


Fig PR - I pricing objectives and pricing forces.

A. External Factors

1. Demand

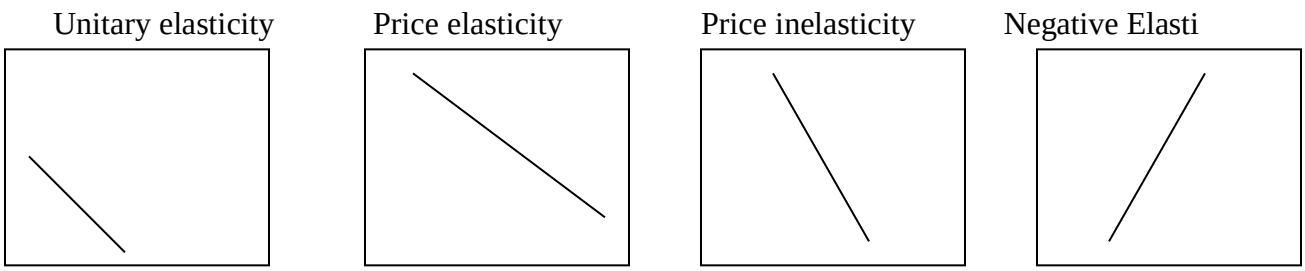
Demand for the product is the total volume that is bought by a customer group(s) in a definite time period, in a definite geographical area, in a particular marketing environment and with the defined marketing mix.

For a marketer it is necessary to understand the relationship between price and the ***consumer perception***. The relationship can be explained by two economic concepts Law of Demand and Elasticity of demand.

The **law of demand** states that consumers usually purchase more units at a low price than the high price. The **price Elasticity of demand** shows the sensitivity of buyers to price changes in terms of quantities they will purchase.

Elastic Demand: It occurs if relatively small changes in price result in large changes in quantity demanded total revenue goes up when prices are reduced or goes down. Price elasticity is more than 1.

$$\text{Price Elasticity} = \frac{\frac{Q_1 - Q_2}{Q_1 + Q_2}}{\frac{P_1 - P_2}{P_1 + P_2}} = \frac{\%\text{ age change in Qty. demand}}{\%\text{ age change in price}}$$



In elastic Demand: takes place if considerable price change has little impact on quantity demanded. Price elasticity is less than one. Total revenue goes up when prices are raised.

Unitary Demand: exists when there is no impact of price on demand. Total sales revenue remains constant. Price elastic is one.

Negative Demand exists if change in price has the adverse impact on demand. Price increase leads to increase in demand.

Research confirms that not all consumers use price as the dominant purchase determinants. The marketer has to study the type of product and type of customers to whom he want to serve and price elasticity of demand before arriving at a pricing decision.

2. Competition.

Another factor that contributes to the degree of control a firm has over prices is the competitive environment within which it operates. A company's marketing program is

influenced considerably by a particular type of competitive structure in which the company operates.

Pure Competition: It is a market situation in which there are too many small buyers and sellers, each with the complete market information no single buyer or seller controls market demand, market supply or price. The product is homogenous i.e., each seller markets the same product. It is easy to enter or leave this type of market. This type of competition is rare.

Monopolistic Competition: there are many buyers and sellers but they lack the complete information. Each seller attempts to gain a differential advantage over its competitors.

An **oligopoly** is a market structure where there are only a few large sellers, marketing essentially similar products, and accounts for all or almost all of an industry's sales.

A **monopoly** is a market structure in which only one firm is marketing a particular product or service and there are no close substitutes. While planning the pricing strategies each seller must consider the possible reactions of the competitors.

Table PR III: characteristics of competitive market structure

		STRUCTURE			
		Pure competition	Monopolistic competition	Oligopoly	Monopoly
Characteristics	Number of competitors Size of competitors	Large Small	Many Varies	Few Large	One There are none
	Nature of product	Homogenous	Differentiated	Homogenous or differentiated	Unique no close Substitute
	Seller's control over price	None	Some, depends on degree of differentiation	Some but be careful	Complete (within regulations)
	Entry into industry	Very easy	Easy	Difficult	Very difficult

3. Channel Members

Each channel members seeks to play a significant role in setting prices in order to generate sales volume, obtain adequate profit margins, derive a suitable image, ensure repeat purchases and meet specific goals.

A manufacturer can gain greater control over price by using an exclusive distribution system.

A whole seller or retailer can gain stronger control over price by stressing its importance as a customer to the manufacturer.

To maximize channel member cooperation regarding price decisions, the manufacturer need to consider four factors

(a) Channel member profit margins,
(b) Price guarantees,
(c) Special deals, and
(d) The impact of price increases.

4. **Economic Conditions:**

The inflationary or deflationary tendency affects pricing. In recession period, the prices are reduced to a sizeable extent to maintain the level of turnover. On the other hand, the prices are increased in boom period to cover the increasing cost of production and distribution. To meet the changes in demand, price etc., several pricing decisions are available

a) Prices can be boosted to protect profits against rising cost,
b) Price protection system can be developed to link the price of delivery to current cost
c) Emphasis can be shifted from sales volume to profit margin and cost reduction etc.

5. Buyers:

The various consumers and businesses that buy a company's products or services may have an influence in the pricing decision. Their nature and behavior for the purchase of a particular product, brand or services etc., affect pricing when their member is large.

5. Government:

Price decision is also affected by the price controlled by government, through enactment of legislation, when it is thought proper to arrest the inflationary trend in prices of certain products.

B. Internal Factors

1. Organizational Factors

Pricing decision occur on two levels in the organization. Over-all pricing strategy is dealt with by top executives. They determine the basic ranges that the product falls into in terms of market segments. The actual mechanics of pricing are dealt with at lower levels in the firm and focus on individual product strategies. Usually, some combination of production and marketing specialists are involved in choosing the price.

2. Marketing Mix:

Marketing experts view price as only one of the many elements of the marketing mix. A shift in any one of the elements has an immediate effect on the other three-production,

promotion and distribution. In some industries, a firm may use price reduction as a marketing technique. Other firms may raise prices as a deliberate strategy to build a higher prestige product line. In either case, the effort will not succeed unless the price change is combined with a total marketing strategy that supports it. A firm that raises its prices may add a more impressive looking package and may begin a new advertising campaign.

3. Product Differentiation

The price of the product also depends upon the characteristics of the product. In order to attract the customers, different characteristics are added to the product, such as quality, size, color, attractive package, alternative uses etc. Generally, customers pay more prices for the product which is of the new style, fashion, better package etc.

4. Cost of the Product

Cost and price of a product are closely related. The most important factor is the cost of production. In deciding to market a product, a firm may try to decide what prices are realistic, considering current demand and competition in the market. The product ultimately goes to the public and their capacity to pay will fix the cost; otherwise, product would be flapped in the market.

5. Objectives of the firm

A firm may have various objectives and pricing contributes its share in achieving such goals. Firms may pursue a variety of value oriented objectives, such as maximizing sales revenue, maximizing market share, maximizing customer volume, minimizing customer volume, maintaining an image, maintaining stable price etc. Pricing policy should be established only after proper considerations of the objectives of the firm.

5.2.3 Pricing Objectives

Goals that specify the role of price in an organization's marketing and strategic plans are pricing objectives. To the extent possible, these organizational pricing objectives are also carried to lower levels in the organization, such as setting objectives for marketing mangers responsible for an individual brand. These objectives help the company in integrating price with other marketing inputs so as to develop a synergic effect in the marketing and corporate strategies of the company. It is for this purpose also that pricing objectives are set within the framework of marketing and corporate objectives. **Pricing objectives** or goals give direction to the whole pricing process. Determining what your objectives are is the first step in pricing. When deciding on pricing objectives you must consider:

1) The overall financial, marketing, and strategic objectives of the company;
2) The objectives of your product or brand; 3) Consumer price elasticity and price points; and 4) The resources you have available.

Some of the more common pricing objectives are:

1) Maximize short-run and long-run profit

2) Increase sales volume (quantity)
3) Increase sales in terms of Birr
4) Increase market share
5) Obtain a target rate of return on investment (ROI) and return on sales
6) Stabilize market or stabilize market price
7) Maintain price leadership
8) Discourage new entrants into the industry
9) Match competitors prices
10) Encourage the exit of marginal firms from the industry survival
11) Be perceived as fair by customers and potential customers
12) Discourage competitors from cutting prices
13) To get competitive advantage

5.2.4 Pricing Policies and Strategies

Pricing policies represents the general framework within which pricing decisions are changed. It provides guidelines to carry out pricing strategy. There are five stages in developing the pricing strategy. Like any other activity strategy formulation starts pricing with the clear statements of objectives. It is essential that pricing decision be integrated with the firms overall marketing program.

Formulation of marketing strategy is not a onetime phenomenon. It should be flexible that is it can be molded according to the need of the hour because pricing strategy is the plan of action to face the challenges of a particular market situation. Major dynamic pricing strategies available to management are:

1. New-Product Pricing Strategies

Pricing strategies usually change as the product passes through its life cycle. In preparing to enter the market with a new product, management must decide whether to adopt a skimming or a penetration pricing strategy.

A. Market-Skimming Pricing

Setting a relatively high initial price for a new product is referred to as ***market-skimming pricing.*** Firms introducing a new or innovative price that customers really desiring the product are willing to pay. These customers are not very price sensitive because they weigh the new products price, quality, and ability to satisfy their needs against the same characteristics of substitutes. As the demand of these customers is satisfied, the firm lowers the price to attract another, more price sensitive segment. Thus, skimming pricing gets its name from skimming successive layers of "Cream", or customer segments, as prices are lowered in series of steps.

The initial pricing of VCRs at more than $1500 and the Trivial Pursuit game $39.95 are examples of skimming pricing within 3 years after their introductions, both products were often priced at less than half their initial prices. Sometimes minor modifications are made in the product when it is offered at a lower price to a new segment; publishing hardback best-selling novels in paperback is an example. Skimming pricing is an effective strategy when:

- Enough prospective customers are willing to buy the products immediately at the high initial price to make these sales profitable
- The high initial price will not attract competitors.
- Lowering price has only a minor effect on increasing the sales volume and reducing the unit costs, and
- Customers interpret the high price as signifying high quality.

These four conditions are most likely to exist when the new product is protected by patents or copyrights or its uniqueness is understood and appreciated by customers.

B. Market-Penetration Pricing

In market-penetration pricing, a relatively low initial price is established for a new product. The price is low in relation to the target market's range of expected prices. The primary aim of this strategy is to penetrate the mass market immediately and, in so doing, generate substantial sales volume and a large market share. At the same time, it's intended to discourage other firms from introducing competing products. Texas Instruments (TI) consciously chose a penetration strategy when it introduced its handheld calculators and digital watches. As demand for these products increased, unit product costs fell, which permitted TI to lower its prices further.

The conditions favoring penetration pricing are the reverse of those supporting skimming pricing.

- Many segments of the market are price sensitive.
- a low initial price discourages competitors from entering the market, and
- Unit production and marketing costs fall dramatically as production volume increase.

Thus, the firm using penetration pricing may (i) maintain the initial price for a time to gain profit loss from its low introductory level or (ii) lower the price further, counting on the new volume to generate the necessary profit.

In some situations penetration pricing may follow skimming pricing. A company might initially price a product high to attract price-sensitive consumers and recoup initial research and development costs and introductory promotional expenditures. Once this is done, penetration pricing is used to appeal a broader segment of the population.

5.2.5 Product Mix Pricing Strategies

The strategy for setting a product's price often has to be changed when the product is part of a product mix. In this case, the firm looks for a set of prices that maximizes the profits on the total product mix. Various product mix strategies are as follows:

A. **Price lining**: Often a firm that is selling not just a single product but a line of products may price them at a number of different specific pricing points, which is called price lining. For example, a department store manager may price a line of women's dresses at $59, $79, and $99. As shown in figure PR 7, this assumes that demand is elastic at each of these price points but inelastic between these price points. In some instances all the items might be purchased for the same cost and then marked up at different percentages to achieve these price points based on color, style, and expected demand. In other instances manufacturers design products for different price points and retailers apply approximately the same markup percentages to achieve the three or four different points offered to consumers. Sellers often feel that a limited number (such as three or four) price points is preferable to 8 or 10 different ones, which may only confuse prospective buyers.

B. **Optional-product pricing:** Most firms offer optional/accessory products or features along with their main product. The pricing strategy is to keep the prices of the optional product on the higher side comparatively. For example, a car buyer may choose to order power windows, cruise control, and a radio with CD player. Pricing these options is a sticky problem. until recent years General Motor's normal pricing strategy was to advertise a stripped-down model for, say, $12,000 to pull people into showrooms and then devote most of the show room space to showing option-loaded cars at $14,000 or $15000. The economy model was stripped of so many comforts and conveniences that most buyers rejected it. More recently, however, GM has followed the example of the Japanese automakers and included in the sticker price many useful items previously sold only as options. The advertised price now often represents a well-equipped car.

C. **Captive Product Pricing:** Companies that make products must be used along with a main product are using captive Product pricing. Examples are razor-blades, camera film, and computer floppy. The prices of main products are kept on the lower side and the prices are comparatively higher for the next part.

Polaroid prices its cameras low because it makes its money on the film it sells. And Gillette sells low-priced razors but makes money on the replacement blades. Camera makers who do not sell film have to price their main products higher in order to make the same overall profit.

In case of services, this strategy is called two-part pricing. The price of the service is broken into fixed fee plus a variable usage rate.

Thus, telephone company charges a monthly rate the fixed fee plus charges for calls beyond same minimum number the variable usage rate.

D. **By-Product pricing:** In pricing of some products there are some residue products which are called as by products. If the byproducts have little value and are in fact costly to dispose other manufacturer should accept any price that comes more than the cost of disposing them. The byproducts have values to the customer groups, and then they will give price on value. The revenue earned on the byproducts will make it easier for the company to charge a lower price of the main product if the competition is intense. For example, while processing of crude oil we get petrol as the main product and some by products also come out as diesel, Kerosene out, coal tar etc. These prices of by products are kept on the lower side.

E. **Product-Bundle Pricing:** It calls for setting the prices of a bundle. Bundle pricing is less than the individual item pricing. Price bundling can promote the sales of the products consumers might not otherwise buy, but the combined price must be low enough to get than to buy the bundle.

5.2.6 Price Adjustment Strategies

Companies do not set a single price but rather a pricing structure that reflect the variations in the changing situations. Price adjustment strategies include:

1. Geographical Pricing
2. Discount and Allowance Pricing
3. Segmented pricing
4. Psychological Pricing
5. Promotional Pricing
6. Value Pricing
7. International Pricing

1. Geographical Pricing

A company must decide how to price its products to consumers in different parts of the country. Often geographical pricing is not negotiated but depends upon the traditional practices in the industry in which the firm operates, and all companies in that industry normally conform to the same pricing format. Following are the common methods of geographical pricing.

I. FOB (Free on Board) pricing:

In this type of pricing the buyer selects the transportation form and pays all freight charges. The seller pays the cost of loading the goods (hence free on board). The delivered price to the buyer depends upon the freight charges

❖ **Uniform Delivered pricing:** The Company charges the same price plus freights to all the customers regardless of their location. The freight charges set at the average freight cost. Here the sellers pay for the freight.

❖ **Freight Absorption Pricing**: This method calls for absorbing all or part of the actual freight charges in order to get the business. It can be done with the reason that if we are able to get added business from that customer than the average cost would reduce.

❖ **Zone Pricing**: It falls between FOB origin pricing and uniform delivered pricing. In this type of pricing, goods are delivered at uniform delivered pricing to al the buyers within a geographical zone. In multiple zone system, delivered prices vary by zone. ❖ **Basing point pricing**: In this method the seller selects a given city as a basing point and charges all customers the freight cost from that city to the customer location regardless of the city from which the goods are actually shipped.

2. Discounts and Allowances

Discounts and allowances result in deduction from the base (or list) price. The deduction may be in the form of a reduced price or some other concession, such as free merchandise or advertising allowance. Discounts and allowances are common place in business dealings. Discounts and allowances can be in the following manners.

i) Quantity Discounts: Quantity discounts are deductions from a seller's list price intended to encourage customers to buy larger amounts or to buy most of what they need from the seller offering the deduction. Discounts are based on the size of the purchase, either in dollars or in units.

A noncumulative discount is based on the size of an individual order of one or more products. A retailer may sell golf balls at $2 each or at three for $5. A manufacturer or wholesaler may set up a quantity discount schedule such as the following, used by a manufacturer of industrial adhesives:

Bones Purchased in single order	Percent discount from list price
1-5	None
6-12	2.0
13-25	3.5
Over 25	5.0

Noncumulative quantity discounts are intended to encourage large orders.

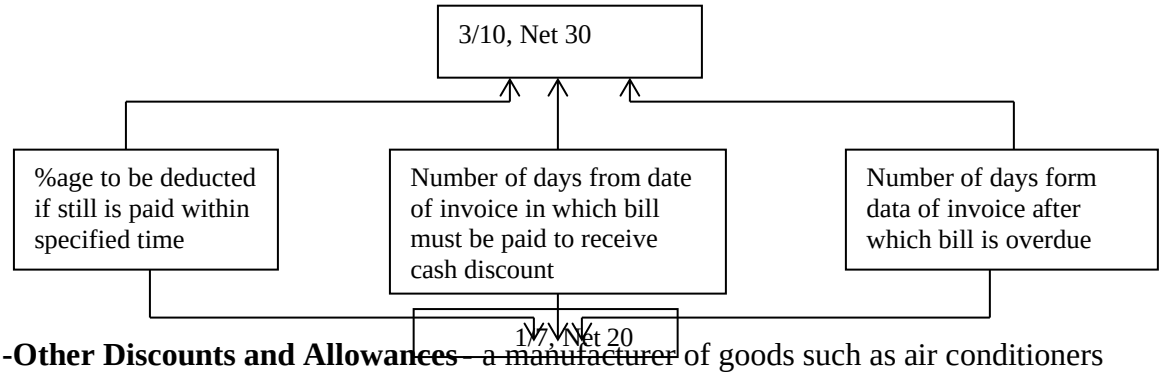
A cumulative discount is based on the total volume purchased over a specified period. This type of discount is advantageous to a seller because it ties customers more closely to that firm. The more total business a buyer gives to seller, the greater is discount. IBM offers an assortment of volume-over-time discounts. Cumulative discounts are also common in selling perishable products. These discounts encourage customers to buy fresh suppliers frequently, so that buyer's merchandise will not become stale.

ii) Trade Discounts: are sometimes called functional discounts, are reductions from the list price offered to buyers in payment for marketing functions the buyers will perform such as storing, promoting, and selling the product. A manufacturer may quote retail price of $400 with trade discount of 40% and 10%

Note that, the 40 and 10% discounts do not constitute a total discount of 50 percent off list price. They are not additives rather, they are discounts on discounts. Each discount is computed on the amount remaining after the preceding discount has been deducted.

iii) Cash Discounts: A cash discount is a deduction granted to buyers for paying their bills within a specified time. The discount is computed on the net amount due after first deducting trade and quantity discounts from the base price. Every cash discount includes three elements, as

- The percentage discount
- The period during which the discount may be taken
- The time when the bill becomes overdue. Cash discount is exhibited in the following fig.



iv) -Other Discounts and Allowances - a manufacturer of goods such as air conditioners or toys purchased on seasonal basis may consider granting a seasonal discount. Forward dating is a variation on both cash and seasonal discounts. A promotional allowance is a price reduction granted by sellers as payment for promotional services performed.

3. Segmented/Discriminatory Pricing

Companies often will adjust their basic prices to allow for difference in customer, products, and locations. In segmented pricing, the company sells a product or service at two or more prices even though difference in prices is not based on differences in costs. Segmented pricing takes several forms:

i) Customer Segment pricing: Different customers pay different prices for the same product or service. Museums, for example, will charge a lower admission for students and senior citizens.

ii) Product form pricing: Different versions of the product are priced differently, but not according to difference in their costs for instance, Black & Decker prices its most expensive iron at $54.98, which is $12 more than the price of its next most expensive iron.

The top model has a self-clearing feature, yet this extra feature costs only a few more dollars to make.

iii) Location Pricing: Different locations are priced differently, even though the cost of offering each location is the same. For instance, theaters vary their seat prices because of audience preferences for certain locations, and state universities charge higher tuition for out-of-state students.

iv) Time Pricing: Prices vary by season, the month, the day, and even the hour. Public utilities vary their prices to commercial users by time of day and week and versus week day. The telephone company offers lower "off-peak" charges, and resorts give seasonal discounts.

For segmented pricing to be an effective strategy, certain conditions must exist.

- ✈ The market must be segmental, and the segments must show different degrees of demand.
- ✈ Members of the segment paying the lower price should not be able to turn around and resell the product to the segment paying higher price.
- ✈ Competitors should not be able to under sell the firm in the segment being charged the higher price.
- ✈ Costs of segmenting and watching the market should not exceed the extra revenue & obtained from the price difference.

4. Psychological Pricing

Price says something about the product. For example, many consumers use price to judge the quality. A $100 bottle of perfume may contain only $3 worth of scent, but some people are willing to pay the $100 because this price indicates some thing special.

In using psychological pricing, sellers consider the psychology of prices and not simply the economics. For example, one study of the relationship between price and quality perceptions of cars found that consumers perceive higher - priced cars as having higher quality. By the same taken higher quality cars are perceived to be even higher priced than they actually are.

Another aspect of psychological pricing is reference prices-prices that buyers carry in their minds and refer to when looking at a given product. The reference price might be formed by noting current prices, remembering past prices, or assessing the buying situation. Sellers can influence or use these consumers' reference prices when selling price.

Even small difference in price can suggest product differences consider a product priced at $500 compared to one priced at $499.95. Actual difference is just 5 cents by psychological difference can be much greater. This is known as an odd pricing.

5. Promotional Pricing

With promotional pricing, companies will temporarily price their products below list price and sometimes even below cost. Promotional pricing takes several forms. Super markets and departmental stores will price a few products as loss leaders to attract customers to the store in the hope that they will buy other times at normal markups.

Promotional pricing takes several forms and some of them are described below:

Loss leader pricing: It happens when retailers drop price on well-known brands to stimulate store traffic in the hope that customers will buy other items also at normal mark-ups.

Special even pricing: is used in certain seasons to draw in more customers.

Cash Rebates: Manufacturers will sometimes offer cash rebates to consumers who buy the product from dealers within a specified time.

Lower-interest financing, longer-payment times, longer warranties –

Psychological discounting: offer discounts from normal prices to increase sales and reduce inventories.

6. Value Pricing

During the recessionary, slow-growth, many companies adjust their prices to bring them into line with economic conditions and with the resulting fundamental shift in consumer attitude toward quality and value. More and more, marketers have adopted value pricing strategies - offering just the right combination of quality and good service at a fair price. In many cases, value pricing has involved redesigning existing brands in order to offer more quality for a given price or the same quality for less.

A. International Pricing

Companies that market their products internationally must decide what prices to charge in the different countries in which they operate. In some cases, a company can set a uniform worldwide price. For example, Boeing sells its jetliners at about the same price everywhere, whether in US, Europe or a Third world country. However, most companies adjust their prices to reflect local market conditions and cost considerations. **5.2.7 General Pricing Approaches Cost-based Pricing**:

It is the simplest pricing method – adding a standard markup to the cost of the product.

Example:

Variable cost ---------- Br 10

Fixed Costs ---------- Br 300,000

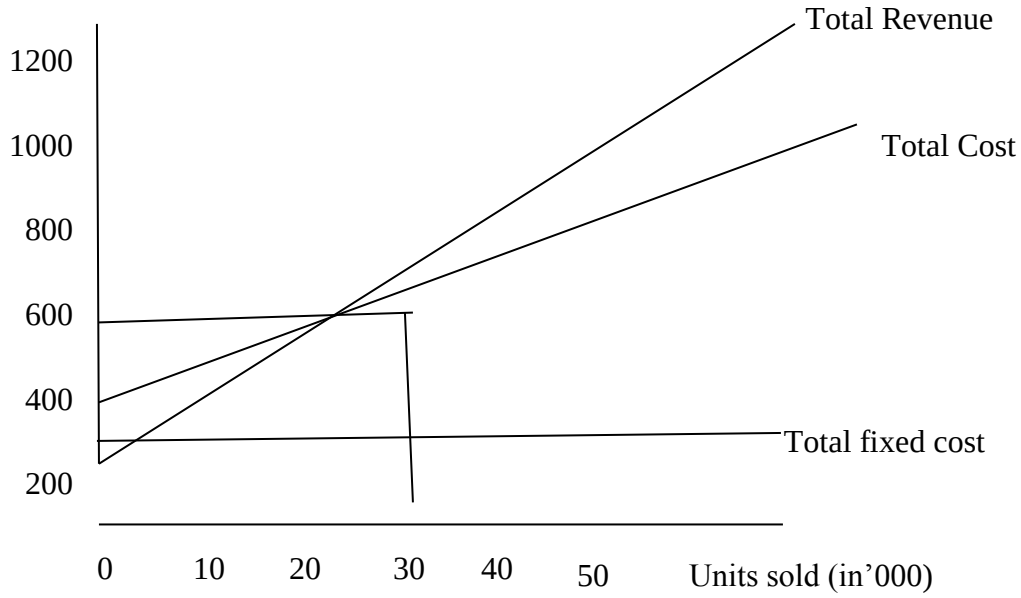
Expected unit sales ---------- 50,000 units

Then the manufacturer's cost per unit is given by: Unit cost = variable cost +Fixed costs/unit sales.

= 10+300000/50000=Br 16

If the manufacturer wants to earn a 20% markup on sales, the manufacturer's markup price is given by: Markup price = Unit cost/(1-Desired Return on Sales) = 16/1-0.2=Br 20 Does a using standard markup to set prices make sense? Generally no any pricing method that ignores demand and competitive prices is, not likely to lead to the best price, Markup pricing works only if that price actually brings in the expected level of sales. **Break-even Analysis and Target Profit Pricing**

Another cost-oriented pricing approach is break-even pricing or a variation called target profit pricing. The firm tries to determine the price at which it will break even or make the target profit it is seeking.



Total Fixed cost = Br 300,000

Variable cost per unit = Br 10

Slope of Total Revenue = Br 20 which is price of the good.

The total revenue and total cost curves cross at 30,000 units. This is the break-even volume. At Br 20, the company must sell at least 30,000 units to break-even; that is, for total revenue to cover total cost. Break even volume can be calculated using the following formula:

Breakeven volume = Fc/ price-VC = 300,000/ (20-10) = 30,000 units

If the company wants to make a target profit, it must sell more than 30,000 units at Br 20 ek2ach.

Value-based Pricing: Uses buyer's perceptions of value, not the seller's cost as the key to pricing. Value based pricing means that the marketer cannot design a product and marketing program and then set the price. Price is considered along with the other marketing mix variables before the marketing program is set.

Competition Based Pricing: Consumers will base their judgments of a product's value on the prices that competitors charge for similar products. One form of competition based pricing is going rate pricing, in which a firm bases its price largely on competitors prices, with less attention paid to its own costs or to demand. The firm might charge the same as, more than or less than its major competitors.

Competition based pricing is also used when firms bid for jobs. Using sealed –bid pricing, a firm bases its price on how it thinks competitors will price rather than its own cost or on the demand.

5.3 Placing of the Product/ Channel of Distribution

5.3.1 Meaning and Importance of Distribution

The typical geographic separation of the manufacturer or producer from the ultimate consumer requires some means for bridging the gap. At present most of the producers sell their products to the consumers through host of marketing intermediaries performing a variety of functions by taking title to, resell, negotiate etc. Producers produce the products and finally make them ready for the market. The methods and routes to be adopted to bring the products to the market to the ultimate consumers and industrial users must be determined. This process involves establishing distribution strategies, including channel of distribution and providing for physical handling and distribution. Distribution System has two components:

1. *Channels of distribution* and

2. *Physical distribution*.

1. By Channel of distribution we mean *the intermediaries of the process through which the products are transferred from the producers to the ultimate users.*

2. *Physical distribution* is concerned with the flow of goods to the ultimate consumers, including transportation, ware housing and inventory management.

Distribution channel refers to the sequence or series of marketing firms or organizations that direct a product(s) from the produce(s) to ultimate user(s).

"Marketing channels are the combination of agencies through which the seller, who is often, though not necessarily the manufacturer, markets his product to the ultimate user" **John A. Howard**

"Distribution channels are systems of economic distribution through which a producer of goods delivers them into the hands of their users" **Richard Buskirk**

Channel of distribution can be simple or complex. These can be direct selling to the consumers (zero level channels) or through wholesaler or retailer. The marketer has to decide which type of channel he has to select for effective distribution and efficiency.

5.3.2 Objectives of Channel Selection

The objectives of channel selection are heavily dependent upon the marketing and corporate objectives. The broad objectives of channels are:-

1. Availability of product in the target market;
2. Smooth movement of the product from the producer to the customer;
3. Cost effective and economic distribution; and
4. Information communication from the producer to the consumer.

Functions of Marketing Channels

A distribution channel moves goods from producers to consumers. It over comes the major time, place, and possession gaps that separate goods and services from those who would use them. Marketing channel members perform many functions: buying, carrying inventory, negotiation, conducting marketing research and servicing. These functions are summarized in the following table:

Function Performed By Marketing Channels

FUNCTION	DESCRIPTION
Buying	Purchasing a broad assortment of goods from the producer or other channel members.
Carrying Inventory	Assuming the risks associated with purchasing and holding and inventory.
Selling	Performing activities required selling goods to consumers or other channel members.
Transporting	Arranging for the shipment of goods to the desired destinations.
Financing	Providing funds required covering the cost of channel activities.

Promoting	Contributing to national and local advertising and engaging in personal selling effort.
Negotiating	Attempting to determine the final sale of goods and the terms of payment and delivery.
Marketing Research (Information)	Providing information regarding the needs of customer
Servicing	Providing a variety of services, such as credit, delivery and returns.

5.3.3 Channels of Decisions

There are six basic 'channel' decisions:

1. Do we use direct or indirect channels? (e.g. 'direct' to a consumer, 'indirect' via a wholesaler)
2. Single or multiple channels
3. Cumulative length of the multiple channels
4. Types of intermediary (see later)
5. Number of intermediaries at each level (e.g. how many retailers in Southern Spain).
6. Which companies as intermediaries to avoid 'intra channel conflict' (i.e. infighting between local distributors)

Selection Consideration-how do we decide upon a distributor?

- ***Market segment***: the distributor must be familiar with your target consumer and segment.
- ***Changes during the product life cycle***: different channels can be exploited at different points in the PLC e.g. Foldaway scooters are now available everywhere. Once they were sold via a few specific stores.
- ***Producer–distributor fit***: is there a match between, strategies, image, and yours? Look for 'synergy'.
- ***Qualification assessments***: establish the experience and track record of your intermediary.
- How much training and support will your distributor require?

5.3.4 Types of Channel Intermediaries

There are many types of intermediaries such as wholesalers, agents, retailers, the Internet, overseas distributors, direct marketing (from manufacturer to user without an intermediary), and many others. The main modes of distribution will be looked at in more detail.

1. Channel Intermediaries-Wholesalers

- They break down 'bulk' into smaller packages for resale by a retailer.

- They buy from producers and resell to retailers. They take ownership or 'title' to goods whereas agents do not (see below).
- They provide storage facilities. For example, cheese manufacturers seldom wait for their product to mature. They sell on to a wholesaler that will store it and eventually resell to a retailer.
- Wholesalers offer reduce the physical contact cost between the producer and consumer e.g. customer service costs, or sales force costs.
- A wholesaler will often take on the some of the marketing responsibilities. Many produce their own brochures and use their own telesales operations.

2. Channel intermediaries-Agents

- Agents are mainly used in international markets.
- An agent will typically secure an order for a producer and will take a commission. They do not tend to take title to the goods. This means that capital is not tied up in goods. However, a 'stockiest agent' will hold consignment stock (i.e. will store the stock, but the title will remain with the producer. This approach is used where goods need to get into a market soon after the order is placed e.g. foodstuffs).
- Agents can be very expensive to train. They are difficult to keep control of due to the physical distances involved. They are difficult to motivate.

3. Channel intermediaries- Retailers

- Retailers will have a much stronger personal relationship with the consumer.
- The retailer will hold several other brands and products. A consumer will expect to be exposed to many products.
- Retailers will often offer credit to the customer e.g. electrical wholesalers, or travel agents.
- Products and services are promoted and merchandised by the retailer. The retailer will give the final selling price to the product.
- Retailers often have a strong 'brand' for themselves e/g. Ross and Wall-Mart in the USA, and Alisuper, Modelo, and jumbo in Portugal.

Functions of Retailing /Services Rendered By Retailer

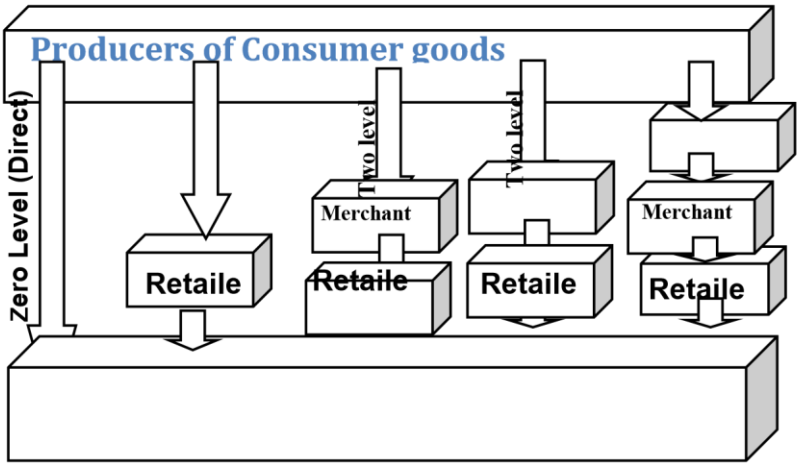
Retailers are the points from where the ultimate customer purchases the product for their own use. Generally, the retailers are involved in the following functions.

1. Functions of Breaking Bulk
2. Function of creating place utility
3. Keeping varieties of good
4. Providing credit faculties to customers
5. Provide information to customers and to wholesalers
6. Estimating the demand and arranging the purchase of the product

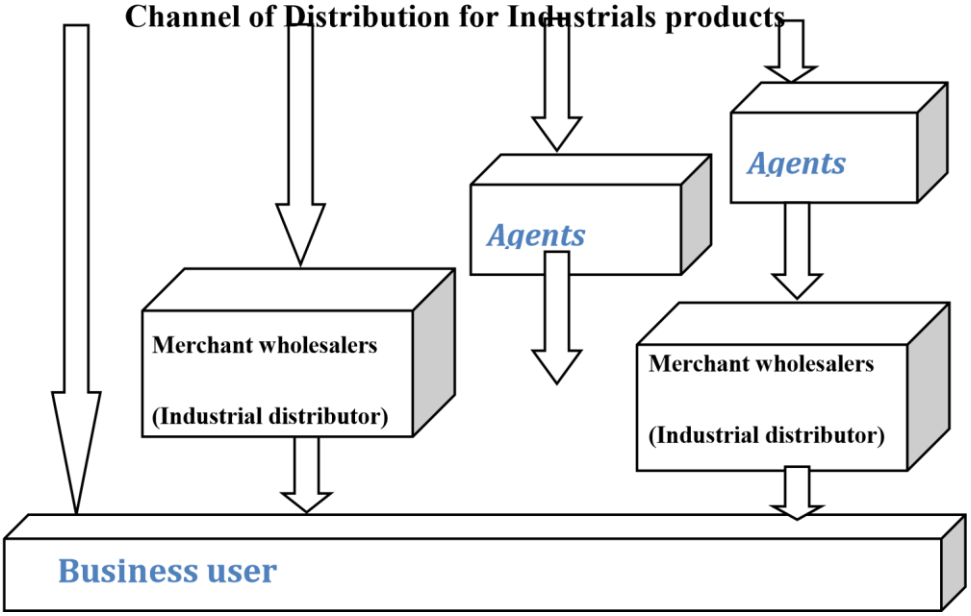
7. Acts as a customer’s agent
8. Marketing Function
9. Connecting link

4. Channel intermediaries-Internet

- The Internet has a geographically disperse market.
- The main benefit of the Internet is that niche products reach a wider audience e.g. Scottish Salmon direct from an Inverness fishery.
- There are low barriers to entry as sets up costs are low.
- Use e-commerce technology (for payment, shopping software, etc).
- There is a paradigm shift in commerce and consumption, which benefits distribution via the Internet.



Channel of Distribution for Industrials products



Channels of Distribution for Consumer Products

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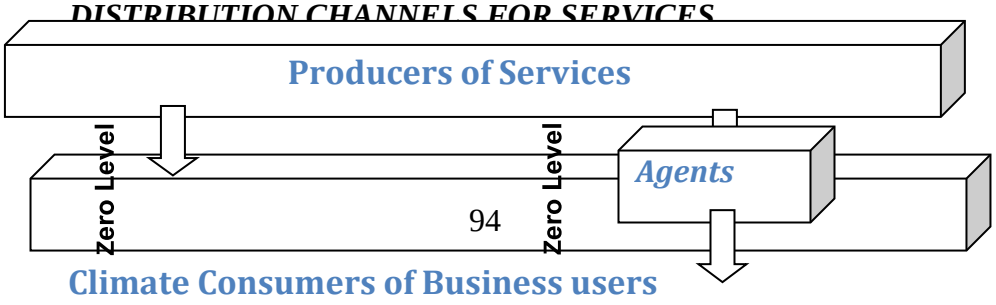
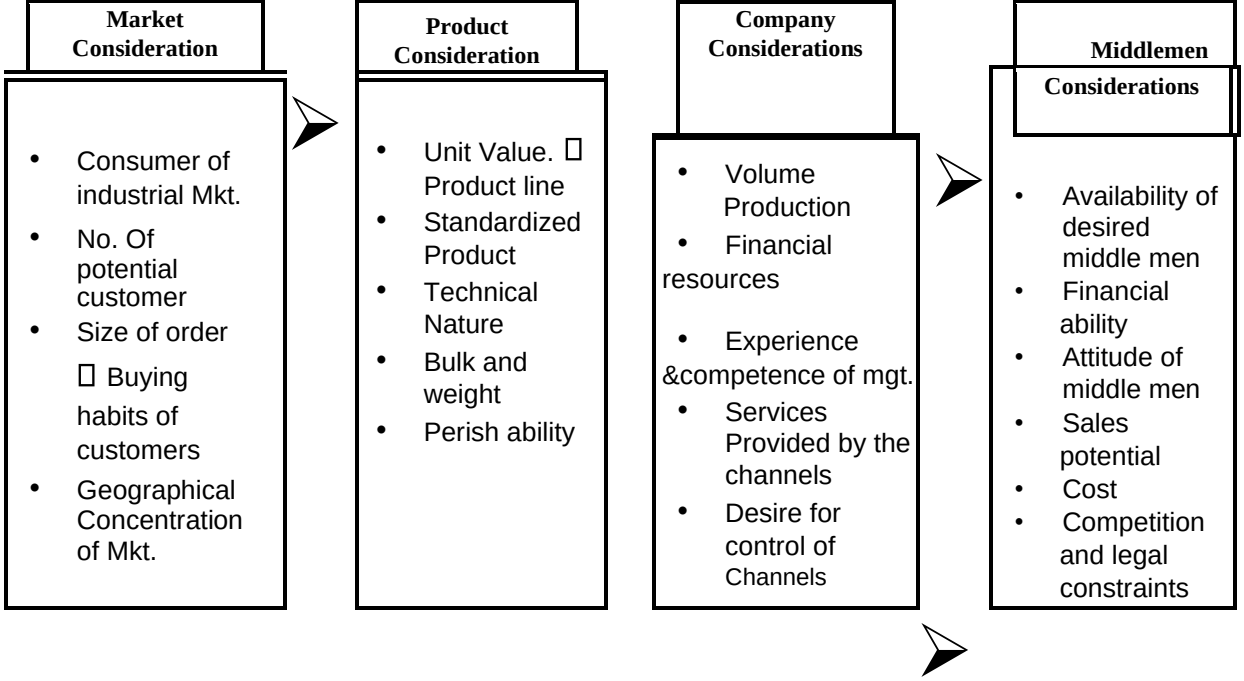
Fig: Channels of distribution for industrial products



5.3.5 FACTORS INFLUENCING THE CHANNEL SELECTION

In making the channel choice (designing the channel structure), the following factors should be considered.



FACTORS IN THE CHOICE OF DISTRIBUTION

1. WHOLESALE DISTRIBUTION PLANNING

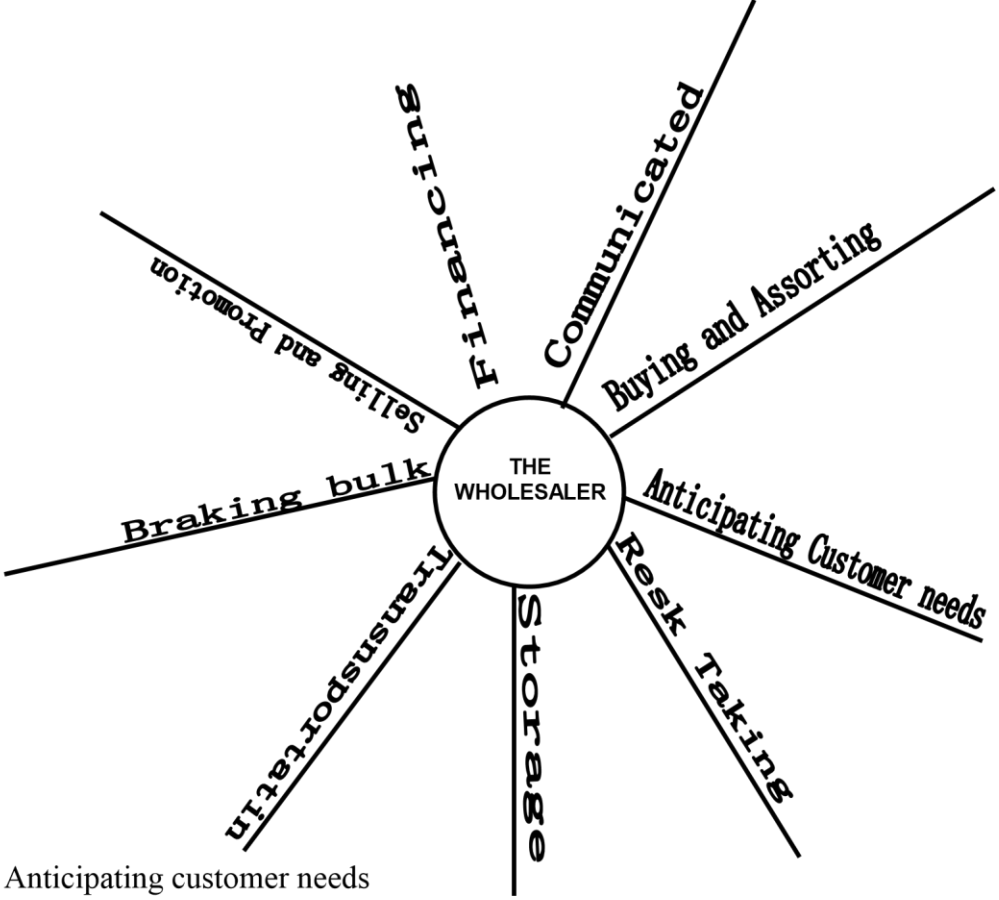
Wholesaling consists of the sale and all activities directly related to the sale of goods and services to the parties for resale, use in producing other goods or services etc.

"Wholesaling consists of all the activities in selling goods or services to those who buy for resale or business use." ***Philip Kotler***

"A person or firms that buys merchandise and resells it either to retailers for subsequent resale to the consumer or to business firm for industrial and business use is called a wholesaler" ***Mason and Rath***

"Wholesalers sell to retailers or other merchants and or industrial, institutional and commercial users butt they do not sell in significant amount to ultimate consumers." ***American Marketing Association***

FUNCTIONS OF CHANNEL DISTRIBUTION

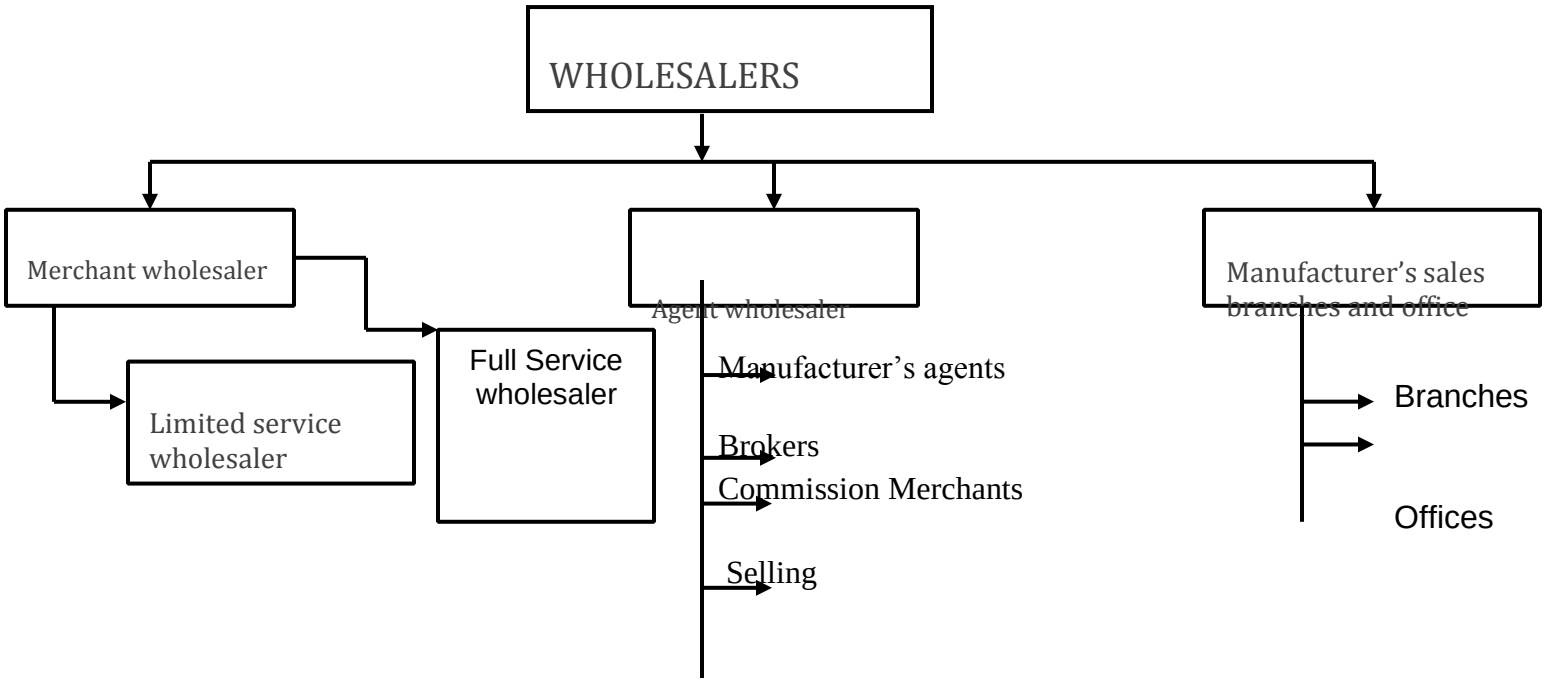


a) Anticipating customer needs

b) Buying and Assorting
c) Communicating
d) Financing
e) Selling and Promotion
f) Breaking Bulk
g) Transportation
h) Storage

i) Risk taking

CLASSIFICATION OF WHOLESALERS



I. ***Merchant Wholesalers***

Merchant wholesalers take ownership of goods in which they deal. Merchant wholesalers independently owned separate from suppliers, on the one hand and from the retailers on the other hand. The distinguishing feature of merchant wholesalers is that they take ownership and associated risks related to the goods in which they trade. Merchant wholesalers are of two general classes: Full function or service whole sealers and limited function wholesalers.

1. Full function or Service wholesalers

This type of wholesaler is also referred to as a distributor or jobber. Merchant wholesalers perform all or most of the marketing functions normally associated with wholesaling. Generally this type of wholesaler specializes in narrow range of goods.

2. ***Limited Function wholesalers***

These merchant wholesalers perform only some of the functions typically associated with wholesaling. II. **Agent wholesalers**

Unlike merchant wholesalers, agent wholesalers do not take ownership and rarely take possession of the products they market. They are primarily involved in the buying and selling of goods and services. They typically negotiate rates as representatives of other firms and don not take title to merchandise.

They also participate in the collection of market information, promotion and ordering. Different types of agents are.

1) ***Manufacturers Agents***

These are independent firms, which typically handle non-competing lines of a variety of manufacturers and are often used in a place of manufacturer's own sales force.

2) ***Brokers:*** Brokers are commonly used in the real estate industry where they negotiate the buying and selling of property as well as negotiate its rental and leasing. They are the middlemen whose primary activity is to establish contact between the buyer and seller.
3) ***Commission Merchants:*** Sometimes called as "factors", they receive products on consignment basis and then sell on a commission basis. They typically operate on an autonomous basis. They often participate in the physical possession, promotion, negotiation, financing, risk taking, ordering, payment and market information flow.
4) ***Selling Agent:*** They differ from manufacturer, agents and brokers in that they normally carry a supplier's entire product line. Unlike manufacturer agent and brokers, they usually set prices and terms of sale, and also undertake promotional activities.

III. Manufacturer's sale Branches or offices

Manufacture sales facilities are often established by manufacturers separate from their manufacturing operations. These enable the manufacture to perform the wholesaling function himself and are established when the manufactures not interested in taking the services of independent and outside wholesale. These are generally used for selling the product to industrial customers. Manufacturer sales facilities can take any of the two forms.

A. ***Manufacturer's sales Branches***: They carry inventory and are generally found in automobile industries the customer orders are filled from the monitories they carry. B. ***Manufacturer's sales offices:*** They do not carry inventory.

5.4 Promotion of Product

5.4.1 The Meaning of Promotion

In marketing, the word promotion is used in many ways. For instance, it is sometimes used to refer to a specific activity, such as advertising or publicity. In general sense promotion has been defined as "any identifiable effort on the part of the seller to persuade buyers to accept the seller's information and store it is retrievable form"

When a company develops a new product, changes an old one or simply wants of increase sales of an existing product or service, it must transmit its selling messages to potential customers. In today's competitive and volatile environment all marketers communicate with their target markets. The promotional function of any organization involves the ***transmission of message*** to present, past, and potential customers. At the very least, potential customers need to be made aware of the existence of a product or service. Eventually, in some way, they should be influenced to ward purchase.

Promotion is one of the important components of company's total marketing mix. Its intent is to inform, persuade and influence people. Promotion involves an ongoing process of communication between an organization and its target market.

"Promotion is the element in an organization's marketing mix that serves to inform, persuade and remained the market of a product and/or the organization selling it, in hopes of influencing the recipients feelings, beliefs, or behavior" W. J. Stanton

Promotion as Communication

As we know that the key elements of the definition of marketing is the exchange. The exchange process involves communication-the importing of thoughts opinions or information by speech, writing or signs. Promotional communication is not always directed towards ultimate consumer. It can be for industrial customers, institutions or sometimes towards middlemen. Promotion is an important tool for both the profit as well as nonprofit organizations. As we know that most often it is being used to sell a product or services, it is also being accepted in the marketing of social services. Candidates and ideas

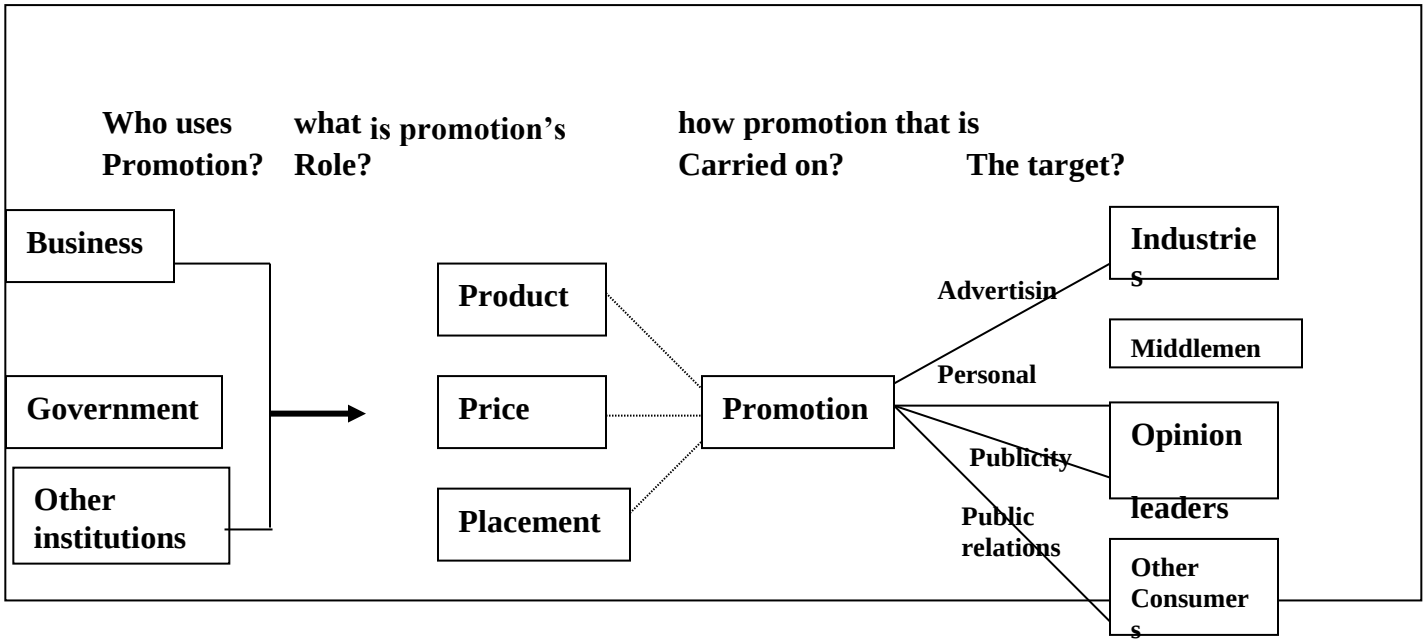
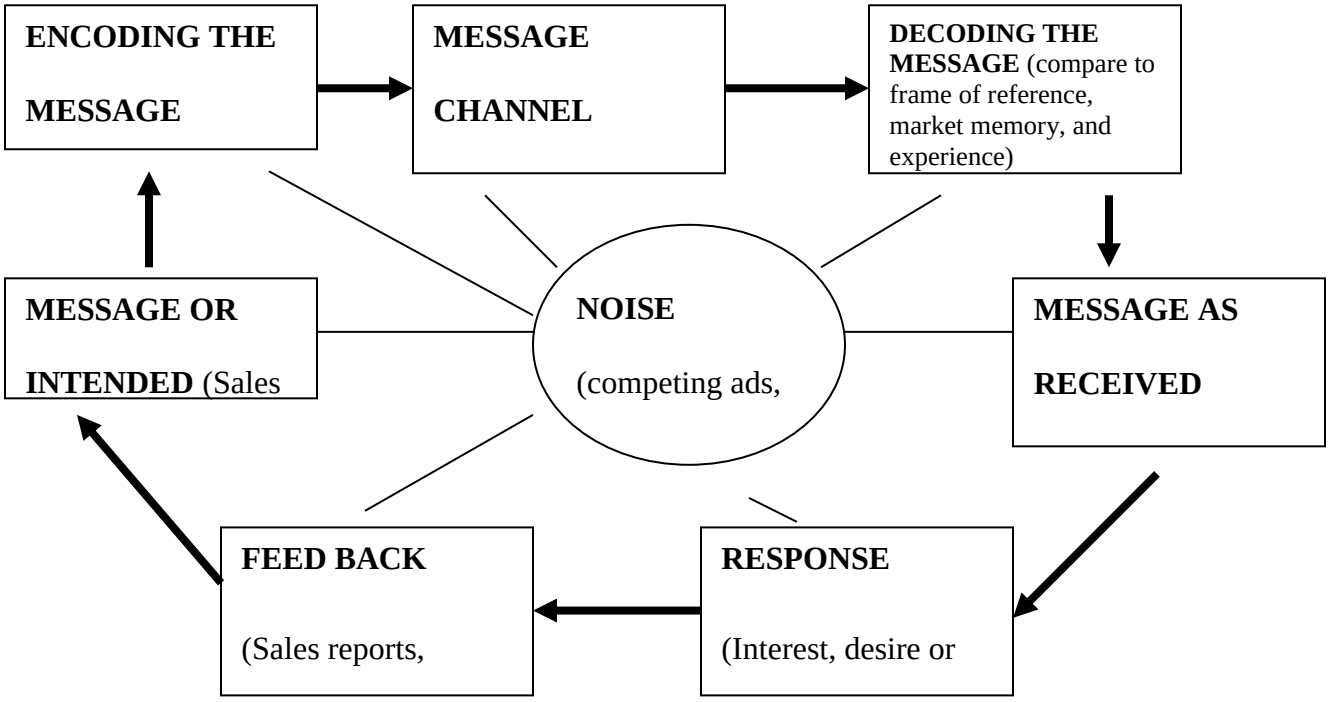


Fig: The Role of Promotion in Marketing Communication

The Communication Process

Promotion involves an ongoing process of communication between an organization and its target markets.

Communication is the process of influencing other's behaviors by sharing ideas, information and feeling with them. Two major participants in communication are sender (marketer) and the receiver.



Fig, Communication process in promotional programs

The communication occurs a) when sender transmits the message and b) and a receiver receives that message and c) the sender and the receiver have a shared meaning.

As illustrated in the figure, fundamentally, there are five elements in the communication process.
A) The Message
b) The sender
c) The receiver
d) Communication channel and
e) Feedback.

The message which is being sent by the sender is being encoded into transmitted form and then it is being passed through channel and then message is being received and decoded. All stages and be affected by the noise the factor which resist the flow.

5.4.2 The Promotional Mix and Its Objective

Having considered "**who says what to whom and for what purpose**", the next area of concern is "**how**". Developing the promotion mix entails selecting and blending different

channels of communication in order to achieve the promotional objectives of the marketing mix. Typically promotion objectives might be these:

1) To develop an awareness of, and an interest in, the organization and its products and services
2) To communicate the benefits of buying a product services
3) To influence eventual purchase of the product or service
4) To build the positive image of the organization
5) To differentiate the product/service from its competitors
6) To remind the people of the existence of the product/service and the organization

Ideally, these objectives should be quantified as far as possible.

The promotion mix, the one of the four major components also involves the careful blending of several elements like advertising, sales promotion, personal selling, publicity and public relations to accomplish the organization's promotional objectives.

A. **Personal selling** is face to face contact between seller's representative and buyer. Nonprofit organizations, political candidates, firms and individuals use personal selling to communicate with the public.
B. **Advertising**: It is paid form of non-personal mass communication by an identified sponsor. The mass media used include print media, direct mail, TV, radio, billboard etc.
C. **Sales promotion**: sales promotion includes activities that seek to directly induce or indirectly serve as incentives to motivate, a desired response on the part of the target customers, company sales people and middleman and their sales force. These activities and value to the product.
D. **Publicity**: Publicity is the news carried in the mass media about a firm and its products, policies, personnel or actions. It is non-paid form of promotion [News releases, press conferences of philosophies]
E. **Public Relations**: It creates, develops and maintains a bright image of an organization on the public. It is a planned effort by an organization to influence the attitudes and opinions of a specific group. The target may be customers, stockholders, a government agency or a special interest group.

A promotional plan involves the following steps: (Fig. 21.9)

(a) Setting objectives
(b) Identifying the Target Market
(c) Developing a budget
(d) Choosing a message
(e) Determining the Promotional Mix
(f) Selecting the Media Mix

(g) Measuring effectiveness
(h) Following up and modifying the promotion campaign

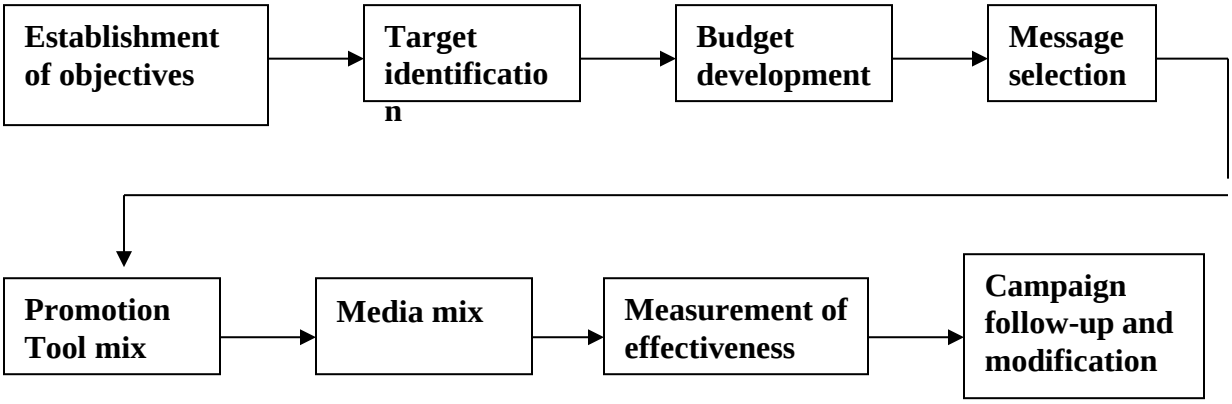


Fig. 21.9: The Promotion Plan

A. Setting Objectives: Setting the specific and realistic objectives is the starting point for any promotional campaign. It is impossible to plan a promotional program unless the marketing manager knows what goals he is trying to achieve.

B. Identifying the Target Market: The target market for which the firm wants to promote should be carefully selected and explicitly defined demographically and psycho graphically.

C. Developing a Budget: After the identification of objectives and selection of target market, the marketing manager has to develop a budget. It i s not a simple task. Each and every activity is to be defined and how much to spend on each activity is to be specified.

D. Choosing A Message: After the first three decisions are taken, the manager has to think in terms of preparation of right message to reach the target. The nature of the message will vary depending upon the goals of the promotion. For example, if the product is in the introduction stage of product life cycle, the message is more informative.

E. Determining the Promotional Mix: Often different message themes are developed of reach promotional tool. For example, the positive corporate image, public relations may be used. Advertising will focus on corporate image, personal selling to interact with the customers etc.

F. Selecting the Media Mix: the marketer has to decide which media is to be used for channeling the message. There are different media like audio, audio visual, Print, Outdoor and specialty media.

G. Measuring Effectiveness: After taking the pre-discussed decisions, the marketer is to ensure that the decision which he is taking would be effective. The effectiveness of various tools is measured quite differently. Without any defined procedure of measuring the effectiveness of various tools, it would be difficult to determine whether their objectives are being met or not.

H. Following up and modifying the Promotion Campaign: After measuring the outcome of the promotional effort, the necessary charges are to be made according to

the requirements. The firm should learn from its mistakes and try that their mistakes should be avoided in the future.

ADVERTISING

Advertisement has the prominent place among the techniques of mass education and persuasion on the public. It is not of a modern origin. It has been used form immemorial period. In earlier periods, advertisement was displayed in the form of signboards, writing on historical buildings or inscriptions on stones, stone pillars, stone walls etc. The development of printing has greatly boosted the ideas of advertising through newspapers, magazines, hand-books etc.

A basic responsibility of the marketing manager is to ensure that the company's message reach its potential customers. A main method by which companies deliver their messages to groups of customers and, in fact, make their initial contact with most potential customers is through the advertising.

Advertising is any paid form of non-personal communication through the mass media about a product or idea by an identified sponsor. It is a powerful promotional tool which individuals, businesses and non-business organizations use for informing, persuading and reminding their target audiences.

DEFINITIONS

"Any paid form of non-personal communication of ideas, goods or services by business firms identified in advertising message intended to lead to sales immediately or eventually"
American Marketing Association

"Advertising is mass communication of information intended to persuade buyers so as to maximize profits"

"Advertisement as a machine-made, mass production method of selling, supplements the voice and the personality of a salesman, just as in the manufacturing, the machine supplements the hands of the craftsman"

ADVERTISING OBJECTIVES

It is just not enough to manufacture a product. People must be informed of its existence and should be given good reasons to buy it. This is a job which is sought to be done by advertising. Without advertising, people will neither be aware of the attributes of the product nor of its price. Personal selling and other forms of promotions are supported by advertisement. It is the main objective. The long term objectives of advertising are broad and concerned with the achievement of overall company objectives.

1. To do the entire selling job (as in mail order Mktg.)
2. To introduce a new product (By making brand awareness among potential buyer)
3. To force middlemen to handle to product (Pull strategy)

4. To build brand preference (By making it more difficult for middlemen to sell substitutes)
5. To remind users to buy the product (retentive strategy)
6. To popularize some change in marketing strategy (change in price, improvement in the product, etc.)
7. To provide rationalization (i.e., Socially acceptable excuse)
8. To combat or neutralize competitor's advertising

To acquaint buyers and prospects with the new uses of the product (To extend the PLC)

In sum, the primary objective of advertising is to increase sales. The following brief points carry the objectives:

1. To encourage the potential customers to buy
2. To create an awareness/ introduce new product and services /To inform about the product's availability
3. To build a good business image
4. To maintain a brand loyalty
5. To introduce price deal /To convince people about the changes in prices
6. To make known the advantage of full use of the product 7. To wipe off the wrong impressions created by competitors.
8. To increase mkt. share
9. To keep good relation with traders
10. To enter into new market
11. To remind the users about the product
12. To combat competitor's advertising
13. To increase the percentage of net profit
14. To retrieve lost sales
15. To make grand and special offer
16. To attract investors

Approaches for Setting Advertising Objectives

Various Approaches for setting advertising objectives

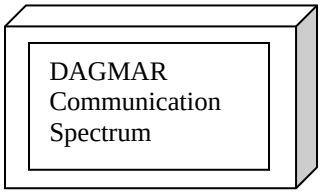
I. DAGMAR Approach

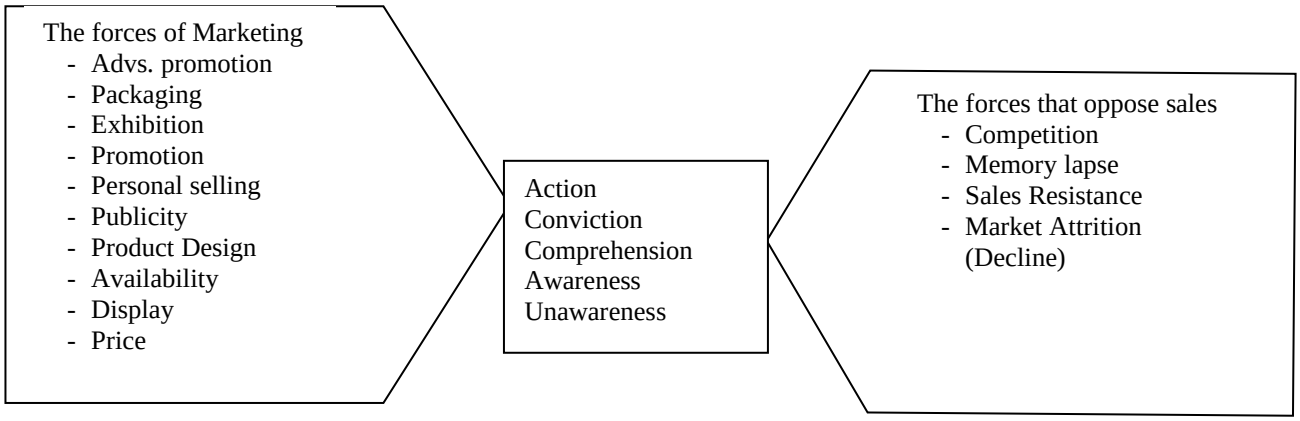
This is the most popular method of setting advertising goals and was proposed by Russel M. Colley. DAGMAR stands for defining Advertising Goals for Measured Advertising Results.

Coolley out lined this method for turning advertising objectives into specific measurable goals. The theory is based on the following premise: "The consumer passes through a hierarchy of stages between the time when the first idea about the product comes to his mind and when he actually buys"

For example, an advertisement of a generator should high light fuel efficiency, easy start, after sale service and readily availability of spares.

- Initially it would inform us and we shall become aware of such a product. Then through product endorsement and trial we shall develop a favorable attitude and ultimately we shall buy the product.
- To set advertising objectives, we shall need to identify the stage in which the product is available and then we can set the objective.





A. PRIMARY AND SELECTIVE DEMAND THEORY

According to this approach the advertising objective is categorized into two ways: information Advertising and persuasive Advertising. **i. Information advertising**

This advertising is important when the product is in the pioneering stage and the objective is to build primary demand. Primary demand is sought to be created especially by concept selling for a category of products. Some particular conditions are required necessarily to advertise for creating a primary demand.

- the existence of a strong and basic consumer need
- there must be strong buying motives in existence

Besides social trends, design, price etc. also play a crucial role at this stage

For example, the manufacturer of VIM initially had to inform potential consumers of VIM Bar's economic benefits and many other advantages.

ii. Persuasive Advertising

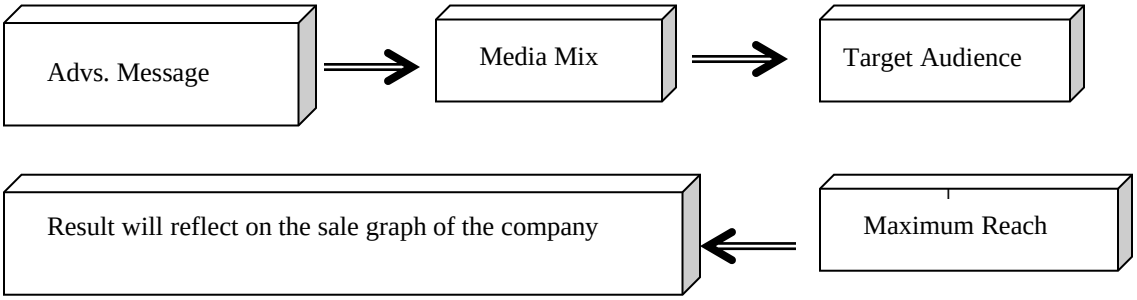
This becomes important in the competition stage, where a company's objective is to build selective demand for a particular brand. Most advertising falls in this category. Persuasive advertising is under taken when a strong primary demand is in existence. While the product should be distinctive, the benefits should be visible. Also strong brand consciousness must be generated.

iii. Surrogated Advertising

In India, advertising for liquor and cigarette is not allowed on T.V. However, to advertise their products, liquor companies very often advertise for their soda which bears the same name as their liquor.

MEDIA PROFILE FOR ADVERTISING

Role of Media: Media has a vital role in the process of advertising communication. Effective advertising is possible only if suitable media are available. The appropriateness of media used vis-à-vis the target audience and their reach are also of crucial importance.



A substantial portion of the advertising budget allocation to the mass media is spent on buying space and time. Therefore, media decisions assume a considerable importance when financial implications come to the fore.

DEVELOPING AN ADVERTISING PROGRAM

Because the media costs are high, advertising decisions must be made carefully using a systematic approach. Advertising Decision Process is divided into three parts.

1. Developing

This part focuses on 4ws.

- Who is target Audience?
- What are advertising objectives?
- When should Advertising be run?
- Where Advertising should be run?

2. Executing

This part tries to ensure that advertising is not wasted. This included

a. Pre-testing of the advertising copy and

b) Actually carrying out advertising.

Pre testing is carried to determine whether the advertisement communicates the intended message or to select between alternative versions of the advertisement. Pre tests are conducted before the advertisements are placed in any medium. Pre testing comprises of.

i) **Portfolio Tests.** Portfolio tests are used to test copy alternatives. The test advertisement is placed in portfolio with several other advertisements and stories, and consumers are asked to read through the portfolio. After words subjects are through the portfolio. After words subjects are often asked for their impressions of the advertisements on several evaluative scales such as from "very informative" to "not very informative.

ii) **Jury Tests.** Jury tests involve showing the advertisement copy to a panel of consumers and having them rate how they liked it, how much it drew their attention, and how attractive they thought it was. This approach is similar to portfolio test in that consumer reactions are obtained. However, unlike the portfolio test a test advertisement is not hidden within other tests.

iii) **Theater tests.** This is most sophisticated form of pre-testing. Consumers are invited to view new television shows or movies in which test commercials fare also shown. Viewers register their feelings about the advertisements either on hand-held electronic recording devices used during the viewing or on questionnaires afterward.

B. Carrying out the Advertising Program

The responsibility for actually carrying out the advertising program can be handled in one of the three ways, **the full-service agency** (does research, selects media, develops copy and produces out work), **Limited Service agency** (Specializes in one aspect of creative process, usually provides creative product work and buys previously unpurhcased media space) and **in House agency** (provides range of services, depending on company needs).

3. Evaluating the Advertising Program This comprises of:

a) Post testing Advertising

And advertisement may go through posttests after it has been shown to the target audience to determine whether it accomplished its intended purpose. Five approaches common in post testing are

i) Aided Recall (Recognition – Reader ship)

The respondents are asked whether their previous exposure to it was through reading, viewing, or listening. The starch test uses aided recall to determine the percentage:- - who remember seeing a specific magazine advertisement (Noted)

- Who see or read any part of advertisement identifying the product or brand seen associated.

- Who read at least held of the advertisement (read most) Elements of the advertisement are them tagged with the results.

ii) Unaided Recall. Asking people if they can remember seeing any advertisements with in an identified product category, (what advertisements do you remember seeing yesterday?). Respondents are asked without any prompting to determine whether they saw or heard advertising messages.

iii) Attitude tests: Respondents are asked questions to measure changes in their attitudes after an advertising campaign, such as more favorable attitude toward advertisement.

iv) Inquiry Tests. Additional product information, product samples, or premiums are offered to an advertisement's readers or viewers. Advertisements generating the most inquiries are presumed to be the most effective.

v) Sales tests. Sales tests involve studies such as controlled experiments (for example, using radio advertisements in one market and newspaper advertisements in another and comparing the results) and consumer purchase tests (measuring retail sales that result from a given advertising campaign).

b) Making needed changes

Results of post testing the advertising copy are used to reach decision about change in the advertising program.

EFFECTIVENESS OF ADVERTISING

Advertising can be effective if

1. clear and unambiguous messages are used
2. build on word of moth
3. provide tangible cues (personalities or physical evidence)
4. promise what can be delivered
5. aim advertising at employees too
6. Remove post purchase anxiety.

ADVERTISING STRATEGY

Advertising strategy advertising strategy consists of two major elements – creating advertising messages and selecting advertising media.

1. Creating Advertising Messages

Two advertisers can spend the same amount on advertising, yet have very different results. Advertising can succeed only if commercials gain attention and communicate well.

- The changing Message Environment. Good advertising messages are especially important in today's costly and cluttered advertising environment. More no of TV stations and thousands of magazines.

- Message strategy. Message strategy statements tend to be plain, start forward out lines of benefits and positioning points that eh advertiser wants to stress.
- Message execution: The import of the message depends not only on what is said, but also on how it is said. The advertiser now has to turn the "big idea" into an actual advertisement execution that will capture the target markets attention and interest.

Any message can be presented in different executive styles,

- Slice of life (Two mothers discussing the nutritional benefits of peanut butter at a picnic)
- Life style (how product fits in with particular life style.)
- Fantasy (creates fantasy around the product or product use.)
- Mood or image (builds mood or image around the product, such as beauty love etc.)
- Musical (This simple shows one or more people or cartoon characters singing song about the product)
- Personality symbol (creates character that represents product)
- Technical expertise (This style shows the company's expertise in making the product)
- Scientific evidence (Presents survey or scientific evidence that brand is better e.g. crest tooth paste better than other brands at fighting cavities)
- Testimonial evidence (This style feature a highly believable or likeable source that endorsees the product) ordinary people saying how much they like product.

2. Selecting Advertising Media

The major steps are

i) Deciding on reach, frequency and impact ii) Choosing among major media types iii) Selecting specific media vehicles iv) Deciding on media timing

Media Planning

Advertising becomes effective only when it reaches the desired audience. The value of advertisement is determined by the number of persons selling it, reading it and thus becoming aware of the product or the service.

Media Selection

Each media has "specific function to perform and its selection depend upon the requirements of the job. Media can be divided into two categories

Main Media- also called above the line use single group media e.g. news-papers, TV, Radio, Magazines, etc.

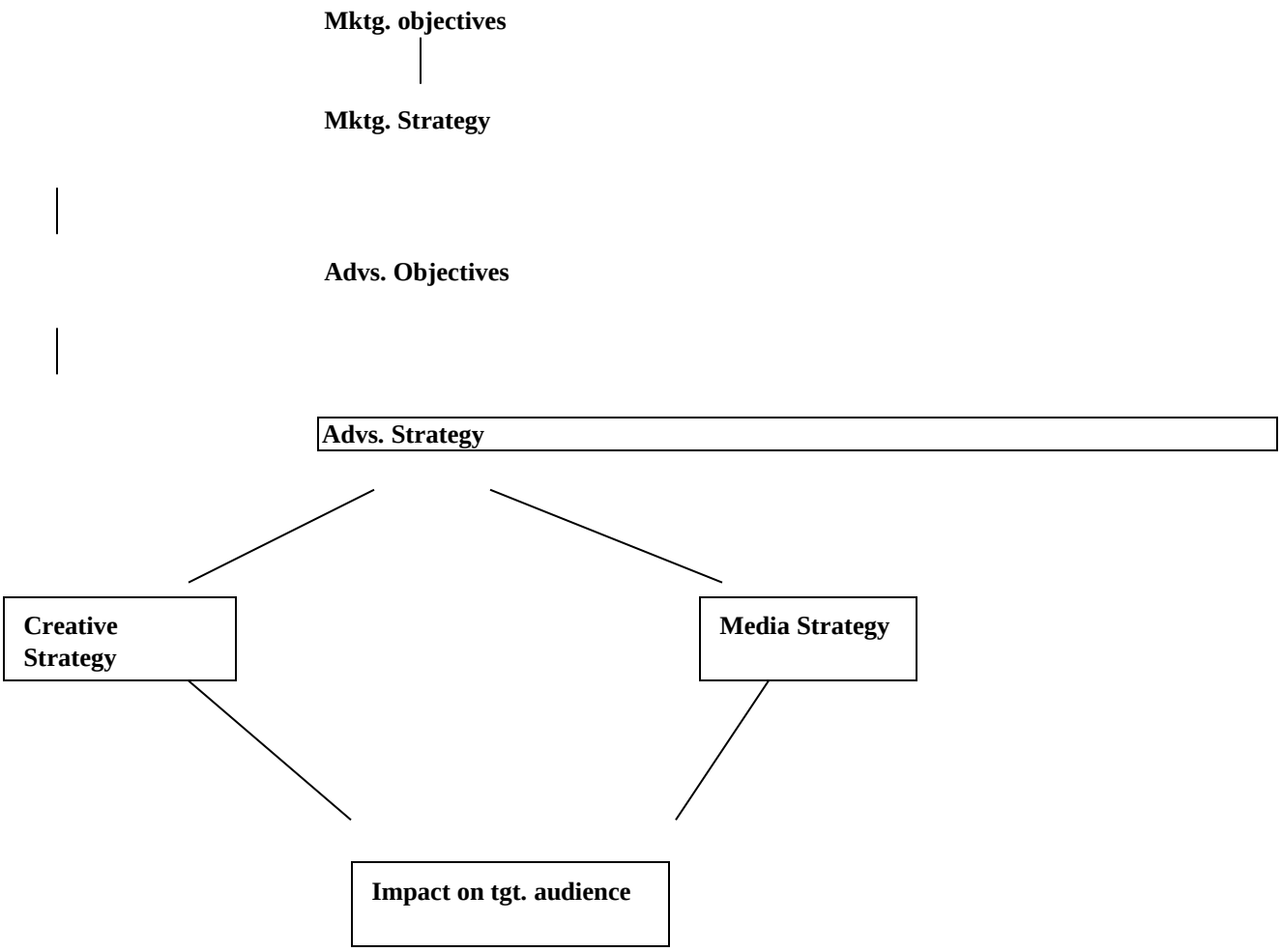
Secondary Media - also called below the line media, eg., hoarding, direct mail, point of purchase melt. Etc. these are also known as reminder media.

Media Planning Process

The various steps involved are

1. Media planning and buying space is the financial side of Advs.
2. It interacts with the creative process to form an important part of the overall mktg. process
3. Whereas the creative process is a descriptive process, the media process is one of transforming their description to the public, ie., a vehicle of communication.
4. The primary responsibility of media practitioners is to ensure that the advertising message is seen, read or recognized by the target audience. We believe this is a crucial role as there is no point in having the best advertising if nobody sees the advertisement.

Role of Media in the Advertising process



Product sales

Fulfilling Advertising and Mktg. objectives

MEDIA SELECTION DECISIONS

While selecting the advertising media the following factors should be borne in mind.

a. Cost of advertisement,
b. Nature of the product
c. Comparison of the medium selected with other media
d. Popularity of media
e. Characteristics of consumers, and
f. Competition in the market.

TYPES OF MEDIA FOR ADVERTISING

Print Media	Electronic Media	Outdoor Media	Direct Mail
- Newspapers	- TV	- Billboards	- Price Lists
- Magazines	- Video	- Hoardings	- Catalogues
- Folders	- Radio	- Balloons	- Personal letters
- Product Literature	- Voice mail	- Advertising on transport means	- Circulars
- Journals	- Cinema	- Electric Display	

STRENGTHS AND WEAKNESSES OF EACH TYPE OF MEDIA

A. Press

Advantages	Disadvantages

News value and immediacy **Area and ethnic selectivity** **Wide market coverage** **Advertisement flexibility** **Allow long message** **Moderate cost** **Publication with pictures possible** **Continuous publication**	**Casual readers not reading the whole magazine or newspaper** **High cost of brand usage** **Little demographic selectivity** **Short message life** **Suitable only for educated class** **Poor quality of printing creating readers' aversion Lack of faith in what appears in the Press.**

B. Magazines

Strengths	Weaknesses
• **Long shelf life** • **Durability of ad message** • **Ad size flexibility** • **Quality reproduction** • **Demographic selectivity** • **May cater to special interest groups** • **More affluent audience** • **Increased response of the consumers in response to the magazine ad.** • **Possibilities of reproducing full color effect.**	**Small reach** **Slow exposure build up** **Less impact than T.V** **Lack of urgency**

C. Outdoor-Hoardings, etc.

Advantages	Disadvantages
• **Attractive** • **Long life** • **Advertising at specific places**	• **Limited scope** • **Lack of personal touch**

D. Direct Mail

Advantages	Disadvantages
• **Possibilities of covering a wide audience** • **Economy** • **Flexibility** • **Easy to answer** • **Personal Touch**	• **Difficult to obtain the right mailing lists.** • **Possibility of misleading information** • **Frequent changes in mailing list**

E. Radio

Advantages	Disadvantages
• **Low production cost** • **Wide coverage** • **High frequency possible** • **Audience segmentation like** • **Flexibility of timing** • **Catching attention of listeners**	• **No visual information** • **No visual impact** • **Low recollection** • **Short message life** • **Small audience per station** • **Very often message not clear** • **Low attention value** • **Lack of detailed advertising**

F. Television

Strengths	Weaknesses
• **Attractiveness** • **Wide reach** • **Opportunity for high frequency campaign** • **Demonstration "how it works"** • **prestige** • **Emotionally involving**	• **Relative high cost** • **Very brief, lacking details** • **Short message life** • **production expensive and complicated** • **Long production lead time** • **Lack of TV ownership by all.**

G. Cinema

Advantages	Disadvantages

• **Allow product demonstration** • **Emotionally involving** • **Appropriate for products catering to low income segments**	• **Short message life** • **Cinema losing popularity because of cable operation. Slow exposure build up** • **Long production lead time.**

Effectiveness of each model of media

Model	Viability	Visual Impact	Color	Processing Time	Reach	Frequency
TV	**Low**	**High**	**High**	**Low**	**High**	**High**
Radio	**High**	**-**	**-**	**Low**	**Very high**	**High**
Newspapers	**High**	**OK**	**-**	**High**	**High**	**Low**
Magazines	**High**	**High**	**High**	**High**	**Low**	**Low**
Outdoor	**Can be high**	**High**	**High**	**High**	**Low**	**Low**
POP	**Can be high**	**High**	**High**	**High**	**Low**	**Low**
Direct Mail	**Very High**	**High**	**High**	**High Very**	**Depends**	**Very low**

Clients' Expectations

- **Account Service**: Responsive - prompt - accessible - listens - economical.
- **Creativity Review**: Provide innovative proposals - ideas - visuals.
- **Production Review**: Quality - timeliness - accuracy - economical.
- **Media Planning**: Innovative media strategy - capable of coping with the budget changes - provides media trends update.
- **Buying Media Space**: explore cost effective alternatives - ability to negotiate attractive terms.
- **Market Research**: Relate existing studies to the specific situation of the client - organize timely and meaningful research.
- **Retail Advertising and Sales promotion**: Innovative ideas - POP material, creative events - timeliness - economical.
- **Financial Control**: Detailed estimates - accuracy in billing - reasonable rates - mutual trust.

PERSONAL SELLING

Personal Selling has been defined as the oral presentation to prospective customers of one's goods and services for the purpose of ultimately making sale. Personal selling involves the two- way flow of communication between a buyer and seller, often in a face to face encounter, designed to influence a person's or a group's purchase decision. However, with advances in telecommunications, personal selling also takes place over the

telephone, through video teleconferencing, and through interactive computer links between buyer and sellers.

Personal Selling remains a highly human-intensive activity despite the use of technology. In personal selling, some kind of a lasting and social relationship develops. This personal touch can only come in personal selling. Another advantage in personal selling is that it can be used for consumer as well as for industrial goods.

When personal selling is required

1. When the product requires some kind of demonstration.
2. When the market under consideration is comparatively smaller.
3. For the specific needs of the consumer, i.e., in case of industrial goods.
4. For selling a service, e.g., five star hotels, banking, etc., sales people have got an edge.
5. When you have got an edge.
6. When you have got big orders.
7. When confidence is to be built up in the minds of customers.

Objective of Personal Selling

Objectives of personal selling can be briefly stated as sales, profits and growth for the organization in order to ensure its survival. The following are qualitative objectives achieved through personal selling:

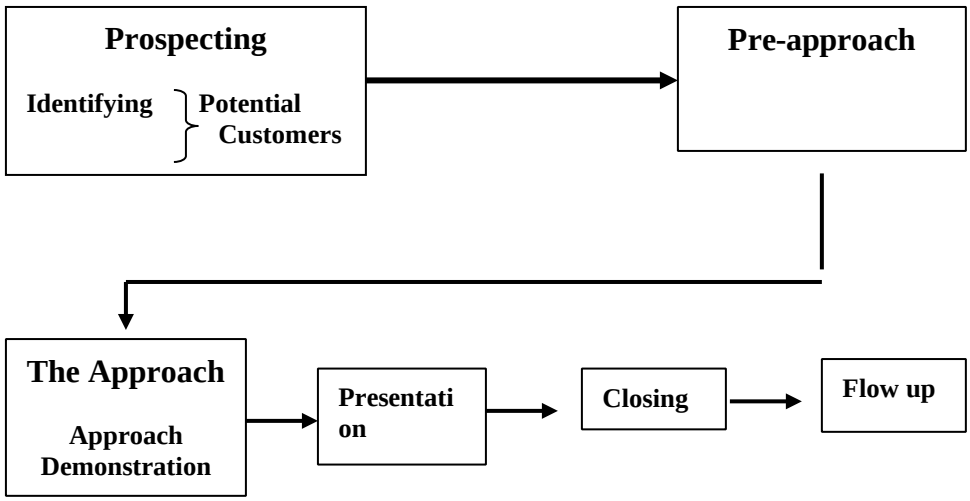
1. To carry out the complete selling job when some elements of the promotion mix are missing.
2. To serve the existing customers efficiently and effectively.
3. To look for new prospective customers for new/more orders.
4. To encourage the existing customers for their co-operation in the promotion of the various products of the company.
5. To keep the consumers informed time after time about the various changes in aspects of the marketing strategy and the product line of the company.
6. To provide complete assistance to the customers for selling the product line.
7. To provide proper assistance and advice to the customers regarding certain complicated products and the products for specific uses.
8. To assist and advice regarding the training programs for the sales personnel of the middlemen/dealers.
9. To help the dealers in their management and related problems.
10. To collect recent information regarding the market and report this to the company (Information of company's use).

The quantitative objectives are assigned for a short term and they keep on changing depending upon the market situation from time to time. They are:

1. To retain the existing market share and try for increasing it.

2. To increase the sales volume and hence the profits. it also includes the striking of a proper balance between the different elements of the marketing mix of the different products of the company.
3. To make attempts to open new accounts and maintain the existing ones properly, effectively and efficiently.
4. To exercise expense management and to keep the expenses within limits.
5. To achieve the targets and try to exceed them.

The personal Selling Process



MARKETING POLICIES AND PERSONAL SELLING STRATEGY

These marketing policies determine the selling strategies in order to achieve the qualitative and quantitative personal selling objectives. These strategies provide guidance on what to sell, whom to sell, etc., decisions. These questions give answer to the kind and size of the sales force required and also the pricing policies to be followed, etc. The kind of sales personnel can be determined by carrying out the following analysis:

1. Product Market Analysis
2. Sales person's order securing analysis
3. Choice of the basic selling style:
    (a) Trade selling
    (b) Missionary selling
    (c) Technical selling
    (d) New business selling

The size of the sales force can be determined by utilizing one or more of the following methods in combination with each other:

1. Work Load Method
2. Sales Potential Method
3. Incremental Method

INDIVIDUALIZING SELLING STRATEGIES TO CUSTOMER

The acid test of the appropriateness of personal selling strategy comes when particular salespersons interact with particular customers. The management makes its first key decision on personal selling strategy. When it determines the size of the company's sales force, each salesperson must individualize his own dealings either each customer. The decisions of the above kind are implemented after the required kind and size of the sales force has been recruited, trained and assigned their fields and territories. The strategies should be such so as to benefit the customer and help the firm in achieving its objectives. The strength of the sales force depends upon its communication and convincing power to persuade the customer to buy the product. The approach of the sales person towards different buyers is a matter of his selling skills. The skill is the function of the preplanning and performance of the call of the sales person itself.

The individual members of the sales force determine the success and failure of the company's overall personal selling strategy and sales management. The efficiency and effectiveness of the sales persons in accomplishing their tasks gives the effectiveness of the sales management in the personal selling field. The sales persons should combine their efforts in such a way so as to achieve their personal objectives through the achievement of the firm's objectives.

Organizing the sales force is a typical sales management task, since it has direct impact on the sales manager’s job performance. The universal adoption of the marketing concept has meant that most companies have reorganized their sales and marketing activities to reflect the stronger commitment to their customers. This trend has enhanced the importance of sales force organization.

SALES PROMOTION

SALES PROMOTION has more restricted and technical meaning and has been defined by American Marketing Association as follows;

"Those marketing activities, other than personal selling, advertising and publicity, that stimulate consumer purchasing and dealer effectiveness, such as display, shows and exhibitions, demonstrations, and various non-recurrent selling efforts not in the ordinary routine"

This definition illustrates that the term sales promotion is used for categorizing selling activities that cannot be conveniently classified as one of the other types of promotion.

Some other definitions are:

"Sales promotion means any steps that are taken for the purpose of obtaining or increasing sales"

A.H.R. DELENS

"Sales promotion as a tool of market's promotion gives rise to increase in product usage as well as expansion of markets for a product or introduction of a new product"

JOHN 1. LUICK AND WILLIAM LEE ZIEGLER

"Sales promotion represents those marketing efforts that are supplementary in nature, are conducted for limited period of time and seek to induce buying"

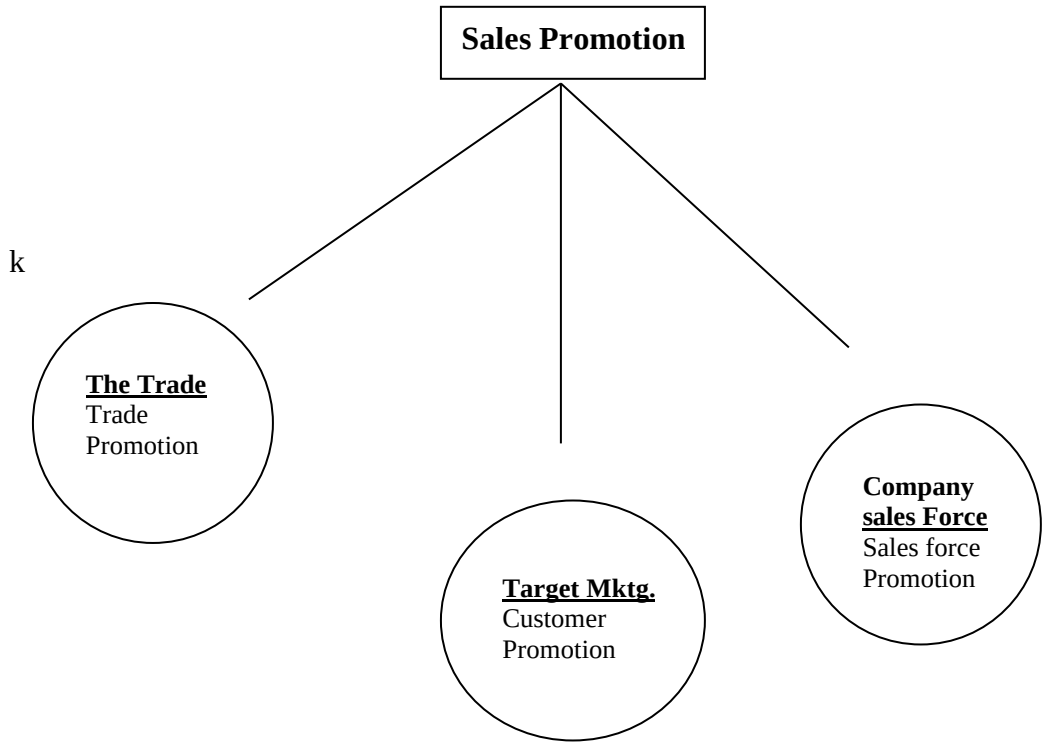
DAVIS

In simple words, sales promotion can be defined as "short term incentives given to consumers to encourage their purchasing"

CLASSIFICATION OF SALES PROMOTION

There are three types of sales promotion

1. Customer promotion
2. Trade promotion
3. Sales force promotion



1. Customer Promotions: here the target beneficiaries are the customer. Here offers are meant for the ultimate customers. Such an offer is always for a short period. If the period increases the validity of the promotional measures decreases.
2. Trade Promotions: Here the target is middlemen. They are being offered the incentives with the hope that they will stock more and push the product to the customers. This type of sales promotion is a very important effort to seek cooperation of the middlemen.
3. Sales force Promotion: This is targeted at sale force in order to increase and boost up the morale of the sales people. They are being offered commissions, bonus and other incentives for increased sales so that they work dedicatedly.

Sales promotion is supplemental ingredient of the promotional Mix and is not as visible as advertising, but more than $100 billion is spent annually on sales promotion in U.S.

OBJECTS AND FUNCTIONS OF SALES PROMOTION

From the classification three objects of sales promotion can be derived:

1. To influence the customers for purchasing the product or service instantly because the sales promotion time is very limited and if the customers do no respond to it quickly, they may lose the offer.
2. To encourage the middlemen to buy and store more units of the products by offering them incentives for bulk purchases and increased sales.

3. To motivate the salesmen to participate enthusiastically in the work. It is sales person who are in direct contact with the customers and if salespersons get satisfied, they can push the product or service. Often customers decide to purchase or not to purchase on the basis of the opinion of the sales person. **Table Sp-1 Summarizes the objectives of sales promotion falling in the above discussed three broad categories.**

Table Sp-1 Sales Promotion Objectives

1.	To encourage trial purchases of new products by consumers
2. 3.	To encourage middlemen to increase their order size
4.	To encourage consumers to buy several units of the product at a one time.
5.	To encourage middleman's sale force to give extra selling effort to generate more feedback from retailers.
6.	To encourage retailers to devote more shelf space to the product.
7. 8.	To encourage wholesalers to cooperate in a manufacturer's effort to generate more feedback from retailers.
9.	To encourage voters to vote for particular candidate
10.	To encourage company sales personnel to increase sales effort for a new product.
11.	To acquaint consumers or industrial users with product modifications.
12.	To identify new consumers or industrial users
13.	To develop a mailing list
14.	To build customer loyalty
15.	To encourage brand switching by consumers To encourage off season purchases by retailers To gain entry in to new retail outlets.

PLANNING FOR SALES PROMOTION PROGRAMME

Developing sales promotion plan involves the following steps as exhibited in the figure.

1. Defining the Sales Promotion Target

↓

2. Setting Sales Promotion Objectives

↓

3. Setting the Sales Promotion Budget

↓

4. Developing the Sales Promotion Strategy

↓

5. Selecting Type of Sales Promotion

↓

6. **Coordinating the Plan**

Evaluating Sales Promotion Effectiveness

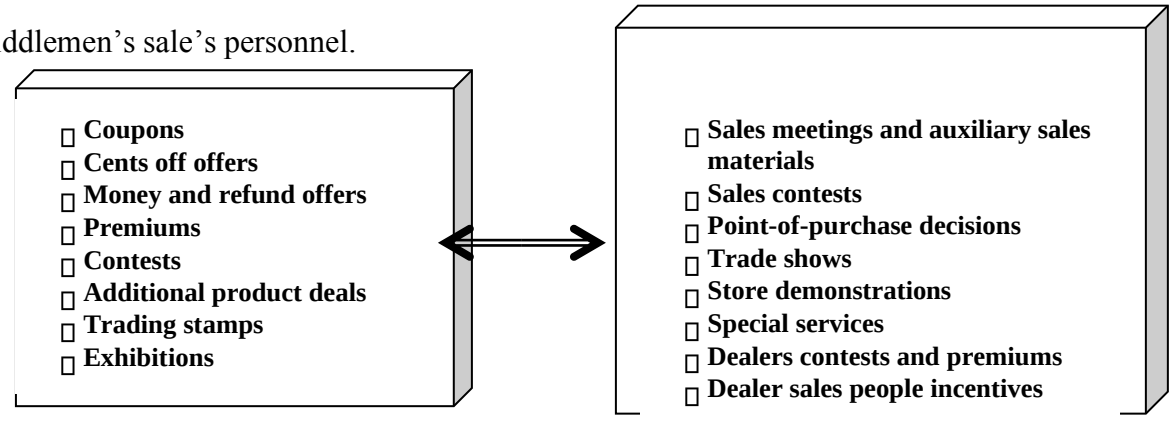
↓

7.

Fig SP2 - Steps in sales promotion.

1. Defining the Sales Promotion Target

In this step potential customers for the sales promotion are decided. It can be directed towards ultimate end users, or towards its own sales force, towards its middle men and/or middlemen's sale's personnel.



2. Defining sales promotion objective

From the target customers' sales promotion objective can be defined. Sales promotion objectives are drawing from the overall objectives of the promotion. Different types of objectives can be set.

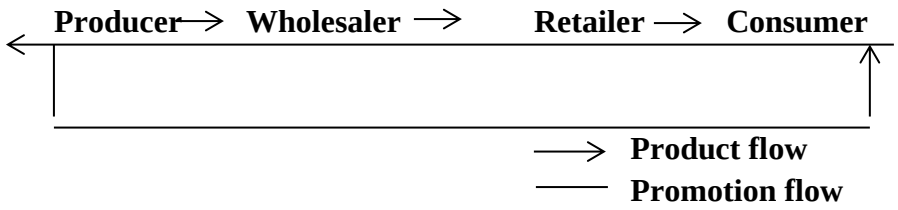
3. Setting the Budget: After deciding the sales promotion target and objectives, the budget for sales promotion activities are decided. Sales promotion budget must be approved before the campaign is commenced. The budget must highlight the total administrative cost of promotion as well as the total incentive cost.

4. Developing sales Promotion strategy:

Numerous decisions are to be taken in developing a sales promotion strategy like the size of the incentive, duration of incentive and timing of promotion. A customer would be attracted to the product if the incentive offered to him is substantial. Push strategy or pull strategy can be chosen.

b) **Push strategy**: A sales promotion program aimed primarily at channels of distribution is called a push strategy – Production – Distribution – Wholesaler – Retailer – Consumer

c) **Pull Strategy**: With pull strategy, promotion is directed to ultimate consumers. The objective is to motivate than to ask retailers for the product. This strategy relies heavily on advertising and various firms of sales promotion such as samples, free gifts etc.



5. Selecting the Type of Sales Promotion

All the sales promotion methods can be categorized as discussed above. In these categories the sales promotion methods range far and wide. While choosing among the various sales promotion methods the following factors are to be considered.

a. Sales promotion objectives
b. Target customer characteristics
c. Marketing channel characteristics
d. Product characteristics
e. Competition (Competitors prices and offers)
f. Economic Environment.

6. Coordinating the plan: As we know that the elements of promotion mix supplement the efforts of each other so it is essential that sales promotion activities must be well coordinated with other elements of the promotion mix like:

a) Advertising and sales promotion program should be integrated
b) For the special events, publicity should be generated
c) The sales force should be communicated with all promotions well in advance and trained to implement them.
d) Sales promotions should be consistent with channel members objectives and activities.

7. Evaluating Sales promotion Effectiveness:

Before implementing the sales promotion, pre-testing the program is to be done. Pretesting means testing the sales promotion program before it is being implemented. It is judicious to test the program before its implementation to find out whether the tools are appropriate and the size of incentive is sufficient.

PUBLIC RELATIONS

Public relation is a management tool designed to favorably influence attitudes towards an organization, its products, and its policies. It is concerned with building good relations with the company's various public by obtaining favorable publicity, building up good "corporate image" and handling or heading off unfavorable rumors, stories or events. Public relations are a much broader concept that includes publicity as well as many other activities.

Public relations may perform any or all of the following functions.

1. **Press relations** or press a gentry- creating and placing newsworthy information in the media to attract attention to a person, product, or service.
2. **Product publishing:** Publishing specific products
3. **Public affairs:** Building and maintaining national or local community relations
4. **Lobbying:** Building and maintaining relations with legislators of government officials
5. **Investor relations:** Maintaining relationship with shareholders and other in the financial community
6. **Development:** Public relations with donors or members of nonprofit organizations to gain financial or volunteer support.

Major Public relations tools

- News
- Speeches
- Special events – news conferences-press tours, grand openings fire with display, displays multimedia presenters,
- Written material – reports, brochures architects, newsletter etc.
- Public service alternatives

Major Public relation decision

1. Setting public relations objects
2. choosing public relation messages and vehicles
3. implementing public relations plan
4. evaluation public relations results

Publicity as a form of public relations

Publicity is any communication about an organization, its products, or policies through media that is not paid forty the organizational. Publicity usually takes the form of a news story appearing in a mass media or an endorsement provided by an individual, either informally or in a speech or interview (this is good publicity). There is also bad publicity (highlighting bad things about the product/service and company).

Benefits of publicity

1. Lower cost than advertising or personal selling
2. Increased readership
3. More information
4. Timeliness(company can put news release very quickly,

Limitations

1. Loss of control over the message
2. Limited exposure
3. Publicity is not free

PROMOTIONAL ELEMENT	MASS V/S INTER PERSONAL	PAYMENT	STRENGTHS	WEAKNESSES
Advertising	**Mass**	**Fees paid for space or time**	**Efficient means for reaching large numbers of people**	• **High absolute costs** • **Difficult to receive good feed back**
Personal Selling	**Interpersonal**	**Fees paid to sales people as either salaries or commissions**	• **Immediate Feed back** • **Very persuasive** • **Can select audience** • **Can give complex information**	**Extremely expensive per exposure**

Publicity	**Mass**	**No direct payment to media**	**Often most credible source in consumer's mind**	**Difficult to get media cooperation**
Sales Promotion	**Mass**	**Wide range of fees paid depending on promotion selected**	• **Effective at changing behavior in short run** • **Very flexible**	• **Easily abused** • **Can lead to promotion wars** • **Easily duplicated**

Fig. The Promotional Mix Self-Test

I. Write true if the statement is correct unless write false if the statement is incorrect.

1. Positioning involves implanting the brand's unique benefits and differentiation in customers' minds.
2. The concept of product deals with merely physical objects that can be offered to a market for attention, acquisition, use, or consumption and that might satisfy a want or need.
3. Price is the sum of all the values that consumers exchange for the benefits of having or using the product or service.
4. The placement in the marketing mix incorporates both merchants and facilities that can be used to physically distribute the good.
5. In marketing, promotion refers to any type of marketing communication used to inform target audiences of the relative merits of a product, service, brand or issue, most of the time persuasive in nature.

II. Choose the best answer from the given alternatives

1. According Ansoff's Product/Market Opportunity Matrix, Which of the following is the correct step of the company's strategy?

A. Market-Penetration--Market-Development---Product Development---Diversification

B. Diversification---Market Development--- Product Development--Market-Penetration

C. Market Development--- Product Development-- Market-Penetration—Diversification

D. Product Development--Market Development---Diversification ---Market-Penetration

2. According Ansoff's Product/Market Opportunity Matrix, which of the following is not part of the diversification strategy?

A. Concentric Diversification Strategy C. Conglomerate Diversification Strategy

B. Horizontal Diversification Strategy D. Vertical Diversification Strategy

3. Which of the following is correctly matched, based on Ansoff's Product Market Opportunity Matrix of diversification?

A. Concentric Diversification Strategy---Soft drink manufacturing company

B. Horizontal Diversification Strategy--Soft drink Company with plastic or canned packages.

C. Conglomerate Diversification Strategy-----Soft drink Company with Textile Company.

D. Vertical Diversification Strategy----Electronics with Samsung Company

4. According Ansoff's Product/Market Opportunity Matrix, which of the following is the most difficult diversification technique?

A. Concentric Diversification Strategy C. Horizontal Diversification Strategy

B. Conglomerate Diversification Strategy D. Vertical Diversification Strategy

5. According to Market Opportunity Matrix, which of the following is not from Integrative Growth Strategies to increase the sales and profit performance of the company?

A. Backward Integration C. Middle integration

B. Forward Integration D. All of the above

6. Which of the following is not related to backward diversification?

A. A textile manufacturing organization acquiring a cotton farm

B. A food (biscuits) manufacturing organization acquiring Flourmill Company

C. A car manufacturing company acquiring Spare Part Company

D. A company that runs cotton farm business acquiring a textile manufacturing organization.

Key Answer for Self-Test Questions

Chapter-One

Choose

1. B) Form utility

2. A) the demand for a product exceeds the supply

3. D) focuses on the company's existing product

4. D) Societal marketing concept

5. C) Ends with profits through sales volume

Short Answer

1. The goals of a marketing system include creating customer value, satisfying customer needs, building profitable relationships, and achieving organizational objectives.

2. Marketers are individuals or entities that promote, sell, and distribute products or services to customers. Utility, on the other hand, refers to the value or benefit that customers receive from using a product or service.

3. The different types of utility include form utility (changing raw materials into finished goods), time utility (making products available when customers want them), place utility (making products available where customers want them), and possession utility (the value customers get from owning a product).

Chapter-Two

Choose

1. D) All

2. B) A few marketers dominate the market place

3. E) Distribution of income

4. E) Economic environment

5. B) Marketing plan

Short Answer

1. Competitive forces refer to the factors that influence the level of competition in a market, including the threat of new entrants, the bargaining power of buyers and suppliers, the threat of substitute products, and the intensity of industry rivalry.

2. Environmental scanning involves the continual monitoring and collection of information about external forces and trends that may impact an organization. It helps in identifying opportunities and threats in the market.

3. The macro environment encompasses the larger societal forces that affect the microenvironment, including demographic, economic, natural, technological, political, and cultural factors.

4. The political-legal environment refers to the laws, regulations, and government policies that can impact business operations and marketing activities. It includes areas such as consumer protection laws, antitrust regulations, and trade restrictions.

5. Planning tools in marketing include SWOT analysis, PESTLE analysis, marketing research, forecasting, budgeting, and decision support systems. These tools help in setting objectives, formulating strategies, and making informed decisions.

Chapter-3

True/False

1. False

2. True

3. True

4. True

5. True

Choose

1. D. They are created by marketer.

2. C. Wants are shaped by culture, and individual personality.

3. D. All

4. C. Technology

Chapter-Four

True/False

1. False

2. True

3. True

4. True

5. True

Choose

1. D. They are created by marketer.
2. A. Strategic business unit

3. D. Moon

4. D. Vertical Diversification Strategy

5. D. All

Chapter-Five

True/False

1. True

2. True

3. True

4. False 5. True

Choose

1. C. Market Development--- Product Development-- Market-Penetration—
Diversification

2. D. Vertical Diversification Strategy

3. C. Conglomerate Diversification Strategy-----Soft drink Company with Textile Company.

4. B. Conglomerate Diversification Strategy

5. C. Middle integration

6. C. A car manufacturing company acquiring Spare Part Company