

শুল এব বিজনেস
SCHOOL OF BUSINESS
বাংলাদেশ উন্মুক্ত বিশ্ববিদ্যালয়

MBA 1302
Principles of Marketing

—Course Development Team—

Writers

Professor Abu Sayeed Talukder

Department of Marketing
University of Dhaka

and

Professor Dr. Md. Zakir Hossain Bhuiyan

Department of Marketing
University of Dhaka

Editor, Style Editor & Coordinator

Md. Jakir Hossain

Assistant Professor
School of Business
Bangladesh Open University

*This book has been published after being refereed for the students of the
School of Business, Bangladesh Open University*



MBA 1302
Principles of Marketing

শুন্ম অর বিজনেস
SCHOOL OF BUSINESS

Bangladesh Open University
বাংলাদেশ উন্মুক্ত বিশ্ববিদ্যালয়

MBA 1302

Principles of Marketing

Published by: Publication, Printing and Distribution Department, Bangladesh Open University, Gazipur-1705. © School of Business, Bangladesh Open University. **First Published:** June, 2000. **Reprint:** July, 2007. **Computer Compose & Desk-Top Processing:** Mohammad Wahiduzzaman Howlader, Md. Abdus Shahin **Cover Design:** Monirul Islam **Printed in:** Mania Art Press, 53/1 Northbrooke Hall Road, Dhaka-1100.

All rights reserved by the School of Business, Bangladesh Open University. No part of this book can be reproduced in any form without proper permission from the publisher.

Reading Instructions

Dear Students

You may be tempted to skip over the introduction to this textbook. However you need to understand the organisation and the features of this text if you really want to do better and have very worthwhile experiences in this course. Because this is the first course on marketing with an opportunity to learn about the **Principles of Marketing**.

The real focus of the course is what marketing means and how this is used by business firms. Today everyone needs a basic understanding of marketing concepts, not just those of you planning careers in business but also managing any business activities. Therefore, using marketing concept is simply a part of everyday life.

Approach of this Text

This book will focus primarily upon modern marketing activities. However, most of the marketing concepts will also discuss to apply this concepts in economic activities of individuals, government and non-profit organizations. Throughout the course, we will cast you in many decision-making roles ranging from *starving students* to *corporate executives*.

Elements of this Textbook

This first edition of this course is accompanied by a wide variety of in-text learning aids. Understanding their purpose should help you use them to greater advantage. Each unit starts with unit introduction and followed by a number of learning aids designed to help you study more efficiently. They are intended to illustrate a major theme of the unit in a non-technical way. This text consists of twelve units and each unit is divided into several lessons. As you know, it is a three credit course, so you are supposed to remember that you need to study three lessons in each week to complete the whole course. Each lesson also includes a short-set of learning objectives, which are integrated with the text discussions, lesson summaries, and assignment materials. These objectives identify the main points in each unit and may help you study for exams. However, do not limit yourself to meeting these objectives. Strive to broaden your knowledge.

Assignment Materials

One of the distinctive features of this text is the nature and variety of its assignment material. We find that students can learn much from one another. This concept, often called *Collaborative learning* which really works.

Discussion Questions are for written answer and **exercises & activities** are short assignments, usually focusing on a single concept. They are designed to illustrate those concepts quickly and clearly. You also may find them similar to the types of exercises your tutor uses on exams.

Supplementary Materials for You

We have also developed the study guide for this course in Bengali with a view to make the different concepts easier to you. It includes a summary of the key points in each unit, and a wealth of self-text materials. As an additional study-aid, we explain the each topic in detail.

Principles of Marketing (MBA 1302)

1. **Marketing in a Changing World** : Defining the key terms in marketing (Needs, Wants, Demand, Products, Value, Satisfaction, Quality, Exchange, Transactions, Markets and Marketing); Importance, Scope and functions of marketing; Marketing management philosophies.
2. **Strategic Planning and the Marketing Process** : Strategic planning & designing business portfolio; Marketing process; Managing the marketing effort.
3. **Marketing Environment** : Defining marketing environment and the company's micro-environment; The company's macro-environment.
4. **Measuring and Forecasting Demand** : Defining the market and measuring current market demand; Forecasting future demand.
5. **Market Segmentation, Targeting & Positioning for Competitive Advantages** : Defining deferent markets and needs for market segmentation; Market segmentation; Market targeting; Market positioning.
6. **Consumer Market and Consumer Buyer Behaviour** : Factors affecting consumer behaviour; Types of buying decision behaviour; The buyer decision process; The buyer decision process for new products.
7. **Designing Products: Products, Brands, Packaging and Service** : Definition & classification of product; Individual product decisions (Product attributes, branding, packaging labelling, product support services); Product line & product mix decision; Product life cycle and marketing strategies.
8. **Pricing Product: Pricing Consideration and Approaches** : Factors to be considered in pricing; General pricing approaches.
9. **Placing Products- Distribution Channel and Logistics Management**: The nature of distribution channel; Channel behaviour and organisation; Channel design decisions; Channel Management decisions; Physical distribution and logistics management.
10. **Placing Products- Retailing and Wholesaling** : Retailing & types of retailing; Retailer marketing decisions; Wholesaling & types of wholesaling; Wholesaler marketing decisions.
11. **Promoting Product- Advertising, Sales Promotion, Public Relation and Personal Selling** : Advertising; Sales Promotion; Public Relations; Role of personal selling and managing the sales force; Principles of personal selling.
12. **Marketing Services, Organisations, Persons, Places and Ideas**: Service marketing; Marketing of organisations, Persons, Places and ideas.

Reference Books :

1. Philip Kotler and Gary Armstrong - Principles of Marketing, Seventh Edition, Prentice-Hall of India Pvt. Ltd., New Delhi, 1997.
2. William J. Statnton and others - Fundamentals of Marketing, Tenth Edition, McGraw-Hill, Inc., Singapore, 1994.
3. Joel R. Evans and Barry Berman - Marketing, Third Edition, Macmillan Publishing Co. New York, 1987.
4. Paul S. Busch and Michael J. Houston - Marketing, Strategic Foundations, Rich and D. Irwin, Inc., Homewood, Illinois, 1985.

CONTENTS

	Page No.
Unit -1 Marketing in a Changing Environment	01
Lesson - 1 : Definition and Meaning of Marketing	03
Lesson - 2 : Scope, Importance and Functions of Marketing	11
Lesson - 3 : Marketing Management Philosophies	17
Unit - 2 Strategic Planning and the Marketing Process	23
Lesson - 1 & 2 : Strategic Planning	25
Lesson - 3 : The Marketing Process - Marketing's Role in the Organization	39
Lesson - 4 : Managing the Marketing Effort	47
Unit - 3 The Marketing Environment	57
Lesson - 1 : The Company's Micro Environment	59
Lesson - 2 & 3 : The Company's Macro Environment	65
Unit - 4 Measuring and Forecasting Demand	77
Lesson - 1 & 2 : Defining the Marketing and Measuring Current Market Demand	79
Lesson - 3 : Forecasting Future Demand	91
Unit - 5 Market Segmenting, Targeting and Positioning	99
Lesson - 1 & 2 : Market Segmentation : Meaning and Bases	101
Lesson - 3 : Market Targeting	116
Lesson - 4 : Market Positioning	122
Unit - 6 Consumer Market and Consumer Buyer Behavior	129
Lesson - 1 & 2 : Factors Affecting Consumer Behaviour and Types of Buying Decision Behavior	131
Lesson - 3 : The Buyer Decision Process	145
Unit - 7 Designing Products : Products, Brands, Packaging and Services	153
Lesson - 1 : Definition and Classification of Products	155
Lesson - 2 : Individual Product Decisions	161
Lesson - 3 : Product Line and Product Mix Decision : Product Life-Cycle and Marketing Strategies	169

Unit - 8	Pricing Product : Pricing Considerations and Approaches	179
	Lesson - 1 : Internal Factors Affecting Pricing Decisions	181
	Lesson - 2 : External Factors Affecting Pricing Decisions	187
	Lesson - 3 : General Approaches of Pricing	193
Unit - 9	Placing Products : Distribution Channel and Logistic Management	201
	Lesson - 1 & 2 : The Nature of Distribution Channels and Channel Behaviour and Organization	203
	Lesson - 3 : Channel Design Decisions and Channel Management Decisions	214
	Lesson - 4 : Physical Distribution and Logistics Management	221
Unit - 10	Placing Products : Retailing and Wholesaling	227
	Lesson - 1 & 2 : Retailing - Its Nature, Types and Trends	229
	Lesson - 3 : Wholesaling : Nature and Types	244
Unit - 11	Promoting Products : Advertising, Sales Promotion, Public Relation and Personal Selling	253
	Lesson - 1 & 2 : Advertising : Its Nature and Role	255
	Lesson - 3 : Sales Promotion and Public Relations	268
	Lesson - 4 & 5 : Personal Selling : Its Role and Nature	276
Unit - 12	Marketing Services, Organizations, Pensions, Places and Ideas	289
	Lesson - 1 & 2 : Service Marketing - Nature, Characteristics and Strategies	291
	Lesson - 3 : Marketing Organization, Person, Place and Idea	300

MARKETING IN A CHANGING WORLD



Marketing is an exciting and dynamic contemporary field which is the combination of diverse activities. In today's world, individuals, business firms and organizations - both profit and non-profit engage in marketing. Present day marketing is thought of as the anticipation, management and satisfaction of demand through the exchange process. Over time, different marketing philosophies have evolved that guide marketers in managing their marketing efforts. In this unit, we have discussed the introductory issues relating to marketing by dividing it into three lessons. Let's start the lessonwise discussion:

School of Business

Blank page

Lesson 1 : Definition and Meaning of Marketing

Lesson objectives

After completing this lesson you will be able to :

- Define marketing and explain its meaning
- Explain the meaning of core concepts of marketing
- Identify the main actors and forces in a modern marketing system.

What is Marketing ?

People in a society have different meanings of marketing. Most popularly, marketing is perceived of activities like selling and advertising. Members of a society are today exposed to TV and radio commercials, newspaper ads, bill boards, neon signs, direct mail, sales calls and innumerable types of other sales stimuli. But selling and advertising are only two of many marketing functions and often less important than others. Today, we no longer accept the orthodox meaning of marketing – making a sale. Modern marketing must be understood in the new sense of satisfying customer needs. Experiences confirm that if the marketer understands consumer needs properly, design products that provide superior value, prices them competitively and distributes and promotes them efficiently, success in selling is guaranteed. To quote Peter Drucker, "The aim of marketing is to make selling superfluous. The aim is to know and understand the customer so well that the product or service fits and sells itself".¹

Philip Kotler and Gary Armstrong define marketing "as a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others".² This definition contains the following important terms: needs, wants and demands; products; value, satisfaction and quality; exchange, transactions and relationship and markets. Figure 1-1 shows that each of these core marketing concepts is linked with the previous one. To have a comprehensive meaning of marketing, we will now examine these concepts.

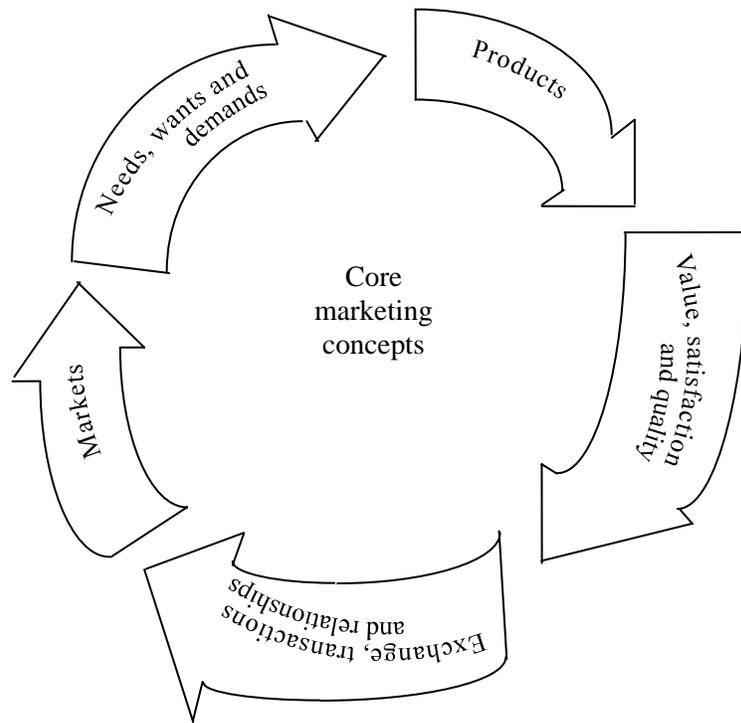


Selling and advertising are only two of many marketing functions.

¹. Philip Kotler and Gary Armstrong, Principles of Marketing, seventh edition, Prentice-Hall of India, New Delhi, 1997; p. 6.

². Ibid., p.6.

Figure 1-1: Core Marketing Concepts



● **Needs, Wants and Demands**

Human needs are many and complex.

The most fundamental concept underlying marketing is human needs which is a state of felt deprivation. Human needs are many and complex. These include basic physical needs, social needs and individual needs. *Physical needs* consist of needs for food, clothing and shelter; *social needs* consist of needs for love and belonging; and *individual needs* consist of needs for knowledge and self-expression. Marketers do not create these needs. They are an integral part of the human existence. If a need is not satisfied, a person will either try to forget the need or search for an object that will satisfy it. Individuals in backward societies may try to reduce their desires and fulfill them with what is available. Individuals in developed societies may try to find or develop objects that will fulfill their needs.

Human needs are shaped by culture and individual personality and take the form of wants.

Human needs are shaped by culture and individual personality and take the form of wants. A hungry person in Bangladesh may want rice and fish. A hungry person in North India may want chapti and pulses. Wants are expressed in terms of objects that will satisfy needs. As people come across more and more objects that stimulate their interest and desire, producers try to make available more want-satisfying goods and services.

Wants are unlimited but resources are limited. People choose goods & services their money. Human wants become demands when backed by buying power. Consumers perceive products as bundles of benefits and choose products that give them the best bundle for their money. For example, a Maruti means basic transportation, low price and fuel economy. A Pajero means comfort, luxury and status. Given their wants

and resources, people demand products with the benefits that maximize satisfaction.

Outstanding marketing companies go to great lengths to learn about and understand their customers' needs, wants and demands. They conduct consumer research, focus groups and customer clinics. They analyze customer complaint, inquiry, warranty and service data. They train salespeople to be on the lookout for unfulfilled customer needs. They observe customers using their own and competing products and interview them in depth about their likes and dislikes.³ A detailed understanding of needs, wants and demands provides useful information for designing marketing strategies.

• **Products**

Needs and wants are satisfied with products. A product is anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need.⁴ Generally, the word product indicates a physical object, such as a refrigerator, a camera, or a toothpaste. But the concept of product is not confined in physical objects. Rather anything that can satisfy a need can be called a product.

The concept of product is not confined in physical objects. Rather anything that can satisfy a need can be called a product.

The term 'goods' and 'services' are often used to distinguish between physical products and intangible ones. Again, other vehicles, such as persons, places, organizations, activities and ideas provide benefits to consumers. Thus, the term product encompasses physical goods, services, persons, places, organizations and ideas that can satisfy consumers' needs and wants. Marketers sometimes substitute the term product by other terms such as satisfier, resource, or offer.

• **Value, Satisfaction and Quality**

Consumers generally has the opportunity of selecting the desired product from a wide range of products. To make such a choice consumer consider their perceptions of the value that various products and services offer. Customer value is the difference between the values the customer gains from owning and using a product and the costs of obtaining the product.⁵ However, in many cases, consumers do not assess product values and costs precisely or objectively. They take into account perceived value.

Customer satisfaction is the extent to which a product's perceived performance matches a buyers expectations. If the product's performance falls short of expectations, the buyer is dissatisfied. If performance matches or exceeds expectations the buyer is satisfied or delighted.⁶

³. Ibid., p. 8

⁴. Ibid., p. 8.

⁵. Ibid., p. 9.

⁶. Ibid., p. 10.

Successful marketing requires matching customer expectations with company performance.

Customer satisfaction is closely related to quality.

Customer satisfaction is closely related to quality. Quality has a direct influence on product performance and hence on customer satisfaction. Many companies have adopted total quality management (TQM) programs. TQM programs are designed to constantly improve the quality of products, services and marketing processes.

• Exchange, Transactions and Relationships

Marketing takes place 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.⁷ As a way of fulfilling needs, exchange has many benefits. People don't have to depend on others and they must not necessarily possess the skills to produce everything they need. They can decide to produce things which they excel in and trade them for other goods produced by others. In this way, exchange makes it possible to produce much more than it would have made with any other alternative system.

In an exchange, there should be at least two parties.

Several conditions must exist for an exchange to take place. In an exchange, there should be at least two parties and each must have something of value to the other. Each party must have the desire to deal with others parties and each must have the freedom of accepting or rejecting the other's offer. Finally, each party must have the ability of communicating and delivering.

Whereas exchange is the core concept of marketing, a transaction is marketing's unit of measurement. Transaction is a trade between two parties that involves at least two things of value, agreed-upon conditions, a time of agreement and a place of agreement.⁸ In a transaction, one party gives A to another party and gets B in return. For example, a buyer pays Rangs Tk. 25,000 for a television set. This is a typical momentary transaction. But all transactions do not involve money. For example, in a barter transaction, one might trade an old sewing machine in return for secondhand furniture.

Transactions lead marketers gradually to relationship marketing.

Transactions lead marketers gradually to relationship marketing. Relationship marketing is the process of creating, maintaining and enhancing strong, value-laden relationships with customers and other stakeholders.⁹ Marketing extends beyond creating short-term transactions. Marketers have to build long-term relationships with customers, distributors, dealers and suppliers. This is done by promising and consistently delivering high-quality products, good service and fair prices. Increasingly, marketing is shifting from trying to maximize the profit on each individual transaction to maximizing mutually beneficial relationships with consumers and other parties. The operating

⁷. Ibid., p. 10.

⁸. Ibid., p. 11.

⁹. Ibid., p. 11.

assumption is : build good relationship and profitable transactions will follow¹⁰.

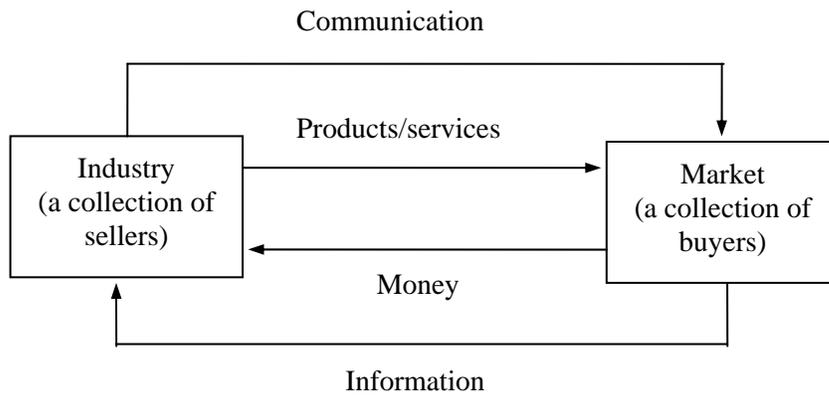
• **Markets**

A market is the set consisting actual and potential buyers of a product. The size of a market depends on three things; the number of people who demonstrate the need, have resources to take part in exchange and are willing to part with these resources in exchange for what they want.

A market is the set consisting actual and potential buyers of a product.

Traditionally, the term market referred to the place where buyers and sellers gathered to exchange their goods. To economists, market is a collection of buyers and sellers who transact in a particular product class as in the rice market. To marketers, sellers constitute an industry and the buyers constitute a market. The following figure (Fig: 1-2) shows the relationship between the industry and the market:

Figure 1-2 : A Simple Marketing System



Source: Philip Kotler and Gary Armstrong, Principles of Marketing, seventh edition, Prentice-Hall of India, New Delhi, 1997; p. 12.

Sellers and the buyers are connected by four flows. The sellers send products, services and communicate to the market; in return, they receive money and information. The inner loop shows an exchange of money for goods; the outer loop shows an exchange of information.¹¹

Modern economies are characterized by division of labor where each individual specializes in producing something, gets payment for his work and buys things with this money. Thus, modern economies thrive on markets. Producers buy resources from resource markets such as raw-material markets, labor markets and money markets, transform these resources into goods and services and sell them to middlemen, who sell them to ultimate consumers. Consumers sell their labor and earn income. They spend their income to buy goods and services. The government is another market which buys goods and services from resource, producer

¹⁰. Ibid., p. 11.

¹¹. Ibid., p. 12.

and middlemen markets. It collects taxes from these markets (including consumer markets), and invests to create needed public services. Thus, each nation's economy and the whole world economy are composed of complex interacting sets of markets. These sets of markets are linked through exchange processes.

Businesspeople use the term markets to indicate various customer groups such as need markets (holiday-makers), product markets (garments), demographic markets (young and old), and geographic markets (South Asia). The concept of markets are extended to cover also noncustomer groups such as financial markets and labor markets.

- **Marketing**

The concept of markets ultimately leads us to the concept of marketing. Marketing is the task of managing markets to create exchanges to satisfy human needs and wants. Thus, we remember our definition of marketing as a process by which individuals and groups obtain what they need and want by creating and exchanging products and value with others. Exchange processes consist of activities. Sellers must locate buyers, assess their needs, design appropriate products and services, set prices of these products and services, promote, store and deliver them. Activities such as product development, research, communication, distribution, pricing and service are regarded as core marketing activities. Generally, it is thought that marketing is performed by sellers. But buyers also take part in marketing activities. Consumers engage in marketing when they look for the goods they need at prices they are willing to pay.

Activities such as product development, research, communication, distribution, pricing and service are regarded as core marketing activities.

The main elements in a modern marketing system are shown in figure 1-3. In the usual situation, marketing involves serving a market of end users in the face of competitors. The company and the competitors send their respective products and messages directly to consumers or through marketing intermediaries (middlemen) to the end users. All of the actors in the system are affected by major environmental forces (demographic, economic, physical, technological, political/legal, social/cultural).¹²

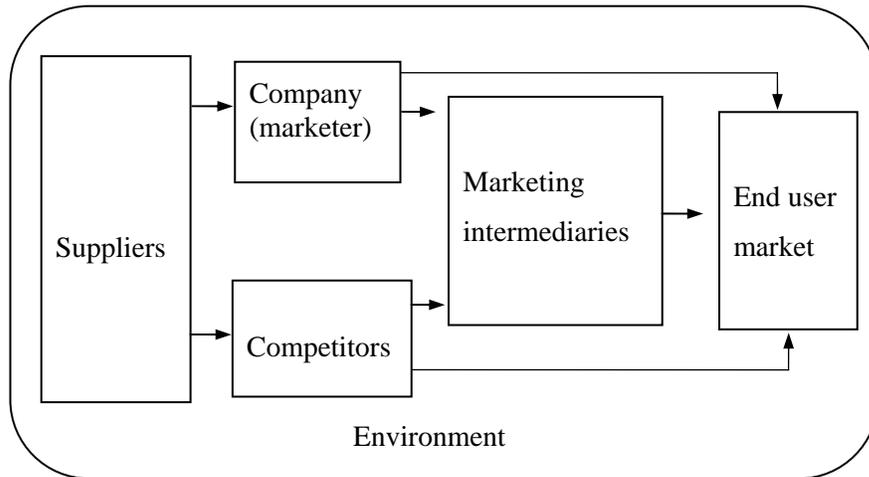


Activity:

Describe, how marketing is different from market.

¹². Ibid., p. 13

Figure 1-3 : Main Actors and Forces in a Modern Marketing System



Source: Philip Kotler and Gary Armstrong, Principles of Marketing, seventh edition, Prentice-Hall of India, New Delhi, 1997; p. 12.

Questions for Review

1. Explain the aims of modern marketing.
2. Some scholars have argued that the desires stimulated by marketing efforts are not genuine : "A man who is hungry need never be told of his need for food." Decide whether this is a valid criticism of marketing. Explain why or why not.
3. Most popularly, marketing is perceived of activities like –
 - A. Selling and advertising
 - B. Manufacturing and transporting
 - C. Storing and delivering
 - D. None of the above.
4. Individual needs consist of needs for –
 - A. Food
 - B. Love
 - C. Belonging
 - D. Knowledge.
5. If the products performance matches buyers expectations, the buyer is –
 - A. Delighted
 - B. Glad
 - C. Satisfied
 - D. Happy.
6. The size of a market depends on the number of people who –
 - A. Demonstrate the need
 - B. Have resources to take part in exchange
 - C. Are willing to offer these resources
 - D. All of the above.



Ans.: 3. A, 4 . D, 5. C, 6. D.

Lesson 2 : Scope, Importance and Functions of Marketing

Lesson objectives

After completing this lesson you will be able to:

- Elaborate on the broad and business dimensions of marketing
- Explain the importance of marketing
- Discuss the various marketing functions.

Scope of Marketing

The definition of marketing stated earlier suggests that the scope of marketing is extremely wide. Marketing involves determining needs and wants, demand and produce products to satisfy them through exchange processes. Under the expanded notion of marketing, individuals, social organizations, political parties, educational institutions, charities and many other organizations are engaged in marketing. We will now look at the broad dimensions of marketing and the business dimensions of marketing to understand what marketing encompasses.



Marketing : General Perspective

Traditionally, marketing is regarded as an activity performed by business organizations. However, marketing can also be performed by other types of organizations and even by individuals. For example, a political party makes use of marketing when it persuades voters to vote for its candidate. University graduates can use marketing principles to maximize the effectiveness of their search for a job. Against this backdrop, there exists wide variety with respect to marketers, what they are marketing and what are their potential markets. For example, marketers might include, in addition to business firms, such diverse social units as the Bangladesh National Cadet Corp trying to attract new members, 'Shandhani' who persuades people to donate blood in their blood bank. So, marketers are people and organizations that wish to make exchanges.

In addition to wide variety of items generally considered as goods and services, idea, persons, places and organizations are also marketed. For example, smoking is harmful for health (idea marketing), attend Runa Laila's concert (person marketing), come to Rangamati for holiday making (place marketing), and 'Acme' -science for the well being of the mankind (organization marketing).

In this general perspective, markets cover more than the direct consumers of products. For example, in addition to its students, a public university's market is composed of government agencies who provide funds, citizens living around the university who may be affected by university activities and alumni who support various university programmes. A company's

markets include government agencies, environmentalists and shareholders. Thus, any individual or group with whom a person or organization has an existing or potential exchange relationship can be regarded as market.

The essence of marketing is a transaction or exchange.

Marketing can occur any time one social unit (person or organization) strives to exchange something of value with another social unit. Thus, the essence of marketing is a transaction or exchange. In this broad sense, marketing consists of activities designed to generate and facilitate, exchanges intended to satisfy human needs or wants.¹³

Marketing : Business Perspective

In a society, organizations and individuals are involved in and exposed to various marketing activities. These organizations may or may not be profit oriented although they may face some marketing problems. However, popular notion of marketing does not provide a conceptual framework for practical purposes. Marketing should be visualized as a whole to get maximum return out of the investments in marketing activities. So, we need to define marketing from a business viewpoint that will guide managers in business and nonprofit organizations in carrying out their marketing tasks.

Our definition of marketing – applicable in a business or a nonprofit organization-is as follows : Marketing is a total system of business activities designed to plan, price, promote and distribute want-satisfying products to target markets to achieve organizational objectives. This definition has the following significant implications:

- The entire system of business activities should be customer-oriented. Customers' wants must be recognized and satisfied.
- Marketing should start with an idea about a want-satisfying product and should not end until the customers' wants are completely satisfied, which may be some time after the exchange is made.¹⁴

Importance of Marketing

It is important to study marketing for a number of reasons. Marketing stimulates demand, costs a large part of sales, employs people, supports industries, affects all consumers and plays a major role in daily lives.

A fundamental task of marketing is to generate consumer interest for goods and services.

Since marketing stimulates demand, a fundamental task of marketing is to generate consumer interest for goods and services. Increased consumer interest in goods and services increases demand and hence increases the Gross National Product (GNP) of a country.

A large portion of sales revenue goes to cover marketing costs. These costs should not be mistaken as marketing profits nor should it be

¹³. Willian J. Stanton and others, Fundamentals of Marketing, 10th edition, McGraw, Hill, Inc., New York. 1994; p.5.

¹⁴. Ibid., p. 6.

assumed that the elimination of marketing activities would lower prices. Amount spent to cover various marketing costs is justified because marketing performs very important functions to bring goods and services from producer to consumer who are separated from each other.

A sizable portion of a country's civilian labor force is engaged in marketing activities. This includes people employed in the retailing, wholesaling, transportation, warehousing and communications industries and those involved with marketing and activities for manufacturing, financial, service, agricultural, mining and other industries. In USA, for instance about 17 million people work in retailing, 6 million in wholesaling and 4 million in transportation. And projections indicate that future employment in marketing will remain strong.¹⁵

Some industries run on the support of marketing activities, such as advertising and marketing research. Total annual U.S. advertising expenditures exceed \$ 100 billion. Many agencies, including Young & Rubicam, J. Walter Thompson, McCann-Erickson and Ogilvy & Mather, have worldwide billings of \$1 billion or more. Approximately \$1.8 billion is spent yearly in the United States on marketing research.¹⁶

People are consumers of various goods and services produced in a society. Knowledge of marketing make consumers better informed, more selective and more efficient. Consumers can establish effective channels of communication with organizations and can get complaints resolved more easily and favorably. An understudying of the role of marketing lead the consumers toward forming consumer groups. These consumer groups have often significant influence on the activities of marketers.

Marketing has a strong influence on beliefs and life-styles of the members of a society. Often, marketing has been blamed for developing materialistic attitudes, fads, product obsolescence, a reliance on gadgets, conspicuous consumption and superficial product differences and wasting resources. Marketers counter these allegations by saying that they merely respond to the desires of people and make the best goods and services they can at the price people will pay .

Marketing has a strong influence on beliefs and life-styles of the members of a society.

Marketing plays an important role in improving the quality of life. For example, marketers encourage companies to make safer products such as low-nicotin cigarettes. Marketers create public service messages on energy conservation, cures for diseases, abuses of alcohol and other issues of public interest. They also help new goods, ideas and services to be accepted and assimilated by people.

Marketing plays an important role in improving the quality of life.

A knowledge of marketing is also valuable for those not directly involved with marketing. For example, marketing principles can be utilized by doctors, lawyers, management consultants, financial analysts, research and development personnel, economists, statisticians, city planners, nonprofit institutions and others. Each of these professions and

¹⁵. Joel R. Evans and Barry Berman, Marketing, third edition, Macmillan Publishing Company, New York. 1987; p. 15.

¹⁶. Ibid., pp. 15-16.

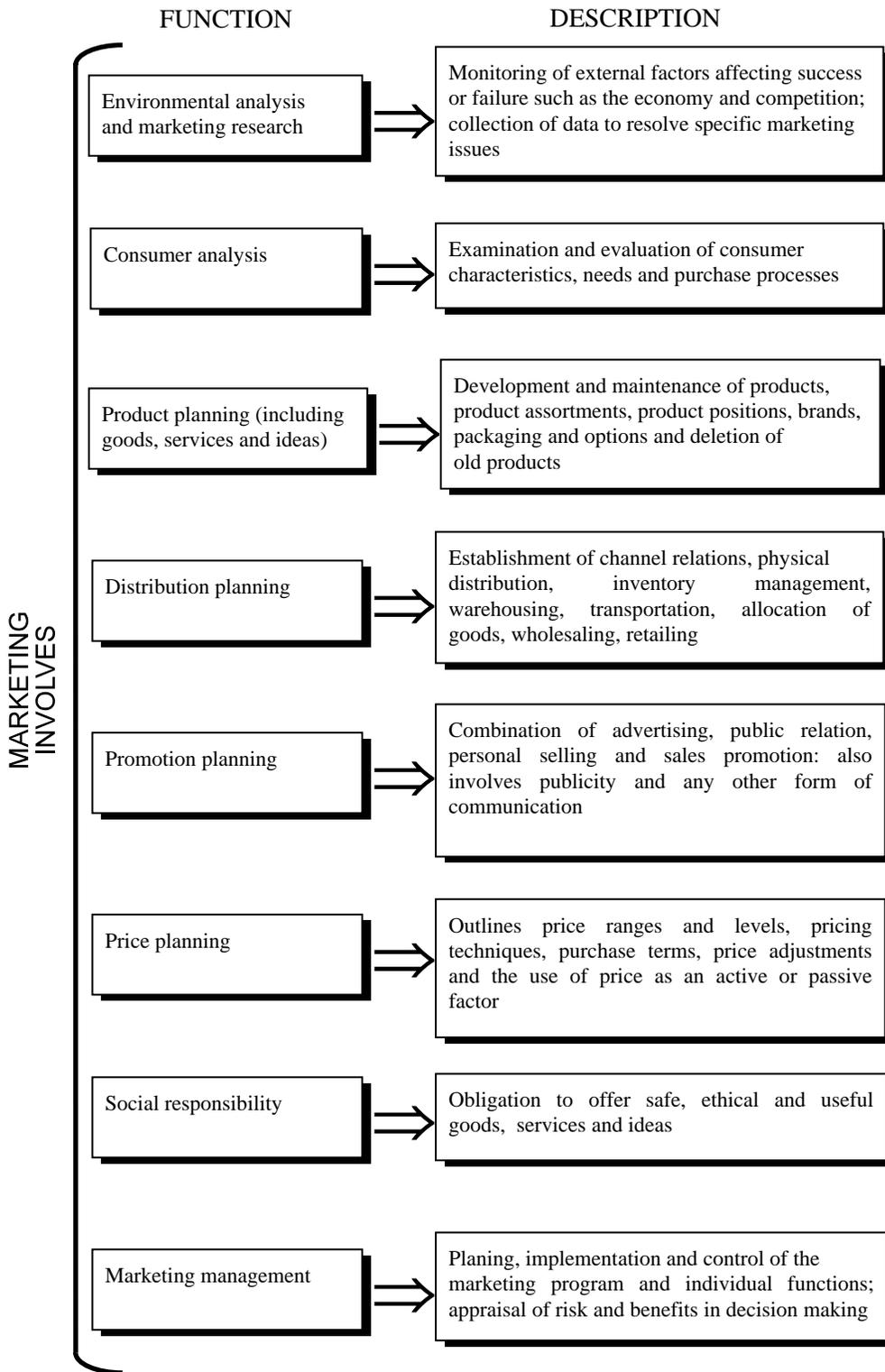
organizations requires an understanding and satisfaction of patient, client, consumer, taxpayer or contributor needs. And many of them are new undertaking marketing research, advertising and so on.¹⁷

Functions of Marketing

The basic marketing functions include environmental analysis and marketing research, consumer analysis, product planning, distribution planning, promotion planning, price planning, social responsibility and marketing management. These are described in in the following figure (Fig: 1-4) :

¹⁷. Ibid., p. 16.

Figure 1-4 : Basic Marketing Functions



Source : Joel R. Evans and Barry Berman, Marketing, third edition, Macmillan Publishing Company, New York. 1987; p. 17.

Questions for Review

1. Explain, with example broad and business dimensions of marketing.
2. Discuss why you should study marketing.
3. "Enjoy 'Golam Ali' evening in hotel Sheraton" – is an examples
 - A. Organization marketing
 - B. Idea marketing
 - C. Person marketing
 - D. Place marketing.
4. When a political party persuades voters to vote for its candidate, it is engaged in –
 - A. Organization marketing
 - B. Person marketing
 - C. Idea marketing
 - D. Service marketing.
5. Marketing is important because it –
 - A. Stimulates demand
 - B. Costs a large part of sales
 - C. Employs people
 - D. All of the above.
6. Knowledge of marketing make consumers –
 - A. Better informed
 - B. More selective
 - C. More efficient
 - D. All of the above.



Ans. : 3. C, 4. B, 5. D, 6. D.

Lesson 3 : Marketing Management Philosophies

Lesson objectives

After completing this lesson you will be able to:

- Identify the marketing management philosophies
- Distinguish among the different philosophies of marketing management.

Marketing management means carrying out tasks to achieve desired exchanges with target markets. Marketers face two important questions. On what philosophy should these marketing efforts be based? What will be the relative importance of the interests of the organization, customers and society? Organizations perform their marketing activities under five alternative concepts. These are : the production concept, the product concept, the selling concept, the marketing concept and the societal marketing concept.



- **The Production Concept**

This concept is one of the oldest marketing management philosophies. This concept maintains that consumers will favor those products that are available and highly affordable. So, management should concentrate on improving production and distribution efficiency.

The production concept works well in two types of situations. *First*, when the demand for a product exceeds the supply. The management's concern should be to increase production. *Second*, when the cost of the product is very high and productivity should be improved to bring down the cost. For example, Henry Ford's whole philosophy was to cost perfect the production of the Model T so that its cost could be reduced and more people could afford it.¹⁸ Production concept involves one major risk. Companies using this philosophy may focus too narrowly on their own operations. They may over emphasize low price and ignore other important things that consumers want.

The production concept is one of the oldest marketing management philosophies.

- **The Product Concept**

The product concept maintains that consumers will favor products that offer the most quality performance and innovative features. So, management should concentrate on making continuous product improvements. Some manufacturers believe that if they can build a better mousetrap, the world will beat a path to their door. But they are often rudely shocked. Buyers may well be looking for a better solution to a mouse problem, but not necessarily for a better mousetrap. The solution

¹⁸. Philip Kotler and Gary Armstrong, Principles of Marketing, seventh edition, Prentice-Hall of India, New Delhi, 1997; p. 14.

might be a chemical spray, an exterminating service, or something that works better than a mousetrap. Furthermore, a better mousetrap will not sell unless the manufacturer designs, packages and prices it attractively; places it in convenient distribution channels; brings it to the attention of people who need it; and convinces buyers that it is a better product.¹⁹

The risk of adopting the product concept is that it can lead to "marketing myopia" - absence of farsight in planning marketing activities. For instance, railroad management once thought that users wanted trains rather than transportation and overlooked the growing challenge of airlines, buses, trucks and automobiles.²⁰

• The Selling Concept

Producers of unsought goods widely use the selling concept.

The selling concept maintains that an organization's sales will be high only when it undertakes a large-scale selling and promotion effort. Producers of unsought goods widely use this concept. Unsought goods are those that buyers do not normally think of buying, such as insurance. These marketers must skillfully locate prospects and sell to them on product benefits. Nonprofit organizations also use the selling concept. A political party, for example, will vigorously sell its candidate to voters as a fantastic person for the job. The candidate works in voting precincts from dawn to dusk - shaking hands, kissing babies, meeting donors and making speeches. Much money is spent on radio and television advertising, posters and mailings. The candidates flaws are hidden from the public because the aim is to get the sale, not to worry about consumer satisfaction afterward.²¹

Most companies use the selling concept when they have overcapacity.

Most companies use the selling concept when they have overcapacity. Their goal is to sell what they produce rather than produce what the market wants. Thus, marketing with the aim of hard selling involves high risks. It emphasizes on creating sales transactions and gives less importance on building long-term, profitable relationships with customers. The selling concept assumes that customers will buy the product when they are approached by flattery. Or, if they don't like the product right now, they will buy it later. Usually, these assumptions about buyers do not hold good.

• The Marketing Concept

The marketing concept maintains that organizational goal can be achieved when the needs and wants of target markets are determined and the desired satisfactions are delivered more effectively and efficiently than competitors do. The marketing concept is often stated in exciting ways. For example, Marriott, a hotel, states, "We make it happen for you"; British Airways says "To fly to serve"; and General Electric claims "We are not satisfied until you are".

¹⁹. Ibid., p. 16.

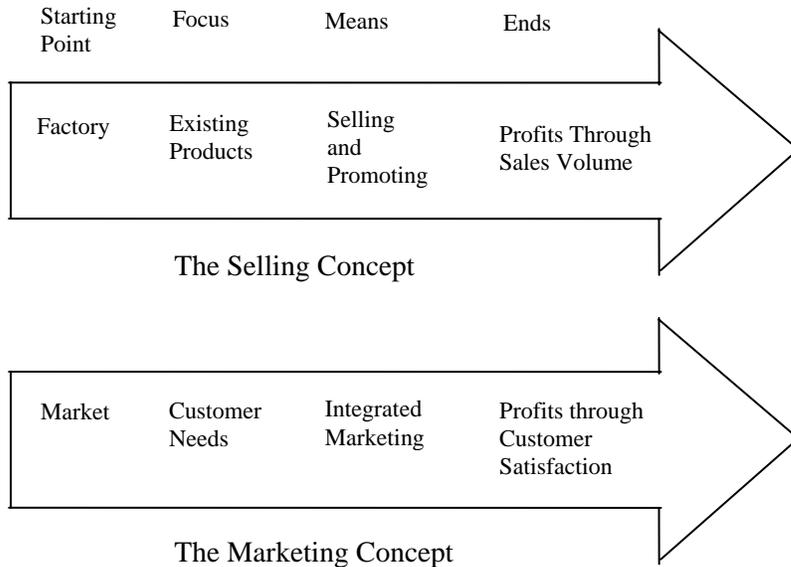
²⁰. Ibid., p. 16

²¹. Ibid., p. 16.

The selling concept and the marketing concept are sometimes confused. Figure 1-4 compares the two concepts. The selling concept takes an inside-out perspective.

The selling concept takes an inside-out perspective.

Figure 1-4 : The Selling and Marketing Concepts Contrasted



Source : Philip Kotler and Gary Armstrong, *Principles of Marketing, seventh edition, Prentice-Hall of India, New Delhi, 1997; p. 17.*

It starts with the factory, focuses on the company's existing products and calls for heavy selling and promotion to obtain profitable sales. It focuses heavily on customer conquest - getting short-terms sales with little concern about who buys or why. In contrast, the marketing concept takes an outside -in perspective. It starts with a well-defined marketing, focuses on customer needs, coordinates all the marketing activities relationships affecting customers, and makes profits by creating long-term customer based on customer value and satisfaction. Under the marketing concept, companies produce what consumers want, thereby satisfying consumers and making profits.²²

The marketing concept takes an outside-in perspective.

Marketing concept has been adopted by many successful and renowned companies. Also, many companies claim to follow the marketing concept. Infact, they don't. Some companies may have the forms of marketing, such as a marketing vice-president, product managers, marketing plans and marketing research. But this is not enough. Marketing concept requires a company to be market-focused and customer-driven.

Long time and hard work are needed to shift from selling concept to marketing concept. Using marketing concept, a company must go all out to build customer satisfaction. However, the marketing concept does not demand that a company should work for satisfying all consumers in every way. It also does not require a company to ensure customer

²². Ibid., p. 17.



satisfaction by sacrificing profit. Rather, the purpose of marketing is to generate customer value and earn profit for the company.

Activity :

Select an organization involved in marketing of consumers goods and indicate which concept of marketing management philosophies it applies and how?

● **The Societal Marketing Concept**

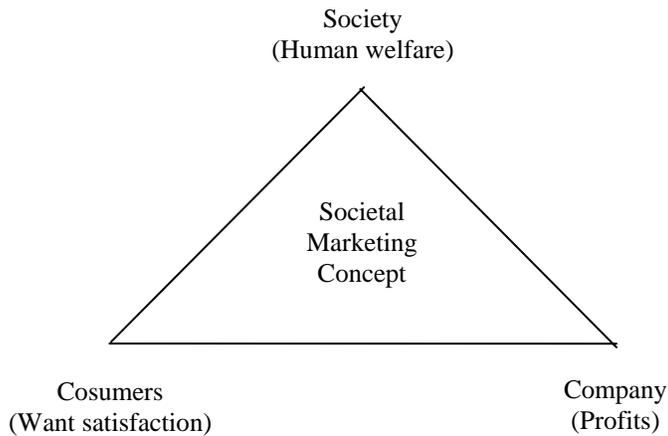
The societal marketing concept is the latest of the five marketing management philosophies. It maintains that the organization should first determine the needs, wants and interests of target consumers and then should deliver superior value to customers in a manner that maintains or improves the consumer's and the society's well-being.

The societal marketing concept seeks answer to an important question : is the pure marketing concept appropriate in an age of environmental problems, resource shortages, rapid population growth, worldwide economic problems and neglected social services? It also asks if the company that determines and satisfies individual wants is always taking the best action in the interest of the consumers and society in the long run. The societal marketing concept indicates that the pure marketing concept ignores possible conflicts between consumer short-run wants and consumer long-run welfare. Consider the Coca-Cola company. Most people see it as a highly responsible corporation producing fine soft drinks that satisfy consumer tastes. Yet some consumer and environmental groups have voiced concerns that Coke has little nutritional value, can harm people's teeth, contains caffeine and adds to the litter problem with disposable bottles and cans.²³

The societal marketing concept aims at resolving these conflicts. According to the societal marketing concept, marketers should balance three considerations in setting their marketing policies—company profits, consumer wants and society's interests. This is shown in the following figure (Fig. 1.5) :

²³. Ibid., p. 19.

Figure 1-5 : Three Considerations Underlying the Societal Marketing Concept



Source : Philip Kotler and Gary Armstrong, Principles of Marketing, seventh edition, Prentice-Hall of India, New Delhi, 1997; p. 19.

Initially, most companies take their marketing decisions largely on the basis of short-run company profit. Ultimately, they began to realize the long-run importance of satisfying consumer wants and thus, the marketing concept evolved. Today, many companies are taking into account society's interests when making their marketing decisions.

One such company is Johnson & Johnson, rated recently in a Fortune Magazine poll as America's most admired company for community and environmental responsibility. J & J's concern for societal interests is summarized in a company document called "One Credo", which stresses honesty, integrity and putting people before profits. Under this credo, Johnson & Johnson would rather take a big loss than ship a bad batch of one of its products. And the company supports many community and employee programs that benefit its consumers and workers and the environment. J & J's chief executive puts it this way : "If we keep trying to do what's right, at the end of the day we believe the market place will reward us."²⁴

Activity :

Mention at least, the names of two companies/organizations which apply societal marketing concept.



²⁴. Ibid., p. 20.

Questions for Review

1. Identify the single biggest difference between the marketing concept and the production, product and selling concepts. Discuss which concepts are easiest to apply in the short-run.
2. Predict which marketing management philosophy you believe can offer the best long-term success. Can you find some drawbacks of the societal marketing concept?
3. According to which of the following, management should concentrate on improving production and distribution efficiency –
 - A. Product Concept
 - B. Production concept
 - C. Selling Concept
 - D. Marketing concept.
4. According to product concept, management should concentrate on–
 - A. Increasing production
 - B. Large-scale selling and promotion effort
 - C. Making continuous product improvements
 - D. Determining the needs and wants of target markets.
5. The selling concept is typically practiced with –
 - A. Convenience goods
 - B. Shopping goods
 - C. Specialty goods
 - D. Unsought goods.
6. Which of the following calls for "integrated marketing"?
 - A. Product concept
 - B. Selling concept
 - C. Marketing concept
 - D. Societal marketing concept.



Ans.: 3. B, 4. C, 5.D, 6. C.

STRATEGIC PLANNING AND THE MARKETING PROCESS



Strategic planning is the task of selecting an overall company strategy for long-run survival and growth. Marketing's role in strategic planning is important as it provides information and other inputs to help prepare the strategic plan. In turn, strategic planning spells out marketing's role in the organization. With the help of strategic plan, marketing works with other departments in the organization to accomplish overall strategic objectives. In this unit, we have focused on strategic planning and the marketing process that marketers undertake to manage the marketing effort in an organization and the whole discussion has been done in four lessons.

School of Business

Blank page

Lesson 1 & 2 : Strategic Planning

Lesson objectives

After completing these lessons you will be able to :

- Define and explain the strategic planning
- Discuss how strategic planning relates to the company mission, objectives and goals
- Explain the methods for designing the business portfolio, developing growth strategies, and planning functional strategies.

Strategic Planning

Although it is found that many companies carry on their businesses without formal plans, it has been recognized that formal planning offers many benefits to all types of companies – large and small, new and mature. It develops forward looking attitude in the management, helps the company sharpen its objectives and policies, results in better coordination of company activities and sets out more specific performance standards for control.



Generally, companies make three types of plans. These are annual plans, long-run plans, and strategic plans. **The annual plan** is a short-term marketing plan that covers a period of one year. It lays down the current marketing situation, company objectives, and the marketing strategy, the action program, budgets and controls. On the otherhand, the **long-range plan** lays down the major factors and forces that will have bearing upon the organization during the next several years. It describes the long-term objectives, the major marketing strategies that will be followed to accomplish them, and the resources needed for this purpose. Long-ranges plan is reviewed and updated each year.

The annual plan is a short-term marketing plan that covers a period of one year.

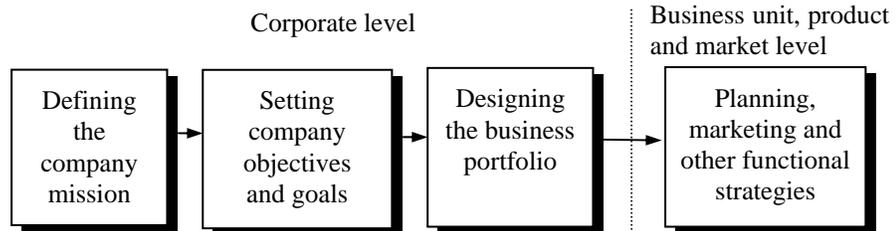
Whereas the company's annual and long-range plans deal with current businesses and how to keep them going, the **strategic plan** involves adapting the firm to take advantage of opportunities in its constantly changing environment. We define strategic planning as the process of developing and maintaining a strategic fit between the organizations goals and capabilities and its changing marketing opportunities.¹

The strategic plan involves adapting the firm to take advantage of opportunities in its constantly changing environment.

Strategic planning forms the basis of other planning jobs of the firm. It depends on defining a clear company mission, setting supporting company objectives, designing a sound business portfolio and coordinating functional strategies. This is shown in the following figure (Fig: 2-1). At the corporate level, the company first specifies its overall purpose and mission. This mission then is translated into detailed

¹. Philip Kotler and Gary Armstrong, Principles of Marketing, seventh edition, Prentice-Hall of India, New Delhi, 1997; p.35.

Figure 2-1 : Steps in Strategic Planning



Source : Philip Kotler and Gary Armstrong. Principles of Marketing, seventh edition, Prentice-Hall of India, New Delhi, 1997; p.36.

supporting objectives that steer the whole company. Next, headquarters decides what portfolio of businesses and products is best for the company and what support each one might need. In turn, each business and product unit must formulate detailed marketing and other departmental plans that back the companywide plan. Thus, marketing planning takes place at the business-unit, product, and market levels.

Defining the Company Mission

A mission statement is a statement of the purpose of the organization.

A mission statement is a statement of the purpose of the organization. It describes what it wants to accomplish in the larger environment. Conventionally, companies have defined their businesses in product terms such as we manufacture carpenter's tool, or in technological terms such as we are engaged in fruit processing. But pragmatically speaking, mission statements should be market oriented. A market-oriented mission statement defines the business in terms of satisfying basic customer needs.² Thus, ACME does something more than producing medicines – it applies science to solve health problems. Table 2-1 provides some other examples of product-oriented versus market-oriented business definitions.

². Ibid., p. 36.

Table 2-1 : Product-Oriented vs. Market-Oriented Definitions

Company	Product-oriented Definition	Market-oriented Definition
Revlon	We make cosmetics	We sell lifestyle and self-expression; success and status; memories, hope and dreams
Disney	We run theme parks	We provide fantasies and entertainment – a place where America still works the way it's supposed to
Wal-Mart	We run discount stores	We offer products and services that deliver value to middle-Americans
Xerox	We make copying, fax, and other office machines	We make businesses more productive by helping them scan, store, retrieve, revise, distribute, print and publish documents
O.M.Scott	We sell grass seed and fertilizer	We deliver green, healthy-looking yards
Home Depot	We sell tools and home repair/improvement items	We provide advice and solutions that transform ham-handed homeowners into Mr. and Ms. Fixits.

Source : Philip Kotler and Gary Armstrong. *Principles of Marketing, seventh edition, Prentice-Hall of India, New Delhi, 1997; p.36.*

In defining the company mission, management should keep in mind certain important considerations. Mission should not be too narrow or too broad. Missions should be realistic and specific. Missions should be compatible with the environment prevailing in the market. A company's mission should highlight skills that distinguish it from other companies. Finally, mission statements should be motivating for the employees and the customers.

Missions are best when guided by a vision, an almost "impossible dream". Sony's president, Akio Morita, wanted everyone to have access to "personal portable sound", and his company created the Walkman.³ The company's mission statement should provide a vision and direction for the company for a reasonably long period – one to two decades. The company must review and redefine its mission from time to time to fit the dynamic business environment.

Mission should not be too narrow or too broad. Missions should be realistic and specific.

³. Ibid., p. 37.

- **Setting Company Objectives and Goals**

This mission leads to business objectives and marketing objectives.

The company's mission has to be transformed into detailed supporting objectives for each level of management. Each manager should have objectives and be responsible for accomplishing them. For example, Zia Fertilizer Factory (ZFF) is in the business of producing and marketing of fertilizers. ZFF does not say that its mission is to produce fertilizer. Instead, it claims that its mission is to "increase agricultural productivity". This mission leads to business objectives and marketing objectives. The mission of increasing agricultural productivity leads to the company's business objective of researching new fertilizers that would increase output. But research needs funds which may come through increased profits. Therefore, increasing profits becomes another important business objective. Profits can be increased either by increasing sales or reducing costs or both. Sales can be enhanced by improving the company's share of the domestic market, by entering foreign markets, or both. These goals then become the ZFF's current marketing objectives.

Marketing strategies must be evolved to attain marketing objectives. To increase the domestic market share, ZFF may increase its product's availability and promotion. To launch its products in new foreign markets, ZFF may decide to cut prices and target large farms abroad. These constitute ZFF's broad marketing strategies. Now, each broad marketing strategy must be defined in details. For example, increasing the products promotion may call for more salespeople and more advertising in which case these requirements will have to be clearly specified. Through this process, the company's mission is transformed into a set of objectives for the current period. The objective should be clear and specific.

- **Designing the Business Portfolio**

Business portfolio is the collection of businesses and products that constitute the company.

On the basis of the company's mission statement and objectives, management will now go ahead to plan its business portfolio. Business portfolio is the collection of businesses and products that constitute the company. The best business portfolio is the one that best fits the company's strengths and weaknesses to opportunities in the environment.⁴ In the process of designing the business portfolio, the company must i) consider its existing business portfolio and decide which businesses should get more, less, or no investment, and ii) formulate growth strategies for adding new products or businesses to the portfolio.

The major task in strategic planning is business portfolio analysis.

- **Analyzing the Current Business Portfolio**

The major task in strategic planning is business portfolio analysis. Portfolio analysis is the tool by which management identifies and evaluates the various businesses that make up the company. The

⁴. Ibid., p. 39.

company will like to commit more resources into its more profitable businesses and drop its less profitable or losing ones.

Management's first task is to identify the key businesses of the company which are called strategic business units (SBU). A strategic business unit (SBU) is a unit of the company that has a separate mission and objectives and that can be planned independently from other company businesses. A SBU can be a company division, a product line within a division, or sometimes a single product or brand.⁵ In the next step of business portfolio analysis, management evaluates the attractiveness of its various SBUs and decide how much support each should get. Some companies follow informal approaches in doing this while other companies follow formal methods of portfolio planning.

Most established portfolio-analysis methods assess SBUs from two important viewpoints. These are i) the attractiveness of the SBUs market or industry and ii) the strength of the SBUs position in that market or industry. The most popular portfolio planning methods were developed by the Boston Consulting Group, a leading management consulting firm in USA and by General Electric. These methods are discussed below:

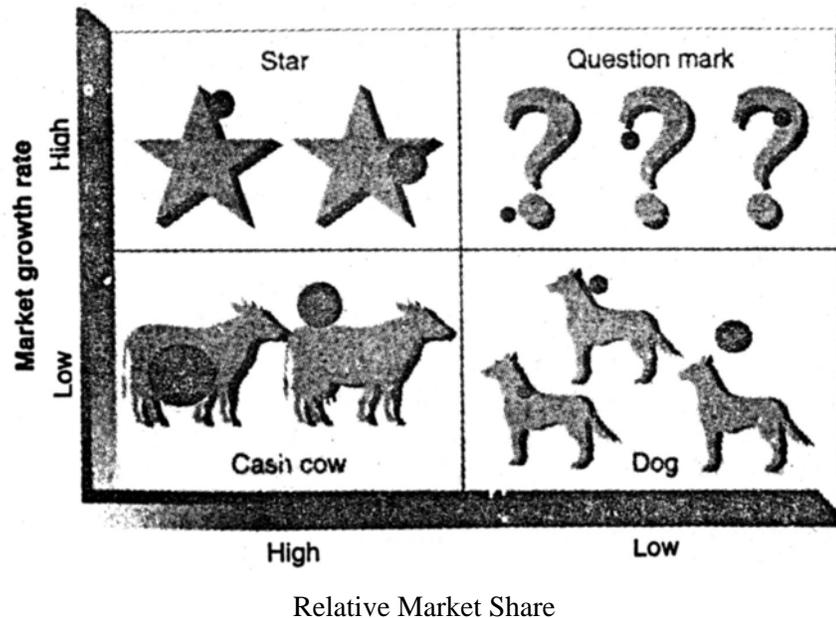
- **The Boston Consulting Group Approach**

Using the Boston Consulting Group (BCG) approach, a company classifies all its SBUs according to the growth-share matrix shown in figure 2-2. On the vertical axis, market growth rate provides a measure of market attractiveness. On the horizontal axis, relative market share serves as a measure of company strength in the market. By dividing the growth-share matrix as indicated, four types of SBUs can be distinguished.⁶ :

⁵. Ibid., p. 39.

⁶. Ibid., p. 39.

Figure 2-2 : The BCG Growth Share Matrix



Source : Philip Kotler and Gary Armstrong, Principles of Marketing, seventh edition, Prentice-Hall of India, New Delhi, 1997; p.39.

Cash cows are low-growth, high-share businesses or products.

Question marks are low-share business units in high-growth markets.

- ◆ **Stars** : Stars are high-growth, high-share businesses or products. They often need heavy investment to finance their rapid growth. Eventually their growth will slow down, and they will turn into cash cows.
- ◆ **Cash Cows** : Cash cows are low-growth, high-share businesses or products. These are established and successful SBUs need less investment to hold their market share. Thus, they produce a lot of cash that the company uses to pay its bills and to support their SBUs that need investment.
- ◆ **Question Marks** : Question marks are low-share business units in high-growth markets. They require a lot of cash to hold their share, let alone increase it. Management has to think hard about which question marks it should try to build into stars and which should be phased out.
- ◆ **Dogs** : Dogs are low-growth, low-share businesses and products. They may generate enough cash to maintain themselves, but do not promise to be large sources of cash.⁷

The ten circles in the growth-share matrix represent a company's ten current SBUs. The company has two stars, two cash cows, three question marks, and three dogs. The areas of the circles are proportional to the

⁷. Ibid., pp. 39-40.

SBU's dollar sales. This company is in fair shape, although not in good shape. It wants to invest in the more promising question marks to make them stars, and to maintain the stars so that they will become cash cows as their markets mature. Fortunately, it has two good-sized cash cows whose income helps finance the company's question marks, stars, and dogs. The company should take some decisive action concerning its dogs and its question marks. The picture would be worse if the company had no stars, if it had too many dogs, or if it had only one weak cash cow.⁸

Once it has classified its SBUs, the company must determine what role each will play in the future. One of four strategies can be pursued for each SBU. The company can invest more in the business unit in order to build its share. Or it can invest just enough to hold the SBU's share at the current level. It can harvest the SBU, milking its short-term cash flow regardless of the long-term effect. Finally, the company can divest the SBU by selling it or phasing it out and using the resources elsewhere.⁹

As time passes, SBUs change their positions in the growth-share matrix. Each SBU has a life cycle. Many SBUs start out as question marks and move into the star category if they succeed. They later become cash cows as market growth falls, then finally die off or turn into dogs toward the end of their life cycle. The company needs to add new products and units continuously so that some of them will become stars and, eventually, cash cows that will help finance other SBUs.¹⁰

- **The General Electric Approach**

General Electric introduced a comprehensive portfolio planning tool called a strategic business-planning grid (Fig: 2-3). Like the BCG approach, it uses a matrix with two dimensions – one representing industry attractiveness (the vertical axis) and the other one representing company strength in the industry (the horizontal axis). The best businesses are those located in highly attractive industries where the company has high business strength.¹¹

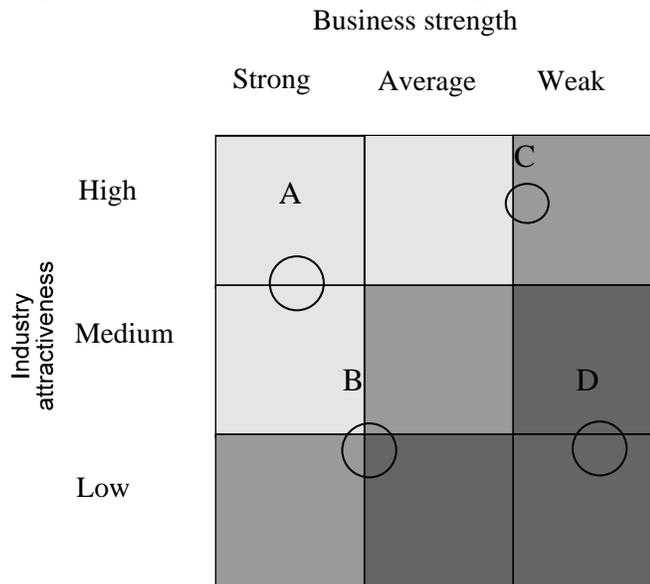
⁸. Ibid., p. 40.

⁹. Ibid., p. 40.

¹⁰. Ibid., p. 40.

¹¹. Ibid., p. 40.

Figure 2-3 : General Electric's Strategic Business - Planning grid



Source : Philip Kotler and Gary Armstrong. Principles of Marketing, seventh edition, Prentice Hall of India, New Delhi, p. 40.

The GE approach considers many factors besides market growth rate as part of industry attractiveness. It uses an industry attractiveness index made up of market size, market growth rate, industry profit margin, level of competition, seasonally and cyclical of demand, and industry cost structure. Each of these factors is rated and combined in an index of industry attractiveness. For our purposes, an industry's attractiveness will be described as high, medium, or low. As an example, Kraft has identified numerous highly attractive industries - natural foods, specialty frozen foods, physical fitness products, and others. It has withdrawn from less attractive industries such as bulk oil and cardboard packaging.¹²

For business strength, the GE approach again uses an index rather than a simple measure of relative market share. The business strength index includes factors such as the company's relative market share, price competitiveness, product quality, customer and market knowledge, sales effectiveness, and geographic advantages. These factors are rated and combined in an index of business strength, which can be described as strong, average, or weak. Thus, Kraft has substantial business strength in food and related industries, but is relatively weak in the home appliances industry.¹³

The grid is divided into three zones. The green cells at the upper left include the strong SBUs in which the company should invest and grow. The yellow diagonal cells contain SBUs that are medium in overall attractiveness. The company should maintain its level of investment in

¹². Ibid., pp. 40-40.

¹³. Ibid., pp. 40-41.

these SBUs. The three red cell at the lower right indicate SBUs that are low in overall attractiveness. The company should give serious thought to harvesting or divesting these SBUs.¹⁴

The circles represent four company SBUs; the areas of the circles are proportional to the relative sizes of the industries in which these SBUs compete. The pie slices within the circles represent each SBUs market share. Thus, circle A represents a company SBU with a 75 percent market share in a good-sized, highly attractive industry in which the company has strong business strength. Circle B represents an SBU that has a 50 percent market share, but the industry is not very attractive. Circles C and D represent two other company SBUs in industries where the company has small market shares and not much business strength. Altogether, the company should build A, maintain B, and make some hard decisions on what to do with C & D.¹⁵

Management also would plot the projected positions of the SBUs with and without changes in strategies. By comparing current and projected business grids, management can identify the major strategic issues and opportunities it faces.¹⁶

Formal planning approaches encourage the company to place too much emphasis on market-share growth or growth through entry into attractive new markets. This might lead the company to go for businesses which it could not manage and/or to abandon healthy mature businesses. Despite these limitations, formal approaches are widely followed in strategic planning. Roughly 75 percent of the Fortune 500 companies practice some form of portfolio planning.¹⁷

Activity:

Set a strategic plan for your company and explain the steps of that plan



Developing Growth Strategies

In addition to evaluating current businesses, designing the business portfolio aims at finding businesses and products the company should consider in the future. For this purpose, management use a device called product/market expansion grid which is shown in figure 2-4. Product/market expansion grid is a portfolio-planning tool for identifying company growth opportunities through market penetration, market development, product development, or diversification.

¹⁴. Ibid., p. 41.

¹⁵. Ibid., p. 41.

¹⁶. Ibid., p. 41.

¹⁷. Ibid., p. 41.

Figure 2-4: Market Opportunity Identification Through the Product/Market Expansion Grid.

	Existing products	New products
Existing markets	1. Market penetration	3. Product development
New markets	2. Market development	4. Diversification

Source : Philip Kotler and Gary Armstrong. *Principles of Marketing, seventh edition, Prentice Hall of India, New Delhi, p. 42.*

Market penetration is a strategy for company growth by increasing sales of current products to current market segments without changing the product in any form. Fundamentally, management would like to increase usage by current customers and attract customers of other competing brands.

Market development is a strategy for company growth by identifying and developing new market segments for current company products. For this purpose, management can review new demographic and geographical markets.

Product development strategy for company growth by offering modified or new products to current market segments. This involves developing the product concept into a physical product in order to assure that the product idea can be turned into a workable product.

Diversification is a strategy for company growth by starting up or acquiring businesses outside the company's current products and markets.

Product development strategy for company growth by offering modified or new products to current market segments.

Planning Functional Strategies

The company's strategic plan spells out what kinds of businesses the company will go for. It also sets out objectives for each of these businesses. Then, more detailed planning must be made within each business unit. Management must ensure that the major functional departments in each unit such as marketing, finance, accounting, purchasing, manufacturing, human resources and others must work collectively to accomplish strategic objectives.

Each functional department of the company interacts with various publics to collect inputs necessary for conducting business, such as cash, labor, raw materials, research ideas, and manufacturing processes. For example, marketing department fetches revenues by negotiating exchanges with customers. Finance department obtains cash from lenders and stockholders. Thus, the marketing and finance departments must work hand in hand to obtain necessary funds. Likewise, the human

resources department recruits labor and the purchasing department procures materials required for operations and manufacturing.

Marketing Role in Strategic Planning

Marketing plays an important role in strategic planning in the sense that consumers needs and the company's ability to satisfy them guide the company mission and objectives. Most company strategic planning deals with marketing variables such as market share, market development and growth. In most cases, it is very difficult to isolate strategic planning from marketing planning. Virtually, strategic planning is often referred to as strategic marketing planning.

Strategic planning is often referred to as strategic marketing planning.

Marketing plays a key role in the company's strategic planning in several ways. *First*, marketing provides a guiding philosophy- the marketing concept – which suggests company strategy should revolve around serving the needs of important consumer groups. *Second*, marketing provides inputs to strategic planners by helping to identify attractive market opportunities and by assessing the firm's potential to take advantage of them. *Finally*, within individual business units, marketing designs strategies for reaching the unit's objectives.¹⁸

Marketing and the Other Business Functions

Opinions vary about the role of marketing in a company. One view is that marketing bears equal importance like any other function. Another view is that marketing is the most important of all the functions of a company. To quote Peter Drucker "The aim of the business is to create customers". It is marketing department that defines the company's mission, products, and markets and to direct other functions performed to ensure customer satisfaction.

Astute marketers are inclined to put the customer at the center of the company. They believe that a company must attract and hold customers for being successful. Promises must be made to attract the customers and they can be retained by providing satisfaction. Marketing offers the promise and ensures its delivery. Marketing plays a coordinating role to help ensure that all departments work together for ensuring consumer satisfaction.

Conflict Between Departments

Business functions differ in their objectives and activities. Production is concerned with suppliers, finance is interested in stockholders and sound investment, and marketing focuses on products, pricing, promotion and distribution. All the different functions of a company must be carried out harmoniously to generate value for consumers. But in reality, this is not always the case and conflicts between the departments are not rare. The marketing department operates from the consumer's standpoint. But to ensure consumer satisfaction it wants other departments to work in a way

Business functions differ in their objectives and activities.

¹⁸. Ibid., p. 43.

not considered comfortable by them. Marketing activities can increase purchasing costs, disrupt production schedules, increase inventories and create budgetary problems. In practice other departments may be unwilling to be subservient to marketing department.

Thus, marketing management can best gain support for its goal of consumer satisfaction by working to understand the company's other departments. Marketing managers must work closely with managers of other functions to develop a system of functional plans under which the different department can work together to accomplish the company's overall strategic objectives.¹⁹

¹⁹. Ibid., p. 44.

Questions for Review

1. How do annual plan, long-range plan, and strategic plan differs from one another? Why should a company make long-range plans?
2. State three company missions and discuss what these mission statements tell about the company.
3. A refrigerator manufacturer obtains the compressors it uses in production from a company-owned subsidiary that also sell to other manufacturers. The subsidiary is smaller and less profitable than are competing producers, and its growth rate has been below the industry average during the past five years. Define which cell of BCG growth-share matrix this strategic business unit would fall into. What should the parent company do with this SBU?
4. Which plan involves adapting the firm with constantly changing environment?
 - A. Annual plan
 - B. Long-range plan
 - C. Strategic plan
 - D. All of the above.
5. Pragmatically speaking, mission statements should be –
 - A. Product oriented
 - B. Market oriented
 - C. Customer oriented
 - D. Profit oriented.
6. An strategic business unit (SBU) can be a –
 - A. Company division
 - B. Product line within a division
 - C. Single product or brand
 - D. All of the above.
7. Cash cows are –
 - A. High-growth, high-share businesses or products
 - B. Low-growth, high-share businesses or products
 - C. High-growth, low-share businesses or products
 - D. Low-growth, low-share businesses or products.
8. Market penetration involves –
 - A. Increasing sales of current products to current market segments
 - B. Identifying and developing new market segments for company's current products
 - C. Offering new products to current market segments
 - D. Acquiring businesses outside the company's current products and markets.

9. Limitations of formal planning methods are –
- A. They are difficult, time consuming, and costly to implement
 - B. Defining SBU and measuring market share and growth is often difficult
 - C. They give emphasis on current businesses but disregards future planning
 - D. All of the above.



Ans : 4. C, 5. B, 6. D, 7. B, 8. A, 9. D.

Lesson - 3 : The Marketing Process – Marketing's Role in the Organization.

Lesson objectives

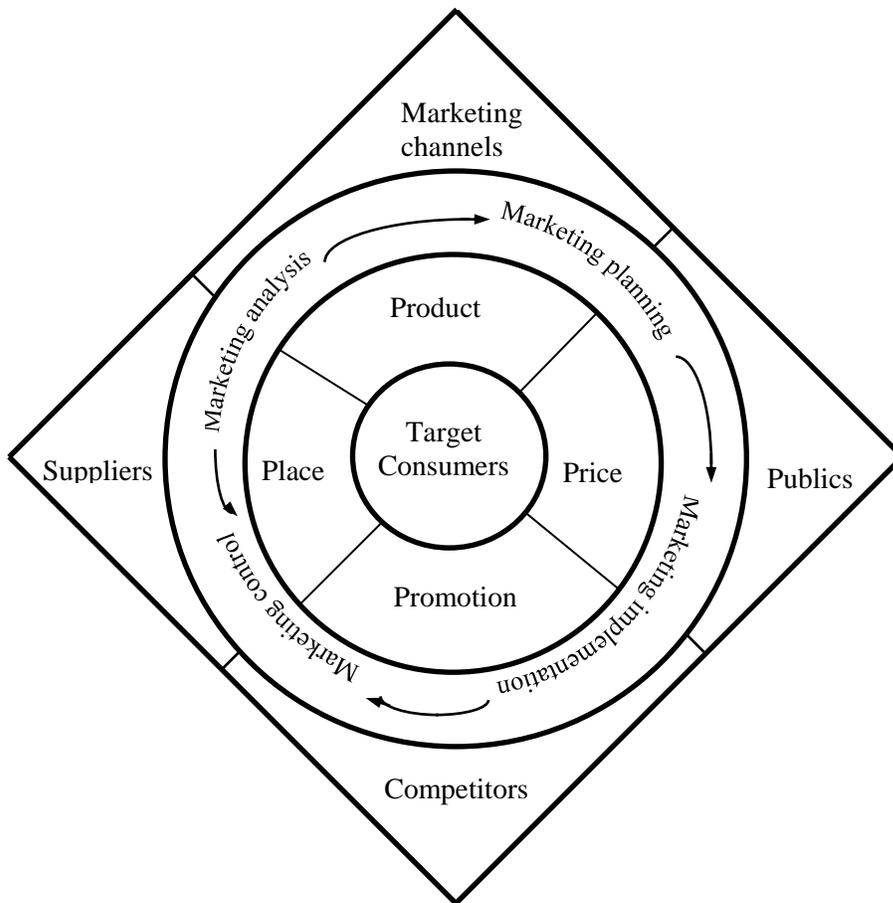
After completing this lesson you will be able to:

- Describe the marketing process
- Explain the ways of identifying target consumers.
- Design the marketing strategies for competitive environment
- Develop the marketing mix.

The strategic plan outlines the company's overall mission and objectives. Marketing plays an important role to help achieve the overall strategic objectives. Figure 2-5 shows the marketing's role and activities in the organization. The figure shows at a glance the entire marketing process and the forces influencing company marketing strategy.



Figure 2-5: Factors Influencing Company Marketing Strategy



Source : Philip Kotler and Gary Armstrong. *Principles of Marketing, seventh edition, Prentice-Hall of India, New Delhi, 1997; p.45.*

The marketing process consists of four tasks; i) analyzing marketing opportunities, ii) selecting target markets, iii) developing the marketing mix, and iv) managing the marketing effort. We will discuss the first three tasks in this lesson and the fourth one will be discussed in the next lesson. As figure 2-5 shows target consumers are located in the center. The company identifies the whole market, splits it into smaller segments, selects the most lucrative segments, and concentrates on serving and satisfying these segments. It formulates a marketing mix which includes factors under its control - product, price, place and promotion. For designing the best marketing mix and implementing it, the company undertakes marketing analysis, planning, implementation and control.

Customer satisfaction should be the ultimate goal of a company.

- **Target Consumers**

In the context of intense competition, marketers must be customer oriented to be successful. This means the customer satisfaction should be the ultimate goal of a company. For providing satisfaction to customers, a company must first understand their needs and wants which requires a careful analysis of consumers. As there are myriad types of consumers with myriad types of needs, it is not possible for a company to satisfy all consumers in a given market. Therefore, the company must divide up the total market into segments, select the best segments, and design the strategies for serving chosen segments most efficiently. This task consists of four steps: demand measurement and forecasting, market segmentation, market targeting, and market positioning. The brief discussions of the above steps are presented below :

- **Demand Measurement and Forecasting**

Before launching a new product, the company must make a careful estimate of the current and future size of the market and its various segments. For estimating current market size, the company needs to identify all competing products, estimate the current sales of these products and determine whether the market is large enough to profitably accommodate yet another product.

The company must also estimate future market growth. Growth potential of a market may be dependent on growth rate of certain age, income and nationality groups that use the product. Certain environmental developments also influence growth, such as economic conditions, the crime rate, and lifestyle changes. Complex techniques are followed to measure and forecast demand.



Activity:

Suppose, you are going to produce/market a new ball pen. Describe in brief the necessity of measuring and forecasting demand.

- **Market Segmentation**

If demand forecast seems encouraging, the company looks for ways to enter the market. The market is composed of many types of customers, products and needs. The marketer has to identify which segments offer the best opportunity for accomplishing objectives. Consumers can be grouped in several ways. They can be grouped on the basis of geographic factors (countries, regions, cities); demographic factors (sex, age, income, education); psychographic factors (social classes, lifestyles); and behavioral factors (purchases occasions, benefits sought, usage rates). The process of dividing a market into distinct groups of buyers with different needs, characteristics, or behavior who might require separate products or marketing mixes is called market segmentation.²⁰

A market segment consists of consumers who respond in a similar way to a given set of marketing efforts. In the car market, for example, consumers who choose the biggest, most comfortable car regardless of price make up one market segment. Another market segment would be customers who care mainly about price and operating economy. It would be difficult to make one model of car that was the first choice of every consumer. Companies are wise to focus their efforts on meeting the distinct needs of one or more market segments.²¹

A market segment consists of consumers who respond in a similar way to a given set of marketing efforts.

- **Market Targeting**

Market targeting is the process of evaluating each market segments attractiveness and selecting one or more segments to enter. A company should target those segments in which it can create the greatest customer value and sustain it over time. A company with limited resources might decide to enter only one or a few special segments. Or a company might decide to serve more than one segments which consist of different kinds of customers having same basic wants. Or a large company might decide to approach all market segments with a complete range of products.

Initially most companies enter a new market by deciding to operate in a single segment. If it proves rewarding, they add new segments. Big companies ultimately go for covering the full market. They want to be the leading companies of their industry. The leading company offers different products designed to fulfill the special needs of each segment.

- **Market Positioning**

Market positioning refers to the task of arranging for a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers. It also involves formulating competitive positioning for a product and a detailed marketing mix. Companies position their products in a way which distinguishes their products from competing brands and gives them the best strategic advantage in their target markets. For example, Chrysler compares its car to those of

²⁰. Ibid., p. 46.

²¹. Ibid., p. 46.

various competitors and concludes "Advantage: Chrysler." At Ford "quality is job one," and Mazda "just feels right." Jaguar is positioned as "a blending of art machine," whereas Saab is "the most intelligent car ever built." Mercedes is "engineered like no other car in the world," the Lincoln Town car is "what a luxury car should be," and the luxurious Bentley is "the closest a car can come to having wings." Such deceptively simple statements form the backbone of a product's marketing strategy.²²

In the first step of product positioning, the company identifies possible competitive advantages on which the position would be built. For gaining competitive advantages on which the position would be built the company must offer greater value to selected target segments. This can be done either by charging lower prices than competitors do or by offering more benefits to justify higher prices. When the company positions the product as offering greater value, it must then deliver that greater value. Sound positioning starts with actually differentiating the company's marketing offer from that of its competitors. After choosing the desired position, the company must take proper steps to deliver and communicate that position to target consumers.

- **Marketing Strategies for Competitive Advantage**

A comprehensive competitor analysis must be done in designing competitive marketing strategies. The company continuously compares the value and customer satisfaction delivered by its products, prices, channels and promotion with that of its competitors. This enables the company to locate areas of potential advantage and disadvantage. The company must watch the competitive environment for seeking answers to some important questions such as; who are our competitors? What are their objectives and strategies? What are their strengths and weaknesses? And how will they react to different competitive strategies we might use?

The competitive marketing strategy a company adopts depends on its industry position. A firm that dominates a market can adopt one or more of several market-leader strategies. Well-known leaders include Coca-Cola (soft drinks), McDonalds (fast food), Caterpillar (large construction equipment), Kodak (photographic film), Wal-Mart (retailing), and Boeing (aircraft). Market challengers are runner-up companies that aggressively attack competitors to get more market share. For example, Pepsi challenges Coke and Compaq challenges IBM. The challenger might attack the market leader, other firms of its own size, or smaller local and regional competitors. Some runner-up firms will choose to follow rather than challenge the market leader. Firms using market-follower strategies seek stable market shares and profits by following competitors' product offers, prices, and marketing programs. Smaller firms in a market, or even larger firms that lack established positions, often adopt market-nicher strategies. They specialize in serving market

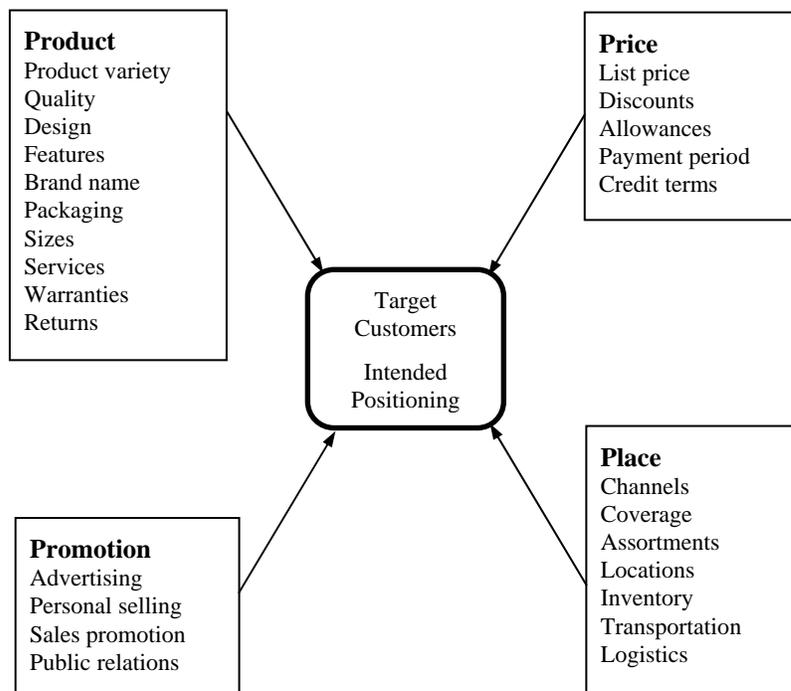
²². Ibid., pp. 46-47.

niches that major competitors overlook or ignore. "Nichers" avoid direct confrontations with the majors by specialising along market, customer, product, or marketing-mix lines. Through smart niching, low-share firms in an industry can be as profitable as their larger competitors.²³

• **Developing the Marketing Mix**

After deciding on overall competitive marketing strategy, the company proceeds towards planning the details of the marketing mix. We define marketing mix as the set of controllable tactical marketing tools that the firm blends to produce the response it wants in the target market.²⁴ Marketing mix consists of four groups of variables known as the "four ps" - product, price, place and promotion. Figure 2-6 illustrates the particular marketing tools under each P.

Figure 2-6: The Four Ps of the Marketing Mix



Source : Philip Kotler and Gary Armstrong, Principles of Marketing, seventh edition, Prentice-Hall of India, New, Delhi, 1997; p.49.

- **Product :** Product is the combination of "goods-and-service" which the company offers to the target market. A Ford Taurus "product" consists of nuts and bolts, spark plugs, pistons, headlights, and thousands of other parts. Ford offers several Taurus styles and dozens of optional features. The car comes fully serviced and with a

²³. Ibid., p. 48.

²⁴. Ibid., p. 48.

comprehensive warranty that is as much a part of the product as the tailpipe.²⁵

Price is the amount of money buyers are required to pay for obtaining the product.

- **Price** : Price is the amount of money buyers are required to pay for obtaining the product. Ford calculates suggested retail prices that its dealers might charge for each Taurus. But Ford dealers rarely charge the full sticker price. Instead, they negotiate the price with each customer, offering discounts, trade-in allowances, and credit terms to adjust for the current competitive situation and to bring the price into line with the buyers perception of the car's value.²⁶
- **Place** : Place includes activities that a company undertakes for making the products available to target consumers. Ford maintains a large body of independently owned dealerships that sell the company's many different models. It selects its dealers carefully and supports them strongly. The dealers keep an inventory of Ford automobiles, demonstrate them to potential buyers, negotiate prices, close sales, and service the cars after the sale.²⁷
- **Promotion** : Promotion includes activities designed to communicate the value of the product and persuade target customers to buy it. Ford spends more than \$600 million each year on advertising to tell consumers about the company and its products. Dealership, salespeople assist potential buyers and persuade them that Ford is the best car for them. Ford and its dealers offer special promotions—sales, cash rebates, low financing rates – as added purchase incentives.²⁸

The marketing mix elements are the tools used by the company for securing strong positioning in target markets.

The marketing mix elements are the tools used by the company for securing strong positioning in target markets. However, it should be kept in mind that the four **Ps** represents marketing tools from the sellers' view point which are designed to persuade buyers. It is important to recognize that from a consumer viewpoint, each marketing tool is designed to deliver a customer benefit. One marketing expert suggests that companies should view the four Ps in terms of the customer's four Cs.²⁹

²⁵. Ibid., p. 48.

²⁶. Ibid., pp 48-49

²⁷. Ibid., p. 49.

²⁸. Ibid., p. 49.

²⁹. Ibid., p. 49.

Four Ps	Four Cs
Product	Customer needs and wants
Price	Cost to the customer
Place	Convenience
Promotion	Communication

In conclusion, it can be said that meeting customer needs economically and conveniently with effective communication is the pre-requisite for the success of a company.

Questions for Review

1. Explain the following :-
 - i) Demand measurement and forecasting
 - ii) Market segmentation
 - iii) Market targeting
 - iv) Market Positioning
2. Define Marketing Mix. Explain the elements of marketing mix with an example.
3. The marketing process consists of –
 - A. Analyzing marketing opportunities
 - B. Selecting target markets
 - C. Developing the marketing mix
 - D. All of the above.
4. Consumer analysis involves –
 - A. Dividing up the total market into segments
 - B. Selecting the best segments
 - C. Designing the strategies for serving chosen segments
 - D. All of the above.
5. The marketing process consists of –
 - A. Market-leader
 - B. Market-challenger
 - C. Market-follower
 - D. Market-nicher.
6. The marketing process consists of –
 - A. Product quality
 - B. Discounts
 - C. Assortments
 - D. Public relations.



Ans : 3. D, 4. D, 5. A, 6. D.

Lesson -4 : Managing the Marketing Effort

Lesson objectives

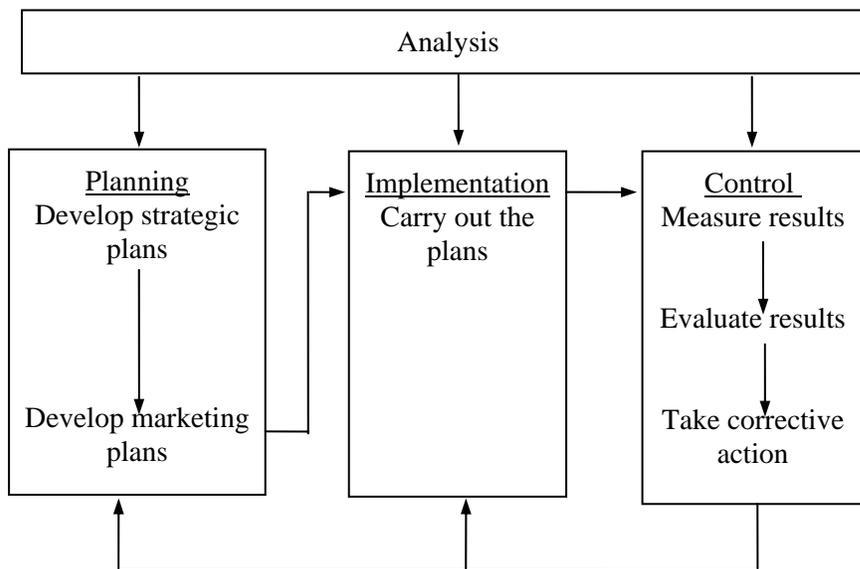
After completing this lesson you will be able to:

- Identify the elements involved in managing the marketing effort
- Explain the process of marketing analysis
- Identify and explain the key elements of the marketing plan
- Describe the primary tasks of marketing implementation and control

For designing and putting into action the most appropriate marketing mix, the company must perform four marketing management functions. These are; analysis, planning, implementation, and control. Figure 2-7 exhibits the relationship between these marketing activities.



Figure 2-7 : The Relationship Between Analysis, Planning, Implementation and Control



Source : Philip Kotler and Gary Armstrong, Principles of Marketing, seventh edition, Prentice-Hall of India, New Delhi, 1997; p.51.

The company first develops overall strategic plans. These company-wide strategic plans are then translated into marketing and other plans for each division, product and brands. Through implementation, the company turns the strategic and marketing plans into actions that will achieve the company's strategic objectives. Marketing plans are implemented by people in the marketing organization who work with others both inside and outside the company. Control consists of measuring and evaluating the results of marketing plans and activities and taking corrective action

to make sure objectives are being reached. Marketing analysis provides information and evaluations needed for all of the other marketing activities.³⁰



Activity:

Set an example of strategic plan and translate it into a divisional, product and brand plan.

- **Marketing Analysis**

The task of managing the marketing function starts with a detail analysis of the company's situation. For this purpose, the company must make an analysis of its markets and marketing environment to locate opportunities and to avert environmental threats . It must review company strengths and weaknesses, as well as current and possible marketing action, which will enable it to locate the opportunities it can best exploit. Marketing analysis is also important as it provides information flow and other inputs to each of the other marketing management functions.

- **Marketing Planning**

Marketing planning refers to the task of developing marketing strategies that will help the company accomplish its overall strategic objectives. A detailed marketing plan is required for each business, product or brand. However, we will concentrate our discussion on product or brand plans. The various sections and purposes thereof of an ideal product or brand plan is shown in the following table (Table No. 2-2):

A detailed marketing plan is required for each business, product or brand.

³⁰. Ibid., p. 5.

Table 2-2 : Contents of a Marketing Plan

Section	Purpose
Executive summary	Presents a brief overview of the proposed plan for quick management review
Current marketing situation	Presents relevant background data on the market, product, competition, and distribution
Threats and opportunity analysis	Identifies the main threats and opportunities that might impact the product
Objectives and issues	Defines the company's objectives for the product in the areas of sales, market share and profit, and the issues that will affect these objectives.
Marketing strategy	Presents the broad marketing approach that will be used to achieve the plan's objectives.
Action programs	Specifies what will be done, who will do it, when it will be done, and how much it will cost.
Budgets	A projected profit and loss statement that forecasts the expected financial outcomes from the plan.
Controls	Indicates how the progress of the plan will be monitored.

Source : Philip Kotler and Gary Armstrong, *Principles of Marketing, seventh edition* Prentice-Hall of India. New Delhi, 1997; p. 52.

- **Executive Summary**

Executive summary is the opening section of the marketing plan. It presents a short summary of the main goals and recommendations to be presented in the plan. The executive summary helps top management to locate the plan's major points quickly. Executive summary should be followed by a table of contents.

- **Current Marketing Situation**

Current marketing situation is the first major section of the plan. It describes the target market and the company's position therein. This section contains information about the market, product performance, competition, and distribution. It contains a market description that defines the market, including major market segments. The market planner estimates market size as a whole and in segments for the few preceding years and then reviews customer needs and factors in the marketing environment that may influence customer purchasing. Then comes product review, which shows sales, price, and gross margins of the major products in the product line. A subsection on competition identifies major competitors and evaluates each of their strategies for

product quality, pricing, distribution and promotion. It also shows the company's and each of its competitors present market share. Finally, a subsection on distribution describes recent sales trends and changes in the major channels of distribution.

- **Threats and Opportunities**

In this Section, the planner lists as many threats and opportunities as can be anticipated that the product might face. This section enables the manager to anticipate important developments that might affect the company. Increase in the number of competitors and introduction of new products are examples of threats while improvement of economic conditions and product innovation are the examples of opportunities which have important implications for a marketer. Threats and opportunities should be carefully analyzed from the company's standpoint so that the managers might develop proper strategies to counter these threats and exploit these opportunities.

- **Objectives and Issues**

Analysis of threats and opportunities leads the marketer towards setting objectives and consider issues that will affect them. The objectives should be stated in terms of goals the company would like to attain during the plan's period. For example, a company's goal may be "to increase market share by 10 percent during the next year." This raises an important issue. How can market share be increased? The marketer should consider the major issues regarding increasing market share.

- **Marketing Strategies**

In this section of the marketing plan, the manager outlines the broad marketing strategy or "game plan" for attaining the objectives. Marketing strategy is the marketing logic by which the business unit hopes to achieve its marketing objectives. It consists of specific strategies for target markets, positioning, the marketing mix, and marketing expenditure levels. Marketing strategy should detail the market segments on which the company will focus. These segments differ in their needs and wants, responses to marketing, and profitability. The company would be smart to put its effort and energy into those market segments it can best-serve from a competitive point of view, and then develop a marketing strategy for each targeted segment. The manager should also outline specific strategies for such marketing mix elements as new products, field sales, advertising, sales promotion, prices and distribution. The manager should explain how each strategy responds to the threats, opportunities, and critical issues spelled out earlier in the plan.³¹

³¹. Ibid.,1 .54.

- **Action Programs**

Marketing strategies should be translated into specific action programs which will indicate what to do and when and by whom it will be done and the cost of doing it. The action plan indicates when activities will be started, reviewed and completed.

- **Budgets**

Action plans allow the manager to make a supporting marketing budget that is essentially a projected profit-and-loss statement. For revenues, it shows the forecasted number of units that would be sold and the average net price. On the expense side, it shows the cost of production, physical distribution, and marketing. The difference is the projected profit. Top management will review the budget and either approve or modify it. Once approved, the budget is the basis for materials buying, production scheduling, personnel planning and marketing operations. Budgeting can be very difficult, and budgeting methods range from simple "rules of thumb" to complex computer models.³²

- **Controls**

Control is the last section of the marketing plan. It outlines the control methods that will be used to monitor development. Goals and budgets are set for a specific time period. This allows the management to review the results each period and to identify businesses or products that are not meeting their goals. Persons responsible for managing these businesses and products have to explain these problems and the corrective measures they will take.

Control is the last section of the marketing plan.

- **Marketing Implementation**

Marketing implementation is the process that turns marketing strategies and plans into marketing actions in order to accomplish strategic marketing objectives. Implementation involves day-to-day, month-to-month activities that effectively put the marketing plan to work. Whereas marketing planning addresses the what and why of marketing activities, implementation addresses the who, where, when, and how.³³

For effective implementation of marketing plans and strategies, people at all levels of the marketing system must work together. Successful implementation depends on several important factors. **First**, there must be an action program that pulls all of the people and activities together. The action program describes what must be done, who will do it, and the manner in which decisions and actions will be coordinated to accomplish the company's marketing objectives. **Second**, the company's formal organization structure affects the implementation of marketing strategy. **Third**, the company's decision and reward systems – operating procedures that guide planning, budgeting, compensation, and other

³². I bid ., p.p 54-55

³³ I bid., p.55.

activities also play an important role in implementation. *Forth*, successful implementation also calls for careful human resources planning. The company must fill its structure and systems with people possessing the required skills, motivation, and personal characteristics. *Finally*, for successful implementation, the marketing strategies must be compatible with the company culture – a system of values and beliefs shared by people in an organization – the company's collective identity and meaning.

In summary, successful marketing implementation depends on how well the company blends the five elements – action programs, organization structure, decision and reward systems, human resources, and company culture – into a cohesive program that supports its strategies.³⁴

- **Organizing the Marketing Department**

For efficient marketing analysis, planning, implementation and control, a company must organize a marketing department. If the company is very small, separate marketing department may not exist. But as the company grows in size, a marketing department organization is built to carry out marketing activities. In big companies, this department is manned by many specialists such as product managers, salespeople and sales managers, market researchers, advertising experts, and other specialists.

Marketing department can be organized in a number of ways. The most popular form of marketing organization is the functional organization. In a functional organization, different marketing activities are managed by a functional specialist such as a sales manager, advertising manager, marketing research manager, customer service manager, new-product manager. Another form of marketing organization is geographic organization which is used by companies selling across the country or internationally. In a geographic organization, sales and marketing people are assigned to specific countries, regions and districts. Geographic organization has some benefits; it enables salespeople to settle into a specific territory, get to know their customers and involves minimum travel time and cost.

Companies with many and varied products or brands are found to use a product management organization. In this organization, a product manager is given the responsibility of developing and implementing a complete strategy and marketing plan for a specific product or brand.

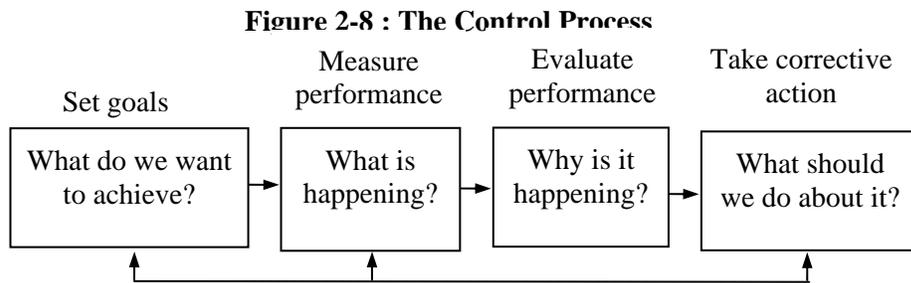
Another modern marketing organization is the market management organization which is best suited to companies that sell one product line to many different types of markets that have different needs and preferences. In a market management organization, market managers assume the responsibility of developing long-range and annual plans for the sales and profits in their markets. The main advantage of a market management organization is that the company gives highest priority to the needs of specific customer segments.

³⁴. Ibid. , p.57.

Big companies that produce many and varied products distributed into many different geographic and customer markets use some combination of the functional, geographic, product and market organization forms. In this type of organization, each function, product and market receives its share of management attention. But it increases tiers in management structure resulting in increased cost and often reduces flexibility in organization. Nevertheless, merits of organizational specialization are usually more than its demerits.

- **Marketing Control**

Marketing control is the process of measuring and evaluating the results of marketing strategies and plans, and taking corrective action to ensure that marketing objectives are accomplished. It consists of four steps shown in the following figure (Fig 2-8) :



Source : Philip Kotler and Gary Armstrong. *Principles of Marketing, seventh edition, Prentice-Hall of India, New Delhi, 1997; p. 60.*

Management first sets specific marketing goals and then measures its performance in the marketplace and evaluates the causes of any gap between expected and actual performance. At length, management takes corrective action to close the gaps between its goals and actual performance. This may warrant changes in the action programs or even changes in the goals.

Operating control involves checking ongoing performance against the annual plan and taking corrective action if necessary. Its purpose is to ensure that the company achieves the sales, profits, and other goals set out in its annual plan. It also involves determining the profitability of different products, territories, markets and channels. Strategic control involves looking at whether the company's basic strategies are well matched to its opportunities. Marketing strategies and programs can quickly become outdated, and each company should periodically reassess its overall approach to the market place. A major tool for such strategic control is a marketing audit. The marketing audit is a comprehensive, systematic independent, and periodic examination of a company's environment, objectives, strategies, and activities to determine problem areas and opportunities. The audit provides good input for a plan of action to improve the company's marketing performance.³⁵

³⁵. I bid, p.60.



Activity:

Why controlling is necessary in the marketing plan? How does it can help in your organization to achieve the goal against the annual plan?

Questions for Review

1. For best implementation of marketing mix, the company must perform four marketing management functions. What are these functions? Show the relationship between these functions.
2. What is Marketing Planing? Explain the various sections and their purposes of a detailed marketing plan for a product.
3. The company must review its strengths and weaknesses through –
 - A. Marketing analysis
 - B. Marketing planning
 - C. Marketing implementation
 - D. Marketing control.
4. In a marketing plan, analysis of current marketing situation is followed by –
 - A. Objectives and issues
 - B. Threats and opportunities
 - C. Marketing strategy
 - D. Action programs.
5. Marketing strategy consists of specific strategies for –
 - A. Target markets
 - B. Positioning
 - C. Marketing mix
 - D. All of the above.
6. Which of the following is not a part of the marketing control process?
 - A. Setting goals
 - B. Measuring performance
 - C. Setting budgets
 - D. Evaluating performance.

Ans.: 3. A, 4. B, 5. D, 6. C.



THE MARKETING ENVIRONMENT



Marketing environment of a company is composed of the people, institutions and forces outside marketing that influence marketing management's ability to develop and maintain successful relationship with its target customers. Constantly watching and adapting to the changing marketing environment is important because the marketing environment offers both opportunities and threats. By conducting regular and systematic environmental analysis, the company can revise and adapt marketing strategies to cope with the new challenges and opportunities in the marketplace. The marketing environment is the combination of micro environment and macro environment. In this unit, we will concentrate our discussion on how marketing environment affects marketing activities of an organization by dividing the unit into three lessons.

School of Business

Blank page

Lesson 1 : The Company's Micro Environment

Lesson objectives

After completing this lesson you will be able to :

- Identify the elements of the company's micro environment
- Discuss the significance and effects of the elements of the company's micro environment.

Marketing management's goal is to attract and build relationship with customers by generating customer value and satisfaction. But marketing managers alone can not achieve this goal. Their success will be affected by other actors in the company's micro environment. These actors/elements are :



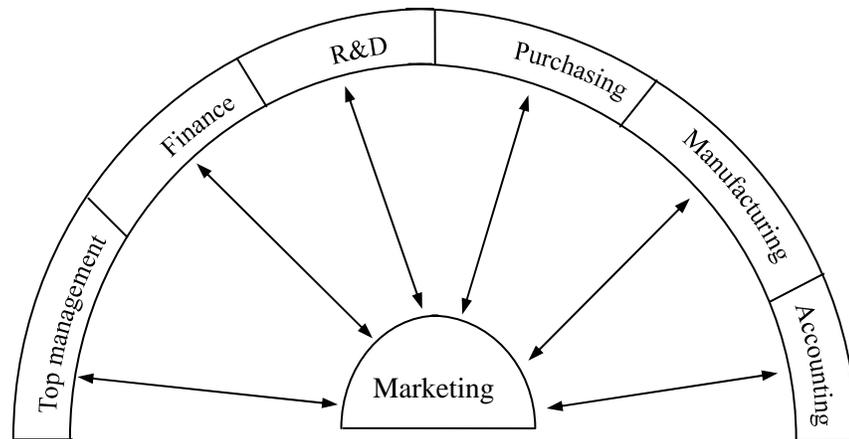
- The Company
- Suppliers
- Marketing intermediaries
- Customers
- Competitors
- Publics.

Now, we will discuss how the above actors affect the marketing activities of an organization.

- **The Company**

In preparing marketing plans, marketing management takes other company groups into account such as top management, finance, research and development (R&D), purchasing, manufacturing and accounting. These groups are interrelated and they constitute the internal environment of the company, shown in figure 3-1. Top management determines the company's mission, objectives, broad strategies and policies. Marketing managers must make decisions within the plans prepared by top management. And before implementation, marketing plans must be approved by top management.

Marketing managers also must operate closely with company's other departments. Finance department procures funds which are used to carry out the marketing plan. The R&D department concentrates on the problems of designing safe and attractive products. Purchasing is concerned with getting supplies and materials, whereas manufacturing department handles the responsibility of producing the desired quality and quantity of products. Accounting calculates revenues and cost to enable marketing know how well it is achieving its objectives. Together, performance of all of these departments have an effect on the marketing departments plans and actions.



Source : Philip Kotler and Gary Armstrong, Principles of Marketing seventh edition, Prentice-Hall of India, New Delhi, 1997; p. 71.

- **Suppliers**

Suppliers work as an important link in the company's overall customer "value delivery system". They work as a source of resources required by the company to produce its goods and services. Marketing managers must monitor supply availability. For instance, supply shortages or delays, labor strikes, and other events can cost sales in the short run and damage customer satisfaction in the long run. Marketing managers watch trends in the price movements of the inputs they use. For example, an increase in supply costs will push up the prices which ultimately may bring down the company's sales volume.

- **Marketing Intermediaries**

Marketing intermediaries are used by the company to promote, sell and distribute its goods to ultimate buyers. Most commonly used intermediaries include resellers, physical distribution firms, marketing services agencies, and financial intermediaries. Resellers are firms who operate in the distribution channel and they help the company locate customers or make sales to them. These resellers include wholesalers and retailers who buy and resell merchandise. The task of selecting and working with resellers is not an easy one. Large and growing reseller organizations are emerging side by side many small, independent resellers from which the company has to choose. These organizations often are too powerful and tend to dictate terms.

Physical distribution firms render services that help the company to stock and move goods from their points of origin to their destinations. When working with warehouse and transportation firms, a company must determine the best methods to store and ship goods. It must also balance such factors as cost, delivery, speed, and safety. Another group of marketing intermediaries, marketing services agencies, include marketing research firms, advertising agencies, media firms and marketing

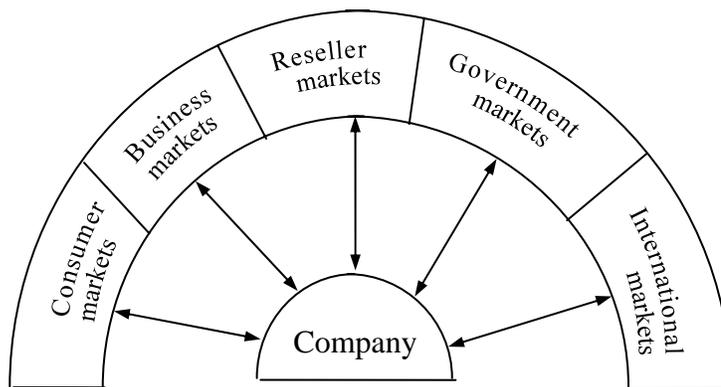
consulting firms that assist the company target and promote its products to the right markets. As these firms vary in creativity, quality, service and price, they must be carefully chosen. Financial intermediaries are banks, credit companies, insurance companies, and other businesses. These intermediaries finance transactions or insure against the risks associated with the buying and selling of goods.

- **Customers**

A company must analyze its customer markets thoroughly and carefully. Customer markets are divided into five categories and shown in figure 3-2. **Consumer markets** are composed of individuals and households that buy goods and services for personal consumption. **Business markets** purchase goods and services for further processing or for use in their production process. **Reseller markets** buy goods and services to resell for earning profit. **Government markets** consist of government agencies that buy goods and services for producing public services or transfer the goods and services to others who need them. **International markets** are made up of these buyers in other countries, including consumers, producers, resellers, and governments. Each type of market has special features that requires careful study by the seller.

Customer markets are divided into five categories.

Figure 3-2 : Types of Customer Markets



Source : Philip Kotler and Gary Armstrong, Principles of Marketing seventh edition, Prentice-Hall of India, New Delhi, 1997; p. 73.

- **Competitors**

Marketing concept recognizes that to become successful, a company must provide greater customer value and satisfaction than its competitors. So, mere adaptation to the needs of target consumers is not enough. Marketers must do something more – they also must secure strategic advantage. They should position their offerings strongly against competitors' offerings in the minds of consumers.

No single competitive marketing strategy is the best for all companies. Each firm should consider its own size and industry position compared to those of its competitors. Large firms with dominant positions in an industry can use certain strategies that smaller firms can not afford. But

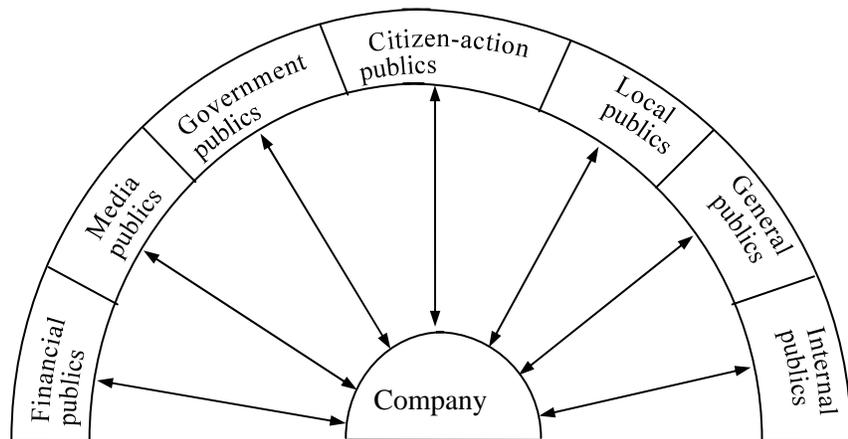
No single competitive marketing strategy is the best for all companies.

being large is not enough. There are winning strategies for large firms, but there are also losing ones. And small firms can develop strategies that give them better rates of return than that large firms enjoy.¹

- **Publics**

One of the important elements of a company's marketing environment is various publics. A public is any group that has an actual or potential interest in or impact on an organizations ability to achieve its objectives.² Figure 3-3 exhibits seven types of publics.

Figure 3-3 : Types of Publics



Source : Philip Kotler and Gary Armstrong, Principles of Marketing seventh edition, Prentice-Hall of India, New Delhi, 1997; p. 71.

- **Financial publics** : Financial publics affect the company's ability to obtain funds. Major financial publics are banks, investment houses, and stockholders.
- **Media publics** : Media publics carry news, features and editorial opinion. Major media publics are newspaper, magazines, and radio-television stations.
- **Government publics** : Company should be aware of government developments. Lawyers must be regularly consulted on issues of product safety, truth-in-advertising, and other matters.
- **Citizen-action publics** : Consumer organizations, environmental groups, minority groups, and others may raise questions about a company's marketing decisions. The company's public relations

¹. Philip Kotler and Gary Armstrong, Principles of Marketing seventh edition, Prentice-Hall of India, New Delhi, 1997; p. 71.

². Ibid., p. 73.

department may work for maintaining relationship with consumer and citizen groups.

- **Local publics** : Local publics include neighborhood residents and community organizations. Big companies generally employ a community-relations officer to deal with community, attend meetings, answer questions, and contribute to worthwhile causes.
- **General public** : General public's attitude toward a company's products and activities is important. Company's public image influences public in making purchase decisions.
- **Internal publics** : Internal publics include workers, managers, volunteers, and the board of directors of the company. Large companies use newsletters and other means to inform and motivate their internal publics.

A company can prepare marketing plans for these major publics as well as for its customer 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 each of these public that is attractive enough to produce the desired response.³

³. Ibid., p. 74.

Questions for Review

1. Why are marketing intermediaries used by marketers? Classify marketing intermediaries and state their functions.
2. How does various publics affect a company's activities? Is it possible to eliminate the marketing intermediaries from marketing activities?
3. A company's top management –
 - A. Obtains funds for carrying out marketing plans
 - B. Determines the company's mission
 - C. Designs safe and attractive products
 - D. Calculates revenues and costs.
4. Which one of the following is a marketing service agency –
 - A. Wholesaler
 - B. Warehouse
 - C. Insurance company
 - D. Advertising firm.
5. Business markets purchase goods and services for –
 - A. Reselling
 - B. Personal consumption
 - C. Further processing
 - D. Producing public services.
6. Community organizations are –
 - A. Local publics
 - B. Citizen-action publics
 - C. General public
 - D. Media publics.



Ans : 3. B, 4. D, 5. C, 6.A.

Lesson 2 & 3 : The Company's Macro Environment

Lesson objectives

After completing these lessons you will be able to:

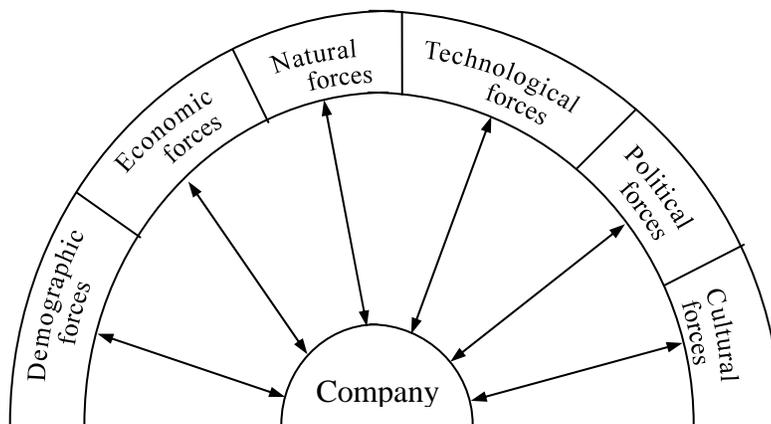
- Elaborate the broad concept of the company's macro environment
- Outline the important changes taking place in major elements of the company's macro environment including shifts in the demographic, economic, technological, political, cultural and natural environments.

The company and all of the other actors operate in a broad macro environment. This macro environment consists of forces that shape opportunities and pose threats to the company. Six major forces in the company's macro environment are shown in figure 3-4. We will now examine these forces and will show how they affect marketing plans.



The macro environment consists of forces that shape opportunities and pose threats to the company.

Figure 3-4: Major Forces in the Company's Macro environment



Source : Philip Kotler and Gary Armstrong, *Principles of Marketing seventh edition*, Prentice-Hall of India, New Delhi, 1997; p. 74.

• Demographic Environment

Demography is the study of human populations in terms of size, density, location, age, gender, race, occupation, and other statistics.

The demographic environment is of major interest to marketers because it involves people, and people make up markets.⁴

The world population is growing fast and now totals more than 6 billion. This population explosion has two implications. **First**, the earth's finite resources can support only so many people, particularly at the living

⁴. Ibid., p. 74.

standards to which many countries aspire. The concern is that unchecked population growth and consumption may eventually result in insufficient food supply, depletion of key minerals, overcrowding, pollution and an overall deterioration in the quality of life.⁵

The *second* cause for concern is that the greatest population growth occurs in countries and communities that can least afford it. The less-developed regions of the world currently account for 76 percent of the world population and are growing at 2 percent per year. In contrast, the population in the more-developed regions is growing at only 0.6 percent per year. Less-developed countries often find it difficult to feed, cloth, and educate their growing populations. Moreover, the poorer families in these countries often have the most children, and this reinforces the cycle of poverty.⁶

The world population growth has important implications for business. An increasing population means increasing human needs that have to be satisfied. It may also mean increase in market opportunities. Thus, marketers closely watch demographic trends and developments in their markets, both nationally and internationally. They monitor changing age and family structures, geographic population shifts, educational characteristics and population diversity.

- **Economic Environment**

The economic environment is made up of factors that influence consumer buying power and spending patterns.

The economic environment is made up of factors that influence consumer buying power and spending patterns. Levels and distribution of income vary greatly among countries. Some countries have subsistence economies,. Most of their own agricultural and industrial output are consumed by themselves. Market opportunities are very few in these countries. At the other extreme, there are countries who have industrial economies. These countries offer rich markets for many different kinds of goods. Marketers must closely monitor and evaluate the major trends in changes in income and consumer spending patterns, both nationally and internationally.

- **Natural Environment**

The natural environment is composed of the natural resources that are used as inputs by marketers or that are affected by marketing activities. Environmental concerns have grown sharply throughout the world during the past two decades. In many parts of the world, air and water pollution have assumed alarming proportion. World concern is increasing about "greenhouse effect" – a dangerous global warming. Marketers should be conscious about four trends in the natural environment – shortages of raw materials, increased cost of energy,

⁵. Ibid., pp. 74-75.

⁶. Ibid., p. 75.

increased pollution and government intervention in natural resource management. Now we will discuss about the above four trends of the natural environment :

- **Shortages of Raw Materials** : Natural resources of the earth are not unlimited. Although air and water may seem to be infinite resources, environmental degradation are posing serious threats to the availability of these resources. Water shortage is already a big problem in some parts of the world. Renewable resources, such as forests and food, also have to be used prudently. For example, companies in the forestry business should reforest timberlands for preventing soil erosion and to ensure sufficient wood supplies to cope with future demand. Food supply can be a major problem because more and more of the world's limited cultivable land is being developed for urban areas.

The supply of nonrenewable natural resources, such as oil, coal, and various minerals, poses a serious problem. Companies using these increasingly scarce resources as raw materials for production purposes face large cost increases, even if the materials do remain available. It is not always easy to pass on these costs to the consumer. However, companies engaged in R&D and in exploration can ease the situation by developing new sources and materials.

- **Increased cost of energy** : Due to increased use of different forms of energy, cost of energy is going up. For example, oil has created a serious problem for future economic growth. Industrial economies of the world depend heavily on oil. Until economical energy substitutes can be developed, oil will continue to play an important role in the world political and economic scenario. Huge increases in oil prices during the 1970s and 1991 Persian Gulf war have stimulated the quest for alternative forms of energy. Coal is still a popular form of energy. Many companies are looking for practical ways to exploit solar, nuclear, wind, and other forms of energy. Today, many companies have come up with products that use solar energy for heating homes and other uses.
- **Increased pollution** : Industries, in almost all the cases, have damaging influence on the environment. Examples are: 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.

Industries, in almost all the cases, have damaging influence on the environment.

Yet, public concern for environment creates a marketing opportunity for smart companies. Such concern creates a large market for solutions aimed at pollution control. Examples are: scrubbers, recycling centers, and landfill systems. It generates interest for searching new ways to produce and package goods that do not cause

harm to the environment. Concern for the natural environment has given birth to the so-called green movement. Increasing numbers of consumers have begun doing more business with ecologically responsible companies and avoiding those whose actions harm the environment. They buy "environmentally friendly" products, even if these products cost more. Many companies are responding to such consumer demands with ecologically safer products, recyclable or biodegradable packaging, better pollution controls, and more energy-efficient operations⁷.

- ***Government intervention in natural resource management*** : The governments of countries vary in their concern and efforts to promote a clean environment. For example, the German government vigorously purchases environmental quality, partly because of the strong public green movement and partly because of the ecological devastation in former East Germany. In contrast, many poor nations do little about pollution, largely because they lack the needed funds or political will. It is in the interests of richer nations to subsidize poorer ones to control pollution, but today even the richer nations lack the vast funds and political accord required to mount a worldwide environmental effort. The major hope is that companies around the world accept more social responsibility, and that less expensive devices can be found to control and reduce pollution.⁸

- **Technological Environment**

The technological environment is perhaps the most dramatic force that affects our lives.

The technological environment is perhaps the most dramatic force that affects our lives. Technological environment is made up of forces that create new technologies, creating new product and market opportunities. Technology has brought about such boons as antibiotics, and organ transplants and such blights as nuclear missiles, and nerve gas. It has also brought about such mixed blessings as the automobile and television. Our attitude toward technology depends on whether we are more impressed with its merits or its demerits.

Every new technology ultimately leads to the replacement of an older technology. For example, transistors attack the vacuum-tube industry, and xerography hurt the carbon-paper business. New technologies lead to the creation of new markets and opportunities. The marketer should monitor the following trends in technology.

- ***Quick pace of technological change*** : Many of today's common products were not available even a hundred years ago. Abraham Lincoln did not know about automobiles, airplanes, phonographs, radios, or the electric light. Woodrow Wilson did not know about television, aerosol cans, home freezers, automatic dishwashers, room

⁷. Ibid., p. 83.

⁸. Ibid., p. 83.

air conditioners, antibiotics, or computers. Franklin Delano Roosevelt did not know about xerography, synthetic detergents, tape recorders, birth control pills, or earth satellites. And John F. Kennedy did not know about personal computers, compact disc players, digital watches, VCRs or fax machines. Companies that do not keep up with technological change soon will find their products outdated. And they will miss new product and market opportunities.⁹

Scientists and technicians today are working on a wide range of new technologies that will bring revolutionary change in products and their production processes. Thrilling works are being done in biotechnology, miniature electronics, robotics, and materials science. Scientists today are working on the following interesting new products and services:

Practical solar energy	Tiny but powerful	Effective
Cancer cures	supercomputers	superconductors
Chemical control of mental health	Household robots that do cooking and cleaning	Electric cars
Car navigation systems	Nonfattening, tasty, nutritious foods	Electronic anesthetic for pain killing
Commercial space shuttle		Voice-and gesture-controlled computers ¹⁰

Scientists also contemplate about fantasy products, such as flying cars, three-dimensional televisions, space colonies, and human clones. Apart from technical challenge, these products also face the commercial challenge. For being successful, these products will have to be practical and affordable.

- **High R&D budgets :** Developed countries spend heavily on research and development. In 1993, R&D spending in USA exceeded \$ 160 billion, although it has been dropping slightly in recent years.¹¹ Research works undertaken by Governments can be a rich source of new product and service ideas. Companies also have a big budget on R&D. Now a days research is usually conducted by research teams rather than by lone inventors. Companies may find managing their R&D scientists quite challenging who may not agree to cost control policies. They are also sometimes more keen to solve scientific problems than to create marketable products. Companies are taking

⁹. Ibid., p. 84.

¹⁰. Ibid., p. 84.

¹¹. Ibid., p. 84.

measures to include marketing people in R&D teams for obtaining a stronger marketing orientation.

Technological improvements often make products more complex.

- **Concentration on minor improvements** : Developing and introducing new technologies involve high costs. As an alternative approach, many companies are making minor product improvements. For saving money, many companies follow strategies like copying competitors' products, making minor feature, and style improvements, or offering simple extensions of current brands.
- **Increased regulation** : Technological improvements often make products more complex. So consumers must know that they can be safely used. Keeping in mind the public interest, government agencies investigate and ban potentially unsafe products. To this end, government introduces various regulations from time to time. Such regulations increase costs and widens the time gap between new-product ideas and their introductions. Marketers should have full knowledge about these regulations when seeking and developing new products.

Marketers need to appreciate the changing technological environment and the ways that new technologies can satisfy human needs. They should work intimately with R&D teams to encourage more market-oriented research. They must be prepared to react in the event of possible negative aspects of any innovation that might harm users or provoke opposition.

- **Political Environment**

The political environment consists of laws, government agencies, and pressure groups that influence and limit various organizations and individuals in a given society.¹²

- **Legislation Regulating Business**

It is recognized that even the free-market economies works best with some regulations. Proper regulation can stimulate competition and ensure fair markets for goods and services. Governments formulate public policy to regulate business. Public policies are sets of laws and regulations that limit business for the benefit of society as a whole.

- **Increasing legislation** : Legislation affecting business around the world has increased steadily over the years. The United States has many laws on its books covering such issues as competition, fair trade practices, environmental protection, product safety, truth in advertising, packaging and labeling, pricing, and other important areas. The European Commission has been active in establishing a

¹². Ibid., p. 86.

new framework of laws covering competitive behavior, product standards, product liability, and commercial transactions for the twelve member nations of the European Community. Several countries have gone farther than the United States in passing strong consumerism legislation. For example, Norway bans several forms of sales promotion – trading stamps, contests, premiums – as being inappropriate or unfair ways of promoting products. Thailand requires food processors selling national brands to market low-price brands also, so that low-income consumers can find economy brands on the shelves. In India, food companies must obtain special approval to launch brands that duplicate those already existing on the market, such as additional cola drinks or new brands of rice.¹³

Business legislation are enacted for a number of purposes. **Firstly**, to prevent companies from indulging in harmful competition. So laws are passed and enforced to define and stop unfair competition. **Secondly**, government regulations aim at protecting consumers from unfair business practices. Some companies, if not subjected to proper regulations, would make shoddy products, tell lies in their advertising, and deceive consumers through their packaging and pricing. Another important purpose of government regulation is to protect the interests of society against unbridled business behavior. Regulations are introduced to ensure that companies assume responsibility for the social costs of their production or products.

Business legislations are enacted for a number of purposes.

- **Changing government agency enforcement** : International marketers will face many agencies establish to enforce trade policies and regulations. New laws will emerge and their enforcement will be increased. Marketers must keep track of these developments when planning their products and marketing programs. Marketers should be aware of the major laws protecting competition, consumers and society at the national and international levels.
- **Increased emphasis on ethics and socially responsible actions** : Written regulations are not always adequate to stop all potential marketing abuses and existing laws are often difficult to enforce. However, in addition to written laws and regulations, business is also controlled by social codes and rules of professional ethics. Companies with modern outlook encourage their managers to look beyond what the regulatory system allows. These companies consciously find out ways to protect the long-run interests of their consumers and the environment.

The recent rash of business scandals and increased concerns about the environment have created fresh interest in the issues of ethics and social responsibility. Almost every aspect of marketing involves such issues. Unfortunately, because these issues usually involve

¹³. Ibid., p. 86.

conflicting interests, well-meaning people can disagree honestly about the right course of action in a particular situation. Thus, many industrial and professional trade associations have suggested codes of ethics, and many companies now are developing policies and guidelines to deal with complex social responsibility issues.¹⁴

- **Cultural Environment**

The cultural environment is made up of institutions and other forces that affect a society's basic values, perceptions, preferences and behaviours.¹⁵ Peoples basic beliefs and values are shaped by the particular society in which they grow up. The following cultural characteristics have a effects on marketing decisions :

- ***Persistence of cultural values*** : Members of a society hold many beliefs and values which may be grouped into core beliefs and values and secondary beliefs and values. Core beliefs and values are characterized by their high degree of persistence. For example, most Americans believe in working, getting married, giving to charity, and being honest.¹⁶ These beliefs shape more specific attitudes and behaviors of the people in their everyday life. Core beliefs and values are passed on from parents to children and are strengthened by educational institutions, religious organizations, business institutions and government.

Secondary beliefs and values are more open to change.

Secondary beliefs and values are more open to change. Believing in marriage is a core belief; believing that people should get married early in life is a secondary belief. Marketers have some chance of changing secondary values, but little chance of changing core values. For example, family-planning marketers could argue effectively that people should get married later than that they should not get married at all.¹⁷

Cultural changes leads to shifts in secondary cultural values.

- ***Shifts in secondary cultural values*** : Core values in a society are more or less persistent. But cultural changes leads to shifts in secondary cultural values. Marketers try to predict cultural shifts in order to locate new opportunities or threats. The major cultural values of a society are manifested in people's views of themselves and others, as well as in their views of organizations, society, nature and the universe. Observations suggest that the cultural environment shows long-term trends towards a "we society", less organizational loyalty, increasing patriotism and conservatism, greater appreciation for nature, and a quest for more meaningful and enduring values.

¹⁴. Ibid., p. 87.

¹⁵. Ibid., p. 87.

¹⁶. Ibid., p. 90.

¹⁷. Ibid., p. 90-91.

Marketers need to understand the nature and the magnitude of these cultural changes in order to assess their marketing implications. This will help marketers develop acceptable products and marketing appeals in the context of a dynamic cultural environment.

Questions for Review

1. People are becoming more concerned about the natural environment. Explain how this trend would affect a company that markets polythene shopping bags. List and explain more effective responses to this trend.
2. Bangabondhu Jamuna Bridge is a fantastic development in the communication system of Bangladesh. What impact this bridge will have on the marketing of a) fresh fruits and vegetables; b) fish; and c) natural gas in Bangladesh during next 30 years.
3. A beverage marketer wants to introduce a "light soft drink" which would be lower in sugar content but costlier than other brands already in the market. What cultural and other factors might affect the success of this product?
4. The economic environment includes factors that affect –
 - A. Consumers' size
 - B. Consumers' location
 - C. Consumers' spending patterns
 - D. Consumers' occupation.
5. Marketers should be conscious about –
 - A. Shortages of raw materials
 - B. Increased cost of energy
 - C. Government intervention in material resource management
 - D. All of the above.
6. Which of the following trends in technology should a marketer monitor?
 - A. Slow pace of technological change
 - B. High R&D budgets
 - C. Concentration on major improvements
 - D. Decreased regulations.
7. Which of the following is not included in the political environment?
 - A. Laws
 - B. Government agencies
 - C. Pressure groups
 - D. Reference groups.
8. Business legislation are enacted for –
 - A. Encouraging competition among companies
 - B. Protecting consumers from unfair business practices
 - C. Protecting the interest of a particular company
 - D. All of the above.
9. Core beliefs and values in culture are characterized by their –
 - A. High degree of persistence

- B. Low degree of persistence
- C. Moderate degree of persistence
- D. None of the above.

Ans : 4. C, 5. D, 6. B, 7. D, 8. B, 9. A .



MEASURING AND FORECASTING DEMAND



When a company finds an attractive market and decides to operate in it, it must estimate that market's current size and future potential. This must be done very carefully because over estimation or underestimation of the market may result in losses. This unit deals with the principles and tools for measuring and forecasting market demand. In lesson one and two we will define the market and will discuss some practical methods for estimating current market demand. In lesson three we will examine the ways to forecast future demand.

School of Business

Blank page

Lesson 1 & 2 : Defining the Market and Measuring Current Market Demand

Lesson objectives

After completing these lessons you will be able to :

- Learn about the different ways of defining the market
- Estimate total market demand, area market demand and actual sales and market shares
- Contrast between the market-buildup method and the market-factor index method.

Defining the Market

Market demand measurement warrant a clear understanding of the market in question. The term market has assumed many meanings over time. Originally, market refers to a physical place where buyers and sellers gather to exchange goods and services. In medieval towns, there were market squares where sellers brought their goods and buyers shopped for goods. In today's cities, buying and selling take place in shopping areas rather than markets. Economists think that a market describes all the buyers and sellers who transact over goods or services. Thus, the laundry-soap market consists of sellers of soaps such as 'WHEEL' and 'NIRALA', and of all the buyers who buy laundry soaps.

To a marketer, a market is the set of all actual and potential buyers of a product or service. A market is the set of buyers and an industry is the set of sellers. The size of a market hinges on the number of buyers who might exist for a particular market offer. Potential buyers for a product or service have four characteristics: interest, income, access and qualifications.¹

Let us consider the consumer market for Suzuki cars. To assess its market, Suzuki first must estimate the number of users who have a potential interest in owning a car. To do this, the company might contact a random sample of users and ask the following question: "Do you have an interest in buying and owning a car?" If one person out of twenty says yes, Suzuki might assume that 5 percent of the total number of users would constitute the potential market for cars.

Users interest alone is not sufficient to define the car market. Potential users must have adequate income to afford the product. They must be able to answer yes to the question : "Can you afford to buy a car? The



To a marketer, a market is the set of all actual and potential buyers of a product or service.

¹. Philip Kotler and Gary Armstrong, Principles of Marketing, seventh edition, Prentice-Hall of India, New Delhi, 1997; p. 215.

Market size depends on both interest and income of the potential users of the product.

bigger the price, the lower the number of people who can answer yes to this question. Thus, market size depends on both interest and income.

Other obstacles further reduce car market size. For example, if Suzuki does not distribute its cars in certain less developed countries, potential users in those countries are not available as customers. Or in some markets, sales might be restricted to certain groups. For example, some countries might ban the sale of cars to anyone under 18 years of age. In these areas, younger users would not qualify as Suzuki car customers. Thus, Suzuki's potential market consists of the set of users who have interest, income, access and qualifications for cars.

Companies must be skillful in both measuring current market demand and forecasting future demand. Because knowledge about demand is of great importance to develop effective targeting strategies and to manage marketing efforts effectively. Overoptimistic estimates of current or future demand can lead to costly overcapacity or excess inventories. Again, underestimating demand can result in missed sales and profit opportunities.

Measuring Current Market Demand

We will now discuss some practical methods for estimating current market demand. In practice, there are three aspects to estimate current market demand. These are: total market demand, area market demand and actual sales and market shares.

• Estimating Total Market Demand

The total market demand for a product or service is the total volume that would be bought by a defined consumer group in a defined geographic area in a defined time period in a defined marketing environment under a defined level and mix of industry marketing effort². Total market demand is not a fixed number. Rather it is a function of stated conditions. For example, next year's total market demand for ice cream in Bangladesh will depend on how much the makers of Polar, Igloo, Milk-vita and other brands spend on marketing. It will also be influenced by many environmental factors, ranging from the level of consumer health concerns to the weather in key market areas. The demand for the premium ice cream brands will be influenced by economic conditions.

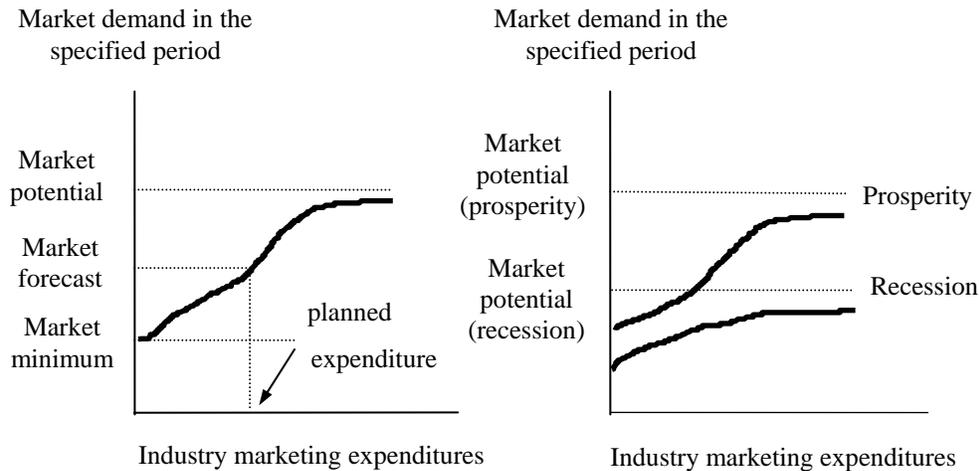
Total market demand is related to various market conditions and environment. Part A of figure 4-1 illustrates the relationship between total market demand and various market conditions. The horizontal axis represents different possible levels of industry marketing expenditures in a given time period. The vertical axis represents the resulting demand level. The curve shows the estimated level of market demand at varying levels of industry marketing effort. A minimum level of sales would occur without any marketing expenditures. Increased marketing expenditures would yield higher levels of demand, first at an increasing

Total market demand is not a fixed number.

². Ibid., p.p. 215-216.

rate and then at a decreasing rate. Marketing efforts above a certain level would not yield much more demand. This upper limit of market demand is called market potential. The industry market forecast shows the expected level of market demand corresponding to the planned level of industry marketing effort in the given environment.³

Figure 4-1 : Market Demand



- A. Market demand as a function of industry marketing expenditures B. Market demand as a function of industry marketing expenditures (under prosperity vs. recession)

Source : Philip Kotler and Gary Armstrong, *Principles of Marketing, seventh edition, Prentice-Hall of India, New Delhi, 1997; p. 216.*

The gap between the market minimum and the market potential shows the overall responsiveness of demand to marketing effort. Some markets, such as the market for computer, are expandable. Their size is strongly affected by the level of industry marketing expenditures. In figure 4-1A, is an expandable market, the gap between the market minimum and market potential would be fairly large. In a non expandable market, such as the market for theatres, market demand is not much affected by the level of marketing expenditures. The gap between the market minimum and market potential would be fairly small.

Companies selling in mature, nonexpandable markets often consider primary demand. Primary demand is the level of total demand for all brands of a given product or service. For example, the total demand for refrigerators. They invest their marketing resources on building selective demand. Selective demand is the demand for a given brand of a product or service. For example, in the United States, where it faces a mature and largely nonexpandable total soft drink market, Coca-Cola directs most of its marketing energies toward building consumer preference for Coke, Diet Coke, Sprite and its other brands. However, in countries such as China or Russia, which are characterized by huge but largely untapped

Primary demand is the level of total demand for all brands of a given product or service.

³. Ibid., p. 216.

market potential, Coca-Cola attempts to build the primary demand for soft drinks, as well as preference for its own brands.⁴

Different marketing environments create different market demand curves.

Different marketing environments create different market demand curves. For example, the market for apartments is stronger during prosperity than during recession. Figure 4-1B shows the relation of market demand to the environment. A given level of marketing expenditure always generates more demand during prosperity than it does during a recession. The important consideration is that marketers should carefully define the situation for which they are estimating market demand.

Companies follow various practical methods for estimating total market demand. Here, we will illustrate two of them. Let us assume that Econo Ball Pen company wants to estimate the total annual sales of 'Econo' ball pen. The following equation can be used for estimating total market demand:

$$Q = n \times q \times p$$

Where,

Q = total market demand

n = number of buyers in the market

q = quantity purchased by an average buyer per year

p = price of an average unit

Thus, if there are 1 million buyers of ball pens each year, the average buyer buys 15 ball pens a year and the average price is Tk. 5, then the total market demand for ball pens is Tk. 75 million (= 10,00,000 × 15 × 5).

A variation of this approach is the chain ratio method. This method involves multiplying a base number by a chain of adjusting percentages. For example, let us assume SINGER wants to estimate the market potential for its new power driven domestic sewing machines. The retail price of this machine is Tk. 10,000. Initially, SINGER will target households in small towns and rural areas where there is domestic power supply. SINGER can make a Bangladesh demand estimate for the sewing machine using a chain of calculations like the following :

Total number of Bangladesh households

- × The percentage of Bangladesh households located in small towns and rural areas where power driven sewing machines are not widely used
- × The percentage of these small town and rural households with moderate or heavy use of sewing machines

⁴. Ibid., pp. 216-217.

- × The percentage of moderate or heavy usage households with enough discretionary income to buy SINGER power driven sewing machines

The simple chain of calculations would provide only a rough estimate of potential demand. However, more detailed chains involving additional segments and other qualifying factors would yield more accurate and refined estimates.⁵

● **Estimating Area Market Demand**

Companies have to select the best sales territories and must allocate their marketing budget optimally among these territories. For this purpose, they must estimate the market potential of different cities, states and countries. Two major methods are used for estimating area market demand – the market-buildup method and the market-factor index method. Market-buildup method is used mainly by business goods firms and the market-factor index method is used mainly by consumer goods firms.

Market-buildup method is used mainly by business goods firms.

- **Market-Buildup Method** : The market-buildup method calls for identifying all the potential buyers in each market and estimating their potential purchases. Suppose, a manufacturer of mining instruments developed an instrument that can be used in the field to test the actual proportion of gold content in gold-bearing ores. By using it, miners would not waste their time digging deposits of ore containing too little gold to be commercially profitable. The manufacturer wants to price the instrument at \$ 1,000. It expects each mine to buy one or more instruments, depending on the mine's size. The company wants to determine the market potential for this Instrument in each mining state. It would hire a salesperson to cover each state that has a market potential of over \$300,000. The company wants to start by finding the market potential in Colorado.⁶

To estimate the market potential in Colorado, the manufacturer can consult the Standard Industrial Classification (SIC) developed by U.S. Bureau of the Census. The SIC is the government's coding system that classifies industries, for purposes of data collection and reporting, according to the product produced or operation performed. Each major industrial group is assigned a two-digit code. Suppose, the metal mining bears the code number 10. Within metal mining, there are further breakdowns into three-digit SIC numbers (the gold and silver ores category has the code number 104). Finally, gold and silver ores are subdivided into further SIC groups, with four-digit code numbers (lode gold is 1042, and placer gold is 1043). Our manufacturer is interested in gold mines that mine both lode deposits

⁵. Ibid., p. 217.

⁶. Ibid., p. 218.

(those mined from underground) and placer deposits (those mined by dredging or washing).⁷

Next, the manufacturer can turn to the Census of Mining to determine the number of gold-mining operations in each state, their locations within the state and the number of employees, annual sales and net worth. Using the data on Colorado, the company prepares the market potential estimate shown in table 4-1. Column 1 classifies mines into three groups based on the number of employees. Column 2 shows the number of mines in each group.

Table 4-1 : Market-Buildup Method Using SIC : Instrument Market Potential in Colorado

SIC	(1) Number of employees	(2) Number of mines	(3) Potential Number of instruments per size class	(4) Unit market potential (2×3)	(5) Dollar market potential (at \$ 1,000 each)
1042 (lode deposits)	Under 10	80	1	80	
	10 to 50	50	2	100	
	Over 50	20	4	80	
		150		260	\$ 260,000
1043 (placer deposits,	Under 10	40	1	40	
	10 to 50	20	2	40	
	Over 50	10	3	30	
		70		110	\$ 110,000
					\$ 370,000

Source : Philip Kotler and Gary Armstrong, Principles of Marketing, seventh edition, Prentice Hall of India, New Delhi, p. 218.

Column 3 shows the potential number of instruments that mines in each size class might buy. Column 4 shows the unit market potential (column 2 times column 3). Finally, column 5 shows the dollar market potential, given that each instrument sells for \$1,000. Colorado has a market potential of \$ 370,000. Therefore, the mining instrument manufacturer should hire one salesperson for Colorado. In the same way, companies in other industries can use the market-buildup method to estimate market potential in specific market areas.⁸

- **Market-Factor Index Method** : Consumer goods companies also have to estimate area market potentials. Consider the following example: A manufacturer of men's dress shirts wishes to evaluate its

Market-factor index method is used by consumer goods firms.

⁷. Ibid., p. 218.

⁸. Ibid., pp. 218-19.

sales performance relative to market potential in several major market areas, starting with Indianapolis. It estimates total national potential for dress shirts at about \$2 billion per year. The company's current nationwide sales are \$140 million, about a 7 percent share of the total potential market. Its sales in the Indianapolis metropolitan area are \$1,100,000. It wants to know whether its share of the Indianapolis market is higher or lower than its national 7 percent market share. To find this out, the company first needs to calculate market potential in the Indianapolis area.⁹

A common method for calculating area market potential is the market-factor index method, which identifies market factors that correlate with market potential and combines them into a weighted index. An excellent example of this method is called the buying power index, which is published each year by Sales & Marketing Management magazine in its Survey of Buying Power. This survey estimates the buying power, or "ability to buy", for each region, state and metropolitan area of the nation. Table 4-2 shows sample tables from this survey. The buying power index is based on three factors : the area's share of the nation's population, effective buying income and retail sales. The buying power index (BPI) for a specific area is given by.¹⁰

$$\begin{aligned} \text{BPI} = & .2 \times \text{percentage of national population in the area} \\ & + .5 \times \text{the percentage of effective buying income in} \\ & \quad \text{the area} \\ & + .3 \times \text{percentage of national retail sales in the area} \end{aligned}$$

⁹. Ibid., p. 219.

¹⁰. Ibid., p. 219.

Table 4-2 : Sample Tables From Sales & Marketing Management's (S & MM) Survey of Buying Power

S&MM ESTIMATES: 12/31/92				POPULATION				Households (Thousands)
METRO AREA County City	Total Pop. (Thousands)	% of U.S.	Median Age of Pop.	% of Population by Age				
				18-24 Years	25-34 Years	35-49 Years	50 & Over	
INDIANAPOLIS	1,452.3	.5561	33.3	9.3	17.0	22.7	24.4	558.7
Boone	39.1	.0150	35.5	6.8	14.9	24.5	26.2	14.3
Hamilton	127.0	.0490	33.6	6.9	16.1	27.1	20.7	45.6
Hancock	48.6	.0187	35.3	7.9	13.8	25.9	24.7	17.1
Hendricks	81.2	.0313	34.2	8.0	15.3	25.6	23.1	27.9
Johnson	96.6	.0372	33.6	9.5	15.4	24.4	23.4	34.6
Madison	131.9	.0509	35.9	9.6	14.1	22.6	28.8	50.3
• Anderson	60.9	.0235	35.8	11.0	14.2	19.9	30.6	24.9
Marion	827.6	.3188	32.6	10.0	18.6	21.2	24.4	333.2
• Indianapolis	760.7	.2931	32.5	10.1	18.5	21.1	24.2	305.4
Morgan	58.8	.0227	33.9	8.7	14.8	23.9	24.5	20.5
Shelby	41.5	.0160	34.0	8.4	15.4	22.2	26.3	15.2
SUBURBAN TOTAL	630.7	.2430	34.3	8.2	15.5	24.8	24.2	228.4

S&MM ESTIMATES: 12/31/92							
RETAIL SALES BY STORE GROUP							
METRO AREA County City	Total Retail Sales (\$000)	Food (\$000)	Eating & Drinking Places (\$000)	General Mdse. (\$000)	Furniture/ Furnish Appliance (\$000)	Auto- motive (\$000)	Drug (\$000)
Boone	249,699	37,276	27,593	13,981	44,955	39,230	12,434
Hamilton	925,550	156,658	107,901	94,495	52,009	222,923	33,831
Hancock	240,751	41,507	23,609	16,764	5,881	79,096	11,701
Hendricks	454,296	111,458	45,397	62,603	12,860	94,041	11,482
Johnson	820,421	87,504	78,325	213,525	35,232	194,708	24,473
Madison	998,254	163,919	105,904	135,820	42,849	270,339	48,233
• Anderson	703,096	120,754	81,947	92,417	33,884	177,290	32,772
Marion	9,458,444	1,149,343	1,066,979	1,216,403	559,249	2,354,765	328,378
• Indianapolis	9,078,224	1,065,874	1,007,601	1,193,042	545,347	2,287,304	315,786
Morgan	332,523	68,057	38,408	18,306	10,898	82,311	12,879
Shelby	230,151	61,927	20,815	33,896	10,632	44,567	11,059
SUBURBAN TOTAL	3,928,769	691,021	425,383	520,334	195,334	917,386	145,912

Table 4-2 Continued

S&MM ESTIMATES: 12/31/92		EFFECTIVE BUYING INCOME (EBI)						Buying Power Index
METRO AREA County City	Total EBI (\$000)	Median Hsld. EBI	% of Hslds by EBI Group:					
			(A) \$ 10,000-\$19,999					
			(B) \$ 20,000-\$34,999					
(C) \$ 35,000-\$49,999								
(D) \$ 50,000 & Over				A	B	C	D	
INDIANAPOLIS	24,950,845	37,565	14.3	22.7	20.2	33.5	.6089	
Boone	772,234	43,366	11.8	19.6	19.6	41.5	.0159	
Hamilton	2,839,730	52,150	7.9	17.3	17.8	52.7	.0572	
Hancock	817,957	43,097	12.0	20.3	22.1	40.0	.0169	
Hendricks	1,462,208	47,950	9.5	18.0	20.6	47.2	.0304	
Johson	1,781,629	44,587	11.0	20.1	20.4	42.8	.0406	
Madison	1,712,431	28,870	19.8	25.2	18.9	21.6	.0452	
• Anderson	754,015	24,587	22.0	25.5	16.5	16.7	.0239	
Marion	14,037,509	35,171	15.3	24.0	20.4	29.9	.3686	
• Indianapolis	12,784,164	35,020	15.4	23.8	20.2	29.9	.3429	
Morgan	887,902	39,371	13.9	22.1	22.7	34.1	.0199	
Shelby	639,245	37,258	14.6	23.8	22.6	31.0	.0142	
SUBURBAN								
TOTAL	11,412,666	42,657	12.0	20.9	20.7	40.1	.2421	

Source: Philip Kotler and Gary Armstrong, Principles of Marketing, seventh edition, Prentice-Hall of India, New Delhi, 1997; pp. 220-221.

Using this index, the shirt manufacturer looks up Indianapolis metropolitan area and finds that this market has .5561 percent of the nation's population, .5847 percent of the nation's effective buying income and .6332 percent of the nation's retail sales. Thus, buying power index for Indianapolis is :

$$\text{BPI} = (.2 \times .5561) + (.5 \times .5847) + (.3 \times .6332) = .5935$$

This is, Indianapolis should account for .5935 percent of the nation's total potential demand for dress shirts. Because the total national potential is \$2 billion each year, total potential in Indianapolis equals \$2 billion \times .005935 = \$11,870,000. Thus, the company's sales in Indianapolis of \$ 1,100,000 amount to a $\$1,100,000 \div \$11,870,000 = 9.3$ percent share of area market potential. Comparing this with its 7 percent national share, the company appears to be doing better in Indianapolis than in other parts of the country.¹¹

The weights used in the buying power index are somewhat arbitrary. They apply mainly to consumer goods that are neither low-priced staples nor high-priced luxury goods. Other weights can be used. Also, manufacturer might want to adjust the market potential for additional

¹¹. Ibid., p. 221.

factors, such as level of competition in the market, local promotion costs, seasonal changes in demand and unique local market characteristics.¹²

- **Estimating Actual Sales and Market Shares**

In addition to estimating total and area demand, a company is also interested to know the actual industry sales in its market. So, it needs to identify its competitors and estimate their sales. Information needed to do so can be obtained from industries trade associations who often collect and publish total industry sales. This estimation enables a company to evaluate its performance against the industry as a whole. Suppose, the company's sales are increasing at a rate of 4 percent a year and industry sales are increasing at 9 percent. This implies that this company actually is losing its relative position in the industry.

Data for estimating sales can also be obtained from marketing research firms. These firms compile reports on total sales and brand sales and offer them for sale. A company can buy data from marketing research firms on total product category sales as well as brand sales. By analyzing these data, the company can evaluate its performance against that of the total industry or any particular competitor to determine whether its relative position is improving or deteriorating.

¹². Ibid., p. 221.

Questions for Review :

1. (a) What does a 'Market' mean to a marketer?
(b) In market measurement and forecasting, both overestimating and underestimating demand are problems. Why?
2. Illustrate with an example how total market demand is related to various market conditions and environment.
3. A carpenter's tool kit manufacturer wants to estimate the market potential of his product in Bangladesh. Describe the process he would have to follow under market-buildup method.
4. Which one of the following is not a characteristic of potential buyers?
 - A. Interest
 - B. Access
 - C. Religion
 - D. Qualifications.
5. Which of the following is taken into account in estimating current market demand? –
 - A. Total market demand
 - B. Area market demand
 - C. Actual sales and market shares
 - D. All of the above.
6. In an expandable market, the gap between the market minimum and market potential would be –
 - A. Fairly small
 - B. Fairly large
 - C. Fairly moderate
 - D. None of the above.
7. Primary demand is the level of total demand for –
 - A. All brands of a given product
 - B. A given brand of a given product
 - C. A few brands of a given product
 - D. None of the above.
8. The market-build-up method calls for –
 - A. Identifying all the potential buyers in each market
 - B. Identifying few potential buyers in each market
 - C. Identifying all the potential buyers in few markets
 - D. None of the above.

9. The buying power index is based on –
- A. The area's share of the nation's population
 - B. Effective buying income
 - C. Retail sales
 - D. All of the above.



Ans. : 4. C, 5. D, 6. B, 7. A, 8. A, 9. D.

Lesson 3 : Forecasting Future Demand

Lesson objectives

After completing this lesson you will be able to:

- Identify the various ways of forecasting future demand
- Explain a survey of buyers' intentions, composites of sales force opinions, expert opinions, test marketing, time-series analysis, leading indicators and statistical demand analysis.

Forecasting is the art of estimating future demand by anticipating what buyers are likely to do under a given set of future conditions.¹³ Forecasting is a difficult task for most of the products or services. Forecasting is relatively easier for products with steady sales, or sales growth, in a stable competitive situation. But most markets lack stable total and company demand. Therefore, accurate forecasting becomes an important factor in company success. Weak forecasting may result in large inventories, costly price markdowns, or lost sales. The more unstable the demand, the more is the need for accurate and elaborate forecasting.



Accurate forecasting becomes an important factor in company success.

Companies generally follow a three-stage procedure to make a sales forecast. Companies first make an environmental forecast which is followed by an industry forecast. Finally, the company makes its own sales forecast. The environmental forecast involves projecting inflation, unemployment, interest rates, consumer spending and saving, business investment, government expenditures, net exports and other environmental events important to the company. Environmental forecast leads to a forecast of gross domestic product, which is used along with other indicators to forecast industry sales. Finally, the company prepares its sales forecast with an assumption that it will win a certain share of industry sales.

Companies use several specific techniques to forecast their sales. Table 4-3 lists many of these techniques. All forecasts are built on one of three information bases: what people say, what people do, what people have done. The first basis – what people say- involves surveying the opinions of buyers or those close to them, such as salespeople or outside experts. It includes three methods: surveys of buyer intentions, composites of sales force opinions and expert opinion. Building a forecast on what people do involves putting the product into a test market to assess buyer response. The final basis – what people have done—involves analyzing records of past buying behavior or using time-series analysis or statistical demand analysis.¹⁴ We can have a brief idea about the above techniques from the following sections :

¹³. Ibid., p. 223.

¹⁴. Ibid., pp. 223-224

Table 4-3: Common Sales Forecasting Techniques

BASED ON :	METHODS
What people say	1. Surveys of buyers intentions 2. Composite sales force opinions 3. Expert opinion
What people do	4. Test markets
What people have done	5. Time-series analysis 6. Leading indicators 7. Statistical demand analysis

Source: Philip Kotler and Gary Armstrong, Principles of Marketing, seventh edition, Prentice-Hall of India, New Delhi, 1997; p. 223.

• **Survey of Buyers' Intentions**

Buyers' intentions can be known by surveying buyers. Surveys are worthwhile if (i) the buyers have clearly formed intentions (ii) will carry them out and (iii) can describe them to interviewers. However, this is always not the case. So, to make forecasts by using consumer survey data, marketers must exercise care.

Various research organizations conduct periodic surveys of consumer buying intentions by using purchase probability scale. In this kind of surveys questions – like the following are asked :

Do you intend to buy an air-conditioner within the next months?

0	.1	.2	.3	.4	.5	.6	.7	.8	.9	1.0
No chance	Slight chance		Fair chance		Good chance		Strong chance		For certain	No answer

In addition, surveys can be conducted to know about the consumers present and future personal finances and his or her anticipation about the economy. The various bits of information are combined into a consumer sentiment measure which has been developed by Survey Research Center of the University of Michigan, USA or a consumer confidence measure which has been developed by Sindlinger and Company, USA. To make precise forecasts, consumer durable goods companies subscribe to these indexes. These indexes help them anticipate major shifts in consumer buying intentions so that they can adjust their production and marketing plans accordingly. For business buying, various agencies conduct intention surveys about plant, equipment and material purchases.

• **Composite of Salesforce Opinions**

Buyer interviewing may not be always practical. In such a situation, the company may make forecasts based on information provided by the salesforce. The company asks its salespeople to estimate sales by product category for their individual territories. Individual estimates are then added up to make an overall sales forecast.

Salesforce's estimates are used with adjustments for a number of reasons. Salespeople may be biased in their observations. They may be pessimistic or optimistic. They may go to one extreme or another because of recent sales successes or failures. Moreover, they may be often ignorant about larger economic developments. They do not always understand the impact of their companies marketing plans on the future sales in their territories. They may sometimes understate demand so that the company will set a low sales quota.

If these biases can be checked, a company can gain a number of benefits by involving the salesforce in forecasting. Salespeople may have better insights into trends of changes in the market. Being participants in the forecasting process, the salespeople become more confident in their quotas and get more incentive to achieve them. Finally, such "grass roots" approach to forecasting provides the company with estimates broken down by product, territory, customer and salesperson.

Forecasting provides the company with estimates broken down by product, territory, customer and salesperson.

- **Expert Opinion**

Companies can also take help of experts in making forecasts. These experts include dealers, distributors, suppliers, marketing consultants and trade associations. Thus, manufacturers of compact disc players survey their dealers periodically for their forecasts of short-term demand. Dealer estimates have the same strengths and weaknesses as those of salesforce estimates. Companies can also buy economic and industry forecasts from market research firms. These firms specialize in forecasting and are in a better position than the company to prepare economic forecasts because they have more data available and more forecasting expertise.

Companies may sometimes invite experts to prepare a forecast. The experts may be asked to exchange opinions and arrive at a group estimate. This is called group discussion method. Or they may be asked to make their individual estimates which are combined into a single estimate by the company analyst. Finally, they may provide individual estimates and assumptions. These are then reviewed by a company analyst, revised and followed by further rounds of estimation. This is called Delphi method.

Expert opinion can be very useful in making forecast. But experts may not always be right. For example, in 1943, IBM Chairman Thomas J. Watson predicted "I think there's a world market for about five computers". And in 1946, Daryl F. Zanuck, head of 20th Century Fox, made this pronouncement : "TV won't be able to hold on to any market it

captures after the first six months". Where possible, the company should back up experts' opinions with estimates obtained using other methods.¹⁵

- **Test Marketing**

The company resorts to test marketing in situations where buyers do not plan their purchases carefully or where experts are not available or reliable. Test marketing is the stage of new-product development where the product and marketing program are tested in more realistic market settings. A direct test market gives excellent results in forecasting new-product sales or established-product sales in a new distribution channel or territory.

- **Time-Series Analysis**

Four components of time series analysis are: trend, cycle, season and erratic components.

Market forecasting can also be made on the basis of past sales. It is assumed that the causes of past sales can be determined through statistical analysis. This causal relation can then be used to predict future sales. The statistical tool used for this purpose is called 'Time-series analysis'. Time series analysis involves breaking down the original sales into four components; trend, cycle, season and erratic components. Analysts then recombine these components to produce the sales forecast.

Season indicates consistent pattern of sales movements within the year.

Trend is the long-term pattern of growth or decline in sales which occur as a result of fundamental changes in population, capital formation and technology. Trend can be observed by fitting a straight or curved line through past sales against time. **Cycle** shows medium-term wavelike movement of sales due to changes in general economic and competitive activity. The cyclical component is used for medium-range forecasting. Cyclical changes are difficult to predict because they do not happen regularly. **Season** indicates consistent pattern of sales movements within the year. The term season refers to any recurrent hourly, weekly, monthly, or quarterly sales pattern. The seasonal component may be linked with weather, holidays and trade customers. The seasonal pattern is useful in forecasting short range sales. Finally, **erratic** components consist of fads, strikes, snow storms, earthquakes, riots, fires and other disturbances. These components are unpredictable and should be isolated from past data to find the more usual behavior of sales.

Suppose, an insurance company sold 12,000 new life insurance policies this year and wants to predict next year's December sales. The long-term trend shows a 5 percent sales growth rate per year. This information alone suggests sales next year of 12,600 ($=12,000 \times 1.05$). However, a business recession is expected next year and probably will result in total sales achieving only 90 percent of the expected trend-adjusted sales. Sales next year will more likely be $12,600 \times .90 = 11,340$. If sales were the same each month, monthly sales would be $11,340 \div 12 = 945$. However, December is an above-average month for insurance policy sales, with a seasonal index standing at 1.30. Therefore, December sales

¹⁵. Ibid., p. 226.

may be as high as $945 \div 1.3 = 1,228.50$. The company expects no erratic events, such as strikes or new insurance regulations. Thus, it estimates new policy sales next December at 1,228.50 policies.¹⁶

• **Leading Indicators**

Many companies make sales forecasting by using one or more leading indicators. These include other time series that change in the same direction but earlier than company sales. For example, a sanitary wares manufacturing company might see that its sales lag behind the housing starts index by about three months. The housing starts index would then be an effective indicator.

• **Statistical Demand Analysis**

Time-series analysis considers past and future sales as a function of time, rather than as a function of any real demand factors. But many real factors influence sales. Statistical demand analysis refers to a set of statistical procedures used to identify the most important real factors which affect sales and their relative influence. The factors most widely used are prices, income, population and promotion .

The factors most widely used for statistical demand analysis are prices, income, population and promotion .

Statistical demand analysis aims at expressing sales as a dependent variable which is denoted by Q. It tries to explain sales as a function of a number of independent demand variables

X_1, X_2, \dots, X_n . Thus :

$$Q = f (X_1, X_2, \dots, X_n)$$

Using a technique called *multiple-regression analysis*, different forms of equation can be statistically fitted to the data in the look out for the best predicting factors and equation.

For example, a soft-drink company found that the per capita sales of soft drinks by state was well explained by¹⁷

$$Q = - 145.5 + 6.46X_1 - 2.37X_2$$

Where

X_1 = mean annual temperature of the state (Fahrenheit)

X_2 = annual per capita income in the state (in hundreds)

For example, New Jersey had a mean annual temperature of 54 degrees and an annual per capita income of 24 (in hundreds). Using the equation, we would predict per capita soft-drink consumption in New Jersey to be

$$Q = - 145.5 + 6.46 (54) - 2.37 (24) = 146.6$$

Actual per capita consumption was 143. If the equation predicted this well for other sales, it would serve as a useful forecasting tool.

¹⁶ . Ibid., p. 227.

¹⁷ . Ibid., p.p. 227-28.

Marketing management would predict next year's mean temperature and per capita income for each state and use the equation to predict next year's sales.

Statistical demand analysis is often a very complex exercise.

Statistical demand analysis is often a very complex exercise. So utmost care must be taken in designing, conducting, and interpreting such analysis. The good news is that continuous improvement in computer technology is making statistical demand analysis easier which is gaining increasing acceptance by the marketers as an approach to forecasting.

Questions for Review

1. How is forecasting made on the basis of salesforce opinions? What adjustments are made in salesforces estimates and why?
2. List some leading indicators that might help you predict sales of electric bulbs, motor cycles and packed orange juice. Can you describe a general procedure for finding leading indicator of product sales?
3. Buyers' intentions survey is worthwhile if –
 - A. The buyers are willing to pay the price asked for
 - B. The buyers can be approached through salespeople
 - C. The buyers have clearly formed intentions
 - D. All of the above.
4. Delphi method of forecasting involves –
 - A. Survey of buyers' intentions
 - B. Composite of salesforce opinions
 - C. Test marketing
 - D. Expert opinion.
5. The seasonal pattern is useful in forecasting –
 - A. Long-range sales
 - B. Medium-range sales
 - C. Short-range sales
 - D. None of the above.
6. In statistical demand analysis, which one of the following is widely used?
 - A. Income
 - B. Savings
 - C. Investment
 - D. Supply.

Ans : 3. C, 4. D, 5. C, 6. A .



MARKET SEGMENTATION, TARGETING AND POSITIONING



Buyers are numerous, widely scattered and varied in their needs and buying practices. Also, companies vary greatly in their abilities to serve different segments of the market. This implies that marketers can not cater all buyers in the market. In the context of these facts, it would be logical to say that each company must identify the parts of the market that it can serve best. With this end in view, companies take three steps that precede its planning and implementation of marketing programs. These steps are: market segmentation, market targeting and market positioning. In this unit, the whole discussion has been divided into four lessons which covers the above three steps in details. Let us start the lessonwise discussions :

School of Business

Blank page

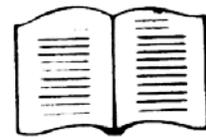
Lesson 1 & 2 : Market Segmentation : Meaning and Bases

Lesson objectives

After completing these lessons you will be able to :

- Understand the meaning of mass marketing, product-variety marketing, target marketing, micromarketing and customized marketing.
- Explain the meaning of market segmentation.
- Identify various bases for segmenting consumer markets, business markets and international markets.
- Describe the different ways for effective segmentation.

Amazing diversity in buyer characteristics and wide variability in the companies ability justifies the philosophy that instead of competing in an entire market, each company must identify the parts of the market that it can serve profitably. However, this philosophy has not emerged in one day. Outlook of marketers have passed through three stages; mass marketing, product-variety marketing and target marketing.



- **Mass Marketing** : In mass marketing, the seller is engaged in mass production, mass distribution and mass promotion of one product to all buyers. Initially, Kohinoor produced one toothpaste (chlorophyll) for the whole market, expecting it would appeal to everyone. The rationale behind mass marketing is that it should result in the lowest costs and prices and create the largest potential market.
- **Product-Variety Marketing** : In product-variety marketing, the seller produces two or more products that have different features, styles, quality and so on. Subsequently, Kohinoor produced several toothpastes bearing different brands with different packages. They were designed to offer variety to consumers rather than creating different appeals to different market segments.
- **Target Marketing** : In target marketing, the seller divides the market into segments, chooses one or more of them and develops products and marketing mixes most appropriate for each selected segment. For example, Kohinoor now produces toothpastes for middle-aged buyers segment (Floride), which claims to prevent tooth decay.

Companies, now a days, are shifting from mass marketing and product-variety marketing toward target marketing. Target marketing is more useful to sellers in locating their marketing opportunities. Sellers can develop the most appropriate product for each target market and mould their prices, distribution channels and advertising to reach the target market efficiently. While sellers adopt the “shotgun” approach (scattering marketing efforts) in mass marketing

and product-variety marketing, they adopt the “rifle” approach (focusing on the buyers who have greater purchase interest) in target marketing.

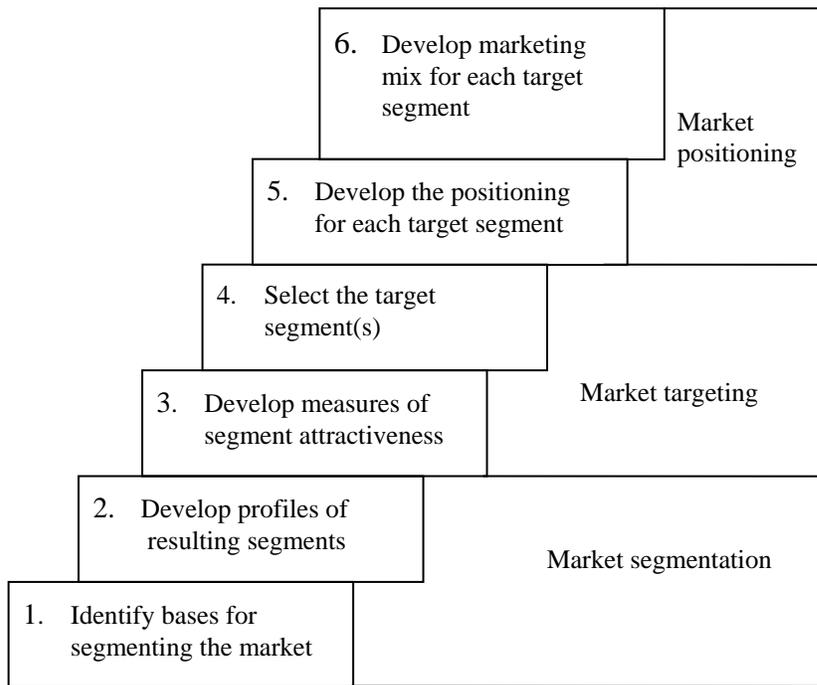
Target marketing finally takes the form of customized marketing.

With the increasing fragmentation of mass markets into many micromarkets, each with different needs and preferences, target marketing is increasing assuming the form of micromarketing. Adopting micromarketing, companies develop their marketing programs to the needs and wants of narrowly defined geographic, demographic, psychographic or behavior segments. Target marketing finally takes the form of customized marketing. In customized marketing, the company adapts its product and marketing program to the needs of a specific customer or buying organization.

Market targeting is the process of evaluating each market segments attractiveness and selecting one or more segments to enter.

Figure 5-1 illustrates the three major steps in target marketing. The first step is market segmentation which involves dividing a market into distinct group of buyers with different needs, characteristics, or behavior who might require separate products or marketing mixes. The second step is market targeting. Market targeting is the process of evaluating each market segments attractiveness and selecting one or more segments to enter. The third step is market positioning. Marketing positioning involves arranging for a product to occupy a clear, distinctive and desirable place relative to competing products in the minds of target consumers which is accomplished through formulating competitive positioning for a product and a detailed marketing mix.

Figure 5-1: Steps in Market Segmentation, Targeting and Positioning



Source : Philip Kotler and Gary Armstrong, Principles of Marketing, seventh edition, Prentice-Hall of India, New Delhi, 1997; p. 235.

Market Segmentation

Markets consist of buyers who differ in one or more ways such as needs, wants, resources, locations, buying attitudes and buying practices. For the purpose of market segmentation, sellers identify broad classes of buyers who differ in their product needs or buying behavior. For example, General Motors (GM) has found that high-and low-income groups differ in their car-buying needs and wants. It also knows that young consumers' needs and wants differ from those of older consumers. Thus, GM has designed specific models for different income and age groups. In fact, it sells models for segments with varied combinations of age and income.¹ We will now look at the bases for segmenting consumer, business and international markets.

Bases for Segmenting Consumer Markets

There is no single base to segment a market. For effective segmentation, a marketer has to use different segmentation variables alone and in combination. Table 5-1 shows the major variables that might be used in segmenting consumer markets. We will now discuss the major geographic, demographic and behavioral variables.

There is no single base to segment a market.

¹. Philip Kotler and Gary Armstrong, Principles of Marketing, seventh edition, Prentice-Hall of India, New Delhi, 1997; p. 237.

● **Geographic Segmentation**

A company may choose one or a few geographical areas to operate in.

On the basis of geographic variables, market is segmented by dividing it into different geographical units such as nations, regions, states, countries, cities or neighborhoods. A company may choose one or a few geographical areas to operate in. Or it can decide to operate in all areas but pay attention to geographical differences in needs and wants. For example, Campbell sells Cajun gumbo soup in Louisiana and Mississippi, and makes its nacho cheese soup spicier in Texas and California.² Geographic segmentation emphasizes the right products in the right geographic areas at the right times. By adopting geographic segmentation, many companies regionalise their marketing programs, by localizing their products, advertising, promotion and sales efforts to fit the needs of individual regions, cities and even neighborhoods. Geographic segmentation also enables a company to avoid areas where competition is severe and to select areas where competition is low.

Table 5-1 : Major Segmentation Variables for Consumer Markets

VARIABLE	TYPICAL BREAKDOWNS
Geographic	
Region	Pacific, Mountain, West North Central, West South Central, East North Central, East South Central, South Atlantic, Middle Atlantic, New England.
County size	A, B, C, D,
City Size	Under 5,000; 5,000-20,000; 20,000-50,000; 50,000-100,000; 100,000-250,000; 250,000-500,000; 500,000-1,000,000; 1,000,000-4,000,000; 4,000,000 and over.
Density	Urban, suburban, rural
Climate	Northern, Southern
Demographic	
Age	Under 6, 6-11, 12-19, 20-34, 35-49, 50-64, 65 +
Gender	Male, female
Family size	1-2, 3-4, 5+
Family life cycle	Young, single; young, married, no children; young, married, youngest child under 6; young married, youngest child 6 or over; older, married, with children; older, married, no children under 18; older, single; other

². Ibid., p. 237

Income	Under \$10,000; \$10,000-\$15,000; 15,000 - \$20,000; \$20,000-\$30,000; \$30,000-50,000; 50,000 - \$75,000; \$75,000 and over
Occupation	Professional and technical; managers, officials and proprietors; clerical, sales; craftsmen, foremen; operatives; farmers; retired; students; homemakers; unemployed
Education	Grade school or less; some high school; high school graduate; some college; college graduate
Religion	Catholic, Protestant, Jewish, other
Race	White, Black, Asian, Hispanic
Nationality	American, British, French, German, Scandinavian, Italian, Latin American, Middle Eastern, Japanese

Psychographic

Social class	Lower lowers, upper lowers, working class, middle class, upper middles, lower uppers, upper uppers
Lifestyle	Achievers, believers, strivers
Personality	Compulsive, gregarious, authoritarian, ambitious

Behavioral

Purchase occasion	Regular occasion, special occasion
Benefits sought	Quality, service, economy
User status	Nonuser, ex-user, potential user, first-time user, regular user
Usage rate	Light user, medium user, heavy user
Loyalty status	None, medium, strong, absolute
Readiness state	Unaware, aware, informed, interested, desirous, intending to buy
Attitude toward product	Enthusiastic, positive, indifferent, negative, hostile

Source : Philip Kotler and Gary Armstrong, Principles of Marketing, seventh edition, Prentice-Hall of India, New Delhi, 1997; p. 238.

● **Demographic Segmentation**

Demographic segmentation involves dividing the market into groups based on different variables such as age, gender, family size, family life cycle, income, occupation, education, religion, race and nationality. Demographic factors are the most popular bases for segmenting customers groups and are, therefore, widely used. Demographic

Consumer needs, wants and usage rates often vary closely with demographic variables.

segmentation has certain merits. **First**, consumer needs, wants and usage rates often vary closely with demographic variables. **Second**, demographic variables are easier to measure than most other types of variables. Even if market segments are initially defined using other bases, such as personality or behavior, their demographic characteristics must be considered in order to assess the size of the target market and to reach it efficiently. Now we will examine some important demographic variables used for market segmentation :

Human needs and wants change with age.

- **Age And life-cycle Stage** : Human needs and wants change with age. Using age and life-cycle segmentation, some companies offer different products or adopts different marketing approaches for different age and life-cycle groups. For example, McDonald's targets children, teens, adults and seniors with different ads and media. Its ads directed at teens feature dance-beat music, adventure and fast-paced cutting from scene to scene; ads to seniors are softer and more sentimental.³

Despite its merits, age and life-cycle segmentation has the problem of stereotyping which should be kept in mind. Two individuals of same age may not have similar needs, wants, habits, life-styles etc. It is often found that age can not precisely predict a person's life cycle, health, work or family status, needs and buying power.

Gender segmentation is extensively used in clothing, cosmetics and magazines.

- **Gender** : Gender segmentation involves dividing a market into different groups based on sex. Gender segmentation is extensively used in clothing, cosmetics and magazines. Other marketers are also adopting gender segmentation. For example, although early toilet soaps were used by both sexes, many companies are now featuring unisex brands. Procter & Gamble was among the first with Secret, a brand specially formulated for a woman's chemistry, packaged and advertised to reinforce the female image.⁴ Gender segmentation is also widely used in automobile industry. More and more car manufacturers are directing their advertisements towards women.

Income segmentation involves dividing a market into different income groups.

- **Income** : Income segmentation involves dividing a market into different income groups. Marketers of products and services such as automobiles, clothing, cosmetics and travel have found income segmentation very useful. Companies with luxury goods and convenience services target well off consumers. Income segmentation is also used to identify and target lower-income groups, so that they can be approached with appropriate products, prices and distribution outlets.
- **Multivariate Demographic Segmentation** : Each of the demographic variables has merits and limitations. For maximum effectiveness, most companies combine two or more demographic

³ Ibid., p. 240.

⁴ Ibid., p. 240.

variables in segmenting a market. Consider the market for deodorant soaps. The top-selling deodorant soap brands are used by many different kinds of consumers, but two demographic variables – gender and age – coupled with geographic region, are most useful in distinguishing the users of one brand from those of another.⁵

• **Psychographic Segmentation**

In psychographic segmentation, buyers are divided into different groups based on social class, lifestyle, or personality characteristics. People belonging to the same demographic group may have very different psychographic characteristics.

- **Social Class** : Social class has a strong effect on preferences in products, services and retail outlets. Many companies design products or services for specific social classes, incorporating features that appeal to these classes.
- **Life style** : People’s interest in various products is affected by their lifestyles and products bought by the buyers reflects their lifestyles. Consumer lifestyles are being increasingly used by the marketers for segmenting their markets. For example, Duck Head apparel targets a casual student lifestyles, claiming “You can’t get them old until you get them new.”⁶
- **Personality** : Marketers also use personality factors for segmenting their markets. They attribute personalities to their products that correspond to consumer personalities. Market segmentation on the basis of personality has been proved successful for products such as cosmetics, cigarettes, insurance and liquor.

Social class has a strong effect on preferences of

Consumer lifestyles are being increasingly used by the marketers for segmenting their markets.

Honda’s marketing campaign for its motor scooters provides a good example of personality segmentation. Honda appears to target its Spree, Elite and Aero motor scooters at hip and trendy 14-to22-year-olds. But it actually designs ads for a much broader personality group. One ad, for example, shows a delighted child bouncing up and down on his bed while the announcer says, “You’ve been trying to get there all your life.” The ad reminds views of the euphoric feelings they got when they broke away from authority and did things their parents told them not to do. It suggests that they can feel that way again by riding a Honda scooter. So even though Honda seems to be targeting young consumers, the ads appeal to trendsetters and independent personalities in all age groups. In fact, over half of Honda’s scooter sales are to young professionals and older buyers – 15 percent are purchased by the over-50 group. Honda is appealing to the rebellious, independent kid in all of us.⁷

• **Behavioral Segmentation :**

⁵ Ibid., p. 241.

⁶ Ibid., p. 241-242.

⁷ Ibid., p. 242.

Behavioral segmentation involves dividing a market into groups based on consumer knowledge, attitude, use, or response to a product. Here, we will discuss some behavioral variables that are used in segmenting markets.

Occasion segmentation helps boost product usage.

- **Occasions** : Buyers can be divided on the basis of occasions when they get the idea to buy, actually make their purchase, or use the purchased item. Occasion segmentation helps boost product usage. For example, orange juice most often is consumed at breakfast, but orange growers have promoted drinking orange juice as a cool and refreshing drink at other times of the day. In contrast, Coca-Cola's "Coke in the Morning" advertising campaign attempts to increase Coke consumption by promoting the beverage as an early morning pick-me-up.⁸
- **Benefits Sought** : Buyers can also be grouped according to the different benefits that they seek from the product. Benefit segmentation calls for finding the major benefits people seek in the product class, the kinds of people who look for each benefit and the major brands that deliver each benefit. The following table (Table No. 5-2) provides an example of benefit segmentation in the toothpaste market:

Table 5-2 : Benefit Segmentation of the Toothpaste Market

BENEFIT SEGMENTS	DEMOGRAPHICS	BEHAVIOUR	PSYCHOGRAPHICS	FAVoured BRANDS
Economy (low price)	Men	Heavy users	High autonomy, value oriented	Brands on sale
Medicinal (decay prevention)	large families	Heavy users	Hypochondriacal, conservative	Crest
Cosmetic (bright teeth)	Teens, Young adults	Smokers	High sociability, active	Aqua-Fresh Ultra Brite
Taste (good tasting)	children	Spearmint lovers	High self-involvement hedonistic	Colgate, Aim

Source: Philip Kotler and Gary Armstrong, Principles of Marketing, seventh edition, Prentice-Hall of India, New Delhi, 1997; p. 243.

Marketers can use benefit segmentation to identify the benefit segment to which they are appealing, its characteristics and the major competing brands. They also can look for new benefits and launch brands that deliver them.

- **User Status:** Market segmentation can also be done according to user status such as nonusers, ex-users, potential users, first-time users and regular users of a product. Potential users and regular users need to be approached through different kinds of marketing appeals. For example, one study found that blood donors are low in self-esteem, low risk takers

⁸. Ibid., pp. 242-243.

and more highly concerned about their health; nondonors tend to be the opposite on all three dimensions. This suggests that social agencies should use different marketing approaches for keeping current donors and attracting new ones.⁹ A company's current market position will also influence its focus on segments. The market leader will focus on attracting potential users while smaller companies will focus on diverting current users away from the market leader.

- **Usage Rate:** Market segmentation can also be done according to usage such as light, medium and heavy user groups. Although heavy users are often a small percentage of the market, they account for a high percentage of total buying. In one study, product users were divided into two halves, a light-user half and a heavy-user half, according to their buying rates for the specific products. Using beer as an example, it was found that 41 percent of the households studied buy beer. However, the heavy-user half accounted for 87 percent of the beer consumed – almost seven times as much as the light-user half. Clearly, a beer company would prefer to attract one heavy user to its brand rather than several light users. Thus, most beer companies target the heavy beer drinker, using appeals such as Schaefer's "one beer to have when you're having more than one."¹⁰

- **Loyalty Status :** A market can also be segmented on the basis of consumer loyalty. Consumers can be loyal to brands (Jet), stores (Aarong), and companies (Liver). Buyers can be divided into groups on the basis of their degree of loyalty. There are consumers who are completely loyal and they buy one brand all the time. There are also consumers who are somewhat loyal and they are loyal to two or three brands of a given product or favour one brand and may sometimes buy others. There are also buyers who are not loyal to any brand. They look for something different each time they buy or they buy whatever is there on sale.

Buyers can be divided into groups on the basis of their degree of loyalty.

A Company can learn a lot by analyzing loyalty patterns in its market. It should start by studying its own loyal customers. Colgate finds that its loyal buyers are more middle class, have larger families and are more health conscious. These characteristics pinpoint the target market for Colgate. By studying its less loyal buyers, the company can detect which brands are most competitive with its own. If many Colgate buyers also buy Crest, Colgate can attempt to improve its positioning against Crest, possibly by using direct-comparison advertising. By looking at customers who are shifting away from its brand, the company can learn about its marketing weaknesses. As for nonloyals, the company may attract them by putting its brand on sale.¹¹

Brand loyalty should be carefully used in segmenting markets. Habit, indifference, a low price, or unavailability of other brands should not be

⁹. Ibid., p. 244

¹⁰. Ibid., p. 244.

¹¹. Ibid., p. 245.

misconstrued as brand-loyal purchase patterns. Similarly, frequent or regular purchasing should not be understood as brand loyalty. Motivations underlying observed purchase patterns need to be seriously examined.

Segmenting Business Markets

Like consumer markets, business markets can be segmented geographically or by benefits sought, user status, usage rate and loyalty status. Some additional variables are also used for segmenting business markets. These are business customer demographics (industry, company size), operating characteristics, purchasing approaches, situational factors and personal characteristics, which are shown in the table (Table: 5-3) given below :

Table 5-3 : Major Segmentation Variables for Business Markets

DEMOGRAPHICS
<i>Industry</i> : Which industries that buy this product should we focus on?
<i>Company Size</i> : What size companies should we focus on?
<i>Location</i> : What geographical areas should we focus on?

OPERATING VARIABLES
<i>Technology</i> : What customer technologies should we focus on?
<i>User/nonuser status</i> : Should we focus on heavy, medium, or light users or nonusers?
<i>Customer capabilities</i> : Should we focus on customers needing many services or few services?

PURCHASING APPROACHES
<i>Purchasing function organization</i> : Should we focus on companies with highly centralized or decentralized purchasing organizations?
<i>Power structure</i> : Should we focus on companies that are engineering dominated, financially dominated, or marketing dominated?
<i>Nature of existing relationships</i> : Should we focus on companies with which we already have strong relationships or simply go after the most desirable companies?
<i>General purchase policies</i> : Should we focus on companies that prefer leasing? Service contracts? Systems purchases? Sealed bidding?
<i>Purchasing criteria</i> : Should we focus on companies that are seeking quality? Service? Price?

SITUATIONAL FACTORS
<i>Urgency</i> : Should we focus on companies that need quick delivery or

service?

Specific application : Should we focus on certain applications of our product rather than all applications?

Size of order : Should we focus on large or small orders?

PERSONAL CHARACTERISTICS

Buyer-seller similarity : Should we focus on companies whose people and values are similar to ours?

Attitudes toward risk : Should we focus on risk-taking or risk-avoiding customers?

Loyalty : Should we focus on companies that show high loyalty to their suppliers?

Source: Philip Kotler and Gary Armstrong, Principles of Marketing, seventh edition, Prentice-Hall of India, New Delhi, 1997; p. 247.

Business marketers must first determine which customers they want to serve. By deciding to operate in segments instead of serving the whole market, companies will be able to deliver value to consumers at maximum profits. Thus, Goodyear and other tyre companies should decide which industries they want to serve. Manufacturers buying tyres vary in their needs. Markets of luxury and high-performance cars want higher-grade tyres than makers of economy models. And the tyres needed by aircraft manufacturers must meet much higher safety standards than tyres needed by farm tractor manufacturers.¹²

Business marketers must first determine which customers they want to serve.

Having chosen a particular industry, a company may go for further segmentation by customer size or geographic location. The company might establish separate systems for handling larger or multiple-location customers. For example, Steelcase, a major producer of office furniture, first segments customers into ten industries, including banking, insurance and electronics. Next, company salespeople work with independent steelcase dealers to handle smaller, local, or regional steelcase customers in each segment. But many national, multiple-location customers, such as Exxon or IBM, have special needs that may reach beyond the scope of individual dealers. So, steelcase uses national accounts managers to help its dealer networks handle its national accounts.¹³

target industry
customer size can
be segmented by
purchase approaches
and criteria.

A given target industry and customer size can also be segmented by purchase approaches and criteria. For example, government, university and industrial laboratories buy scientific instruments. But they differ in their purchase criteria. Government labs want low prices and service

¹². Ibid., p. 245.

¹³. Ibid., p. 245.

contracts as they have fund constraints to buy instruments but have the money to maintain them. University labs want equipment that requires little regular service because they don't have their own service people. Industrial labs need highly reliable equipment because they can not afford interruption in their production process.

Many marketers are convinced that buying behavior and benefits provide the best basis for segmenting business markets as they do in case of consumer segmentation. For example, a recent study of the customers of Signode Corporation's industrial packaging division revealed the following four segments, each seeking a different mix of price and service benefits :

- **Programmed Buyers** : The buyers view Signode's products as not very important to their operations. They buy the products as a routine purchase, usually pay full price and accept below-average service. Clearly, this is a highly profitable segment for Signode.
- **Relationship Buyers** : These buyers regard Signode's packaging products as moderately important and are knowledgeable about competitors' offerings. They prefer to buy from Signode as long as its price is reasonably competitive. They receive a small discount and a modest amount of service. This segment is Signode's second most profitable.
- **Transaction Buyers** : These buyers see Signode's products as very important to their operations. They are price and service sensitive. They receive about a 10 percent discount and above-average service. They are knowledgeable about competitors' offerings and ready to switch for a better price, even if it means losing some service.
- **Bargain Hunters** : These buyers see Signode's products 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. Signode needs these buyers for volume purposes, but they are not very profitable.¹⁴

This segmentation scheme has helped Signode to do a better job of designing marketing strategies that take into account each segment's unique retains to varying levels of price and service.¹⁵

Segmenting International Markets

Many companies, large and small, are engaged in international operations although they vary in their level of international involvement. These companies need to divide their world markets into segments with

¹⁴. Ibid., p. 246.

¹⁵. Ibid., p. 246.

distinct buying needs and behaviors as they do within their home markets. One or a combination of several variables can be used for segmenting international markets. Major variables used to segment international markets are geographic location, economic factors, political and legal factors, and cultural factors.

Companies can segment international markets by geographic location – grouping countries by regions such as Western Europe, Far East, South Asia, or North Africa. In geographic segmentation, it is assumed that nations close to one another will have many common characteristics. However, this is not always the case. For example, the United States and Canada have much in common. Yet both differ culturally and economically from neighboring Mexico. Even within a region, consumers can differ greatly. For example, in Southeast Asia, Malaysia is no more like Indonesia than Thailand is like Singapore.

Even within a region, consumers can differ greatly.

Economic factors can also be used for segmenting world markets. For example, countries might be classified by population, income levels or by their overall level of economic development. Some countries are highly industrialized such as the United States Britain, France, Canada. Other countries are newly industrialized or developing economies such as Singapore, Korea, Taiwan. There are less developed countries also such as Bangladesh, Pakistan. A country's economic characteristics largely determine the product and service needs of its population and also the marketing opportunities that exists.

A country's economic characteristics largely determine the product and service needs of its population

Countries can also be segmented by political and legal factors. Important of these factors are stability of government, receptivity to foreign firms, monetary regulations and the nature of bureaucracy. These factors affect a company's choice of which countries to enter and how. By using cultural factors, markets are grouped according to common languages, religions, values and attitudes, customs, and behavioral patterns.

Segmenting international markets on the basis of geographic, economic, political, cultural and other factors presupposes that segments should consist of clusters of countries. However, many companies adopt a different approach, called intermarket segmentation. Intermarket segmentation involves forming segments of consumers who have similar needs and buying behavior even though they are located in different countries. For example, Mercedes-Benz targets the world's well-to-do, regardless of their country. And Pepsi uses ads filled with kids, sports and rock music to target the world's teenagers. It recently introduced sugar-free Pepsi Max in 16 countries, including Britain, Australia and Japan, with a single set of ads aimed at teens who like to live on the wild side.¹⁶

Requirements for Effective Segmentation

We have observed that there are many ways to segment a market. But all of them are not useful. For example, buyers of pasteurized milk could be divided into fair complexioned and dark complexioned customers. But skin color does not affect the purchase of milk. Moreover, if all milk

¹⁶. Ibid., p. 248.

buyers bought the same amount of milk each month, believed all milk is the same and wanted to pay the same price, the company would not benefit from segmenting this market.

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

- **Measurability:** Segmentation should be done in a manner so that the size, purchasing power and profiles of the segments can be measured. Use of segmentation variables that are difficult to measure makes no sense.
- **Accessibility:** Segmentation should ensure that market segments can be effectively reached and served.
- **Substantiality:** The market segments should be big and attractive enough to serve. A segment should be the largest possible homogeneous group that can be approached with a marketing program.
- **Actionability:** Segments should be such that effective programs can be designed for attracting and serving them.

Questions for Review

1. Define mass marketing, product-variety marketing and target marketing. Why companies are shifting from mass marketing and product-variety marketing toward target marketing?
2. Outline what variables are used in segmenting the market for toilet soaps. Give examples.
3. A ceramic products company of Bangladesh has decided to go to international. What variables should the company use to segment the world market for ceramic products? Why?
4. Target marketing finally takes the form of –
 - A. Mass marketing
 - B. Product-variety marketing
 - C. Customized marketing
 - D. Micromarketing.
5. Market targeting evaluates each market segment's –
 - A. Size
 - B. Attractiveness
 - C. Structure
 - D. Homogeneity.
6. Demographic segmentation is popular because –
 - A. Consumer needs vary closely with demographic variables
 - B. Demographic variables are easy to measure
 - C. Demographic characteristics are helpful in assessing the market size
 - D. All of the above.
7. In psychographic segmentation, buyers are divided on the basis of –
 - A. Neighborhoods
 - B. Religion
 - C. Social class
 - D. Age.
8. In behavioral segmentation, buyers are divided on the basis of–
 - A. Gender
 - B. Family size
 - C. Personality
 - D. Consumer knowledge.
9. Intermarket segmentation is used to segment –
 - A. Consumer markets
 - B. Business markets
 - C. International markets
 - D. All of the above.

Ans: 4. C, 5. B, 6. D, 7. C, 8. D, 9. C .



Lesson 3 : Market Targeting

Lesson objectives

After completing this lesson you will be able to:

- Outline the process of evaluating market segments
- Recommend some methods for selecting market segments
- Identify the factors to be considered in choosing a market-coverage strategy.



By segmenting the market, the company discovers its opportunities in various segments. After segmentation, the company evaluates various segments to identify which ones and how many segments it should target. We will now discuss the process of evaluating and selecting market segments.

Evaluating Market Segments

A company takes into account three factors in evaluating different market segments. These are segment size and growth, segment structural attractiveness and company objectives and resources.

- **Segment Size and Growth**

A company first determines segment size and growth.

A company first determines segment size and growth. It collects and analyses data on current segment sales, growth rates and expected profitability for various segments. The company will be concerned with segments that have the right size and growth characteristics. But the idea of right size and growth is relative. Some companies will want to choose segments with large current sales, a high growth rate and a high profit margin. However, every company may not find the largest, fastest-growing segments attractive ones. Smaller companies may feel that they don't have the skills and resources needed to serve the large segments, or that these segments are too competitive. These companies may select segments that are apparently smaller and less attractive, but that are potentially more profitable for them.

- **Segment Structural Attractiveness**

A segment with desirable size and growth may not have strong profit potential. For assessing long-run segment attractiveness in terms of profit, the company must examine several major structural factors. For instance, a segment is less attractive if it is composed of many strong and aggressive competitors. If there are many substitute products, they may restrict prices and profits. The relative power of buyers also influences segment attractiveness. If the buyers in a segment are stronger than sellers in bargaining, they will try to pull down the prices, want more quality and services and set competitors in fierce competition – all affecting seller profitability adversely. A segment may be less attractive when it is composed of strong suppliers who can manipulate prices or

decrease the quantity or quality of ordered goods and services. Suppliers are powerful in situations where they are large and concentrated, substitutes are few, or supplied product is an important input.

- **Company Objectives and Resources**

Even if a segment appears to be lucrative in terms of size, growth and structure, the company must consider its own objectives and resources in relation to that segment. Some attractive segments could be dropped from consideration because they are not compatible with the company's long-run objectives. Although such segments might be attractive in themselves, they might deflect the company's attention and energies away from its main goals and objectives. Again, from an environmental, political or social-responsibility viewpoint, it might be unwise to choose them. For example, in recent years several companies and industries have been criticised for unfairly targeting vulnerable segments –children, the aged, low-income minorities and others – with questionable products or tactics.¹⁷

If a segment is found to be compatible with the company objectives, the company then must think whether it has the skills and resources necessary to succeed in that segment. If the company does not have the strengths needed to compete successfully in a segment, it should refrain from entering the segment. The company should decide to enter segments only where it can offer superior value and gain advantages over competitors by putting skills and resources superior to those of the competitors.

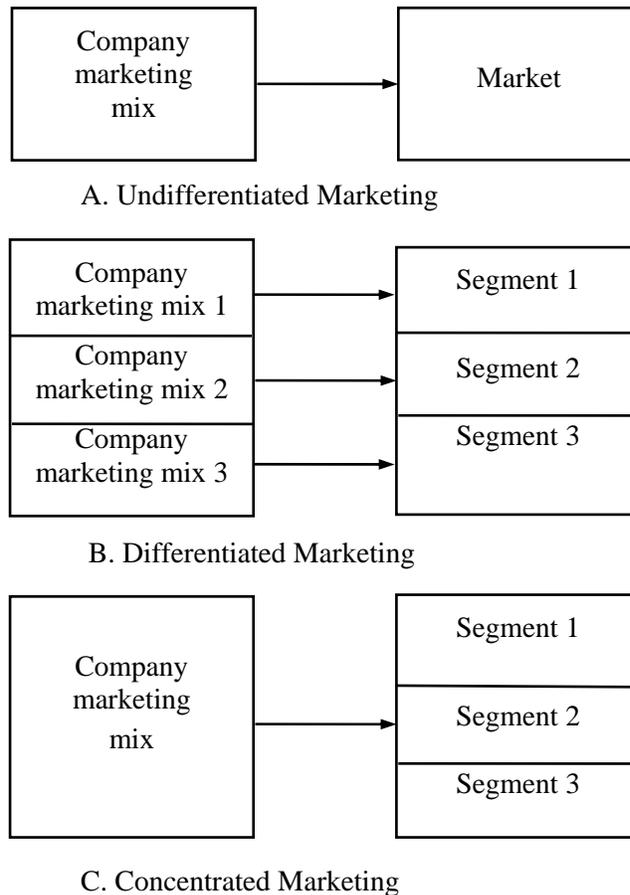
Selecting Market Segments

Evaluation of different segments is followed by decisions regarding which and how many segments the company will serve. This is called target market selection. A target market refers to a set of buyers who share common needs or characteristics that the company decides to serve. Figure 5-2 exhibits that company can adopt one of three market-coverage strategies – undifferentiated marketing, differentiated marketing and concentrated marketing.

A target market refers to a set of buyers who share common needs or characteristics that the company decides to serve.

¹⁷. Ibid., p. 250.

Figure 5-2 : Three Alternative Market-Coverage Strategies



Source : Philip Kotler and Gary Armstrong, Principles of Marketing, seventh edition, prentice Hall of India, New Delhi, p. 250.

• **Undifferentiated Marketing**

Adopting an undifferentiated marketing strategy, a company does not take into account market segment differences and approaches the whole market with one offer. The offer concentrates on what is common in the needs of consumers ignoring what is different. The company develops a product and a marketing program that appeal to the majority of the buyers. It depends on mass distribution and mass advertising. An example of undifferentiated marketing is the marketing of Milk Vita pasteurized milk.

Undifferentiated marketing provides the benefits of cost economies.

Undifferentiated marketing provides the benefits of cost economies. The limited product line keeps the production, inventory and transportation costs down. Advertising costs are also low because of undifferentiated advertising program. Costs of marketing research and product management are also low because the company is not engaged in conducting market segmentation research and planning.

However, some marketers have reservations about this strategy. Developing a product or brand that will satisfy all consumers is a very

In undifferentiated marketing, companies typically develop one offer for the large segments in the

difficult task. In undifferentiated marketing, companies typically develop an offer for the largest segments in the market. When several companies operate in the largest segments using undifferentiated strategy, competition intensifies. Simultaneously less satisfaction results in the smaller segments. Ultimately the larger segments may be less profitable because they invite heavy competition. To avoid this problem, companies become more interested in smaller market segments.

- **Differentiated Marketing**

Adopting a differentiated marketing strategy, a company targets several market segments and approaches each of these segments with separate offers. General Motors tries to produce a car for every "purse, purpose and personality". Nike refreshes athletic shoes for a dozen or more different sports, from running, fencing and aerobics to bicycling and baseball. And Wal-Mart appeals to the needs of different shopper segments with Wal-Mart discount stores, Wal-Mart supercentres, and Sam's Warehouse stores.¹⁸ By using differentiated marketing strategy, a company expects to derive certain benefits. It expects that product and marketing variations will fetch higher sales and help secure stronger position within each market segment. The company thinks that a stronger position in several segments will reinforce consumers' overall identification of the company with the product category. It also expects that differentiated marketing will enhance loyal purchasing. Because the company's offer is more compatible with the segment's needs.

Although differentiated marketing brings more sales than does undifferentiated marketing and this strategy is being increasingly adopted by companies, it has certain demerits. Differentiated marketing leads to increase costs. Product modification to meet the needs of different market segment calls for additional research and development, engineering, or special tooling costs resulting in an overall increase in costs. Individualizing marketing plans to the needs of separate segments calls for extra marketing research, forecasting, sales analysis, promotion planning and channel management - all contributing to an increase in costs. Different advertising directed towards different market segments increases promotion costs. Therefore, when choosing a differentiated marketing strategy, a company must be sure that increased sales outweighs increased costs.

Differentiated marketing leads to increase costs.

- **Concentrated Marketing**

Concentrated marketing is specially effective when company has resource constraints. Instead of choosing a small share of a large market, the company chooses 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. Recycled paper products concentrate on the market for alternative greeting cards. And Soho Natural Sodas concentrates on a narrow segment of the soft-drink

Concentrated marketing is specially effective when company has resource constraints.

¹⁸. Ibid., p. 252.

market.¹⁹ Small new businesses can place themselves against larger and stronger competitors by using concentrated marketing.

Concentrated marketing offers certain benefits. As the company becomes aware of the segments needs and acquires special reputation, it achieve a strong market position. Concentrated marketing provides many operating economies resulting from specialization in production, distribution and promotion. A well chosen segment served with concentrated marketing ensures a high rate of return on the company's investment.

Concentrated marketing has the problem of higher than normal risks.

Concentrated marketing has the problem of higher than normal risks. The particular market segment might turn to be unprofitable. Stronger competitors may enter the same segment. California Cooler's success in the wine cooler segment attracted many large competitors, causing the original owners to sell to a larger company that had more marketing resources.²⁰ To avoid these problems, many companies choose to diversify in several market segments.

Choosing a Market-Coverage Strategy

In choosing a market coverage strategy, a marketer should consider some important factors. Company resources deserve serious consideration in choosing a market-coverage strategy. For companies with limited resources, concentrated marketing is most appropriate. Degree of product variability is another important factor. Undifferentiated marketing is more appropriate for uniform products such as sugar and diesel. Differentiated or concentrated marketing is more appropriate for products that can vary in design, such as furniture and apparels. The product's stage in the life cycle is also important. At the introduction stage, the product should have only one version and undifferentiated marketing or concentrated marketing is the most pragmatic strategy. In the mature stage of the product life cycle, differentiated marketing is more effective. Market variability is another important consideration. If most of the buyers have similarity in tastes, purchase size and reactions to marketing efforts, undifferentiated marketing is the suitable one. Finally, competitor's marketing strategies should also be considered. When competitors use segmentation, undifferentiated marketing can be counter productive. When competitors use undifferentiated marketing, a company can gain competitive advantage by adopting differentiated or concentrated marketing.

¹⁹. Ibid., p. 252.

²⁰. Ibid. p. 254

Questions for Review

1. Explain the factors that company takes into account in evaluating different market segments.
2. What is a target market? Discuss the merits and demerits of different market-coverage strategies.
3. A segment is less attractive if it is composed of –
 - A. Weak suppliers
 - B. Strong and aggressive competitors
 - C. Sellers stronger than buyers
 - D. All of the above.
4. Benefits of cost economies are provided by –
 - A. Undifferentiated marketing
 - B. Differentiated marketing
 - C. Concentrated marketing
 - D. All of the above.
5. For companies with limited resources, the appropriate strategy is –
 - A. Undifferentiated marketing
 - B. Differentiated marketing
 - C. Concentrated marketing
 - D. None of the above.
6. Differentiated marketing is more effective when the product is in the -
 - A. Introduction stage
 - B. Growth stage
 - C. Mature stage
 - D. Decline stage.

Ans: 3. B, 4. A, 5. C, 6. C .



Lesson 4 : Market Positioning

Lesson objectives

After completing this lesson you will be able to :

- Explain the concept of positioning for competitive advantage with examples
- Discuss how companies choose and implement a positioning strategy
- Contrast positioning on the basis of product, service, personnel and image differentiation.



After evaluating market segments and deciding which segments of the market the company will enter, it faces the question of market positioning. The company must decide what positions it wants to occupy in those segments.

What is Market Positioning?

A product's position is the manner in which the product is defined by consumers on important attributes. It indicates the place the product occupies in consumers' minds relative to competing products. For example, in the 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.²¹

Consumers are exposed to lot of information about product and services. In each buying situation, they cannot reevaluate products. Consumers arrange products into different categories by positioning products, services and companies in their minds. A product's position refers to the complex set of perceptions, impressions and feelings that consumers bear in their minds for the product compared with competing products. Consumers position products in their minds with or without the help of marketers. But marketers want to play an active role in positioning their products. They must plan positions in a way which will ensure their products the greatest advantage in selected target markets. This implies that marketing mixes must be designed to create these planned positions.

Consumers position products in their minds with or without the help of marketers.

Positioning Strategies

Marketers can adopt various positioning strategies. Products can be positioned on specific product attributes – Sunsilk keeps hair soft and shining. Products can be positioned on the needs they satisfy or the benefits they give – Peps Flouride prevents tooth decay. Products can also be positioned on usage occasions – no Eid without Banoful vermicelli. Products can also be positioned for certain classes of users – Lifebuoy for athletes.

Products can be positioned on specific product attributes

²¹. Ibid., p. 254.

A product can also be positioned against a competing product. For example, in its ads, Citibank VISA compares itself directly with American Express, saying, “You’d better take your VISA card, because they don’t take American Express”.²² Another approach is to position the product away from competing products. For many years, 7-up has positioned itself as the “Un-cola”, the fresh and thirst-quenching alternative to Coke and Pepsi.²³ Products are also positioned for different product classes. For example, some hair creams are positioned against hair oils. Marketers often use a combination of strategies discussed above.

A product can also be positioned against a competing product.

Choosing and Implementing a Positioning Strategy

The task of choosing and implementing a positioning strategy involves three steps. The company must first identify a set of possible competitive advantages on which the position will be built and then select the appropriate competitive advantages. Finally, the company must find the way of effectively communicating and delivering the chosen position to the market.

Identifying Possible Competitive Advantages

For being successful, the company must choose a positioning strategy that give it advantage over competitors. Competitive advantage can be gained by offering consumers' greater value, either through lower prices or by providing more benefits that justify higher prices. But promises only are not enough to build strong positions. When a company positions its product as offering the best quality and service, it must ensure the delivery of promised quality and service. So positioning starts with actually differentiating the company’s marketing offer from those of competitors; making the consumers believe that this will give them more value than competitors’ offers do.

Competitive advantage can be gained by offering consumers' greater value

Gaining competitive advantage by differentiating the offer may not always be possible. Some companies find many insignificant advantages that are swiftly imitated by competitors. These companies should, therefore, keep identifying new potential advantages and they introduce them one by one. These companies do not think that they will have a single major permanent advantage. Rather, they expect to gain many minor ones that can be introduced over a period of time.

A company can differentiate its offer from those of competitors on the basis of product, services, personnel, or image.

- **Product Differentiaiation** : A company’s physical product can be differentiated. Although some companies offer highly standardized products (antibiotics), meaningful differentiation might be possible in some cases. Some products can be highly differentiated such as

²². Ibid., p. 256.

²³. Ibid., p. 256.

can also be
iated by style
gn on by
nance.

apartments, furniture. In such a case, the company can offer a variety of standards or optional features not provided by competitors. Thus, Volvo provides new and better safety features; Delta Airlines offers wider seating and free in-flight telephone use.²⁴ Products can also be differentiated according to performance. Whirlpool designs its dishwasher to run more quietly; Procter & Gamble formulates Liquid Tide to get clothes cleaner.²⁵ Companies also can differentiate their products by style and design. Thus, many car buyers pay a premium for Jaguar automobiles because of their extraordinary look, even though Jaguar has sometimes had a poor reliability record.²⁶ Products can be differentiated on attributes such as consistency, durability, reliability, or reparability.

- **Services Differentiation** : A company can also differentiate the services that are associated with the product. Speedy and careful delivery can provide competitive advantage. Deluxe, a check supply company, has built an impressive reputation for shipping out replacement checks one day after receiving an order – without being late once in 12 years.²⁷

Companies can also be differentiated on the basis of installation. IBM, for example, is known for its quality installation service. It delivers all pieces of purchased equipment to the site at one time rather than sending individual components to sit and wait for others to arrive. And when asked to move IBM equipment and install it another location, IBM often moves competitors' equipment as well.²⁸ Repair services also can differentiate one company from another. Many automobile buyers will be willing to pay a little more for post-purchase repair services. Companies can differentiate their offers by providing training services to buyers. For example, General Electric not only sells and installs expensive X-ray equipment in hospitals, but also trains the hospital employees who will use this equipment.²⁹ There are companies who offer free or paid consulting services like data, information systems and advising services that buyers may need.

Marketers can discover many other ways of differentiating services which add value to their products. They can choose from myriad types of services and can even create new ones to differentiate themselves from the competitors.

- **Personnel Differentiation** : One way of gaining competitive advantage is to employ and train better people than those of

²⁴. Ibid., p. 256.

²⁵. Ibid., p. 256.

²⁶. Ibid., p. 256.

²⁷. Ibid., pp. 256-257.

²⁸. Ibid., p. 257.

²⁹. Ibid., p. 257.

Personnel differentiation calls for and proper selection and training of customer-oriented people.

competitors. For example, Singapore Airlines enjoys an excellent reputation largely because of the grace of its flight attendants. MacDonald's people are courteous, IBM people are professional and knowledgeable and Disney people are friendly and upbeat.³⁰ Personnel differentiation calls for careful and proper selection and training of customer-contact people.

- **Image Differentiation** : Buyers can also differentiate marketers based on company or brand images. Companies try to create images that differentiate them from competitors. A company or brand image should reflect the distinctive benefits and positioning of the product. Creating a strong and distinctive image requires creativity and hard work.

Symbols, signs, logos and color are used to create strong company or brand recognition and image differentiation. A company can also build an image through the types of events it sponsors. For example, Pepsi Cola has identified itself closely with sports events, such as cricket tournaments.

Selecting the Right Competitive Advantages

Even if a company finds several potential competitive advantages it must choose the ones on which to build its positioning strategy. It faces two important issues – how many differences to promote and which differences to promote.

- **How Many Differences To Promote?** Many marketers are of the opinion that companies should vigorously promote only one benefit to the largest market. Each brand should select an attribute and claim itself as “number one” on that attribute. Buyers tend to recognize “number one” easily. Thus, Peps toothpaste consistently promotes its decay prevention. Some of the popular “number one” positions to promote are “best quality” “best service”, “lowest price”, “best value”, and “most advanced technology”. Other marketers believe that companies should position themselves on more than one differentiating element. This may be required in situations where two or more companies claim to be best on the same attribute. Steelcase, an office furniture systems company, differentiates itself from competitors on two benefits: best on-time delivery and best installation support.³¹

As mass market is fragmenting into many small segments, companies are trying to widen their positioning strategies to appeal to more segments. For example, Beecham promotes its Aquafresh toothpaste as offering three benefits: “anti-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

³⁰. Ibid., p. 257.

³¹. Ibid., p. 259.

all three. Beecham's solution was to create a toothpaste that squeezed out of the tube in three colors, thus visually confirming the three benefits.³²

However, too many claims for a brand exposes the company to risk–disbelief and a loss of clear positioning. In finding positioning strategies, a company must consciously avoid three major positioning errors. These are : a) underpositioning – at all, b) overpositioning–when the company gives a very narrow impression of itself to the buyers, c) confused positioning – when the buyer is given a confused image of the company.

The company must be careful in selecting ways of distinguishing itself from competitors.

- ***Which Differences To Promote?*** For gaining competitive advantage, a company or a brand can be differentiated in many ways. But all differences are not meaningful and worthwhile. Moreover, each difference is likely to enhance company costs as well as customer benefits simultaneously. So the company must be careful in selecting ways of distinguishing itself from competitors. A difference is worth promoting to the extent that it satisfies the following criteria:
- ***Important*** : The difference delivers a highly valued benefit to target buyers.
- ***Distinctive*** : Competitors do not offer the difference, or the company can offer it in a more distinctive way.
- ***Superior*** : The difference is superior to other ways that customers might obtain the same benefit.
- ***Communicable*** : The difference is communicable and visible to buyers.
- ***Preemptive*** : Competitors can not easily copy the difference.
- ***Affordable*** : Buyers can afford to pay for the difference.
- ***Profitable*** : The company can introduce the difference profitably.³³

Many companies have introduced differentiations that failed one or more of these tests. The Westin Stamford hotel in Singapore advertises that it is the world's tallest hotel, a distinction that is not important to many tourists – in fact, it turns many off. AT&T's original picturevision phones bombed, partly because the public did not think that seeing the other person was worth the phone's high cost. Thus, choosing competitive advantages on which to position a product or service can be difficult, yet such choices may be crucial to success.³⁴

³². Ibid., p. 259.

³³. Ibid., p. 259.

³⁴. Ibid., p. 259-60.

Communicating and Delivering the Chosen Position

After choosing a position, the company must take effective measures to deliver and communicate the chosen position to target consumers. Marketing mix efforts should be synchronized to back the positioning strategy. If the company wants to build a position on better quality and service, it must first take necessary action to deliver that position. Tactical details of the positioning strategy must be worked out to guide the designing of marketing mix—product, price, place and promotion. A company that chooses a “high-quality position” must produce high quality products, charge a high price, distribute through high-quality middlemen, and use high-quality media for promotion. The company must recruit and train more service people, find service-oriented retailers, and develop sales and advertising messages that communicate its superior service. In this way, a company can build a consistent and convincing high-quality, high-service position.

Developing a good positioning strategy is often easier than implementing it. Creating a position or changing a position generally takes a long time. Again, positions built over a long period of time can be lost quickly. Having built the desired position, the company must carefully maintain it. This is possible through consistent performance and communication. Too much changes might create confusion in minds of consumers. Rather, modifications and changes in product's position should be congruent with ever-changing marketing environment.

Marketing mix efforts should be synchronized to back the positioning strategy.

Creating a position or changing a position generally takes a long time.

Questions for Review

1. Describe the roles that product attributes and product performance play in positioning a product.
2. What issues a company considers in selecting the right competitive advantages?
3. On which of the following, products are not positioned? –
 - A. Usage occasions
 - B. User class
 - C. Company objectives
 - D. Product classes.
4. On which of the following products can be positioned? –
 - A. Attributes
 - B. Needs they satisfy
 - C. Competing product
 - D. All of the above.
5. A company can differentiate its offer from those of competitors on the basis of –
 - A. Company size
 - B. Company image
 - C. Company objectives
 - D. Company location.
6. Giving buyers too narrow a picture of the company is called –
 - A. Underpositioning
 - B. Overpositioning
 - C. Confused positioning
 - D. None of the above.



Ans : 3. C, 4. D, 5. B, 6. B.

CONSUMER MARKETS AND CONSUMER BUYER BEHAVIOR



Consumer buying behavior is the buying behavior of final consumers. They include individual and households who buy goods and services for personal consumption. All of these final consumers constitute the consumer market. The world consumer market consists of more than six billion people. Consumers around the world vary greatly in age, income, education level, and tastes. They also buy innumerable variety of goods and services. How these diverse consumers make their choices among various products is an interesting area of study for the marketers. In this unit, We have examined the various aspects of consumer behavior and the consumer market.

School of Business

Blank Page

Lesson 1 & 2 : Factors Affecting Consumer Behavior and Types of Buying Decision Behavior

Lesson objectives

After completing these lessons you will be able to :

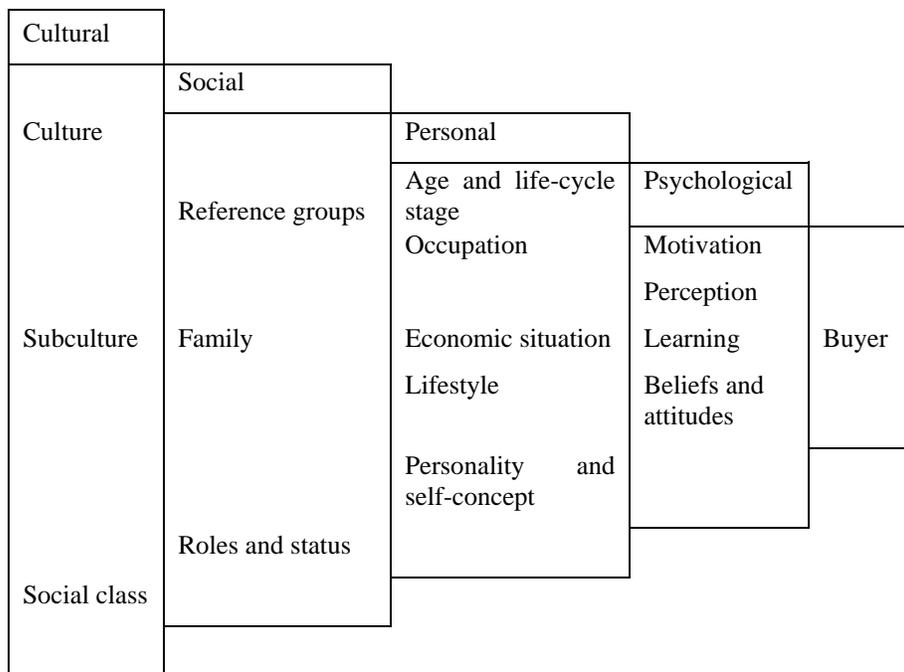
- Outline the major factors affecting consumer behavior
- Specify the cultural, social, personal, and psychological factors influencing consumers
- Identify and define the consumer buying roles of initiator, influencer, decider, buyer, and user
- Illustrate different types of buying decision behavior, including complex, dissonance-reducing, habitual, and variety-seeking buying behavior.

Factors Affecting Consumer Behavior

Various cultural, social, personal, and psychological factors strongly influence consumer purchases. It can shown in the following figure (Fig: 6-1) :



Figure 6-1 : Factors Influencing Consumer Behavior



Source : Philip Kotler and Gary Armstrong, Principles of Marketing, seventh edition, Prentice-Hall of India, New, Delhi, 1997; p.144.

Although these factors remain beyond the control of the marketers to a large extent, they must consider these factors. Now we will discuss the above factors in the following sections and subsections:

- **Cultural Factors**

Cultural factors has the greatest influence on consumer behavior.

Among the factors shown in the above figure (Fig: 6-1), cultural factors has the greatest influence on consumer behavior. It is important for the marketers to understand the role played by the buyer's culture, subculture, and social class in shaping consumer behavior. The influence of cultural factors can be stated as under :

- **Culture** : Culture is the set of basic values, perceptions, wants, and behaviors learned by a member of society from family and other important institutions. A child in the United States normally learns or is exposed to the following values: achievement and success, activity and involvement, efficiency and practicality, progress, material comfort, individualism, freedom, humanitarianism, youthfulness, and fitness and health.¹

Every society has a culture of its own.

Every society has a culture of its own. The influence of culture on buying behavior may vary markedly from country to country. A marketer must consciously adjust to these differences. Failure to do so may result in ineffective marketing or costly mistakes. For example, business representatives of U.S. community trying to market itself in Taiwan found this out the hard way. Seeking more foreign trade, they arrived in Taiwan bearing gifts of green baseball caps. It turned out that the trip was scheduled a month before Taiwan elections, and that green was the color of the political opposition party. Worse yet, the visitors learned after the fact that according to Taiwan culture, a man wears green to signify that his wife has been unfaithful. The head of the community delegation later noted: I don't know whatever happened to those green hats, but the trip gave us an understanding of the extreme differences in our cultures.² Marketers engaged in international marketing must appreciate the culture in each foreign market and tailor their marketing strategies accordingly.

Marketers continuously monitor cultural change in order to discover new products that might be demanded by the consumers. For example, the cultural shift toward greater concern about health and fitness has created a huge industry for exercise equipment and clothing, lower-fat and more natural foods, and health and fitness services. The shift toward informality has resulted in more demand for casual clothing and simpler home furnishings. And the increased desire for leisure time has resulted in more demand for convenience products and services, such as microwave ovens and fast food.³

¹. Philip Kotler and Gary Armstrong, Principles of Marketing, seventh edition, Prentice-Hall of India, New Delhi, 1997; p. 144.

². Ibid., p. 145.

³. Ibid, p. 145.

- **Subculture** : Each culture is composed of smaller subculture. Subculture refers to a group of people with shared value systems based on common life experiences and situations. Subcultures consist of nationalities, religions, racial groups, and geographic regions. Subcultures have important marketing implications. They constitute important market segments and marketers often design products and marketing programs to fit their needs. A consumers buying behavior will be influenced by the subculture to which he belongs. Subculture will affect his food preferences, clothing choices, recreation activities, and career goals.
- **Social Class** : Every society has a social class structure. Social classes are society's relatively permanent and ordered divisions whose members share similar values, interests, and behaviours.⁴ We can identify three social classes in Bangladesh—upper, middle, and lower.

Social class is not identified by a single factor such as income. It is determined by a combination of occupation, income, education, wealth, and other variables. In a society, however, the lines between social classes are not fixed and rigid. People can move to a higher social class or drop into a lower one. Marketers are interested in social class because people within a particular social class tend to demonstrate similar buying behavior. Social class exhibit distinct product and brand preferences in areas such as clothing, home furnishing, leisure activity, and automobiles.

Social Factors

Various social factors influence consumer behavior. These factors are consumers small groups, family, and social roles and status and can be explained as under :

- **Reference Groups** : Many small groups exert influence on a person's behavior. Group refers to two or more people who interact to accomplish individual or mutual goals. Groups to which a person belongs that have a direct influence are called membership groups. Membership groups include primary groups and secondary groups. **Primary groups** include family, friends, neighbors, and co-workers with whom people have regular and informal interaction. **Secondary groups** include organizations like religious groups, professional associations, and trade unions which are more formal and have less regular interaction.

People often are influenced by groups to which they do not belong. These are called reference groups which serve as direct or indirect points of comparison or reference in forming a persons attitudes or behavior. For example, an aspiration group is one to which the individual wishes to belong. A teenage football player hopes to play

Group refers to two or more people who interact to accomplish individual or mutual goals.

⁴. Ibid., p. 147.

someday for the Abahani Krira Chakra. He identifies with this group, although there is no direct contact between him and the team. Reference groups of the target markets are important to the marketers in the sense that these groups expose a person to new behaviors and lifestyles, influence the person's attitudes and self-concept, and create pressures to conform that may affect the person's product and brand choices.

Marketers of products and brands having strong group influence must develop ways to reach the opinion leaders in the relevant reference groups. Opinion leaders are people within a reference group who, because of special skills, knowledge, personality, or other characteristics, exert influence on others.⁵ Marketers try to locate opinion leaders for their products and brands and direct marketing efforts toward them.

- **Family** : The family is the most important consumer buying organization in a society as members of a family can strongly influence buyer behavior. For this reason, marketers take into account the roles and influence of the husband, wife, and children on the purchase of different products and services. Buying roles of different family members change with evolving consumer lifestyles. Also, marketers must be aware that such roles vary widely in different countries and social classes from time to time.
- **Social Roles and Status** : An individual belongs to more than one group. The position a person holds in each group can be defined in terms of both role and status. For example, in the family a person plays the role of a husband and a father; in a company he plays the role of an executive. The role embodies the activities people are expected to perform such expectation reflects the desire of the persons around. Each role carries a status which reflects the general esteem given to it by society. The general tendency of the people is to select products that indicate their status in society.

- **Personal Factors**

Personal characteristics have significant influence on a buyers decisions. These characteristics are the buyer's age and life-cycle stage, occupation, economic situation, lifestyle, and personality and self-concept. The brief discussion can be presented as under :

- **Age and Life-Cycle Stage** : People buy different types of goods and services during different periods over their lives. Demand for various goods and services are often age related. Buying pattern is also influenced by the stage of the family life cycle. Family life-cycle represents the stages through which families might pass as they mature over time. The following table (table 6-1) lists the stages of the family life cycle. Marketers often define their target markets on

Demand for v
goods and ser
often age relat

⁵. Ibid., p. 149.

the basis of life-cycle stage and then develop appropriate products and marketing plans for each stage.

Table 6-1 : Family Life-Cycle Stages

Young	Middle-Aged	Older
Single	Single	Older married
Married without children	Married without children	Older unmarried
Married with children	Married with children	
Divorced with children	Married without dependent children	
	Divorced without children	
	Divorced with children	
	Divorced without dependent children	

Source : Philip Kotler and Gary Armstrong, Principles of Marketing, seventh edition, Prentice-Hall of India, New Delhi, 1997; p.150.

- Occupation** : A buyer's occupation significantly influences decisions regarding what to buy. Marketers try to identify the occupational groups that have an above-average interest in their products and services. A company can even specialize in making products needed by a given occupational group. Thus, computer software companies will design different products for brand managers, accountants, engineers, lawyers, and doctors.⁶
- Economic Situation** : A buyers economic situation affects product choice. Marketers monitor trends in personal income, savings, and interest rates,. If income indicators give signal of a recession, marketers can take measures to redesign, reposition, and reprice their products closely.
- Lifestyle** : People coming from the same subculture, social class, and occupation may have quite different lifestyles. Lifestyle is a person's pattern of living as expressed in his or her psychographics. It involves measuring consumers' major AIO dimensions—activities (work, hobbies, shopping, sports social events), interests (food, fashion, family, recreation), and opinions (about themselves, social issues, business, products). Lifestyles captures something more than the person's social class or personality; it profiles a person's whole pattern of acting and interacting in the world.⁷ Lifestyle concept can be used by the marketers to understand changing consumer values and how they influence buying behavior.
- Personality and Self-Concept** : Every individual has a unique personality which influences his or her buying behavior. Personality refers to the unique psychological characteristics that lead to

A buyer's economic situation affects product choice.

Lifestyle is a person's pattern of living as expressed in his or her psychographics.

⁶. Ibid., P. 150-51.

⁷. Ibid., p 151

relatively consistent and lasting responses to ones own environment.⁸ Personality is generally characterized by self-confidence, dominance, sociability, autonomy, defensiveness, adaptability, and aggressiveness. Marketers use personality in analyzing consumer behavior for certain product or brand choices. For example, coffee makers have discovered that heavy coffee drinkers tend to be high on sociability. Thus, Maxwell House ads show people relaxing and socializing over a cup of steaming coffee.⁹

Many marketers use a person's self-concept which is related to personality. Self-concept is also known as self-image. The basic self-concept holds that people's possessions contribute to and reflect their identities. So, for having a better understanding of consumer behavior, the marketer must first understand the relationship between consumer self-concept and possessions.

Psychological Factors : Four major psychological factors have their influence on a person's buying behavior. These factors are; motivation, perception, learning; and beliefs and attitudes. These can be expressed as under :

- **Motivation :** A person has many needs. Some of these needs are biological such as hunger and thirst while others are psychological such as recognition, esteem or belonging. A need becomes a motive when it is aroused to a significant level of intensity. A motive is a need that is sufficiently pressing to direct the person to seek satisfaction of the need.¹⁰ Many psychologists have developed theories of motivation which have quite different meanings for consumer analysis and marketing. Here we will discuss two of the most popular theories of motivation – Sigmund Freud's theory of motivation and Abraham Maslow's theory of motivation.

Freud believes that a person does not fully understand his or her motivation.

Freud's Theory of Motivation

Freud assumes that people are largely unconscious about the real psychological forces shaping their behavior. He sees the person as growing up and repressing many urges. These urges are never eliminated or under perfect control; they emerge in dreams, in slips of the tongue, in neurotic and obsessive behavior, or ultimately in psychoses.¹¹ Freud believes that a person does not fully understand his or her motivation.

Motivation researchers gather in-depth information from small samples of consumers to uncover the deeper motives that influence their product choices. They use nondirective depth interviews and various projective techniques such as word association, sentence completion, picture interpretation, and role playing. Motivation researchers have arrived at some interesting and sometimes peculiar conclusions about what may be

⁸. Ibid., p. 153.

⁹. Ibid., p. 153.

¹⁰. Ibid., p 154.

¹¹. Ibid., p. 154.

in the buyer's mind regarding certain purchases. For example, one classic study concluded that consumers resist prunes because they are wrinkled looking and remind people of sickness and old age. Despite its sometimes unusual conclusions, motivation research remains a useful tool for marketers seeking a deeper understanding of consumer behaviour.¹²

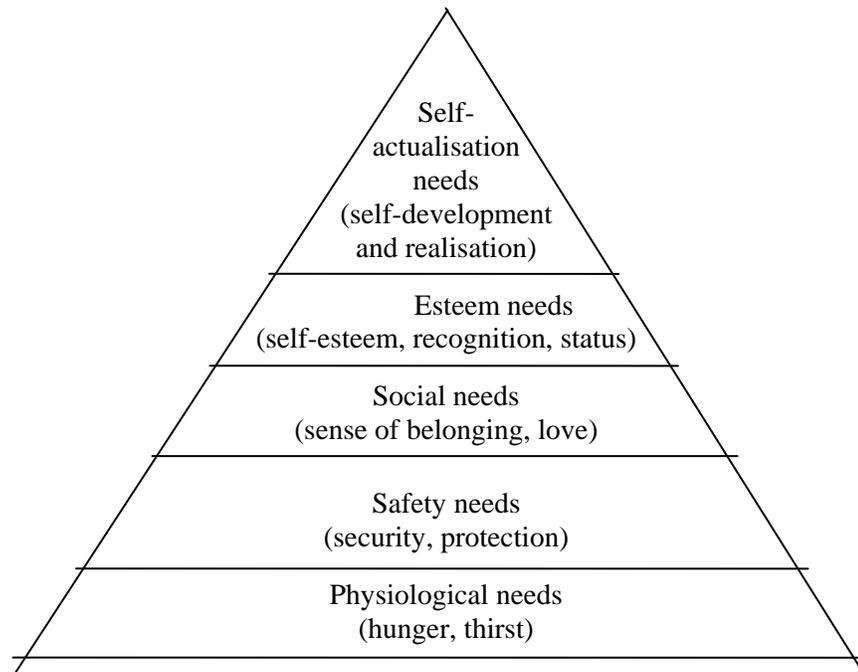
Maslow's Theory of Motivation

Abraham Maslow sought to explain why people are driven by particular needs at particular times. Why does one person spend much time and energy on personal safety and another on gaining the esteem of others? Maslow's answer is that human needs are arranged in a hierarchy, from the most pressing to the least pressing. Maslow's hierarchy of needs is shown in figure 6-2. In order of importance, they are physiological needs, safety needs, social needs, esteem needs, and self-actualization needs. A person tries to satisfy the most important need first. When that need is satisfied, it will stop being a motivator and the person will then to satisfy the next most important need. For example, starving people (physiological needs) will not take an interest in the latest happenings in the art world (self actualization needs), nor in how they are seen or esteemed by others (social or esteem needs), nor even in whether they are breathing clean air (safety needs). But as each important need is satisfied, the next most important need will come into play.¹³

¹² . Ibid., p.154.

¹³ . Ibid., p.166.

Figure 6-2: Maslow's Hierarchy of Needs



Source : Philip Kotler and Gary Armstrong, *Principles of Marketing, seventh edition, Prentice-Hall of India, New Delhi, 1997; p.156.*

- **Perception :** The way a person acts is influenced by his or her perception of the situation. Persons with the same motivation and in the same situation may act quite differently because they perceive the situation differently. Perception is the process by which people select, organize, and interpret information to form a meaningful picture of the world.¹⁴ Different people perceives the same situation differently because each person receives, organizes, and interprets the sensory information in an individual way.

Three perceptual process are selective attention, selective distortion, and selective retention.

Same stimulus can lead to the formation of different perceptions among different people because of three perceptual processes. These processes are; selective attention, selective distortion, and selective retention which can be described in the following ways :

- **Selective attention :** Selective attention is the tendency for people to screen out most of the information to which they are exposed. For example, the average person may be exposed to more than 500 ads in all these stimuli. It implies that marketers have to act carefully to attract the consumers attention. Their message will not reach the most people who are not in the market. Even people who are in the market may miss the message unless it is distinctive from other advertisements.

¹⁴. Ibid., p. 156.

- **Selective distortion** : Selective distortion explains the tendency of people to interpret information in a way that will support their existing belief. Selective distortion implies that marketers must try to understand the mind-sets of consumers and how these will influence interpretations of advertising and sales information.
- **Selective retention** : People generally will forget many things that they learn. Selective retention is the tendency of the people to retain information that supports their attitudes and beliefs.
- **Learning** : When people act, they learn. Learning describes changes in an individual's behavior arising from experience. Learning theorists say that most human behavior is learned. Learning occurs through the interplay of drives, stimuli, cues, responses, and reinforcement.¹⁵ A drive is a strong internal stimulus that generates action. Drive becomes a motive when it is directed toward a particular stimulus object. Cues are minor stimuli. They determine when, where and how the person responds. If a person finds his response rewarding it is reinforced.

Learning describes changes in an individual's behavior arising from experience.

Learning theory has important implications for marketers. Marketers can create demand for a product by associating it with strong drives using motivating cues, and providing positive reinforcement.

- **Beliefs and Attitudes** : People acquire beliefs and attitudes through action and learning. Beliefs and attitudes influence buying behavior. A belief is a descriptive thought which a person maintains about something. Beliefs may be based on real knowledge, opinion, or faith and may or may not be associated with emotion. Marketers try to understand the beliefs that people formulate about specific products and services. Because these beliefs build product and brand image that affect buying behavior. If it is found that there exist wrong beliefs that prevent purchase, the marketer will take corrective measures.

A belief is a descriptive thought which a person maintains about something.

An attitude is a person's consistently favorable or unfavorable evaluations, feelings, and tendencies toward an object or idea. Attitudes put people into a frame of mind of liking or disliking things, of moving toward or away from them.¹⁶ It is very difficult to change attitudes of people. Therefore, a company generally should try to fit its products into existing attitudes instead of making attempts to change them.

It is very difficult to change attitudes of people.

The discussion attempted so far gives us a comprehensive idea about the forces influencing consumer behavior. The consumer's choice of a product is the outcome of the complex interaction among various cultural, social, personal, and psychological factors. Many of these factors remain beyond the control of the marketer. Nevertheless, they

¹⁵. Ibid., p.157.

¹⁶. Ibid., p.157.

provide important information about the potential buyers and are also useful in designing products and appeals to fulfill consumers needs better.



Activity :

Suppose, you are going to purchase a color T.V. Identify the factors which have influenced in your decision making process.

Consumer Buying Roles

People might play any of several roles in a buying decision. The different roles are as follows :

- **Initiator** : The person who first suggests or thinks of the idea of buying a particular product or service.
- **Influencer** : A person whose views or advice influences the buying decision.
- **Decider** : The person who ultimately makes a buying decision or any part of it - whether to buy, what to buy, how to buy, or where to buy, how much to buy, how frequently to buy.
- **Buyer** : The person who makes an actual purchase.
- **User** : The person who consumes or uses a product or service.¹⁷

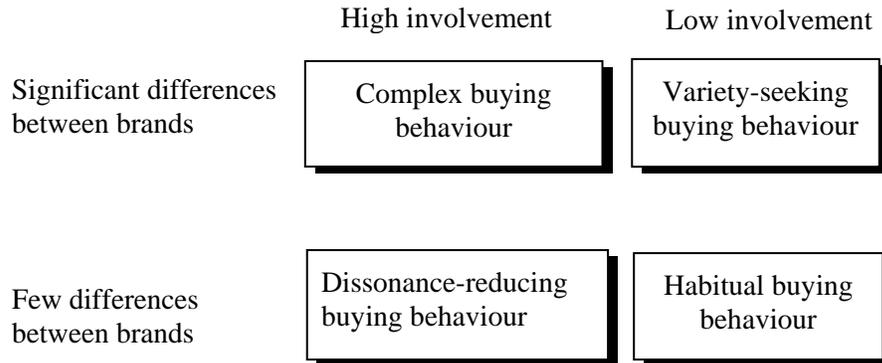
Types of Buying Decision Behavior

Buying behavior differs greatly for different types of products. As participants and deliberation in the buying process increase, buying decisions become more complex. Figure 6-3 illustrates the types of consumer buying behavior on the basis of the degree of buyer involvement and the degree of differences among brands.

Buying behavior differs greatly for different types of products.

¹⁷. Ibid., p.160.

Figure 6-3 : Four Types of Buying Behavior



Source : Philip Kotler and Gary Armstrong, Principles of Marketing, seventh edition, Prentice-Hall of India, New Delhi, 1997; p.160.

A brief discussion of the above four types of buying behavior can be stated as under :

Complex Buying Behavior

Consumers demonstrate complex buying behavior when their involvement in purchase is high and when they perceive significant differences among brands. Consumers' purchase involvement is high when the product is costly, risky, purchased infrequently, and highly self-expressive. In such a situation, the consumer has much to know about the product category. For example, a personal computer buyer may not know what attributes to consider. Many product features carry no real meaning: a "Pentium chip", "Super VGA resolution", or "8 megs of RAM."¹⁸

In complex buying situation, the buyer will go through a learning process which involves developing beliefs about the product, developing attitudes and making a contemplated purchase choice. Marketers of high-involvement products need to know the information-gathering and evaluation behavior of high-involvement consumers. They must assist buyers to learn about product-class attributes and their relative importance, and about what the company's brand offers on the important attributes. It is also necessary for the marketers to motivate store salespeople and the buyers acquaintances for influencing the ultimate brand choice.

Dissonance- Reducing Buying Behavior

Dissonance- reducing buying behavior happens when consumers are highly involved with an expensive, infrequent, or risky purchase but perceives little difference among brands. For example, consumers buying split type air conditioner may face a high-involvement decision because air conditioning is costly and self-expressive. Still, buyers may consider

¹⁸. Ibid., p.160.

most air conditioner brands in a given price range to be the same. In this situation, because perceived brand differences are not wide, buyers may shop around to learn what is available, but buy relatively quickly. They may respond primarily to a attractive price or to purchase convenience.

Consumers might experience postpurchase dissonance in the form of after-sale discomfort when they notice certain disadvantages of the purchased air conditioner brand. This can occur also if the buyer hear favorable things about brands not purchased. To counter such dissonance, the marketer should undertake proper after-sale communication and support to help consumers feel happy about their brand choices.

Habitual Buying Behavior

Habitual buying behavior happens in situations where consumer involvement is low and perceived brand difference is low. For example, take flour, consumers have insignificant involvement in this product category. They just go to a store and ask for a brand. If they keep on asking for the same brand, it is out of habit rather than strong brand loyalty. Consumers have low involvement with most low-cost, frequently purchased products.

In cases of habitual buying, consumer behavior does not follow the typical belief-attitude-behavior pattern.

In cases of habitual buying, consumer behavior does not follow the typical belief-attitude-behavior pattern. Consumers do not look for extensive information about the brands. They do not evaluate brand features, and make strong decisions about which brands to buy. Instead, they passively receive information from the media to which they are exposed. Repetitive ads builds brand familiarity rather than brand conviction. As consumers' involvement is low, they may not make postpurchase evaluation. Thus, the buying process contains brand beliefs acquired through passive learning.

Habitual buying behavior has important marketing implications.

Habitual buying behavior has important marketing implications. Since buyers are not highly committed to any specific brand, marketers of low-involvement products with few brand differences may use price and sales promotions to encourage product trial. Ads of low involvement products should emphasize only a few key points. Visual symbols and imagery should be used extensively. Ad campaigns should consist of high repetition of short-duration messages. Visual media like television should be preferred to print media because it is a low-Involvement medium suitable for passive learning.

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, consumers often do a lot of brand switching. For example, when buying cookies, a consumer may hold some beliefs, choose a cookie brand without much evaluation, then evaluate that brand during consumption. But the next time, the consumer might pick another brand out of boredom or simply to try something different. Brand switching occurs for the sake of variety rather than

because of dissatisfaction.¹⁹ Variety-seeking buying behavior calls for different marketing strategies for the market leader and the market challenger. The market leader will try to encourage habitual buying behavior by carrying large stocks and running frequent reminder advertising. The market challenger will encourage variety seeking by using various sales promotion tools such as cash discounts, special deals, coupons, free samples that will induce buyers to try new brands.

¹⁹. Ibid., p.162.

Questions for Review

1. In designing the advertising for an ice-cream, which would you find more helpful: information about consumer demographics or consumer lifestyles? Give examples of how you would use each type of information.
2. Consumers play many different roles in the buying process: initiator, influencer, decider, buyer and user. Name who plays each of these roles when a father is buying breakfast cereal, a harmonium, and a painting.
3. What implications do complex buying behavior and habitual buying behavior have for the marketers?
4. Subculture consists of –
 - A. Nationalities
 - B. Religions
 - C. Geographic reasons
 - D. All of the above.
5. Primary membership groups include –
 - A. Religious groups
 - B. Professional groups
 - C. Co-workers
 - D. Trade unions.
6. One of the personal factors that influences buyers decisions is –
 - A. Social class
 - B. Reference group
 - C. Beliefs and attitudes
 - D. Lifestyle.
7. People acquire beliefs and attitudes through –
 - A. Learning
 - B. Motivation
 - C. Perception
 - D. Intelligence.
8. Consumers' purchase involvement is high when the product is –
 - A. Cheap
 - B. Risky
 - C. Purchased frequently
 - D. None of the above.
9. Consumers' purchase involvement is low when the product is –
 - A. Less costly
 - B. Infrequently purchased
 - C. Highly self-expressive
 - D. All of the above.



Ans : 4. D, 5. C, 6. D, 7. A, 8. B, 9. A.

Lesson 3 : The Buyer Decision Process

Lesson objectives

After completing this lesson you will be able to:

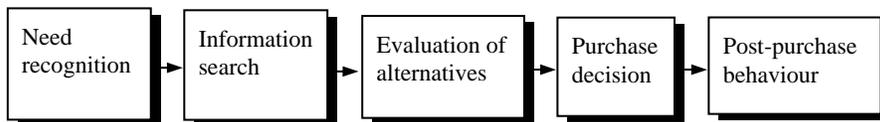
- Elaborate the buyer decision process
- Explain the need recognition, information search, evaluation of alternatives, the purchase decision and postpurchase behavior
- Discuss the fundamentals of the buyer decision process for new products
- Identify the stages in the adoption process, individual differences in innovativeness and the influence of product characteristics on the rate of adoption.

The Buyer Decision Process

Buyers go through several stages to reach a buying decision. These stages are need recognition, information search, evaluation of alternatives, purchase decision, and post-purchase behavior which are shown in figure 6-4. Marketers must concentrate on the whole buying process rather than on just the purchase decision.



Figure 6-4 : Buyer Decision Process



The figure shows that consumers go through all five stages for each purchase. But in more customary purchases, consumers often skip or reverse some of these stages. However, we will use the model in figure 6-4 because it contains all the considerations involved in a new and complex purchase situation. The stages of buyer decision process shown in the above figure can be stated as under:

• Need Recognition

Need recognition is the first stage of the buyer decision process. At this stage the consumer recognizes a problem or need. The buyer feels a difference between his or her actual state and some desired state. The need can be triggered by internal stimuli. This occurs when one of the person's normal needs such as hunger, thirst, sex rises to a level high enough to become a drive. A need can also be triggered by external stimuli. At this stage, the marketer should study the consumers to find answers to some important questions. These are: what kinds of needs or problems arise? what is the root of these needs or problems? and how they led the consumers to a particular product?

Need recognition is the first stage of the buyer decision process.

The consumers is aroused to search for more information.

• Information Search

At this stage, the consumers is aroused to search for more information. The consumer may simply have heightened attention or may undertake active search for information. The amount of searching a consumer does will depend on the strength of his drive, the amount of information he starts with, the ease of obtaining more information, the value he places on additional information, and the satisfaction he gets from searching.

The consumer can get information from any of the following sources:

- Personal sources which include family, friends, neighbors, acquaintances;
- Commercial sources which include advertising, salespeople, dealers, packaging, displays;
- Public sources which include mass media, consumer-rating organization;
- Experimental sources which include handling, examining, using the product.

The relative influence of these information sources varies with the product and the buyer. Generally, the consumer receives the most information about a product from commercial sources-those controlled by the marketer. The most effective sources, however, tend to be personal. Personal sources appear to be even more important in influencing the purchase of services. Commercial sources normally inform the buyer, but personal sources legitimize or evaluate products for the buyer. For example, doctors normally learn of new drugs from commercial sources, but turn to other doctors for evaluative information.²⁰

The consumer's awareness and knowledge of the available brands and features increases as they get more and more information. In designing the marketing mix, a company should have the objective of making the target customers aware of its brand. Consumers' sources of information should be carefully identified and the importance of each source should also be assessed.

• Evaluation of Alternatives

A marketer must know how the consumer processes information to arrive at brand choices.

At this stage of buyer decision process, the consumer uses information to evaluate alternative brands. A marketer must know how the consumer processes information to arrive at brand choices. Consumers do not always follow a simple and single evaluation process. Rather several evaluation process are in practice.

Consumer evaluation processes can be explained with the help of some basic concepts. *First*, it is assumed that each consumer sees a product as a bundle of product attributes. For refrigerators, product attributes might

²⁰. Ibid., p.163.

include cooling capacity, size, space, price and other features. Consumers will pay more attention to those attributes relevant to their needs. **Second**, importance of depending upon their needs and wants. **Third**, the consumer will develop a set of brand beliefs about where each brand stands on each attribute. The set of beliefs consumers hold about a particular brand is called brand image. Based on the consumers experience and the effects of selective perception, distortion, and retention, the consumers beliefs may differ from actual attributes. **Fourth**, the consumer's expected total product satisfaction will vary with the changes at the levels of different attributes. **Fifth**, the consumer develops attitudes toward the different brands through some evaluation procedure. Consumers use one or more of several evaluation procedures, depending on the consumer and the buying decision.

The mode of evaluating purchase alternatives depends on the individual consumer and the specific buying situation. In some instances, consumers apply meticulous calculations and logical thinking. In other situations, the same consumers may not make any evaluation. Rather they buy on impulse and use intuition. Sometimes consumers themselves take buying decisions. At other times they rely on friends, consumer guides, or salespeople for buying advice. Marketers should study buyers to know how they actually evaluate brand alternatives. Marketers can take appropriate steps to influence the buyers decision if they know what evaluative processes are followed by the buyers.

The mode of evaluating purchase alternatives depends on the individual consumer and the specific buying situation.

• Purchase Decision

At this stage of buyer decision process, the consumer actually buys the product. We have discussed earlier that the consumer forms purchase intention in the evaluation stage. Usually the consumer will buy the most preferred brand. But two factors might influence the purchase intention and the purchase decision. The first factor is the attitudes of other people related to the consumer. The second factor is unexpected situational factors. The consumer may form a purchase intention based on factors such as expected price and expected product benefits. However, unexpected events may alter the purchase intention. Thus, preferences and even purchase intentions do not always lead to actual purchase choice.

Usually the consumer will buy the most preferred brand.

• Post-purchase Behavior

At this stage of buyer decision process, consumers take further action after purchase based on their satisfaction or dissatisfaction. 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 expectations, the consumer is delighted.²¹

²¹. Ibid., p.165.

Consumers form their expectations on information they receive from sellers, friends and other sources. If the seller overstates the product's performance, consumer expectations will not be met, and dissatisfaction will occur. The wider the gap between expectations and performance, the greater the consumer's dissatisfaction. This implies that sellers claim about the products performance should be genuine so that buyers are satisfied.

It is also found that some sellers understate performance levels to enhance consumer satisfaction with the product. For example, Boeing sells aircraft worth ten millions of dollars each, and consumer satisfaction is important for repeat purchases and the company's reputation. Boeing's salespeople tend to be conservative when they estimate their product's potential benefits. They almost always underestimate fuel efficiency - they promise a 5 percent saving that turns out to be 8 percent. Customers are delighted with better-than-expected performance; they buy again and tell other potential customers that Boeing lives up to its promises.²²

Consumers experience some postpurchase dissonance for every purchase.

In almost all purchases, consumers experience cognitive dissonance. Cognitive dissonance is the discomfort felt by the buyers due to post-purchase conflict. Consumers are happy with the benefits of the chosen brand and forgets the benefits of brands not bought. Also they feel unhappy about the demerits of the chosen brand and remembers the benefits of the brands not chosen. Here, the consumer makes a compromise. Thus, consumers experience some postpurchase dissonance for every purchase.

So, to reduce cognitive dissonance a company should measure customer satisfaction regularly. The company should seek out and respond to complaints of the customers. In addition, the company can take other steps to reduce consumer postpurchase dissatisfaction and to help customers feel satisfied about their purchases. For example, Toyota writes or phones new car owners with congratulations on having selected a fine car. It places ads showing satisfied owners talking about their new cars ("I love what you do for me, Toyota!). Toyota also obtains customer suggestions for improvements and lists the location of available services.²³

The Buyer Decision Process for New Products

We now visualize how buyers approach the purchase of new products. A new product is a good, service, or idea that is perceived by some potential customers as new. We are interested in how consumers learn about products for the first time and make decisions on whether to adopt them. We define the adoption process as "the mental process through which an individual passes from first learning about an innovation to

²². Ibid., p.166.

²³. Ibid., p.166.

final adoption", and adoption as the decision by an individual to become a regular user of the product.²⁴

Stages in the Adoption Process

Consumers pass through five stages in the process of adopting a new product. These stages are:

- **Awareness** – the consumer becomes aware of the new product, but does not have information about it.
- **Interest** – the consumer searches for information about the new product.
- **Evaluation** – the consumer considers whether trying the new product is worthwhile.
- **Trial** – the consumer tries the new product on a limited scale to improve his or her assessment of its value.
- **Adoption** – the consumer reaches the decision to make full and regular use of the new product.

These stages imply that the new-product marketer should consider how to help consumers move through these stages. A manufacturer of large-screen televisions may discover that many consumers in the interest stage do not move to the trial stage because of uncertainty and the large investment. If these same consumers would be willing to use a large-screen television on a trial basis for a small fee, the manufacturer should consider offering a trial-use plan with option to buy.²⁵

• **Individual Differences in Innovativeness**

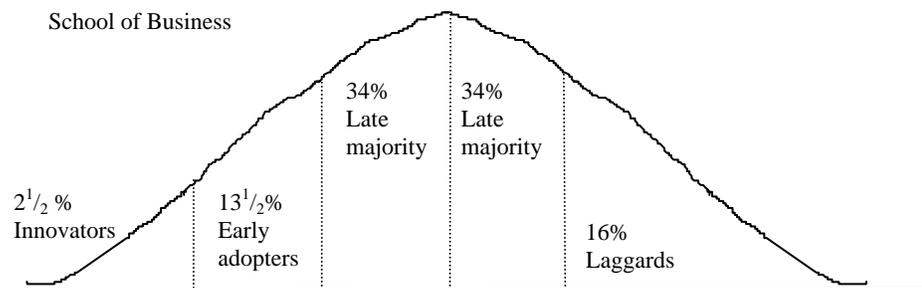
Different people try new products with varying speeds. For each product, we find consumption pioneers and early adopters. Other consumers adopt new products much later. People can be classified into the adopter categories shown in figure 6-5. After a slow start, an increasing number of people adopt the new product. The number of adopters reaches a peak and then drops off as fewer nonadopters remain. Innovators are defined as the first 2¹/₂ percent of the buyers to adopt a new idea (those beyond two standard deviations from mean adoption time); the early adopters are the next 13¹/₂ percent (between one and two standard deviations); and so forth.²⁶

Figure 6-5 : Adopter Categorization on the Basis of Relative Time of Adoption of Innovations

²⁴. Ibid., p.167.

²⁵. Ibid; p.167.

²⁶. Ibid; p. 167



Source : Philip Kotler and Gary Armstrong, *Principles of Marketing, seventh edition, Prentice-Hall of India, New Delhi, 1997, p; 167.*

The five adopter groups describe above differ in values. Innovators take venture who try new ideas at some risk. Early adopters are influenced by respect who are opinion leaders in their communities and adopt new ideas early but carefully. The early majority act deliberately. They rarely are leaders who adopt new ideas before the average person. The late majority have skeptic altitude who adopt an innovation only after a majority of people have tried it. Laggards are people who are tradition-bound. They look at changes with suspicion and adopt the innovation only when it has become something of a tradition itself.

This adopter classification has important implications for an innovating firm. The firm should study the characteristics of innovators and early adopters and should focus marketing efforts to them. Most innovators are relatively younger, better educated and higher in income than later adopters and nonadopters. They are more receptive to unknown things, depend more on their own values and judgment, and are more eager to take risks. Their brand loyalty is low and they are more prone to special promotions such as discounts, coupons, and samples.

Influence of Product Characteristics on Rate of Adoption

The rate of adoption of a new product is influenced by its characteristics. Some products gain quick acceptance while others may take a long time. Five characteristics play an important role in affecting rate of adoption of an innovation. These are:

- **Relative Advantage** – the degree to which the innovation seems to be superior to existing products.
- **Compatibility** – the degree to which the innovation conforms to the values and experiences of potential consumers.
- **Complexity** – the degree to which the innovation is difficult to recognize or use.
- **Divisibility** – the degree to which the innovation may be tried on a small scale basis.
- **Communicability** – the degree to which the results of using the innovation can be observed or communicated to others.

In addition to the above five characteristics some other characteristics may also affect the rate of adoption. These are initial and ongoing costs, risk and uncertainty, and social approval. In designing the new product



and its marketing program, the new-product marketer has to study all these factors.

Activity :

Briefly describe the decision making process of buying a shopping goods.

Questions for Review :

1. Why the postpurchase behavior stage is included in the model of the buying process? Explain what implications this stage have for marketers.
2. In the context of Bangladesh, mobile telephone is an innovation. Discuss this innovation in terms of its relative advantage, compatibility, complexity, divisibility, and communicability.
3. In the first stage of the buyer decision process, the consumer recognizes –
 - A. Need
 - B. Want
 - C. Demand
 - D. Utility.
4. A buyer's information search is proceeded by –
 - A. Evaluation of alternatives
 - B. Need recognition
 - C. Purchase decision
 - D. Post-purchase behavior.
5. If a product exceeds consumers expectations the consumer is–
 - A. Satisfied
 - B. Happy
 - C. Delighted
 - D. Contented.
6. Laggards are people who are –
 - A. Venturesome
 - B. Opinion leaders
 - C. Skeptic
 - D. Tradition-bound.



Ans: 3. A, 4. B, 5. C, 6. D.

DESIGNING PRODUCTS : PRODUCTS, BRANDS, PACKAGING AND SERVICES



Developing products and brands is a complex and demanding task for a marketer. There are no hard and fast rules that can guarantee success in these decisions. Careful consideration of all issues in these decisions and maintaining consistency with broad company objectives are the prerequisites for long term success. In this unit, we have attempted our discussion relating to this important issue by dividing it into three lessons. Let's start the lesson-wise discussion.

School of Business

Blank Page

Lesson - 1: Definition and Classification of Products

Lesson objectives

After completing this lesson you will be able to:

- Define the term product, including the core, actual and augmented product.
- Explain product classifications.
- Contrast the different types of consumer products and industrial products.

Defining a Product

As popularly thought, products are objects that satisfy wants and needs. This idea is comprehensive in the sense that there are many intangibles which also satisfy various human needs. A radio, a shirt, a toothpaste, a reading table, a physician's advice, legal consultancy, holidaying at a hill resort are all products. According to Philip Kotler "a product is anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need." Thus product does not mean merely a tangible thing. Services, persons, places, organizations, ideas or mixes of these entities are also covered by the modern definition of product. Services are also considered as products because they also offer benefits, or satisfactions to consumers although services offered to consumers are intangible and does not result in the ownership of anything. Banks, training school for driving, audit firms, beauty parlour and travel agencies are typical examples of organizations that offer services.

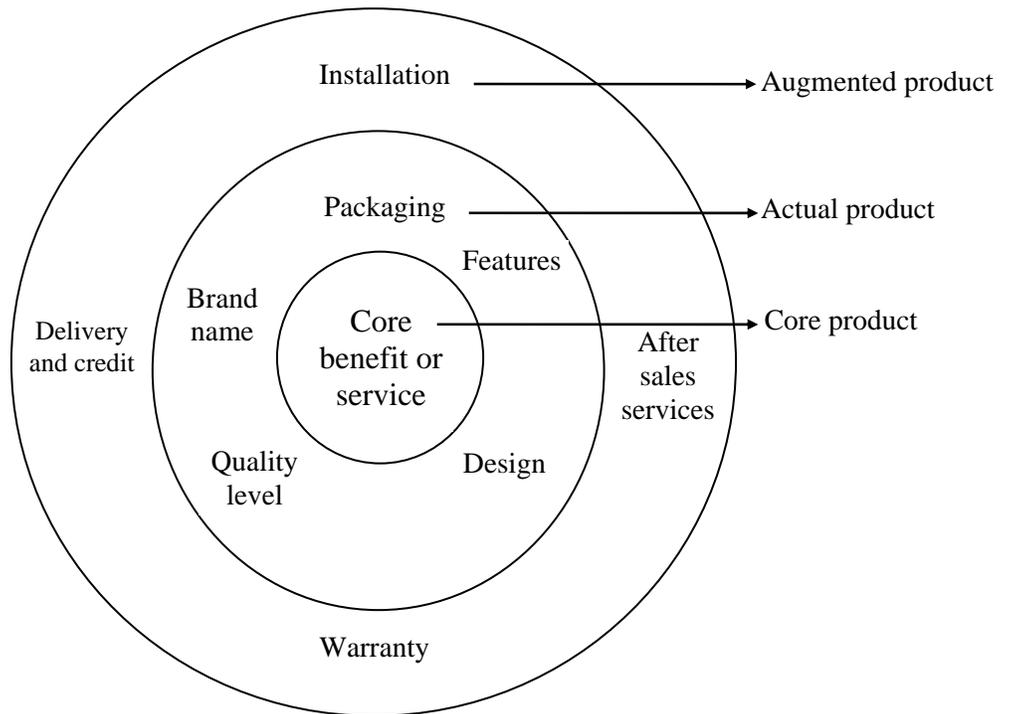
In designing a product, marketers need to consider a product on three levels. The most fundamental level is core product which seeks answer to the question: What is the buyer really buying? As figure 7-1 illustrates, the core product forms the nucleus of the total product. It constitutes the problem-solving features or core benefits that consumers seek when they acquire a product. A person buying a car acquires mobility which enables him to move from one place to another. Theodore Levitt has pointed out that buyers "do not buy quarter-inch drills; they buy quarter-inch holes." So, in designing a product, marketers must start with defining the core of benefits that is, the functional features the product will possess;



Product does not mean merely a tangible thing.

In designing a product, marketers need to consider a product on three levels.

Figure 7-1 : Three Levels of Products



Source: Philip Kotler and Gary Armstrong, Principles of Marketing, seventh edition, Prentice-Hall of India Pvt. Ltd., New Delhi, 1997, p. 275.

The next task of a marketer is to build an actual product surrounding the core product. Actual products usually have as many as five characteristics; a quality level, features, design, a brand name and packaging. For instance, Sony's - Eye Master Television set is an actual product. Its name, parts, styling, features, packaging and other attributes have all been combined carefully to deliver the core benefit – entertainment through watching TV programs.

Finally, the marketer must build an augmented product around the core and actual products by adding extra consumer services and benefits. Sony must offer more than just a television set. It must provide consumers with a complete solution to their operating problems. Sony and its dealers also might give buyers a warranty on spare parts and workmanship, free lessons on use methods, quick repair services when needed and a telephone number to call if they have any query. Consumer consider all of these augmentations as an important component of the total product.

A product is something more than a combination of tangible features.

Therefore, a product is something more than a combination of tangible features. To the consumers, products are complex bundles of benefits that satisfy their needs. In developing products, marketer first must carefully identify the core consumer needs the product will satisfy. Then the actual product should be designed along with appropriate ways to augment it for creating the bundle of benefits for the purpose of ensuring maximum satisfaction to the consumers.

Classification of Products

Marketers begin with developing product classification schemes in order to formulate effective marketing strategies. Marketers classify products and services into two broad categories on the basis of the types of consumers that use them. These are: (a) consumer products and (b) industrial products. Let us discuss the above two types of products:

- **Consumer Products**

Consumer products are those which are bought by consumers for ultimate consumption and not for resale. These goods can be further classified on the basis of how consumers buy them. Consumer products include (i) convenience products, (ii) shopping products, (iii) specialty products and (iv) unsought products. The marketing methods of these products varies because the way the consumers buy them differ. Marketing consideration for various consumer products are shown in (Table : 7-1) given below:

Consumer products are those which are bought by consumers for ultimate consumption and not for resale.

Table 7-1: Marketing Considerations for Consumer Products

Marketing Considerations	Type of Consumer Product			
	Convenience	Shopping	Specialty	Unsought
Customer buying behavior	Frequent purchase, little planning, little comparison or shopping effort, low customer involvement	Less frequent purchase, much planning and shopping effort, comparison of brands on price, quality, style	Strong brand preference and loyalty, special purchase effort, little comparison of brands, low price sensitivity	Little product awareness, knowledge (or if an little or even negative interest)
Price	Low price	Higher price	High price	Varies
Distribution	Widespread distribution, convenient locations	Selective distribution in fewer outlets	Exclusive distribution in only one or a few outlets per market area	Varies
Promotion	Mass promotion by the producer	Advertising and personal selling by both producer and resellers	More carefully targeted promotion by both producer and resellers	Aggressive advertising and personal selling by producers resellers
Examples	Toothpaste, magazines, laundry detergent	Major appliances, televisions, furniture, clothing	Luxury goods, such as Rolex watches or fine crystal	Life insurance Red Cross blood donations

Source: Philip Kotler and Gary Armstrong, Principles of Marketing, seventh edition, Prentice-Hall of India Pvt Ltd., New Delhi, 1997, p. 276.

- **Convenience products :** Convenience products are consumer goods and services that are bought frequently, immediately, and with little comparison and shopping effort. These products are generally low

Convenience products can again be subdivided into staples, impulse and emergency products.

priced and widely available. Examples include laundry soap, cigarettes, and newspapers. Convenience products can again be subdivided into staples, impulse and emergency products. **Staples** are products that consumers buy regularly, such as flour, pulses, and toothpaste. **Impulse products** are purchased without planning which are widely available e.g. ground nuts, chocolate, toys, and magazines. **Emergency products** are bought when there is an urgent need. For example, pain killers, or salines, and room heaters.

Shopping products are of two types; homogeneous and heterogeneous.

- **Shopping products** : Shopping products are infrequently purchased products that customers plan and compare carefully on brands, price, quality and style. Consumers devote much time and effort in obtaining information and making comparisons in case of buying shopping products. For example, refrigerators, air coolers, televisions, washing machines and clothing. Shopping products are of two types; homogeneous and heterogeneous. The buyer considers homogeneous products similar in quality such as refrigerators but they think that prices are different for which they tend to make comparisons. Reversibly, in case of heterogeneous products such as clothing, consumers consider product features more important than price. So a trader of heterogeneous shopping products must carry varied assortment to cater to individual tastes and should employ well-trained salespeople to provide information and advice to buyer.

The unique feature of specialty products is that the buyer will look for only a specific brand.

- **Specialty products** : Specialty products are characterized by strong brand preferred and loyalty, special purchase effort, little comparison of brands and/or price sensitivity. Examples include expensive men's suit, fancy groceries, health foods, hi-fi components and photographic equipment. The unique feature of specialty products is that the buyer will look for only a specific brand. The consumer does not care for substitutes but tries to procure the wanted brand which may require considerable time and effort.

Unsought products are those consumer products about whose existence the consumers are not aware of.

- **Unsought products** : Unsought products are those consumer products about whose existence the consumers are not aware of. If they know about these products they may not think of buying. Examples include, life insurance and eye donations to the Eye Banks. As their characteristics indicate, unsought products need aggressive advertising and personal selling by producer and resellers. The challenge involved in selling unsought products has led to the development of some of the most advanced personal selling methods.

Industrial products are those intended for use in making other products or operating a business or institution.

- **Industrial Products**

Industrial products are those intended for use in making other products or operating a business or institution. Thus, industrial products are differentiated from consumer products on the basis of their ultimate use. If a consumer buys a air conditioner for use at home, the air conditioner is a consumer product. If the same consumer buys the same air conditioner for use in his factory, the air conditioner is an industrial product. There are three classes of industrial products: (a) materials and

parts, (b) capital items, and (c) supplies and services. A brief discussion of these different types of industrial product can be presented as under :

- **Materials and Parts :** Materials and parts become a part of the buyer's product through further processing. They include raw materials and manufactured materials and parts. Raw materials include farm products and natural products such as, jute, cotton, wheat, fruits, crude petroleum, coal, iron ore and natural gas. Farm products are supplied by many small producers who sell them to intermediaries. These intermediaries then process and sell them. Natural products are of big bulk and low unit value and to be transported from producer to user. Producers of natural products are few in number and large in size. They market their products directly to industrial users.

Materials and parts become a part of the buyer's product through further processing.

Manufactured materials and parts include component matters such as, iron, yarn, cement and wires and component parts such as small motors, tires and casting. Component materials usually are processed further. For example pulp is made into paper. Component parts enter into the finished product wholly. For example, amplifiers are fixed in CD players. Generally, manufactured materials and parts are sold directly to industrial users. In marketing manufactured materials and parts, more emphasis is given on price and service are given more attention than branding and advertising.

- **Capital Goods :** Capital goods are industrial products that are directly used in production. Capital goods consist of installations and accessory equipment. Buildings plant and machinery are the examples of installations. Installations are usually bought directly from the producer. Accessory equipment includes workman's tools and office equipments like calculators, fax machines etc. Accessory equipments are marketed through middlemen because the buyers of those products are scattered over a large geographic area and individual purchase volume is small.
- **Supplies and Services :** Supplies and services are industrial products that do not enter the finished product although they are used in different phases of production process. Supplies include operating supplies like office stationery, repair and maintenance items. Supplies can be treated as convenience products of the industrial market as they are purchased with a minimum effort. Business services include maintenance and repair services, factory premise cleaning, office equipment repair and business consultancy services. These services are generally provided through contract by small producers and manufacturers of the original equipment.

Capital goods are industrial products that are directly used in production.

Supplies include operating supplies like office stationery, repair and maintenance items.

Questions for Review

1. List and explain the core, tangible, and augmented products of the Medicare facilities that clinics offer.
2. How would you classify products? Discuss the marketing considerations for consumer products.

3. Which of the following characteristics a product must have?
 - a. Transferability
 - b. Intangibility
 - c. Tangibility
 - d. Utility.
4. Which of the following products are bought with little comparison and shopping effort?
 - a. Shopping products
 - b. Specialty products
 - c. Convenience products
 - d. Industrial products.
5. Industrial products are differentiated from consumer product on the basis of –
 - a. Use
 - b. Price
 - c. Value
 - d. Availability.
6. Which of the following is an example of capital goods?
 - a. Raw materials
 - b. Installations
 - c. Office stationery
 - d. Component parts



Ans : 3. D, 4. C, 5. A, 6.B.

Lesson 2 : Individual Product Decisions

Lesson objectives

After completing this lesson you will be able to:

- Outline the range of individual product decisions marketers make, discuss the product attributes, quality, features and design.
- Discuss branding and contrast the differences among the line extension, brand extensions, multibrands and new brands.

What decisions a marketer has to make before developing and marketing individual products? These include decisions on (i) product attributes, (ii) product quality, (iii) branding, (iv) packaging, (v) labeling, and (vi) product-support services.



Product Attributes

Marketer should clearly define the benefits that can be derived out of his product. The benefit are reflected and provided by product attributes such as quality, features and design. Product attribute decisions greatly influence consumer reactions to a product.

Product Quality

In positioning a product, quality requires careful consideration. Quality is approached from two viewpoints - level and consistent. While developing a product, the marketer must first decide on quality level that will commensurate with product's position in the target market. Product quality means the capacity of a product to perform its functions which include durability, reliability, precision, ease of operation and repair. Quality must be measured in the context of buyers' perceptions. A marketer is not necessarily required to set the quality of his product at the high level. Rather quality level should be chosen keeping consumer need in consideration.

Quality is approached from two viewpoints -level and consistent.

Besides establishing quality level, a marketer has to be consistent in maintaining it. This objective can be accomplished through proper quality control management, better product design and improved manufacturing processes. The ultimate goal of quality management is to improve the customer value of a product. Thus, quality is recognized as a strategic weapon to fight competition by offering customers goods and services that in a better way serve their needs and preferences.

Product Features

A product can have many features. To start with, a product should possess minimum number of features which can be increased over time. Product features is a tool used in tackling competition. Therefore, the producer must be innovative in selecting product features. In order to make decisions about product features, consumer opinion should be gathered through customer survey. This will provide the producer with

the needed feature ideas. In practice, only those features should be selected for which the consumers are ready to pay the extra cost involved.

Product Design

To be successful a product should have a distinctive design.

To be successful a product should have a distinctive design. Design is something more than style. A product should be design in a manner which makes it attractive, easy, safe and inexpensive to use and service, and simple and economical to produce and distribute. As competition increase, design proves to be a very effective tool for differentiating and positioning a company's products and services. A good design offers other advantages also. It helps attracting customers attention, enhances product performance, reduces cost of production and enables the product to cope with competition in a better way.

Branding

The brand is the symbol of specific set of features, quality, benefits, services, and warranty.

A brand is a name, term, sign, symbol, or design, or a combination of these intended to identify the products or services of one seller or a group of sellers and to differentiate them from those of competitors.¹ To the consumers, brand is an important part of the product. For example, most consumers perceive a packet of Benson & Hedges cigarettes as a high-quality, expensive product. But the same cigarettes in an unmarked packet would likely be considered as lower in quality, even if the tobacco were identical. The brand is the symbol of specific set of features, quality, benefits, services, and warranty.

Four facets of the meaning of brand have been recognized. These are (i) attributes, (ii) benefits, (iii) values, and (iv) personality. For example, buyers perceive Hitachi washing machine as a durable, well built, less power consuming, safe and prestigious household equipment bought by well of families. The marketers challenge lies in developing a deep set of meanings for the brand. Having developed the four levels of a brand's meaning, marketers must locate the levels at which they will build the brand's identity.

Brand Equity

A brand with strong brand equity is a valuable asset which can be bought or sold for a price.

Brand equity is the value of a brand, based on the extent to which it has high brand loyalty, name awareness, perceived quality, strong brand associations, and other assets such as patents, trademarks, and channel relationships.² A brand with strong brand equity is a valuable asset which can be bought or sold for a price. For example, Nestle bought Rowntree (UK), Carnation (US), Stouffer (US), Buitoni-Perugina (Italy), and Perrier (France), making it the world's largest food company.³

¹ Peter Bennett, Dictionary of Marketing Terms (Chicago: American Marketing Association, 1988)

² Philip Kotler & Gary Armstrong, Principles of Marketing, seventh edition, Prentice Hall of India Pvt. Ltd., New Delhi, 1997, p. 284.

³ Ibid., p. 284.

Precisely measuring actual brand equity is quite difficult. According to one estimate, the brand equity of Coca-Cola is \$36 billion, Marlboro \$33 billion, and Kodak \$10 billion.⁴ Some of the world's top brands are Coca-Cola, Campbell, Disney, Kodak, Sony, Mercedes-Benz, and McDonald's. A company derives competitive advantage from light brand equity. A powerful brand secures a high level of consumer brand awareness and loyalty, reduces marketing costs in relation to revenues. A strong brand enables the company to launch brand extensions with more ease and also helps tackle intense price competition.

Precisely measuring actual brand equity is quite difficult.

The World's Most Powerful Brand Names

United States	Europe	Japan
Coca-Cola	Coca-Cola	Sony
Campbell	Sony	National
Disney	Mercedes-Benz	Mercedes-Benz
Pepsi-Cola	BMW	Toyota
Kodak	Philips	Takashimaya (department store)
NBC	Volkswagen	Rolls Royce
Black & Decker	Adidas	Seiko
Kellogg	Kodak	Matsushita
McDonald's	Niver	Hitachi
Hershey	Porsche	Suntory

Source: Philip Kotler & Gary Armstrong, *Principles of Marketing, seventh edition, Prentice-Hall of India, Pvt. Ltd., New Delhi, 1997. p. 285.*

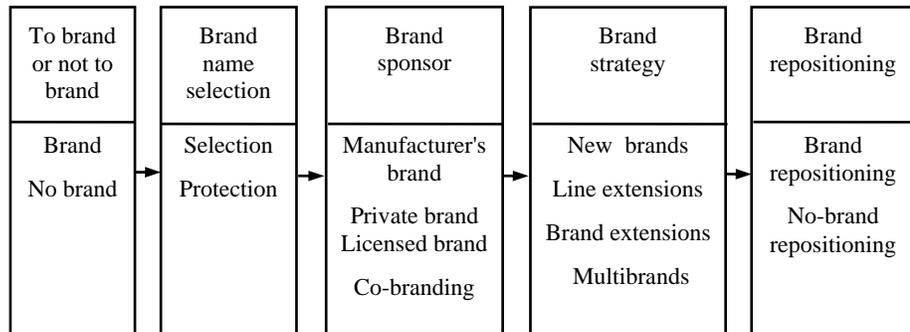
For sustaining brand equity marketers need to manage their brands carefully. Strategies must be develop for effectively maintaining or improving brand awareness. This calls for continuous R&D investment, skillful advertising, and excellent trade and consumer service. As the basic asset underlying brand equity is customer equity marketing strategy should concentrate on extending loyal customer lifetime value, with brand management serving as a major marketing tool.

⁴ Keith J. Kelly, "Coca-Cola shows that Top-Brand Fizz," Advertising Age, July 11, 1994, p.3

Branding Decisions

What decisions does a marketer face in order to establish and maintain successful brands? The following figure shows the major branding decisions:

Figure 7-2: Major Branding Decisions



Source: Philip Kotler & Gary Armstrong, Principles of Marketing, seventh edition, Prentice-Hall of India Pvt. Ltd., New Delhi, 1997, p. 286.

To Brand or Not to brand

The decision to brand or not to brand requires careful consideration of some important issues.

Marketer first decide whether to brand or not to brand its products. Now a days, it is very difficult to find unbranded products. Almost all the types of consumer goods and industrial goods are sold under brand names. However, "Generic" products usually do not carry brands. The decision to brand or not to brand requires careful consideration of some important issues. These are necessity of branding, benefits of branding and cost of branding.

Branding offers several benefits to buyers and sellers.

Branding helps buyers in a number of ways. Brand indicates product quality, increases shopper's efficiency and provides information about new products. Branding also offers several benefits to sellers. Branding helps sellers process orders, provide legal protection for unique product features that otherwise might be initiated by competitors and attract a loyal and profitable set of customers. Branding helps the seller in segmenting markets.

Brand Name Selection

Successful companies have developed a formal process in selecting brand names. It starts with a careful review of the product and its benefits, the target market, and proposed marketing strategies. A good brand name should have five qualities. These are: (i) It should indicate product's benefits and qualities. (ii) It should be convenient to pronounce and easy to recognize and remember. (iii) It should be distinctive. (iv) The brand name should translate easily into foreign languages. (v) It should be suitable for registration and legal protection.

Brand Sponsor

A producer has four alternatives for sponsoring his brands. (i) Manufacturer's brand (national brand) – brand selected and owned by the

producer of a product or service. (ii) Private brand (or middlemen, distribution, or store brand) – brand selected and owned by a reseller of a product or service. (iii) Licensed brand – a brand used under license from other manufacturers who created it earlier. (iv) Co-branding – brand created through combining the brand names of two different companies on the same product.

Brand Strategy

A company has four options regarding brand strategies. There are: (i) Line extension – adopting a successful brand name to introduce additional items in a given product category under the same brand name, such as new flavors, forms, colors, added ingredients, or package sizes. (ii) Brand extension – adopting a successful brand name to launch a new or modified product in a new product category. (iii) Multibranding – a strategy under which a seller develops two or more brands in the same product category. (iv) New brands – creating a new brand name when entering a new product category for which none of the existing brand names are suitable.

Brand Repositioning

A well positioned brand might need repositioning in the market later. A competitor's brand may snatch away company's market share. Demand may also fall due to changes in customer wants. So, marketers might find it necessary to reposition its existing brands before introducing new ones which will ensure brand recognition and consumer loyalty.

A well positioned brand might need repositioning in the market later.

Repositioning may involve changing both the product and its image. Kentucky Fried Chicken changed its menu, adding lower-fat skinless chicken and nonfried items such as broiled chicken and chicken salad sandwiches to reposition itself toward more health-conscious fast-food consumers.⁵ Repositioning of a brand can also be made by changing only the product's image. When repositioning a brand, the marketer should make sure that such an action will not result in losing or confusing existing loyal buyers.

Repositioning may involve changing both the product and its image.

Packaging

Most of the products are to be packaged before putting them in the market. Packaging is considered by some marketers as the fifth element of marketing mix and they treat packaging as a part of product strategy. Packaging refers to the task of designing and producing the container or wrapper for a product. The package may include the product's primary container (the bottle holding ETERNITY perfume); a secondary package that is thrown away when the product is about to be used (the cardboard box containing the bottle of ETERNITY); and the shipping package necessary to store, identify, and ship the product (a corrugated box carrying six dozens bottles of ETERNITY). Labeling is also part of

Packaging is considered by some marketers as the fifth element of marketing mix.

⁵ Op. Cit., Philip Capotler & Gary Armstrong, p. 293.

packaging and contains printed information appearing on or with the package.

Packaging attracts attention, describes the product and completes the sale.

Apart from containing and protecting the product, packaging has also several other benefits for which it is now being recognized as an important marketing tool. With the increase in self-service in retailing, packaging is supposed to supplement and substitute the salesman's job. Packaging attracts attention, describes the product and completes the sale. A good packaging creates instant consumer recognition of the company or brand. For example, in an average supermarket, which stocks, 15,000 to 17,000 items, the typical shopper passes by some 300 items per minute, and 53 percent of all purchases are made on impulse.⁶

Innovative packaging gives competitive advantage to a company. On the contrary, ill designed packages may cause apathy for consumers resulting in a declining sale. Good packaging is also required for ensuring product safety.

"Developing a good package for a new product requires making many decisions. The first task is to establish the packaging concept. The packaging concept states what the package should be or do for the product. Should the main functions of the package be to offer product protection, introduce a new dispensing method, suggest certain qualities about the product or the company, or something else? Decisions then must be made on specific elements of the package, such as size, shape, materials, color, text, and brand mark. These various elements must work together to support the product's position and marketing strategy. The package must be consistent with the product's advertising, pricing and distribution."⁷

In making packaging decisions the company must also take into account environmental considerations.

Companies select the best package from among many package designs after testing. Factors considered in this test are ease in use, ease in handling by dealers and the consumer response received. The selected package should be modified with the changes in buyers' preference and advances in technology. In making packaging decisions the company must also take into account environmental considerations. Companies should always be ready to take the responsibility for the environmental costs of their products and packaging.

Labeling

A simple example of a label is a tag attached with the product. Complex graphics are also labels which are part of the package. Labels serves various purposes from which the seller has to select the appropriate one. Label identifies the product or brand, grade the product and also might describe several things about the product such as who made it, where it was made, when it was made, its contents, how it is to be used, and how to use it safely. Label also help in promoting the product through attractive graphics.

⁶ Op. Cit., Philip Kotler & Gary Armstrong, pp. 293-294.

⁷ Op. Cit., Philip Kotler & Gary Armstrong, p. 295.

Marketer should be concerned about the legal aspects of labeling and their decisions should conform with the legal requirements in this respect. Labels can mislead customers, fail to describe important ingredients, or fail to include needed safety warnings. For protecting consumers' interest Government might introduce various laws to regulate labeling. The law may require the labels to contain (i) unit pricing (stating the price per unit of standard measure), (ii) Open dating (stating the expected shelf life of the product), and (iii) Nutritional labeling (stating the nutritional values in the product). The producers/sellers must ensure that their labels contain all the necessary information.

Marketer should be concerned about the legal aspects of labeling

Product Support Services

A product is offered in the market along with some services. Such services augment the actual products. Product-support services are being increasingly used by the producers for gaining competitive advantage. A study comparing the performance of business that had high and low customer ratings of service quality found that the high-service businesses managed to charge more, grow faster, and make more profits.⁸ Undoubtedly, service strategies deserve careful attention by the marketers.

A product and its support services should be designed to meet the needs of the target customers. Deciding which product-support services to offer is to determine both the services valued by target consumers and the relative importance of these services. Determining customers' service needs involves more than simply monitoring complaints. Companies should undertake periodical customer surveys to get ratings of current services as well as ideas for new ones. Products can also be designed to reduce that amount of required servicing by coordinating product-design and service mix decisions. Recognizing the importance of customer service as a marketing tool, many companies have introduced strong customer service operations to handle complaints and adjustments, credit service, maintenance service, technical service and consumer information. Finally, an effective customer service operation coordinates all the company's services, creates consumer satisfaction and loyalty, and enables the company to remain at an advantageous position in relation to its competitors.

A product and its support services should be designed to meet the needs of the target customers.

⁸. Op. Cit., Philip Kotler and Gary Armstrong, p. 297.

Questions for Review

1. Why many people are willing to pay more for branded products than for unbranded products? Elaborately discuss the value of branding.
2. "Product attribute decisions greatly influence consumer reactions to a product." - Explain.
3. Benefits derived out of a product are reflected by –
 - a. Product attributes
 - b. Product size
 - c. Product price
 - d. Product demand.
4. A brand is a –
 - a. Name
 - b. Symbol
 - c. Design
 - d. All of the above.
5. Which one of the following is not included in the meaning of brand?
 - a. Attributes
 - b. Availability
 - c. Benefits
 - d. Values.
6. A product and its support services should be designed to meet the needs of the –
 - a. Middlemen
 - b. Manufacturers
 - c. Target customers
 - d. Govt. agencies.



Ans : 3. A, 4. D, 5. b, 6. C.

Lesson - 3: Product Line and Product Mix Decision: Product Life - Cycle and Marketing Strategies

Lesson objectives

After completing this lesson you will be able to:

- Illustrate product line and product mix decisions, describe stretching and filling the product line length, line modernization, line featuring, and line width.
- Evaluate the product life-cycle theory and marketing strategies followed in different stages of a product life-cycle.

Product Line Decisions

Having discussed decisions about branding, packaging, labeling, and services for individual products, we can now consider issues involving building a product line. A product line is a group of products that are closely related because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlets, or fall within given price ranges.⁹ For example, Toyota produces several lines of cars, Colgate Palmolive produces several lines of toiletries.



Product Line Length

First of all, a producer has to decide on product line length. A product line is considered short when there exists opportunities to increase profits by adding items. Reversibly product line is too long when dropping some of the existing item results in increased profit. Company objectives guide product line length decision. Companies wanting to emerges full-line producers or aspiring to grab high market share and growth generally maintain longer lines. Companies interested in high short-term gains usually maintain shorter lines.

Company objectives
guide product line
length decision.

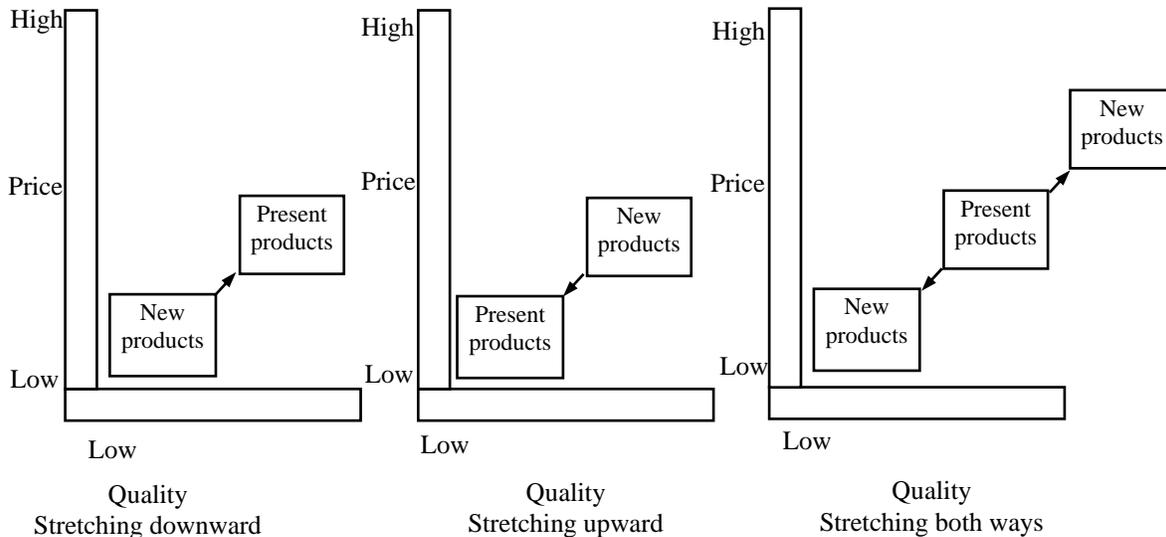
Product lines usually lengthen through passage of time. Excess manufacturing capacity, sales force and distributors' pressure and opportunity for increasing sales and profits are the factors that encourage the producer to lengthen product line.

Adding new products lead to increase in cost. Design and engineering costs, inventory costs, manufacturing change over costs, order processing costs, transportation costs, and promotional costs go up as a result of introducing new items. In such a situation, the company screens the whole product line and decides to drop unprofitable items and thus keeps the product line under control.

⁹. Op. Cit., Philip Kotler and Gary Armstrong, p. 298.

A company can increase the length of product line in two ways: (i) by stretching its line and (ii) by filling its line. A company's product line covers a certain range of the products offered by the industry. For example, Ford automobiles are located in the medium-high price range of the automobile market. SUZUKI focuses on the low-to-medium price range. Product line stretching takes place when a company lengthens its product line beyond its current range. The following figure shows that the company can stretch its line downward, upward, or both ways :

Figure 7-3 Product Line Stretching Decision



Source: Philip Kotler & Gary Armstrong, *Principles of Marketing, seventh edition, Prentice-Hall of India Pvt. Ltd., New Delhi, 1997, p. 299.*

Stretching Downward

A company may add a low-end product to capture a portion of the market that otherwise would attract a new competitor.

Many companies may start with upper end of the market and later stretch their lines downward. This happens due to many reasons. A company may have first entered the upper end to establish a quality image and decided to come downward later. It may react to a competitor's attack on the upper end by penetrating into the low end. A company may add a low-end product to capture a portion of the market that otherwise would attract a new competitor. It may locate faster growth taking place at the low end. However, stretching downward involves some risks. The competitors might move into the higher end, dealers may be reluctant to handle the lower-end products and increase in revenue due to the sales of lower-end products may be offset by the decrease of the sales of higher-end products all leading to a fall in the profitability of the company.

Stretching Upward

Companies at the lower end of the market may be enticed to enter the higher end by a faster growth rate or higher margins. Besides, they may intend to emerge as full-line manufacturer and add prestige to their existing products. Risks involved in upward stretching are; (i) higher end competitors may be stronger (ii) prospective customers may not be

convinced about the quality of the products and (iii) the company's salespeople and distributors may not be suitable enough to operate in the higher end of the market.

Stretching Both Ways

Companies operating in the middle range of the market may go for stretching their lines in both directions. The risk involved in this strategy is that the target buyers of the upper end may move to the lower end. The company may even lose these buyers to its competitors.

Filling in the Product Line

A product line can be lengthened by adding more items within its present range. Reasons for filling product line are; (i) earning extra profit, (ii) satisfying middlemen, (iii) utilizing excess capacity, (iv) emerging as the leading full-line company, and (v) capturing parts of the market that would otherwise be lost to the competitors. Thus, Sony added solar-powered and waterproof walkmans in its walkman line. However, product line filling is unjustified if it results in the disappearance of one or more of the existing items and customer confusion. It should be ensured that new items are easily distinguishable from the existing ones.

Product Line Modernization

Although a company's product line length may seem to be adequate, it may require modernization. For example, a company's toiletries line developed in 1980s may be lost out to better packaged competitors lines. The main consideration in product line modernization is whether to overhaul the line gradually or all at once. A gradual approach enables the company to watch how customers and middlemen like the new styles before changing the whole line. Gradual modernization also causes less pressure on the company's cash flow. A major demerit of gradual modernization is that it gives the competitors and opportunity to notice changes and initiate redesigning their own lines.

The main consideration in product line modernization is whether to overhaul the line gradually or all at once.

Product Line Featuring

Product line featuring is the selection of one or few items that represents the whole line. Sometimes, producers feature promotional models at the low end of the line to serve as "traffic builders." For example, Mark & Spencer might advertise a special low-priced gents shirt to attract shoppers. At other times, producers feature a high-end item to give the product line "Class." For example, tissue advertises a Tk. 12, 000 watch that few people buy, but that acts as a "flagship" to enhance the whole line.

Product line featuring is the selection of one or few items that represents the whole line.

Product Mix Decisions

A product mix is the combination of all product lines and items that a particular seller offers for sale. Squares product mix consists of three product lines: pharmaceuticals, toiletries and cosmetics. Each product line consists of several sublines. For example, toiletries breaks down into shampoo, soap, and so on. Each line and subline has many individual

items. Altogether, Avon's product mix includes 1,300 items. In contrast, a large supermarket handles as many as 17,000 items; a typical K mart stocks 15,000 items; and General Electric manufacturers as many as 250,000 items.¹⁰

A company's product mix has four dimensions - width, length depth, and consistency.

A company's product mix has four dimensions - width, length depth, and consistency. Table 7-2 illustrates these concepts with selected Procter & Gamble (P&G) consumer products.

The width of P&G's product mix indicates the number of different product lines the company carries. Table 7-2 shows a product mix width of six lines. The length of P&G's product mix indicates the total number of items the company carries. In table 7-2, the total number of items is 42. Average length of a line at P&G can also be computed by dividing the total length (here 42) by the number of lines (here 6). In table 7-2, the average P&G product line consists of 7 brand. The depth of P&G's product mix indicates the number of versions offered of each product in the line. Thus, if Crest comes in three sizes and two formulations (paste and gel), Crest has a depth of six.

Table 7-2 : Product Mix Width and Product Line Length Shown for Selected Procter & Gamble Products

PRODUCT MIX WIDTH						
	Detergents	Toothpaste	Bar Soap	Deodorants	Fruit Juices	Lotions
	Ivory Snow	Gleem	Ivory	Secret	Citrus Hill	Wondra
	Dreft	Crest	Camay	Sure	Sunny Delight	Noxema
	Tide	Complete	Lava		Winter Hill	Oil of Olay
	Joy	Denquel	Kirk's		Texsum	Camay
	Cheer		Zest		Lincoln	Raintree
	Oxydol		Safeguard		Speas Farm	Tropic Tan
PRODUCT	Dash		Coast			Bain de Soleil
LINE	Cascade		Oil of Olay			
LENGTH	Ivory Liquid					
	Gain					
	Dawn					
	Ariel					
	Bold 3					
	Liquid Tide					

Source: Philip Kotler & Gary Armstrong, *Principles of Marketing, seventh edition. Prentice-Hall of India Pvt. Ltd. New Delhi, 1997; p. 302.*

By counting the number of versions within each brand, the average depth of P&G's product mix can also be calculated. The consistency of the product mix indicates how closely related the various product lines are in end use, production requirements, distribution channels, or in some other ways. P&G's product lines are consistent insofar as they are consumer products that go through the same distribution channels. The lines are less consistent insofar as they perform different functions for buyers.

¹⁰ Op. Cit., Philip Kotler and Gary Armstrong; p. 301.

Product mix dimensions guide a company in defining its product strategy. The company can enhance its business in four ways. **Firstly**, it can add new product lines which will widen its product mix. Thus, its new lines are built on the company's goodwill in its other lines. **Secondly**, the company can lengthen its current product lines to emerge as a more full-line company. **Thirdly**, the company can also add more product versions of each product which will deepen its product mix. **Fourthly**, and finally, a policy of more product line consistency - or less - depending on whether it wants to have a strong reputation in a single field or in several fields.

Product mix dimensions guide a company in defining its product strategy.

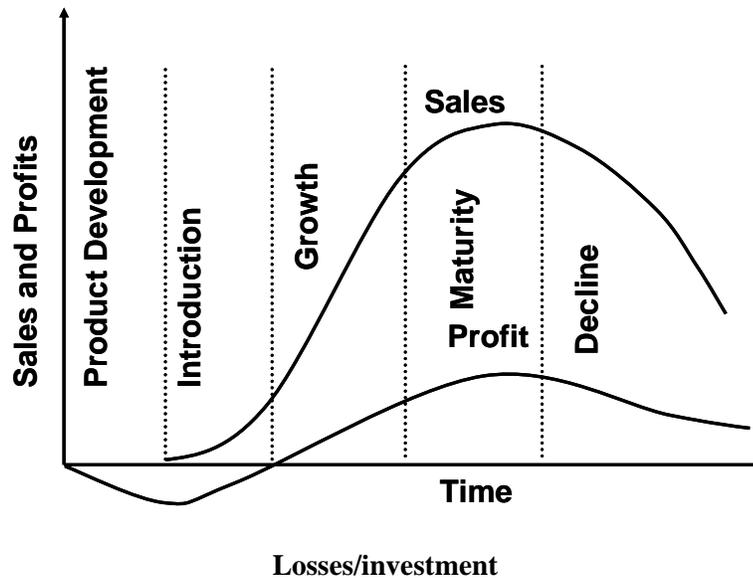
Product Life-Cycle and Marketing Strategies

- **Product Life-Cycle**

Every product launched in the market will have a life, the span of which can not be known earlier. However, companies want their products to enjoy long lives and expect lucrative profits out of their sales. Companies recognize that each product will have a life cycle, although its exact shape and length can not be anticipated. A product life cycle (PLC) is the course that a product's sales and profits take over its lifetime. The following figure (Figure 7-4) shows a typical product life cycle.

A product life cycle (PLC) is the course that a product's sales and profits take over its lifetime.

FIGURE 7-4: Sales and Profits Over the Product's Life From Inception to Demise



Source: Philip Kotler and Gary Armstrong, *Principles of Marketing, seventh edition*, Prentice-Hall of India, New Delhi, 1997; p. 326

The product life cycle has five stages:

- **Stage 1: Product Development**

At this stage, company finds and develops a new-product idea. During product development, there is no sales and the company's investment costs rises.

- **Stage 2: Introduction**

At this stage sales growth is slow as the product is being introduced in the market. Profit is zero or negative in this stage because of the heavy expenses of product introduction.

- **Stage 3: Growth**

It is a period of rapid market acceptance and increasing profits.

Stage 4: Maturity

It is a period of slowdown in sales growth because the product had achieved acceptance by most potential buyers. Profits level off or decline due to increased marketing investments to defend the product against competition.

- **Stage 5: Decline**

At this stage, sales fall off and profits drop.

Not all products follow the product life cycle as shown in figure 7-4. Some products are introduced and face death quickly while others may remain in the mature stage for a long time. Some products enter the decline stage and are then reverted to the growth stage through aggressive promotion or repositioning.

The PLC concept can be applied to a product class, a product form, or a brand. Product classes have the longest life cycles – they stay in the mature stage for a long time. On the contrary, product forms tend to have the typical PLC shape. A specific brand's life cycle can change quickly due to changes in competition. The PLC concept is also relevant to styles, fashions and fads.

The PLC concept can be applied to a product class, a product form, or a brand.

- **Marketing Strategies**

The PLC concept can be used to describe how products and markets operate. Still there are some limitations in using PLC concept for the purpose of forecasting product performance and developing marketing strategies. For example, marketers may have trouble in identifying which stage of the PLC the product is in, pinpointing when the product moves into the next stage, and determining the factors that affect the product's movement through the stages. It is also difficult to forecast the sales level at each PLC stage, the length of each stage, and the shape of the PLC curve.

The PLC concept can be used to describe how products and markets operate.

Developing marketing strategies on the basis of PLC concept can also be difficult because strategy is both a cause and a result of the product's life cycle. The product's current PLC position suggests the most appropriate marketing strategies and these strategies may influence product performance in later life-cycle stages. Nevertheless, the PLC concept, if applied carefully, can help in developing good marketing strategies for different stages of the product life cycle. We can now consider the strategies that marketers may adopt for different stages of product life cycle.

The product's current PLC position suggests the most appropriate marketing strategies.

- **Product Development Stage**

Marketing strategy formulation at this stage is divided into three phases. In the first phase, the marketer describes the target market; the planned product positioning; and the sales, market share, and profit goals for the first few years. The second phase outlines the product's planned price, distribution, and marketing budget for the first year. The third phase

describes the planned long-run sales, profit goals, and marketing mix strategy.

- **Introduction Stage**

Marketing strategy at this stage suggests to offer a basic product, use cost-plus pricing, build selective distribution, build product awareness among early adopters and middlemen and use heavy sales promotion to entice trial.

- **Growth Stage**

Marketing strategy at this stage seeks to offer product extensions, service and warranty, price to penetrate market, build intensive distribution, build awareness and interest in the mass market, and reduce sales promotion to take advantage of heavy consumer.

- **Maturity Stage**

Marketing strategy at this stage suggests diversification of brand and models, pricing to match competitors, building more intensive distribution, stressing brand differences and benefits, and encouraging brand switching.

- **Decline Stage**

Marketing strategy at this stage suggests to phase out weak items, cut price, phase out unprofitable outlets, reduce advertising and reduce sales promotion to minimal level.

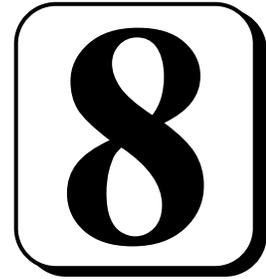
Questions for Review

1. Describe the decision making process followed by a company in increasing the length of its product line.
2. Illustrate, with example the stages of a product life cycle. How does PLC concept influences the marketing strategies of a marketer?
3. A product line is considered short when –
 - a. It consists of few items
 - b. Demand for all the items is low
 - c. Adding items lead to increase profits
 - d. Costs of the items are high.
4. One of the reasons for filling product line is –
 - a. To increase goodwill
 - b. To utilize excess capacity
 - c. To bring down cost of production
 - d. To ensure better promotion.
5. Which of the following is not a dimension of a company's product mix?
 - a. Width
 - b. Length
 - c. Depth
 - d. Inconsistency.
6. Marketing strategy formulation at product development stage–
 - a. Describes the target market
 - b. Suggests to offer a basic product
 - c. Seeks to offer product extensions
 - d. Diversification of brand and models.

Ans : 3. C, 4. B, 5. D, 6. A .



PRICING PRODUCTS: PRICING CONSIDERATIONS AND APPROACHES



All profit organizations and many nonprofit organizations must set prices on their products or services. Although the role of nonprice factors in the modern marketing process is increasing, price remains an important element in the marketing mix. This unit consists of three lessons. In the first lesson, internal factors affecting pricing decisions have been discussed. The second lesson considers in detail the external factors affecting pricing decisions. Various general pricing approaches and differences among them have been discussed and analyzed in the third lesson.

School of Business

Blank page

Lesson 1 : Internal Factors Affecting Pricing Decisions

Lesson objectives

After completing this lesson you will be able to:

- Identify the internal factors that affect pricing decisions
- Explain marketing mix objectives, marketing mix strategy
- Have a clear idea about different types of costs
- Determine the organizational considerations in pricing products.

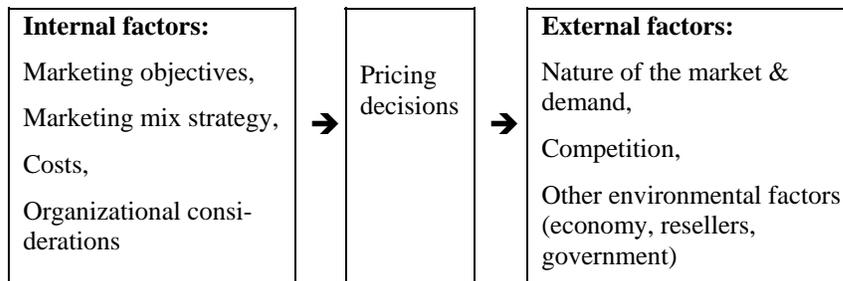
In a popular sense, price is the amount of money charged for a product or service. Broadly speaking, price is the sum of all the values expressed in monetary terms which consumers part with for the benefits of having or using the product or service. Price goes by many names; rent for houses, fee to a physician, air fare, interest charged by banks and so on. All profit organizations and many nonprofit organizations must set prices on their products or services. Price is the only element in the marketing mix that fetches revenue; all other elements represent costs.



Price is the amount of money charged for a product or service.

A company's pricing decisions are influenced both by internal company factors and external environmental factors. Figure 8-1 shows the factors affecting pricing decisions:

Figure 8-1: Factors Affecting Price Decisions



Source: Philip Kotler and Gary Armstrong, Principles of Marketing, seventh edition, Prentice-Hall of India Pvt. Ltd., New Delhi, 1997; p. 341.

Company's marketing objectives, marketing mix strategy, costs and organizational considerations are the four internal factors that affect the company's pricing.

• Marketing Objectives

The company must decide on its strategy for the product before setting price. The task of pricing becomes fairly direct if the company has selected its target market and positioning carefully. For example, if Toyota decides to produce a new sports car to compete with European sports cars in the high-income segment it will have to charge a high price. Thus, pricing strategy is significantly influenced by decisions on market targeting and positioning.

Clarity of objective makes it easy to set the price.

The company might have other objectives. Clarity of objective makes it easy to set the price. Common objectives sought by marketers are survival, current profit maximization, market-share leadership, and product-quality leadership. These objectives can be stated as under:

- **Survival:** Companies set survival as their prime objective if they are troubled too much capacity, intense competition, or changing consumer wants. To keep the production running, a company may set a low price, expecting to increase demand. Here, survival gets priority over profits. As long as a company's prices cover variable costs and some fixed costs, it can carry on business. However, survival as an objective can be adopted only for a short-term. In the long-run, the company must find out the ways for adding value. Otherwise it might have to quit its business.
- **Current Profit Maximization :** Many companies accept current profit maximization as their pricing goal. They anticipate what demand and costs will be at different prices and choose the price that will produce the maximum current profit, cash flow, or return on investment. In all cases, a company is interested in current financial results rather than long-run performance.
- **Market Share Leadership :** Some companies intend to achieve market-share leadership. They feel that the company with the largest market share will enjoy the lowest costs and highest long-run profit. To emerge as the market share leader, these companies set prices as low as possible. In this regard, a company can pursue a specific market-share gain. For example, the company wants to increase its market share from 20 percent to 25 percent in one year. It will look for the price and marketing program that will achieve this goal.
- **Product-Quality Leadership :** A company might be interested in achieving product-quality leadership. This generally warrants charging high price to cover such quality and the high cost of R&D. For example, Sub-Zero makes the Rolls-Royce of refrigerators - custom-made, built in units that look more like hardwood cabinets or pieces of furniture than refrigerators. By offering the highest quality, Sub-Zero sells more than \$50 million worth of fancy refrigerators a year, priced at up to \$3,000 each.¹

To emerge as the market share leader, these companies set prices as low as possible.

A company might also use price to accomplish other more specific objectives. It can set prices to prevent competitors from entering the market. It can even set prices at competitors' levels to stabilize the market. Prices can be set for ensuring loyalty and support of middlemen or to avoid government intervention. Prices can be reduced for the time being to create interest for a product or to pull more customers into a retail store. One product may be priced in a way which will help the sales

¹. Philip Kotler and Gary Armstrong, Principles of Marketing, Seventh edition, Prentice-Hall of India, New Delhi, 1997; p. 342.

of other products of the company. Thus, the role of pricing is important in accomplishing the company's objectives at various levels.

Nonprofit and public organizations may seek a number of other pricing objectives. A college aims for partial cost recovery, knowing that it must rely on private donations and public grants to cover the remaining costs. A nonprofit clinic may adopt a policy of full cost recovery in its pricing. A social service organization may set a social price geared to varying income levels of different clients.

- **Marketing Mix Strategy**

Price is one of the four marketing mix tools that a company uses to accomplish its marketing objectives. Price decisions must be synchronized and coordinated with product design, distribution, and promotion decisions to constitute a uniform and effective marketing programme. Decisions made for other marketing-mix variables usually affect pricing decisions. For example, producers using many middlemen who are supposed to support and promote their products may have to provide for larger middlemen margins into their prices.

Price is one of the four marketing mix tools that a company uses to accomplish its marketing objectives.

Companies often make their pricing decisions first. Then other marketing-mix decisions are made on the basis of the price they set. Here, price is a key product positioning factor that determine the product's market, competition, and design. The desired price determines what features the product will possess and what production costs can it afford.

Many companies follow such price-positioning strategies with a technique called target costing. Contrary to the usual practice, target costing starts with a target cost followed by designing a new product, determining its cost and then judging suitability of its price. Compaq Computer Corporation calls this process "design to price". After being battered for years by lower-priced rivals, Compaq used this approach to create its highly successful, lower-price Prolinea personal computer line. Starting with a price target set by marketing, and with profit-margin goals from management, the Prolinea design team determined what costs had to be in order to charge the target price. From this crucial calculation all else followed. To achieve target costs, the design team negotiated doggedly with all the company departments responsible for different aspects of the new product, and with outside suppliers of needed parts and materials. Compaq engineers designed a machine with fewer and simpler parts, manufacturing overhauled its factories to reduce production costs, and suppliers found ways to provide quality components at needed prices. By meeting its target costs, Compaq was able to set its target price and establish the desired price position. As a result, Prolinea sales and profits soared.²

Other companies give more emphasis on other marketing tools than price to create nonprice positions. Often, the desired strategy is not to charge

². Ibid., pp. 342-343

the lowest price. Instead, marketing offers are differentiated which justify a higher price. A company may set an initial price of Tk. 20,000 for its refrigerator offering no post sales service. Alternatively, it can make the initial price of the same refrigerator Tk. 22,000 offering 1 year free servicing. Thus, the marketer must take into account the total marketing mix when setting prices. If the product is positioned on nonprice factors, then decisions about quality, promotion, and distribution will have significant influence on price. If price is considered to be a more important positioning factor, then price will have significant bearing on decisions made about the other marketing-mix elements. Therefore, it will be pragmatic for the companies to consider price along with all the other marketing-mix elements when developing the marketing programme.

- **Costs**

Costs set the lowest level of price below which the company can not charge for its product. The company wants to charge a price that covers all of its costs for producing, distributing, and selling the product and brings good return for its effort and risk. A company's costs may play an important role in its pricing strategy. Companies having lower costs can set lower prices which generate greater sales and profits. Let's we will discuss the different types of cost:

- **Types of Costs**

Costs are of two types, fixed and variable.

A company's costs are of two types, fixed and variable. **Fixed costs**, also termed as overhead, are costs that do not vary with production or sales level. For example, a company must pay rent, heat, interest, and employee salaries regardless of the company's output.

Variable costs vary directly with the volume of production. Each TV set produced by Sony involves a cost of picture tube, speaker, transformer, packaging, and other inputs. These costs tend to be the same for each unit produced. They are called variable costs because their total varies with the number of units produced.

Total costs are the sum of the fixed and variable costs for any given level of production.

Total costs are the sum of the fixed and variable costs for any given level of production. The producer wants to charge a price that will at least cover the total product costs at a given level of production. The company must monitor its costs carefully. If the companies cost of production and sale are more than those of its competitors', the company will have to charge a higher price or make less profit. Such a situation is disadvantageous from a competitive viewpoint.

In pricing prudently, producers should know that costs vary with different levels of production. Suppose, a transistor radio manufacturer has a plant to manufacture 500 radio sets per day. It may find that cost per radio set is high if produces only a few per day. But as production moves up to 500 radio sets per day, average cost falls. This is because fixed costs are spread over more units, with each one bearing a smaller fixed cost the manufacturer can try to produce more than 500 radio sets per day, but average costs will increase because the plant becomes

inefficient due to various problems arising out of over capacity utilization. If the manufacturer felt it could sell 1,000 radio sets a day, it should consider building a larger plant using more efficient machinery and work arrangements. Eventually, the manufacturer may find that a 1,500 daily production plant is the best size to build if demand is adequate enough to support this level of production.

Costs also vary with the production experience gain by a producer. Suppose, a transistor radio manufacturer runs a plant that manufactures 1,500 radio sets per day. As the manufacturer gains experience in manufacturing radio sets, it learns how the better way of doing it. Workers' efficiency increases, work becomes better organized and the manufacturer adopts better equipment and production processes. With higher volume of production the manufacturer becomes more efficient and acquires economies of scale. Consequently, average cost tends to fall with accumulated production experience.

- **Organizational Considerations**

A company's management must decide who should be given the responsibility of setting prices. Companies deal with pricing in a number of ways. In small companies, prices usually are set by top management rather than by the marketing or sales departments. In contrast, in large companies, pricing typically is handled by divisional or product line managers. In industrial markets, salespeople may be authorized to negotiate with customers within certain price ranges. Even so, top management sets the pricing objectives and policies, and it often accepts the prices suggested by lower-level management or salespeople. In industries in which pricing is a basic factor, companies will organize a pricing department to set the best prices or assist others in setting them. This department is accountable to the marketing department or top management. Others who can contribute on pricing include sales managers, production managers, finance managers, and accountants.

Questions for Review

1. How do the survival, current profit maximization, market-share leadership, and product-quality leadership objectives affect pricing decisions of a company.
2. How would you distinguish between fixed cost and variable cost? Explain, with example how costs vary with different levels of production
3. An internal factor affecting company's pricing decisions is –
 - a. Market and demand
 - b. Marketing mix strategy
 - c. Competition
 - d. Resellers.
4. Variable costs vary directly with the –
 - a. Volume of Sales
 - b. Volume of profit
 - c. Volume of production
 - d. None of the above.
5. Which of the following is an example of overhead?
 - a. Raw materials
 - b. Sales tax
 - c. Operating supplies
 - d. Factory rent.
6. In small companies, prices usually are set by –
 - a. Top management
 - b. Marketing or sales department
 - c. Shareholders
 - d. Special committees.



Ans : 3. B, 4. C, 5. D, 6. A.

Lesson 2: External Factors Affecting Pricing Decisions

Lesson objectives

After completing this lesson you will be able to:

- Identify and define the external factors that affect pricing decisions
- Determine the influence of external factors on pricing
- Explain the suitable price for different types of markets
- Set price by considering the competitors' costs, prices and offers
- Determine other environment factors that affects pricing.

External Factors Affecting Pricing Decisions

Various factors affect pricing decisions of a company. These are : (1) market and demand, (2) competition, and (3) other environmental elements. The influences of these factors can be stated as under:

- **The Market and Demand**

While cost considerations set the lower limit of prices, the market demand set the upper limit. Both consumer and industrial buyers weight the price of a product or service against the benefits of having it. So, before setting prices, the marketer must appreciate the relationship between price and demand for its product. The following discussion explains how the relationship between price and demand varies for different types of markets and also examines how buyer perceptions of price affect the pricing decisions. Methods for measuring the price-demand relationship have also been discussed in this lesson.

- **Pricing in Different Types of Markets** : The seller's pricing considerations vary with different types of markets. Economists identify four types of markets, each posing a different pricing challenge.

In a situation of **pure competition**, the market consists of many buyers and sellers trading with a uniform commodity such as rice, steel, company shares. No single buyer or seller has significant influence on the going-market-price because buyers can procure as much as they need at the going price. Nor the sellers ask for less than the market price because they can sell all they want at this price . It price and profits go up, new sellers can easily enter the market. In a typical competitive market, marketing research, product development, pricing, advertising and sales promotion play a negligible role. Thus, sellers in these markets do not put much emphasis on marketing strategy.

In a situation of **monopolistic competition**, the market consists of many buyers and sellers who transact over a range of prices rather than a single market price. A range of prices prevails because sellers can differentiate



While cost considerations set the lower limit of prices, the market demand set the upper limit.

their offers to buyers. The producer offers products with varied quality, features, or style. Even the accompanying services are also varied. Buyers notice difference in sellers' products and are ready to pay different prices for them. Sellers tend to make differentiated offers for different customers types. Besides, sellers use branding, advertising, and personal selling to make their offer distinctive. As there operate many competitors, each firm is less affected by competitors' marketing strategies than in oligopolistic markets.

In an oligopolistic situation, a few sellers operate in the market.

In an **oligopolistic situation**, a few sellers operate in the market. They are highly reactive to each other's pricing and marketing strategies. The product can be homogenous or heterogeneous. Oligopolistic market consists of few sellers because new sellers find it quite hard to make their way into the market. Each seller monitors carefully competitors' strategies. If a company reduces its price, buyers will quickly switch to its products. The other companies must react by lowering their prices or increasing their services. In oligopoly, a firm is never sure that it will achieve anything permanent through price reduction. Reversely, if a firm raises its price, its competitors might not follow the suit and the firm would have to cancel its price increase or risk losing customers to competitors.

In a situation of pure monopoly, the market consists of one seller.

In a situation of **pure monopoly**, the market consists of one seller. The seller may be a government monopoly, a private regulated monopoly, or a private nonregulated monopoly. Pricing is dealt with separately in each. A government monopoly can have various pricing objectives. It might set a price below cost because the product is needed by buyers who do not have the ability to pay for full cost. The price might be set either to cover costs or to generate handsome revenue. It can be set quite high to reduce consumption. In a regulated monopoly, the government allows the company to set rates that will bring a fair return which will enable the company to maintain and expand its operations as required. Nonregulated monopolies have the freedom of setting price at what the market will bear. In practice, they do not always charge the full price for a variety of reasons. Such as, reluctance to attract competitor, plan to enter the market faster with a low price, or apprehension of government regulation.

- **Consumer Perceptions of Price and Value:** When setting price, the company must take into account consumer perceptions of price and how these perceptions influence consumers' purchase decisions. Pricing decisions, like other marketing-mix decisions, must center around the buyer. When consumers buy a product, they pay a price in exchange of the benefits of having or using the product. Buyer-oriented pricing demand recognizing how much value consumers place on the benefits they received from the product and setting a price that equals this value. These benefits can be actual or perceived. For example, estimating the cost of a food item in a restaurant is relatively easy. While determining the value of other satisfactions such as taste, environment and conversation is very difficult. Also these values will vary both for different consumers and different situations.

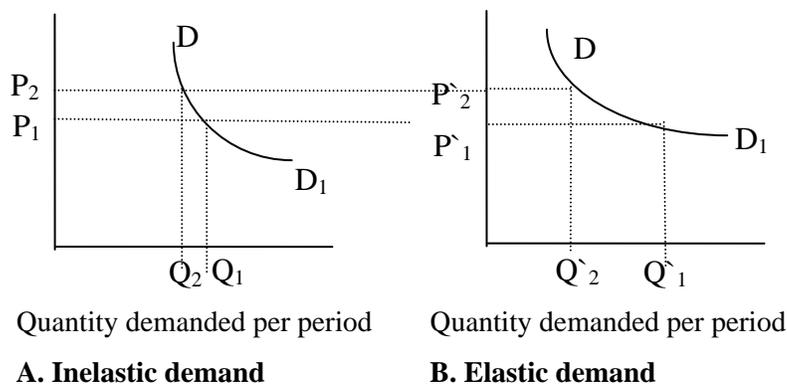
Marketers often find it difficult to measure the values customers will attach to their product. But the consumers consider these values to evaluate a product's price. When customers perceive that the price is higher than the product's value, they do not buy the product. When customers perceive that the price is smaller than product's value, they buy it and the seller loses profits.

Marketers often find it difficult to measure the values customers will attach to their product.

So, the marketers must try to identify the consumer's reasons for buying the product and set price according to consumers perceptions of the product's value. Because consumers differ in the values they attach to different product features. Marketers often adopts varying pricing strategy for different segments. They offer different sets of product feature at varying prices.

- **Analysis of Price-Demand Relationship :** Each price the firm might charge will lead to a different level of demand. The relationship between the price charged and the consequent quantity demanded is shown in the demand curve in the following figure (Fig: 8-2):

Figure 8-2 Demand Curves



Source: Philip Kotler and Gary Armstrong, Principles of Marketing, seventh edition, Prentice-Hall of India Pvt. Ltd., New Delhi, 1997; p. 350.

The demand curve shows the number of units the market will buy at different prices that might be charged in a given time period. Normally, demand and price are inversely related. The higher the price, the lower the demand. Thus, the firm would sell less if it increased its price from p_1 to p_2 . To sum up, consumers with limited budgets generally will buy less of a commodity if its price is exorbitant.

The higher the price, the lower the demand.

In case of goods having prestige value, the demand curve sometimes slopes upward. For example, sunglasses manufacturing firm found that by raising its price, it sold more sunglasses rather than less. Consumers thought the higher price meant a better or more desirable sunglasses. However, if the firm charges too high a price, the level of demand will be lower.

Most firms measure their demand curves by estimating demand at different prices. The type of market is responsible for varying demand levels at different prices. In a monopoly, the demand curve indicates the

The type of market is responsible for varying demand levels at different prices.

total market demand resulting from different prices. If the firm faces competition, its demand from different prices will depend on whether competitors' prices remain constant or change or with the firm's own prices. Here, the assumption is that competitors' prices stay constant.

How responsive demand will be to a change in price.

- **Price Elasticity of Demand** : It is also important for a marketer to understand price elasticity which indicates how responsive demand will be to a change in price. In figure 8-2A, a price increase from P_1 to P_2 leads to a relatively small fall in demand from Q_1 to Q_2 . In figure 8-2B, however the same price increase leads to a large fall in demand from Q'_1 to Q'_2 . The demand is inelastic if it hardly changes with a small change in price. The demand is elastic if it changes greatly. The price elasticity of demand is given by the following formula :

$$\text{Price Elasticity of Demand} = \frac{\% \text{ Change in Quantity Demanded}}{\% \text{ Change in Price}}$$

Suppose, demand falls by 15 percent when a seller raises price by 5 percent. Price elasticity of demand is therefore 3 and demand is elastic. If demand falls by 5 percent with a 5 percent increase in price, then elasticity is 1. In this case, seller's total revenue remains the same. The seller sells fewer items but at a higher price that keeps the total revenue same. If demand falls by 1 percent when price is increased by 2 percent then elasticity is $-\frac{1}{2}$ and demand is inelastic. The less elastic the demand, the more it is rewarding for the seller to raise the price.

Several factors determine the price elasticity of demand.

Several factors determine the price elasticity of demand. Buyers are less responsive to price when the product is unique, high in quality, prestige, or exclusiveness. Buyers are also less price sensitive when substitute products are rare and their quality can not be compared. Finally, buyers are less price sensitive when disposable income for buying the product is less relative to their total income or when the buyer alone does not bear the cost.

If demand is elastic rather than inelastic, sellers will decide on lowering their price.

If demand is elastic rather than inelastic, sellers will decide on lowering their price. A lower price will generate more total revenue. This practice can be considered wise as long as the extra costs of producing and selling more do not exceed the extra revenue.

- **Competition**

Another important external factor affecting the firm's pricing decisions is competitors' costs and prices and probable competitor responses to the firm's own pricing decisions. A consumer who is contemplating to buy a National micro oven will compare National's price and value against the prices and values of micro ovens of Sharp, Toshiba, Sanyo and others. Moreover, firm's pricing strategy may affect the nature of the competition it meets. If national follows a high-price, high-margin strategy it may invite competition. Reversely, a low-price, low-margin strategy, may weaken competitors or eliminate them from the market.

A firm needs to benchmark its costs against its competitors costs to ascertain whether it is operating at a cost advantage or disadvantage. It also should know the price and quality of each competitor's offer. This

can be done in several ways. The firm can send out shopper to compare to price and compare the product of its competitors. It can obtain competitors' price list and buy competitors' product. It can ask the opinion of the buyers about the price and quality of each competitor's product.

Knowing the competitors' price and offers, a firm can use them as a starting point for its own pricing. If National's micro ovens are similar to Tohiba's it will have to price close to Toshiba or lose sales. If National's micro overs are not as good as Toshiba's, the firm will not be able to charge as much. If National's micro ovens are better than Toshiba's it can charge more. Basically, National will use price to position its offer relative to the competitors' price.

- **Environmental Elements**

A firm must also consider other elements of its external environment while setting price. A country's economic milieu can have a strong impact on the firm's pricing strategies. Economic factor such as boom or recession, inflation, and interest rates influence pricing decisions because they affect both production costs and consumer perceptions of the product's price and value. The firm also must consider the likely impact of its price on other parties in its environment. The firm should set prices that give middlemen a reasonable profit, stimulate their support, and assist them to sell the product effectively. The government may also have influence on pricing decisions. Finally, social concerns also deserve attention. In setting price, a firm's short-term sales, market share, and profit goals may have to be subordinated to broader societal interests.

A country's economic milieu can have a strong impact on the firm's pricing strategies.

Questions for Review

1. Explain how the relationship between price and demand varies in pure competition, monopolistic competition, oligopolistic situation and pure monopoly.
2. How consumer perceptions of price and value influence consumers' purchase decisions? Give example.
3. In an oligopolistic situation, the market consists of –
 - A. Many sellers
 - B. One seller
 - C. A few sellers
 - D. Two sellers.
4. Price elasticity indicate how responsive demand will be to a change in –
 - A. Supply
 - B. Price
 - C. Cost
 - D. Quality.
5. No single buyer or seller has significant influence on the going market price in–
 - A. Pure competition
 - B. Monopolistic competition
 - C. Oligopolistic situation
 - D. None of the above.
6. Pricing decisions, like other marketing-mix decisions, must center around the-
 - A. Middlemen
 - B. Government
 - C. Competitors
 - D. Buyer.



Ans : 3. C, 4. B, 5. A, 6.D.

Lesson 3 : General Approaches to Pricing

Lesson objectives

After completing this lesson you will be able to :

- Know about the different approaches of pricing product
- Explain the advantages and disadvantages of each pricing approach
- Draw a contrast among the different approaches
- Select a suitable approach of pricing the product for yourself.

General approaches to pricing are of three types. These are; (1) the cost-based approach which includes cost-plus pricing, break analysis, and target profit pricing, (2) the buyer-based approach which includes perceived-value pricing, and (3) the competition-based approach which includes going-rate and sealed bid pricing. In setting prices, a firm may follow one or more of these three approaches. A brief discussion of each approach is given below:



• Cost-Based Pricing Approach

In cost-based pricing approach, a producer or seller can use the following pricing techniques:

- **Cost-Plus Pricing :** Cost-plus pricing is the simplest of all the pricing methods in which a standard markup is added to the cost of the product. For example, construction firms submit job bids by estimating the total project cost and adding a standard markup for profit. Some sellers charge cost plus a specified markup.

Cost-plus pricing is the simplest of all the pricing methods.

To illustrate markup pricing, suppose a tooth paste producer had the following costs and expected sales:

Variable cost	Tk. 10
Fixed cost	Tk. 3,00,000
Expected unit sales	50,000

Then the producer's cost per tooth paste is given by :

$$\begin{aligned} \text{Unit Cost} &= \text{Variable Cost} + \frac{\text{Fixed Costs}}{\text{Unit Sales}} \\ &= \text{Tk.10} + \frac{\text{Tk. 3,00,000}}{50,000} = \text{Tk.16} \end{aligned}$$

Now, suppose the producer wants to earn a 20 percent markup on sales. The producers markup price is given by:

$$\text{Markup Price} = \frac{\text{Unit Cost}}{(1 - \text{Desired Return on Sales})} = \frac{\text{Tk.16}}{1 - 0.20} = \text{Tk.20}$$

The producer would charge distributors Tk. 20 a tooth paste and make a profit of Tk. 4 per unit. Now, if distributors want to earn 50 percent profit on sales price, they will fix the price to Tk.40 (Tk. 20+50% of Tk. 40). This is equivalent to a markup of 100 percent on cost (Tk.20/Tk.20) for the distributor.

Using standard markups to set prices does not always prove to be wise.

Using standard markups to set prices does not always prove to be wise. Any pricing method that does not take into account demand and competitor prices is not likely to lead to the best price. Suppose the tooth paste producer charged Tk. 20 but only sold 30,000 tooth pastes instead of 50,000. Then the unit cost would have been higher since the fixed costs are spread over fewer units, and the realized percentage of markup on sales would have been lower. Markup pricing is only effective if that price actually brings in the expected level of sales.

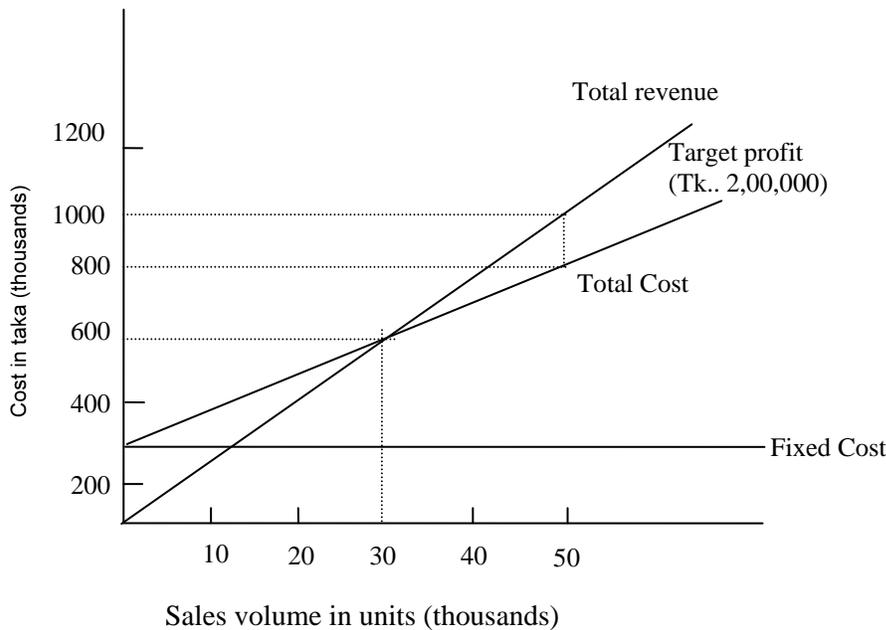
Still, markup pricing is widely followed for many reasons. *First*, sellers are more certain about costs than about demand. By linking the price to cost, sellers simplify pricing and not require to make frequent adjustments as demand changes. *Second*, when all firms in the industry follow this pricing method, price tend to be similar and price competition is thus minimized. *Third*, many people think that cost-plus pricing is fairer to both buyers and sellers. Sellers get a fair return on their investment but do not exploit the buyers when demand is high.

- **Breakeven Analysis and Target Profit Pricing** : Another cost-oriented pricing approach is break-even pricing. A variation of this approach is called target profit pricing. In break-even pricing, the firm tries to determine the price at which it will break-even or make the target profit it wants to earn.

Target pricing is used by General Motors, which price its automobiles to achieve a 15 to 20 percent profit on its investment. This pricing method is also used by public utilities, which are constrained to make a fair return on their investment³

Target pricing uses the concept of break-even chart, which shows the total cost and total revenue expected at different sales volume levels. Figure 8-3 shows a break-even chart for the tooth paste producer discussed here. Fixed costs are Tk.3,00,000 regardless of sales volume. Variable costs are added to fixed costs to form total costs, which rise with volume. The total revenue curve starts at zero and rises with each unit sold. The slope of the total revenue reflects the price of Tk.20 per unit.

³. Ibid., P. 354.



The total revenue and total cost curves cross at 30,000 units. This is the break-even volume. At Tk.20, the firm must sell at least 30,000 units to break-even; that is, for total revenue to cover total costs.

Break-even volume can be calculated using the following formula :

$$\begin{aligned} \text{Break-even volume} &= \frac{\text{Fixed Costs}}{\text{Price} - \text{Variable Cost}} \\ &= \frac{\text{Tk.3,00,000}}{\text{Tk.20} - \text{Tk.10}} = 30,000 \end{aligned}$$

If the firm wants to make a target profit, it must sell more than 30,000 units at Tk. 20 each. Suppose, the toothpaste producer has invested Tk. 8,00,000 in the business and wants to set price to earn a 20 percent return on sales, or Tk. 2,00,000. In that case, it must sell at least 50,000 units at Tk.20 each. If the firm charges a higher price, it will not need to sell as many toothpaste to achieve its target return. But the market may not buy even this lower volume at the higher price. It depends on the price elasticity and competitor's price.

The firm should consider different price and estimate break-even volume, probable demand, and profit for each. This is shown in Table 8-1. The table shows that as price increases, break-even volume drops (column-2). But as price increases, demand for the

Table 8-1: Break-Even Volume and Profits at Different Prices

(1) Price Tk.	(2) Unit demand needed to break-even Tk.	(3) Expected unit demand at given price Tk.	(4) Total Revenues (1)×(3) Tk.	(5) Total costs* Tk.	(6) Profit (4)-(5) Tk.
14	75,000	71,000	9,94,000	10,10,000	(16,000)
16	50,000	67,000	10,72,000	9,70,000	1,02,000
18	37,500	60,000	10,80,000	9,00,000	1,80,000
20	30,000	42,000	8,40,000	7,20,000	1,20,000
22	25,000	23,000	5,06,000	5,30,000	(24,000)

*. Assumes fixed cost of Tk. 3,00,000 and constant unit variable cost of Tk.10.

toothpaste also falls off (colume-3). At Tk. 14 price, because the firm clears only Tk.4 per toothpaste (Tk.14 less Tk.10 in variable costs), it must sell a very high volume to break-even. Even though the low price attracts many buyers, demand still falls below the breakeven point, and the firm loses money. At the other extreme, with a Tk.22 price the firm clears Tk.12 per toothpaste and must sell only 25,000 units to break even. But at this high price, consumers buy too few toothpaste, and profit are negative. The table shows that a price of Tk.18 yields the highest profits. Note that none of the prices produce the manufacturer's target profit of Tk. 2,00,000. To achieve this target return, the firm will have to look for ways to lower fixed or variable costs, thus lowering the break-even volume.

Buyer-Based Pricing Approach

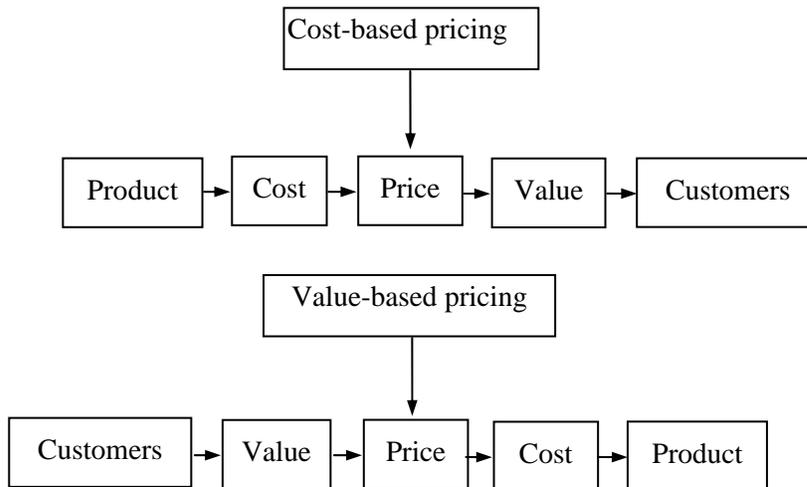
Under this approach of pricing, the following techniques can be applied in pricing the product:

Price is considered along with the other elements of marketing-mix prior to formulating the marketing program.

- **Value-Based Pricing** : Product's perceived value is getting increasing acceptance as the base for pricing by many firms. Intead of seller's cost, value-based pricing uses buyers' perceptions of value as the key to pricing. Value-based pricing suggests that the marketer can not design a product and marketing program and then set the price. Price is considered along with the other elements of marketing-mix prior to formulating the marketing program.

Figure 8-4 illustrates the distinction between cost-based pricing and value-based pricing. Cost-based pricing is guided by the product. The firm starts with what it considers to be a good product, estimates the costs of making the product, and sets a price that covers costs plus a target profit. The firm must then convince buyers that the product's value at that pricing justifies its buying. If the price turns out to be too high, the firm must settle for lower markups or lower sales, both resulting in low profits.

Figure 8-4 : Cost-Based vs Value-Based Pricing



Source : *Thomas T. Nagle and reed K.Holden, The Strategy and Tactics of Pricing, 2nd edition, Englewood Cliffs, New Jersey, Prentice Hall, 1995 ; P.5.*

Value-based pricing operates in the opposite manner. The firm sets its target price based on customer perceptions of the product value. They targeted value and price then guide decision regarding product design and probable costs. Thus, pricing begin with analyzing consumer needs and value perceptions. Price is set to match consumers' perceived value.

A firm adopting value-based pricing must assess what value buyers assign to different competitive offers. However, it may be difficult to measure perceived value. Consumers may be asked how much they are ready to pay for a basic product and for benefit added to the offer. A firm might conduct experiments to test the perceived value of different product offers. If the sellers' price is more than the buyers perceived value, the firm's sales will be affected adversely. Many firms overprice their products leading to poor sales. Other firms under price which brings higher sales but they produce less revenue than they would if price were raised to the perceived-value level.

A firm adopting value-based pricing must assess what value buyers assign to different competitive offers.

Competition-Based Pricing Approach

Competition prevailing in the market is also an important considerable factor in pricing product. Under competitive environment, a firm need to analyze the competitor's price and offer and then set price for its own product. According to this approach the following techniques are used:

- **Going-Rate Pricing :** In going-rate pricing, the firm bases its price mainly on competitors' price. The firm's own costs or demand are given less importance. The firm might set prices near to its major competitors. In a situation of oligopoly, firms normally charge the same price. The smaller firms follow the market leader. They change their prices when the market leader does so rather than when their own demand or costs change. Going-rate pricing is quite popular. When demand elasticity is difficult to measure, firms feel that the going price represents collective prudence of the industry regarding

In going-rate pricing, the firm bases its price mainly on competitors' price.

the price that will fetch a reasonable return. They also think that following the going rate pricing will prevent harmful price competition.

- **Sealed-Bid Pricing :** In sealed-bid pricing, the price set by a firm is based on competitors' price rather than its own costs or the demand. The firm is serious in getting a contract which requires pricing less than other firms. Still the firm can not set its price below a certain level. Because pricing below cost will be damaging for the firm. In contrast, the chance of getting a contract decreases with the increase in price set by a firm.

The net result of the interaction between two opposite variables (profit and probability of getting a contract) can be described in terms of the expected profit of the particular bid (Table 8-2). Suppose, a bid of Tk. 5,000 would yield a high chance (0.81)of getting the contract, but only a low profit (Tk. 100). The expected profit with this bid is therefore Tk. 81. If the firm bid Tk. 6,500, its profit would be Tk. 1,600, but its chance of getting the contract might be reduced to 0.01. The expected profit would be only Tk. 16. Therefore, the firm might bid the price that would maximize the expected profit. According to table 8-2, the best bid would be Tk. 5,500, for which the expected profit is Tk. 216.

Table 8-2 : Effect of Different Bids on Expected Profit.

Firm's Bid (Tk.)	(1) Firm's Profit (Tk.)	(2) Probability of Getting this Bid (Assumed)	(1) × (2) Expected Profit (Tk.)
5,000	100	0.81	81
5,500	600	0.36	216
6,000	1,100	0.09	99
6,500	1,600	0.01	16

Expected profit as a basis for setting price is particularly useful for the large firm that makes many bids. The firm will make maximum profit in the long- run. But a firm that bids only occasionally or disparately needs a contract will not consider the expected profit approach suitable.

The approach, for example, does not distinguish between a Tk. 10,000 profit with a 0.10 probability and a Tk. 1,250 profit with a 0.80 probability. In such a situation, the firm that wants to keep production going would prefer the second contract to the firm.

Questions for Review

1. Illustrate the mark-up pricing method with its benefits.
2. Show the distinction between cost-based pricing and value-based pricing.
3. The cost-based pricing approach includes –
 - A. Sealed bid pricing
 - B. Perceived-value pricing
 - C. Going-rate pricing
 - D. Target profit pricing.
4. Value-based pricing suggests that a marketer should –
 - A. Set the price before designing a product
 - B. Set the price after designing a product
 - C. Consider price along with other elements of marketing mix
 - D. Consider price after formulating marketing programme.
5. The break-even point indicate –
 - A. No profit
 - B. High profit
 - C. Massive loss
 - D. No profit no loss.
6. In sealed-bid pricing, the price set by a firm is based on –
 - A. competitors' price
 - B. Costs
 - C. Demand
 - D. Target profit.

Ans : 3. D, 4. C, 5. D, 6.A .



PLACING PRODUCTS : DISTRIBUTION CHANNEL AND LOGISTICS MANAGEMENT



Marketing channel decisions are among the most important decisions that a marketer faces. A company's channel decisions directly affect every other marketing decision. Marketing intermediaries are used because they provide greater efficiency in making goods available to target markets. Business firms are paying increased recognition and attention to physical distribution and logistics management. Under this unit, channel decisions that is distribution channel and logistics management have been discussed in four lessons. Let's go through this unit lesson by lesson.

School of Business

Blank page

Lesson 1 & 2: The Nature of Distribution Channels and Channel Behavior & Organization.

Lesson objectives

After completing these lessons you will be able to :

- Describe the nature of distribution channels
- Describe the functions of a distribution channel
- Differentiate between consumer marketing channel and business marketing channel
- Identify the reasons for using marketing intermediaries
- Describe the channel behavior and organization
- Explain the different marketing system.

The Nature of Distribution Channels

As the producers and the consumers in most cases are separated from each other by space and time, it is necessary on the part of the producers to use intermediaries for placing their products to the market. With this end in view, they try to build and maintain a distribution channel which will best suit their needs. Distribution channel is a set of interdependent organizations involved in the process of making a product or service available for use or consumption by the consumer or business user.¹



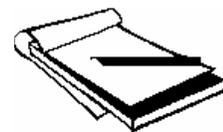
- **Reasons for Using Marketing Intermediaries**

Producers involve intermediaries in selling although doing so means relinquishing some control over marketing programs and consumers. The use of intermediaries is justified because they excel in making goods available to target markets. A firm's own achievement is augmented by utilizing the experience, specialization, and scale of operation of the intermediaries.

Marketing intermediaries play the important role of transforming the assortments of products made by producers into the assortments desired by consumers. Producers make narrow assortments of products in large quantities while consumers want broad assortments of products in small quantities. Intermediaries procure the large quantities of many producers and split them into the smaller quantities and broader assortment by consumers. Thus, functions performed by the intermediaries lead to better matching of supply with demand.

Activity :

Place at least two arguments in favor of using marketing intermediaries.



¹ Louis Stern and Adel I. El- Ansary, Marketing Channels, 4th edition Englewood Cliffs, NJ, Prentice-Hall, 1992; p.3.
Principles of Marketing

Members of the marketing channel perform many important functions.

- **Distribution Channel Functions**

A distribution channel transports goods from producers to consumers overcoming the major time, place, and possession gaps that exist between these two parties. Members of the marketing channel perform many important functions. Some of these functions such as, information, promotion, contact, matching and negotiation help complete transactions. Channel members gather and distribute marketing research and intelligence information about players and forces in the marketing environment. They develop and spread persuasive communications about an offer. Locating and communicating with the prospective buyers are often done by channel members. They also perform the task of shaping and fitting the offer to the buyer's needs, including such activities as manufacturing, grading, assembling, and packaging. Channel members also play an important role in reaching an agreement on price and other terms of offer so that ownership or possession can be transferred. Other functions help to fulfill the completed transactions such as physical distribution (transporting and storing goods), financing (acquiring and using funds to cover the cost of the channel work), and risk taking (assuming the risks of carrying out the channel work).

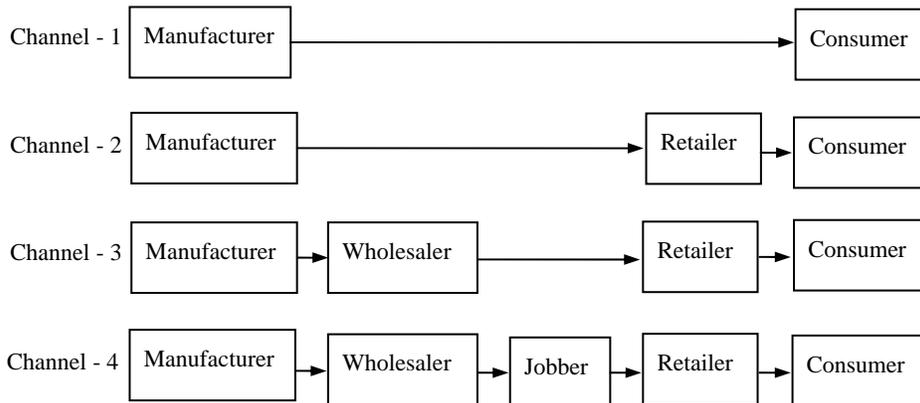
The functions stated in the foregoing discussion are shifted to the channel members for certain reasons. If the manufacturer performs these functions, it is quite likely that its costs will go up and its prices will have to be higher. Rather, when some of these functions are shifted to intermediaries, the manufacturer's costs and prices may be lower in which case the intermediaries must charge more to cover the costs of their work. In managing the work of the channel, the various functions should be assigned to the channel members who can perform it most efficiently and effectively to ensure satisfactory assortments of goods to target consumers.

- **Number of Channel Levels**

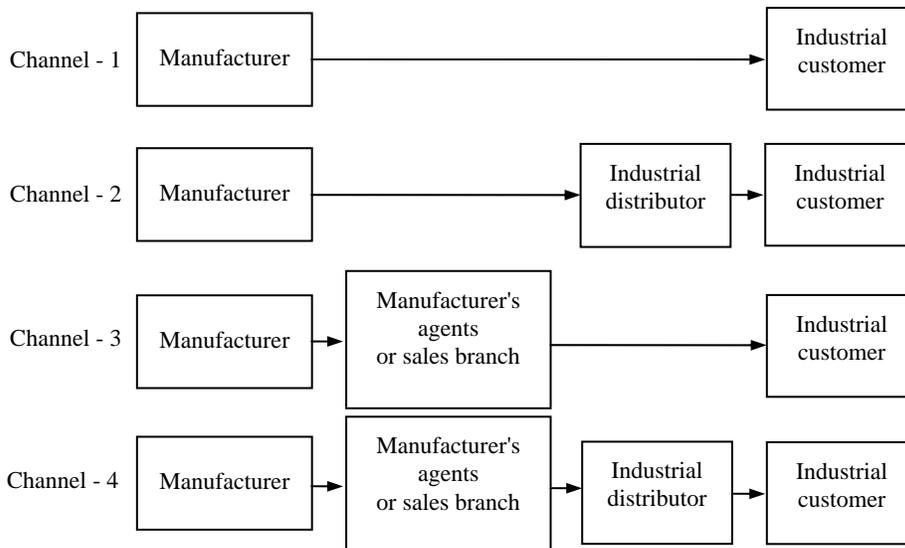
A distribution channel can be described by the number of channel levels it consists of.

A distribution channel can be described by the number of channel levels it consists of. Each layer of marketing intermediaries that performs some function in bringing the product and its title closer to the ultimate buyer is a channel level. Both the producer and consumer are part of every channel. The number of intermediary levels indicates the length of a channel. Figure 9-1 shows several consumer distribution channels of different lengths.

Figure 9-1: Consumer and Business Marketing Channels



A. Consumer Marketing Channels



B. Business Marketing Channel

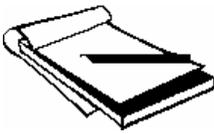
Channel 1 is called direct marketing channel which has no intermediary level. Companies selling directly to consumers use this type of channel. Selling through direct channel includes door to door selling, through home and office sales parties, through mail order and by telephone, and through manufacturer's own stores. The rest of the channels in figure 9-1A are indirect marketing channels. Channel-2 consists of one intermediary level which is typically a retailer. The manufacturers of televisions, cameras, and many other products sell their goods directly to large retailers who then sell the goods to ultimate consumers. Channel-3 consists of two intermediary levels—a wholesaler and a retailer. Small manufacturers of food, medicines, hardware and other products often employ this channel. Channel-4 consists of three intermediary levels. For example, in fruit packing industry, jobbers usually operate between wholesalers and retailers. The jobbers buy from wholesaler and sell to smaller retailers. Distribution channels with even more levels are

Companies selling directly to consumers use direct marketing channel.

sometimes found but very rarely. For a producer, a greater number of levels means less control and greater channel complexity.

Figure 9-1B shows some familiar business distribution channels. The business marketer can employ its own sales force to sell directly to business customers. It can also sell to industrial distributors who again sell to business customers. It can sell through manufacturer's agents or its own sales branches to business customer or it can utilize these agents and branches to sell through industrial distributors. Thus, business markets commonly consist of multi-level distribution channels.

Institutions in the marketing channel are linked by several types of flows. These are: the physical flow of products, the flow of ownership, the payment flow, the information flow, and the promotion flow. These flows can often introduce complexity in distribution channels.



Activity :

Mention the name of some perishable products for which direct marketing is essential and justify your arguments.

- **Channels in the Service Sector**

Like the producers of physical goods, producers of services also use distribution channel for making their output available to target populations. In the private sector, hotels, banks, and other service providers try to set up their outlets in locations convenient to target customers. In the public sector, service organizations and agencies develop educational system and health care system for reaching widely spread populations. Hospitals must be located geographically to serve maximum number of patients with comprehensive medical care. Similarly, schools must be located close to the children who are to be given education.



Activity :

Describe the necessity of using distribution channel for a service rendering organization.

Channel Behavior and Organization

Distribution channels are not merely groups of firms. Rather they can be described as complex behavioral systems in which people and companies interact to accomplish individual, company and channel goals. In some channel systems, firms interact informally among themselves while in some channel systems formal interactions guided by strong organizational structures prevail. Moreover, channel systems are not rigid. New types of intermediaries appear and whole new channel systems emerge. Here we shall discuss channel behavior and the ways the members organize to perform the work of the channel.

Channel systems are not rigid.

- **Channel Behavior**

A distribution channel is a group of firms joined together for their common benefit. The channel members are interdependent. For example, a Toyota dealer depends on the Motor company to design cars that meet consumer needs. In turn, Toyota depends on the dealer to attract consumers, persuade them to buy Toyota cars, and service cars after the sale. The Toyota dealer also depends on other dealers to provide good sales and service that will uphold the reputation of Toyota and its dealer body. In fact, the success of individual Toyota dealers depends on how well the entire Toyota distribution channel compete with the channels of other automobile manufacturers.

A distribution channel is a group of firms joined together for their common benefit.

Each channel member has a role in the channel and specializes in performing one or more functions. The channel will be most successful when each member is assigned the jobs it can do best. Because of the interdependence of channel members all channel firms should work together smoothly. Channel members should understand and accept their roles, coordinate their goals and activities, and cooperate to attain overall channel goals.

The channel will be most successful when each member is assigned the jobs it can do best.

However, individual channel members very often ignores such a broad spirit. Although channel members are dependent on one another, they often act in their own short-run interests. They often disagree over goals and roles of individual channel members which generates channel conflict.

Channel conflict may occur on two lines—horizontal and vertical. Horizontal conflict occurs among firms at the same level of the channel. For example, some Ford dealers in Chicago complained about other dealers in the city who stole sales from them by being too aggressive in their pricing and advertising or by selling outside their assigned territories. Vertical conflict refers to conflicts between different levels of the same channel. For example, General Motors came into conflict with its dealer some years ago by trying to enforce service, pricing, and advertising policies.

Channel conflict may occur on two lines—horizontal and

However, some conflict in the channel may generate healthy competition which makes the channel active and innovative. But sometimes conflict may cause harm to the channels. For ensuring good performance of the channel, each channel member's role must be specified and channel conflict must be managed. Conflict management in the channel are attained strong channel leadership, cooperation and role assignment. Channel performance will be better if it includes a firm, agency, or mechanism that has the power to assign role and manage conflict.

Unlike the large companies, the formal organization structure in distribution channels are composed of independent firms. Traditionally, distribution channels did not have the leadership needed to assign roles and manage conflict. Of late, however, new types of channel organizations have emerged that provide stronger leadership and improved performance.

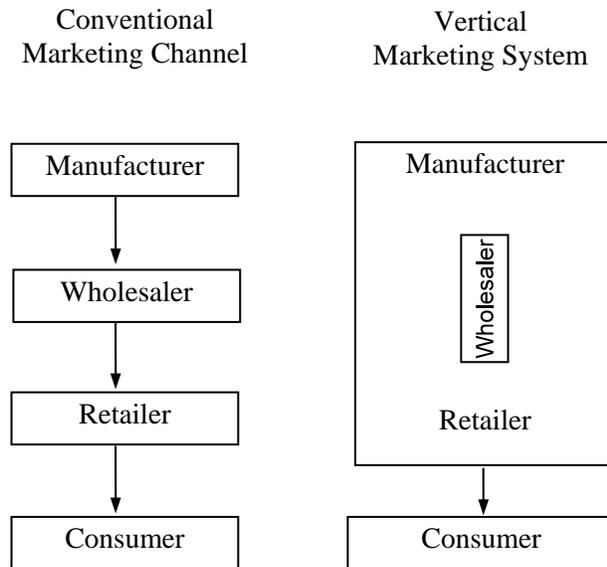
• **Vertical Marketing Systems**

Vertical marketing system is a recent development which has emerged to challenge conventional marketing channels. Figure 9-2 contrasts the two types of channel arrangements.

A conventional distribution channel consists of one or more independent producers, wholesalers, and retailers.

A conventional distribution channel consists of one or more independent producers, wholesalers, and retailers. Each one is a separate business seeking to maximize its own profits, even at the expense of profits for the system as a whole. No channel member has much control over the other members, and no formal means exists for assigning roles and resolving channel conflict. In contrast, a vertical marketing system (VMS) consists of producers, wholesalers, and retailers acting as a unified system.

Figure 9-2 : A Conventional Marketing Channel vs a Vertical Marketing System

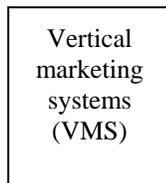


Source : Philip Kotler and Gary Armstrong, Principles of Marketing, seventh edition Prentice-Hall of India Pvt. Ltd, New Delhi, 1997 ; p.396.

The VMS can be controlled by the producer, wholesaler, or retailer. Vertical marketing systems came into being to control channel behavior and manage channel conflict. They achieve economics through size, bargaining power, and elimination of duplicated services.

We will now discuss the three types of VMS shown in figure 9-3. Each type adopts a different means for setting up leadership and power in the channel. In a corporate VMS, coordination and conflict management are achieved through common ownership at different level of the channel. In a contractual VMS, they are achieved through contractual agreements among channel members. In an administered VMS, one or a few dominant channel members assumed leadership. Each type of VMS is described in the following discussion :

Figure 9-3 : Major Types of Vertical Marketing Systems



Source : Philip Kotler and Gary Armstrong, *Principles of Marketing seventh edition*, Prentice Hall of India Pvt. Ltd., New Delhi, 1997, p. 396.

- **Corporate VMS**

A corporate VMS integrates various stages of production and distribution under single ownership. Cooperation and conflict management are handled through regular organizational channels. For example, Sears obtains more than 50 percent of its goods from companies that it partly or wholly owns.

A corporate VMS integrates various stages of production and distribution under single ownership.

- **Contractual VMS**

A contractual VMS consists of independent firms at different levels of production and distribution who join together through contracts to secure more economies or sales than each could achieve individually. There are three types of contractual VMS : wholesaler-sponsored voluntary chains, retailer cooperatives, and franchise organizations.

There are three types of contractual VMS.

- **Wholesaler-sponsored voluntary chains** are systems in which wholesalers organize voluntary chains of independent retailers to help them compete with large chain organizations. **Retailer cooperatives** are systems in which retailers organize a new, jointly owned business to conduct wholesaling and possibly production. Members of such cooperatives buy most of their goods through the retailer cooperatives and plan their promotion jointly. **In franchise organizations**, a channel member called a franchiser connects several stages in the production-distribution process.

There are three types of franchises. The first form is the manufacturer-sponsored retailer franchise system, as found in the automobile industry. The second type of franchise is the manufacturer-sponsored wholesaler franchise system, as found in the soft-drink industry. The third franchise form is the service-firm-sponsored retailer franchise system, in which a service firm licenses a system of retailers to bring its service to consumers, as found in the auto-rental business.

- **Administered VMS**

An administered VMS coordinates successive stages of production and distribution. Administered VMS emerge not through common ownership or contractual ties but through the size and power of one of the parties. Manufacturers of a highly established brand can get strong trade cooperation and support from resellers. For example, General Electric, Procter & Gamble can command cooperation from resellers regarding displays, shelf space, promotions, and price policies.

- **Horizontal Marketing Systems**

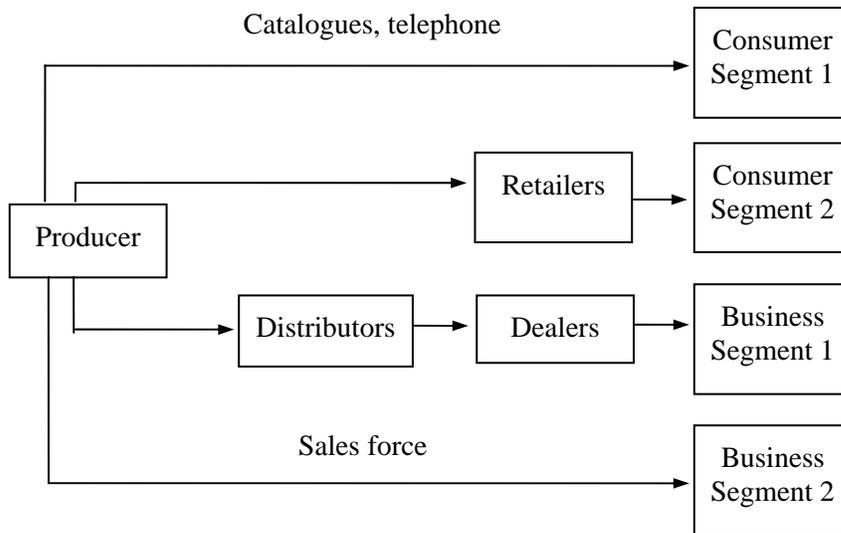
In a horizontal marketing system, two or more companies at one level join together to exploit a new marketing opportunity. By joining together, companies can combine their capital, product capabilities, or marketing resources to accomplish more than an one company could working alone. They might work with each other on a temporary or permanent basis. They may even form a separate company. Coca-Cola and Nestle set a joint venture to market ready-to-drink coffee and tea worldwide. Coca provided worldwide experience in marketing and distributing beverages and Nestle contributed two established brand names-Nescafe and Nestea. Such channel arrangements work well globally. The number of such horizontal marketing systems has increased dramatically in recent years.

In a horizontal marketing system, two or more companies at one level join together to exploit a new marketing opportunity.

- **Hybrid Marketing Systems**

Hybrid marketing systems are multichannel distribution systems in which a single firm sets up two or more marketing channels to reach one or more customer segments. Figure 9-4 shows a hybrid channel. In the figure, the producer sells directly to consumer segment-1 using direct-mail catalogues and telemarketing, and reaches consumer segment-2 through retailer. It sells indirectly to business segment-1 through distributors and dealers, and business segment-2 through its own sales force.

Figure 9-4 : Hybrid Marketing Channel



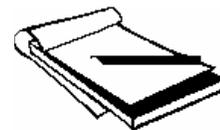
Source : Philip Kotler and Gary Armstrong, Principles of Marketing seventh edition, Prentice Hall of India Pvt. Ltd., New Delhi, 1997, p. 401.

IBM provides a good example of a company that uses such a hybrid channel effectively. For years, IBM sold computers only through its own sales force. However, when the market for small, low-cost computers exploded, this single channel was no longer adequate. To serve the diverse needs of the many segments in the rapidly fragmenting computer market, IBM added 18 new channels in less than 10 years.²

Companies facing big and complex markets can derive many benefits by using hybrid channels. With the introduction of each new channel, companies sales and market coverage expands. The company also gain opportunities to design its products and services to the specific needs of diverse customer segments. But companies may sometime find hybrid channels harder to control. These channels also tend to generate conflict as more channels compete for customers and sales. It is often found that the multichannel marketer's channels are all under its own ownership and control. Although this arrangement eliminate conflict with outside channel the company might face internal conflict over how much financial support each channel deserves.

Companies facing big and complex markets can derive many benefits by using hybrid channels.

Activity :
Mention at least two agricultural products and comment on the nature of its physical distribution.



² Rowland T. Moriarity and Ursala moran, "Managing Hybrid Marketing Systems", November-December 1990, pp.146-155.
Principles of Marketing

Questions for Review

1. Give the reasons for using marketing intermediaries by producers. What functions are performed by members of a distribution channel?
2. Contrast between a conventional marketing channel and a vertical marketing system. Analyze the reasons for fast growth of franchising as a form of retail organization.
3. Why horizontal marketing arrangements have become popular in recent times? What benefits can be derived by companies facing big and complex markets by using hybrid channel.
4. The number of intermediary levels indicates –
 - A. Breadth of a channel
 - B. Length of a channel
 - C. Depth of a channel
 - D. None of the channel.
5. Wholesaler-sponsored voluntary chains is an example of –
 - A. Corporate VMS
 - B. Administered VMS
 - C. Contractual VMS
 - D. None of the above.
6. Manufacturer-sponsored retailer franchise system is found in the –
 - A. Electronics industry
 - B. Soft-drink industry
 - C. Ready-made garments industry
 - D. Automobile industry.
7. Administered VMS emerge through –
 - A. Common ownership
 - B. Contractual ties
 - C. Size and power of one of the parties
 - D. All of the above.
8. The Vertical Marketing Systems (VMS) can be controlled by the –
 - A. Producer
 - B. Wholesaler
 - C. Retailer
 - D. All of the above.

9. A corporate VMS integrates various stages of production and distribution under-
- A. Single ownership
 - B. Joint ownership
 - C. Collective ownership
 - D. All of the above.

Ans: 4. B, 5. C, 6. D, 7. C, 8. D, 9. A.



Lesson - 3 : Channel Design Decisions and Channel Management Decisions

Lesson objectives

After completing this lesson you will be able to :

- Outline the basic elements of channel design decisions by analyzing consumer service needs and setting channel objectives and constraints.
- Identify major channel alternatives-the types and number of marketing intermediaries.
- Identify the responsibilities of channel members-and the ways of evaluating major alternatives.
- Illustrate the channel management decisions of selecting, motivating, and evaluating channel members.



Decisions regarding designing a channel begins with the customer.

Channel Design Decisions

Designing a channel system requires analyzing consumer service needs, setting the channel objectives and constraints, identifying the major channel alternatives and evaluating them.

- **Analyzing Consumer Service Needs**

Decisions regarding designing a channel begins with the customer. Marketing channels can be conceived of as customer value delivery systems in which each channel member adds value for the customer. It is well recognized that the success of one company depends not just on its own performance, but on how tactfully its entire channel competes with the channels of competitors. For example, Seiko is just one like in a customer value delivery system that includes of dealers. Even if Seiko makes the best watches in the world, it will lose out to Rado or Tisso if these competitors have superior dealer networks. Similarly the best Seiko dealer in the world cannot do well if Seiko supplies inferior watches . The company's aim is to design an integrated marketing channel system that will deliver superior value to its customers. Thus, the first step in designing the distribution channel is to identify the values consumers in various target segments want from the channel (such as, location, means of communication, mode of delivery, assortment etc.). It is accepted that the more decentralized the channel, the faster the delivery, the greater the assortment provided, and the more add-on services supplied, the greater the channel's service level.

But providing the services desired by the customers may not always be possible or feasible. The company and its channel members may lack the necessary resources and skills and higher levels of service increases costs and prices which the customers may not find agreeable with. The company must balance consumer service needs against costs and

customer price preferences. Experience tells us that consumers are often interested in lower service levels than in higher prices.

- **Setting the Channel Objectives and Constraints**

Channel objectives should be determined considering the desired service level of target consumers. A company can identify various segments desiring different levels of channel service and can then decide which segments to serve with what kind of channel. Here, the company's aim is to minimize channel costs.

Channel objectives should be determined considering the desired service level of target consumers.

The company's channel objectives are also influenced by the product characteristics, company characteristics, marketing intermediaries, competitors' channel, and the environmental factors. Product characteristics significantly affect channel design. For example, perishable products need more direct marketing to minimize delays and too much handling. Company characteristics also influence channel design as the company's size and financial condition determine which marketing functions it can handle itself and which it must give to intermediaries. The characteristics of intermediaries also influence channel design as they differ in their abilities to handle promotion, customer contact, storage, and credit. In designing channels, a company must take into account its competitors' channels. A company can intend either to compete with or avoid outlets used by its competitors. Finally, environmental factors, such as economic conditions and legal constraints affect channel design decisions. For example, during recession marketers use shorter channels and cut down channel costs to keep the ultimate price as low as possible. Channel design decisions must be made within the provisions of law.

Product characteristics significantly affect channel design.

- **Identifying Major Alternatives**

After defining its channel objectives, a company should identify major channel alternatives in terms of types of intermediaries, number of intermediaries, and the responsibilities of each channel members.

- **Types of Middlemen**

A company has to locate the types of channel members available to maintain and operate its channel. For example, suppose a manufacturer of test equipment has developed an audio device that detects poor mechanical connections in any machine with moving parts. Company executives think this product would have a market in all industries where electric, combustion, or steam engines are made or used. This market includes industries such as aviation, automobile, railroad, food canning, construction, and oil. The company's current sales force is small, and the problem is how best to reach these different industries. The following channel alternatives might emerge from management discussion :

- **Company sales force** : *Expand the company's direct sales force. Assign salespeople to territories and have them contact all prospects in the area or develop separate company salesforces for different industries.*

- **Manufacturer's agency** : Hire manufacturer's agents-independent firms whose sales forces handle related products from many companies-in different regions or industries to sell the new test equipment.
- **Industrial distributors** : Find distributors in the different regions or industries who will buy and carry the new line. Give them exclusive distribution, good margins, product training, and promotional support.³

Sometimes a company may not be able to use a channel it prefers because of cost involved and other difficulties. Instead, it develops another channel. However, this decision may prove to be wise subsequently.

- **Number of Marketing Intermediaries**

Firms also must determine the number of channel members to employ at each level. In this regard three strategies are considered intensive distribution, exclusive distribution, and selective distribution. It can be stated as under :

- **Intensive distribution strategy** : This strategy involves stocking the product in as many outlets as possible. Producers of convenience products and common raw materials typically choose intensive distribution. For example, toilet soap, cigarette, and other similar items are sold in thousands of outlets to provide maximum brand exposure and consumer convenience.
- **Exclusive distribution strategy** : This involves giving a limited number of dealers the exclusive right to distribute the company's products in their territories. Producers following this strategy purposely limit the number of intermediaries handling their products. But following exclusive distribution strategy, a producer gains stronger distribution selling support, more control over dealer prices, promotion, credit, and services. Exclusive distribution also enhances the product's image and allows for higher markups.
- **Selective distribution strategy** : It involves using more than one, but fewer than all of the intermediaries who are willing to carry a company's products. Most television and furniture brands are distributed in this manner. By using selective distribution a producer gets good market coverage with more control and less cost.

³ Philip Kotler and Gary Armstrong, Principles of Marketing, seventh edition, Prentice-Hall of India Pvt. Ltd. New Delhi, 1997, p. 403-404.

- **Responsibilities of Channel Members**

It is imperative that the producer and the intermediaries must work in agreement on the terms and responsibilities of each channel member. Agreement should be reached on price policies, conditions of sale, territorial rights and specific services to be performed by each party.

- **Evaluating the Major Alternatives**

Having identified alternative channels, a company must evaluate them before selecting the one that will best satisfy its long-term goals. Such evaluation is made against economic, control, and adaptive criteria.

- **Economic Criteria**

Each channel alternative will generate different sales and costs. The first step is to figure out what sales would be produced by company owned channel (company sales force) compared to middlemen owned channel (sales agency). It is generally believe that a company sales force will sell more because they sell only the company's products, are better trained, have career objectives and they come into direct contact with the customers. On the other hand, the sales agency might sell more than a company sales force. Because the sales agency may have a larger sales force than that of the company, has many existing contacts and its sales force may be induced by lucrative commission. Sales agency has also the advantage of representing several manufacturers.

The next step is to determine the costs of selling different volumes through each channel. The fixed costs of using a sales agency are lower than those of establishing a company sales office. But costs increase faster through a sales agency because sales agents get a larger commission than company salespeople. At one sales level selling costs are the same for the two channels (company sales force and manufacturer's sales agency).

The company would prefer to use the sales agency at any sales volume below this sales level, and the company sales branch at any volume higher than this sales level. Generally, sales agents are used by smaller firms, or by larger firms in smaller territories where the sales volume is too low to build a company sales force.

- **Control Criteria**

The company must consider degree of control it wants to exert on its channel. Controlling problems are greater in using a sales agency as it is an independent business firm having its own goals and may concentrate on other companies who give more business.

The company must consider degree of control it wants to exert on its channel.

- **Adaptive Criteria**

Each channel involves some long-term commitment and loss of flexibility. Sales agency is used for a period which is decided through a contract between a company and the sales agency. During this period, the company can not drop the sales agency even if its performance is not satisfactory. Long commitments should be made only when it can be justified on economic and/ or control grounds.

Each channel involves some long-term commitment and loss of flexibility.

- **Designing International Distribution Channels**

Designing international marketing channels involves additional complexities. Each country has its own unique distribution system. So, global marketers need to adapt their channel strategy to the existing structures within each country. In some market the distribution system consists of many layers and large numbers of intermediaries which make it complex and difficult to penetrate. Distribution systems in developing countries may be scattered and inefficient, or altogether lacking. A country with a big population may in reality be a small market because the intermediaries and other institutions to reach the whole population may be non-existent. Thus, the task of designing efficient and effective channel systems between and within various country effective channel system between and within various country's markets is a challenging one for an international marketer.

Channel Management Decisions

Having reviewed its channel alternatives and decided on the best channel design, the company must go for implementing and managing the chosen channel. Channel management warrants : selecting, motivating individual channel members and evaluating their performance over time.

- **Selecting Channel Members**

Attracting suitable intermediaries is very important to producers for successful designing and maintaining channel of distribution. But the task is not easy for all producers. Old producers with reputed brands find it easier to attract intermediaries while new producers with relatively unknown brands may be in difficulty to pull suitable intermediaries.

In selecting intermediaries, the company should be very clear about the characteristics of intermediaries. Issues to be considered are : channel member's length of business, other lines carried, growth and profit record, cooperativeness and reputation. When intermediaries are sales agents, the company should evaluate the number and nature of other lines carried, and the size and quality of the sales force. When a retail store is to be selected as an intermediary seeking exclusive or selective distribution, the company should evaluate the store's customers, location, and future growth potential.

- **Motivating Channel Members**

Once selected, channel members must be continuously motivated to help achieving company's goals. Producers make endeavor to find ways for gaining intermediary cooperation. At times they resort to positive motivators such as higher margins, special deals, premium, cooperative advertising allowances, display allowances and sales contests. At other time they offer negative motivators, such as threatening to reduce margins, to slow down delivery, or to end the relationship altogether. This approach should be discouraged as it ignores the needs, problems, strengths, and weaknesses of its distributors.

Channel members must be continuously motivated to help achieving company's goals.

Farsighted companies try to build long-term relationship with their distributors. It requires creating a planned, professionally managed, vertical marketing system which fulfill the needs of both the manufacturer and the distributors. General Electric works closely with its smaller independent dealers to help them be successful in selling the company's products. In managing its channel, a company must convince distributors that by being part of an advanced vertical marketing system they will be able to make fortune.

- **Evaluating Channel Members**

The producer must continuously evaluate each channel member's performance against standards such as sales quotas, average inventory levels, customer delivery time, treatment of damaged and lost goods, cooperation in company promotion and training programs, and service to the customer. Intermediaries having excellent performance should be recognized and rewarded by the company. Intermediaries having unsatisfactory performance should be helped, if not possible, replaced.

Intermediaries having unsatisfactory performance should be helped, if not possible, replaced.

A company may, from time to time, set new qualification for its intermediaries and trim the weaker ones. For example, when IBM first introduced its PS/2 personal computers, it re-evaluated its dealers and allowed only the best ones to carry the new models . Each IBM dealer had to submit a business plan, send a sales and service employee to IBM training classes and meet new sales quotas. Only about two-thirds of IBM's 2,200 dealers qualified to carry the PS/2 models.⁴ Finally, manufacturers need to be attentive to their channel members. Treating channel members lightly may result in loss of their cooperation or may even invite legal problems.

Activity :
Suppose, you are in-charge of the marketing department of a renowned beverage company. What incentive would you like to offer for the middlemen to motivate them and how?



⁴. Katherine M. Hafner, "Computer Retailers : Things Have Gone from Worse to Bad, Business Week, June 8, 1987,p;104
Principles of Marketing

Questions Review

1. Describe the channel service needs of (a) consumers buying a computer for home use, (b) retailers buying computers to resell to individual consumer and (c) purchasing agents buying computers for company use. What can would a computer manufacturer design to satisfy these different service needs ?
2. Decide which distribution strategies–intensive, selective, or exclusive-are used for the following products, and why ?
a) Toilet soap b) Television, c) Automobiles.
3. The company's channel objectives are influenced by the –
A. Product characteristics
B. Competitors' channels
C. Environmental factors
D. All of the above.
4. Producer and the intermediaries must agree on –
A. Product policies
B. Price policies
C. Promotion policies
D. None of the above.
5. Evaluation of alternative channels is made against-
A. Political criteria
B. Social criteria
C. Economic criteria
D. Cultural criteria.
6. Issues to be considered in selecting intermediaries by the company –
A. Length of business
B. Other lines carried
C. Growth and profit record
D. All of the above.



Ans : 3. D, 4. B, 5. C, 6. D.

Lesson 4 : Physical Distribution and Logistics Management

Lesson objectives

After completing this lesson you will be able to :

- Explain the importance and goals of physical distribution and logistics management.
- Identify the major logistics functions of order processing, warehousing, inventory and transportation.

As today's market is assuming global dimension, the task of bringing a product is often harder than selling it. Appropriate decisions must be made regarding storing, handling, and moving products and services with a view to making them available to customers in the proper assortments, at the proper time and in the proper place. Logistics effectiveness will have significant bearing on both customer satisfaction and company costs. The following discussion covers the nature and importance of marketing logistics, goals of the logistics system, major logistics functions and the need for integrated logistics management.



- **Nature and Importance of Physical Distribution and Marketing Logistics**

Physical distribution does not mean only movement and storage of goods. Now a days, physical distribution or marketing logistics encompasses planning, implementing and controlling the physical flow of materials, final goods and related information from points of origin to points of consumption to meet customer requirements for earning profit. Traditionally, physical distribution aimed at directing the flow of goods from the producer to consumer at a minimum cost. But modern marketers have reversed the idea and adopted market logistics thinking. It starts with the buyers and works backwards to the producer. Logistics seek solution to the problems of both outbound distribution (moving products from producer to consumers) and inbound distribution (moving products and materials from suppliers to the producer). Thus, the logistics management coordinates the whole- channel physical distribution system which involves the activities of suppliers, purchasing agents, marketers, channel members, and customers. This is accomplish through forecasting information systems, purchasing, production planning, order processing, inventory, warehousing, and transportation planning.

Physical distribution does not mean only movement and storage of goods.

Today firms are giving greater emphasis on logistics for a number of reasons. **First**, efficient distribution through effective logistics contributes in earning customer service and satisfaction which is the prime goal of many firms. Better distribution attracts new customers; poor distribution brings in the opposite results. **Second**, logistics is a major cost element for most firms. So. they always try to keep it at a minimum level through sound distribution system. Raising the level of

physical distribution efficiency can result in cost savings for both the firm and its customers. **Third** tremendous expansion in product variety has increased the need and importance of improved logistics management. Ordering, shipping, stocking, and controlling a wide variety of products offers a big logistics challenge.

Finally, advancement in information technology is being utilized for gaining distribution efficiency.

Finally, advancement in information technology is being utilized for gaining distribution efficiency. The increased use of computers, point-of-sale scanners, uniform product codes, satellite tracking, electronic data interchange, and electronic funds transfer has enabled firms to build more efficient systems for order processing, inventory control and handling, and transportation routing and scheduling.

• **Goals of the Logistics System**

Designing a logistics system begins with the study of the service needs of customers.

Designing a logistics system begins with the study of the service needs of customers. The customers expect various distribution services such as fast and efficient order processing, speedy and flexible delivery, presorting and pretagging of merchandise, order tracking information, and a willingness to take back or replace defective goods.

Some firms maintain that their logistics objective is to provide maximum customer service at the least cost. Interestingly enough, this seems to be a paradox since increased customer service raises distribution costs and lowering distribution costs result in poor customer service.

The goal of the marketing logistics system should be to deliver a targeted level of customer service at the lower cost.

Ideally, the goal of the marketing logistics system should be to deliver a targeted level of customer service at the lower cost. A firm must first meticulously assess the importance of various distribution services to its customers, and then fix desired service levels for each segment. The firm usually will try to offer at least the same level of service as its competitor. Since the firm's objective is to maximize profits, not sales, the firm must weigh the benefit of providing higher levels of service against the costs and be convinced that addition to costs brings higher profits. Finally, the firm must set logistics objectives to assist its planning.

• **Major Logistics Functions**

After developing a set of logistics objectives, the firm will proceed towards designing a logistics system that will minimize the cost of achieving these objectives. The major logistics function are order processing, warehousing, inventory management, and transportation. These can be described in the following manner :

The order processing system prepares invoices and forwards order information to those who need it.

• **Order Processing**

Orders can be put in many ways such as by mail or telephone, through salespeople, or through computer and electronic data interchange. After receiving, orders must be processed swiftly and accurately. The order processing system prepares invoices and forwards order information to those who need it. Instructions are given to appropriate warehouse to pack and ship the ordered items. Shipped items are accompanied by

shipping and billing documents, with copies forwarded to different departments.

When the order-processing is carried out efficiently both the firm and its customers are benefited. In practice, orders are received daily from salespeople. The order department then processes these orders, and the warehouse sends the goods out timely. Bills are sent as soon as possible. Most firms now use computer order-processing systems that quicken the order-shipper billing cycle. For example, General Electric operates a computer-based system that, upon receipt of a customer's order checks the customer's credit standing as well as whether and where the items are in stock. The computer then issues an order to ship, bills the customer, updates the inventory records, sends a production order for new stock, and relays the message back to the salesperson that the customer's order is on its way—all in less than 15 seconds.⁵

- **Warehousing**

Goods must be stored before they are sold. A storage function is required because there exists a gap between production and consumption cycle. The storage function reconciles the differences in needed quantities and timing.

A storage function is required because there exists a gap between production and consumption cycle.

A firm must decide on how many and what types of warehouses it should have and where they will be located. The number of warehouses should be kept at a level where distribution costs would be the lowest.

A firm might own private warehouses, rent space in public warehouses, or both. Firms can exert more control over warehouses they own, but that requires capital investment and is less flexible in case of change in location. Public warehouses charge for the rented space and offer additional services for inspecting goods, packaging them, shipping them, and invoicing them. They also offer wide choice of locations and warehouse types.

For efficient distribution, firms may use either storage warehouses or distribution centers. Storage warehouses are used for storing goods for moderate to long periods. Distribution centers are used to move goods rather than just store them. They are big and automated warehouses built to receive goods from various plants and suppliers, take orders, fill them efficiently, and deliver goods to customers quickly. For example, Wal-Mart operates huge distribution centers. One center, which serves the daily needs of 165 Wal-Mart stores, contains some 28 acres of space under a single roof. Laser scanners route as many as 1,90,000 cases of goods per day along 11 miles of conveyer belts, and the center's 1,000 workers load or unload 310 trucks daily.⁶

For efficient distribution, firms may use either storage warehouses or distribution centers.



Activity :
Mention the benefits of warehousing in marketing.

⁵ Op. cit., Philip Kotler and Gary Armstrong, pp. 412-413

⁶ John Huey, "Wal-Mart: Will It Take Over the World?" Fortune, January 30, 1989, pp. 52-64.

Of late, warehousing facilities and equipment technology have improved amazingly. Older, multistoried warehouses with slow elevators and outdated materials-handling methods are gradually giving way to newer, single-storied automated warehouses with advanced materials-handling systems under the control of a central computer. Small manpower is necessary to run these warehouses. These warehouses have reduced work hazards, labour costs, theft, and wastage and have also improved and eased inventory control.

- **Inventory**

Customer satisfaction is influenced by inventory level also.

Customer satisfaction is influenced by inventory level also. Decision has to be taken regarding maintaining balance between carrying too much inventory and carrying too little. Carrying too much inventory results in higher costs and stock-lots, costly emergency shipments or production, and customer dissatisfaction.

A firm has to know both when to order and how much to order for making sound inventory decisions. Decision on when to order involves balancing the risks of running out of stock against the costs of carrying too much while decision on how much to order needs balancing order-processing costs against inventory carrying costs. When average order size is larger, orders are fewer and processing costs are lower, But it results in larger inventory carrying costs.

In recent times, many firms have greatly reduced their inventories and related costs through just-in-time logistics systems. In such systems, producers and retailers maintain only small inventories of parts or merchandise, often bear minimum for a few days of operations. New stock comes exactly when needed instead of being stored in inventory until being used. Just-in-time systems need precise forecasting along with fast, frequent, and flexible delivery which will ensure the availability of new supplies when needed. These systems substantially reduce inventory carrying and handling costs.

- **Transportation**

Transportation decisions affect distribution efficiency to a great extent.

Transportation decisions affect distribution efficiency to a great extent. The choice of transportation carriers influences product prices, delivery performance, and condition of the goods-all contribute to customer satisfaction. In shipping goods to its warehouses, dealers, and customers, the firm can choose among five transportation modes. These are: rail, water, truck, pipeline, and air. Factors to be considered in selecting the appropriate mode of transportation are nature of the product, time needed, costs, availability, and order size.

Marketers are increasingly combining two or more modes of transportation. This practice has led to the emergence of a method of transporting goods which is called containerisation. Containerisation means putting goods in boxes or trailers that are easy to transfer between two transportation modes. They are used in multimedia systems commonly referred to as piggyback (rail and trucks), fishyback (water and trucks), trainship (water and rail), and airtrucks(air and trucks). Each

combination has its own advantage. For example, piggyback is cheaper than trucking alone. Moreover, it also offers flexible and convenience.

Questions for Review

1. Why firms are giving increasing importance on logistics ? What is the job of a logistic smanager ?
2. Ideally, what should be the goal of a logistics system ? Identify several consequences of running out of stock that need to be considered when planning desired inventory levels.
3. Designing a logistics system begins with the study of the –
 - A. Competitors' logistics system
 - B. Nature of the company's products
 - C. Service needs of customers
 - D. Composition of the company's salesforce.
4. Which of the following is not a logistics function?
 - A. Order processing
 - B. Financing
 - C. Warehousing
 - D. Inventory management.
5. Which of the following benefits can not be derived from public warehouses ?
 - A. Greater control
 - B. Packaging facilities
 - C. Shipping services
 - D. Invoicing services.
6. Combining water Transport and truck Transport is called –
 - A. Piggyback
 - B. Fishyback
 - C. Trainship
 - D. Airtruck.



Ans : 3. C, 4. B, 5. A, 6. B.

PLACING PRODUCTS : RETAILING AND WHOLESALING



Retailing and wholesaling consist of many organizations that bring goods and services from the point of production to the point of consumption. This unit considers the important aspects of retailing and wholesaling. In lesson one and two, we will discuss the nature and importance of retailing, major types of store and nonstore retailers, the decisions retailers make, and the future of retailing. In lesson three, we will discuss the above mentioned topics as they relate to wholesalers. Let's we start the lessonwise discussion.

Blank page

Lesson 1 & 2 : Retailing - Its Nature, Types and Trends.

Lesson objectives

After completing these lessons you will be able to :

- Discuss the traditional store retailing
- Contrast the different ways for classifying stores by amount of service provided, breadth and depth of product line, relative price levels, control of outlets, and types of store cluster.
- Identify and define the types of nonstore retailing.
- Outline the fundamental retail marketing decisions such as target market and positioning, product, price, promotion and place.
- Describe the trends in retailing.

Retailing includes all the activities involved in selling goods or services directly to final consumers for their personal, nonbusiness use.¹ Many institutions including manufacturers, wholesalers, and retailers perform retailing. But most retail business is conducted by retailers. Although most retailing is done in retail stores, non-store retailing has developed amazingly in recent years. Nonstore retailing includes selling by mail, telephone, door-to-door contact, vending machines, and numerous electronic means. We will discuss store retailing first and then we will look at nonstore retailing.



Store Retailing

Retail stores are found in different shapes and sizes. Moreover, new types of retail stores are emerging. Retail stores can be classified by one or more of several features. For example, amount of service, product line, relative prices, control of outlets, and type of store cluster. The following table (Table 10-1) exhibits these classifications and the corresponding retailer types.

Retail stores are found in different shapes and sizes.

¹. Philip Kotler and Gary, Aramstrong, Principles of Marketing, seventh edition, Prentice-Hall of India, New Delhi, 1999; p. 426.

Table 10-1 : Different Ways to Classify Retail Outlets

Amount of Service	Product Line Sold	Relative Price Emphasis	Control of Outlets	Type of Store Cluster
Self-Service	Specialty store	Discount store	Corporate chain	Central business district
Limited Service	Department store	Off-price retailers	Voluntary chain and retailer cooperative	Regional shopping center
Full Service	Supermarket	Catalogue showroom	Franchise organization	Community shopping center
	Convenience store		Merchandising conglomerate	Neighborhood shopping center
	Combination store			
	Superstore, and hypermarket			
	Service business			

Source: Philip Kotler and Gary Armstrong, *Principles of Marketing, seventh edition, Prentice-Hall of India, New Delhi, 1997; p. 427*

- **Amount of Service**

Different products need different amounts of service. Customer service preferences also vary. We concentrate on three levels of service; self-service, limited service and full service and the types of retailers that use them.

- ***Self service retailing*** : Self-service retailers grew rapidly in the United States during the Great Depression of the 1930s. Customers were eager to locate, compare, and select the products by themselves. Today, self-service provides the basis of all discount operations and largely used by sellers of convenience goods such as supermarkets and nationally branded, fast-moving shopping goods such as catalogue showrooms.
- ***Limited-service retailing*** : Limited-service retailers offer more sales assistance because they carry more shopping goods. Customers need information about these goods. Operating costs of these retailers are high which results in higher prices.
- ***Full-service retailing*** : Full-service retailers, such as specialty stores and first-class department stores, employ salespeople who assist customers in every phase of the shopping process. Full-service stores generally carry more specialty goods and customers are ready to spare more time for shopping. They provide services like liberal return policies, various credit plans, free delivery, home servicing, and extras such as waiting rooms and restaurants. Services provided by full-service retailers push up their operating costs which eventually increases prices.

- **Product Line**

Retailers can also be classified by the length and breadth of their product lines. The most important types of retailers under this classification are specialty store, the department store, the supermarket, the convenience store, the superstore, and the service business. Each of the different types of Retailers can be stated as under.

Retailers can also be classified by the length and breadth of their product lines.

- **Specialty store** : A specialty store is a retail store that carries a narrow product line with a deep assortment within that line. Examples of specialty stores are shops selling furniture, books, electronics, flowers etc. Specialty stores can be further classified by the narrowness of their product lines. For example, a clothing store is a single-line store, a women's clothing store is a limited-line store, and a women's "Jamdani" saree store is a super-specialty store. In recent times, specialty stores are growing for several reasons. The increasing application of market segmentation, market targeting, and product specialization has generated the need for stores that concentrate on specific products and segments. Specialty stores attract customers because they provide quality products, convenient locations, suitable hours, highly satisfactory service, and quick entry exit.
- **Department store** : Department store is a retail organization that carries a wide variety of product lines. Typical of these products are clothing, home furnishings, and household goods. Each product line is operated as a separate department and managed by specialist buyers or merchandisers. Example of well-known department stores include Bloomingdale's, Marshall Field, Hudson's, and Filene's. Specialty department stores carry only clothing, shoes, cosmetics, luggage, and gift items – examples are Saks Fifth Avenue and I. Magnin.²

Department store is a retail organization that carries a wide variety of product lines.

Department stores flourished through the first half of this century. However, after World War II, they came in competition with other types of retailers including discount stores, specialty store chains, and "off-price" retailers. Changes in urban areas like heavy traffic, poor parking, and general decaying of central cities, where many department stores were located, made downtown shopping less popular. Consequently, many department stores went into liquidation or merged with others.

Most department stores now a days operate in suburban malls. Many of them have introduced bargaining facilities to counter discount threat. Others have remodeled their stores for competing with other specialty stores. Many are even resorting to mail-order and telephone selling. Service remains the key factor for differentiating department stores from other types of retail stores. Many department stores are renewing their emphasis on service in an effort to keep old customers and win new ones. Moreover, many large department store chains have been joining instead

Service remains the key factor for differentiating department stores from other types of retail stores.

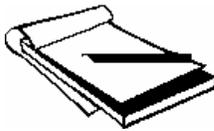
². Ibid., p. 428

of fighting the competition through diversification into discount and specialty stores.

Most supermarket stores are owned by supermarket chains.

- **Supermarket** : Supermarkets are large, low-cost, low-margin, high-volume, self-service stores that carry a wide variety of food, laundry, and household products.³ Most supermarket stores are owned by supermarket chains. The concepts of self-service, customer turnstiles, and checkout counters had been introduced by the earlier supermarkets. Supermarkets emerged in 1930s and grew fast for several decades. Most supermarkets in USA, however, today are experiencing slow sales growth because of declining population growth and an increase in competition from convenience stores, discount food stores, and superstores. Thus, supermarkets are trying to find out new ways to enhance their sales. Most supermarket chains now run fewer but larger stores and carry many nonfood items such as housewares, toys, appliances, videocassettes, sporting goods. Supermarkets expect that they would be able to earn higher profits by adding high margin lines.

In their pursuit of more customers, supermarkets also are improving their facilities and services. Examples of such improvements are better locations, improved decorations, longer store hours, cheque cashing, delivery, and even child-care centers. Finally, to draw more customers, many large supermarket chains are starting to organize their stores in a way which will best suit the locality in which they operate. They are deciding on store size, product assortments, prices and promotions to the economic and ethnic needs of local markets.



Activity :

According to above characteristics of supermarket, how many super markets may have in Dhaka city?

- **Convenience store** : Convenience store is a small store located near a residential area that is open long hours, seven days a week and carries a limited line of high-turnover convenience goods. Although convenience stores charge high prices to cover higher operating costs and lower sales volume, they fulfill an important consumer need. Consumers go to convenience stores for purchases at off hours or when they do not have enough time. With the changes in buying habits and increased participation of women in shopping convenience stores are redesigning their stores and are tailoring their marketing methods to meet the needs of the customers. Through such moves, convenience stores hope to remain strongly differentiated from other types of food stores while adapting to today's fast-paced consumer lifestyles.⁴

³. Ibid., 429.

⁴. Ibid., p. 430.

- **Superstore** : A superstore is a store almost twice the size of a regular supermarket. Superstores carry a large assortment of routinely purchased food and nonfood items. They offer such services as dry cleaning, post offices, photo finishing, lunch counters etc. Superstore prices are usually 5 to 6 percent higher than those of conventional supermarkets because superstores carry wider assortment.
- **Combination store** : Combination store is a combined food and drug stores. They average about one and a half football fields in size which is about twice the size of superstores. Some renowned combination stores in USA are AZP's Family Mart, Wal Mart's Supercentres, and Kmart's Super Centres.
- **Hypermarkets** : Hypermarkets are very big stores that are combination of supermarket, discount, and warehouse retailing. Besides food items, they carry furniture, appliances, clothing, and many other goods. Hypermarkets have many checkout counters and they operate like warehouses. Products in wire "baskets" are stacked high on metal racks; forklifts move through aisles during selling hours to restock shelves. The store gives discounts to customers who carry their own heavy appliances and furniture out of the store.⁵

A superstore is a store almost twice the size of a regular supermarket.

Combination store is a combined food and drug stores.

- **Relative Prices Emphasis**

Retailers can also be classified on the basis of prices they charge. Majority of the retailers charge regular prices and offer normal-quality goods and customer service. Some charge higher prices and offer higher-quality goods and service. The retailers that are characterized by low prices are discount stores, off-price retailers, and catalogue showrooms. A brief discussion on each type can be presented as under:

- **Discount store** : Discount store is a retail institution that sells standard merchandise at lower prices by accepting lower margins and selling at higher volume. Stores that offer occasional discounts are not discount stores. A typical discount store regularly sells products at lower prices. The early discount stores reduce expenses by operating in warehouse-like facilities in low-rent, heavily travelled districts. They cut prices, advertise heavily, and carry a reasonable width and depth of products. In recent times, many discount retailers are facing competition from other discounts and department stores. To cope with this competition they have redesigned their stores, added new lines and services, and opened suburban branches, this has increased cost and prices. On the other hand, many department store retailers have improved their stores and services to remain competitive with improved discounters.
- **Off-price retailers** : Off-price retailers are retail institutions that buy at less than regular wholesale prices and sell at less than retail. They

Stores that offer occasional discounts are not discount stores.

⁵. Ibid., p.431

usually carry a changing and unstable collection of higher-quality merchandise. These are often leftover goods, overruns, and irregulars procured at reduced prices from manufacturers or other retailers. Off-price retailers have been most successful in clothing, accessories, and footwear. But they are operating in diverse areas, from food stores to electronics. Off-price retailers are mainly of three types. They are; factory outlets, independents, and warehouse clubs.

- **Factory outlets** are owned and operated by manufacturers and that normally carry the manufacturers surplus, discontinued, or irregular goods. **Independent** off-price retailers are either owned and run by entrepreneurs or are divisions of larger retail corporations. **Warehouse clubs** are off-price retailers that sells a limited selection of brand name grocery items, appliances, clothing, and a mix of other goods at discounts to members who pay annual membership fees.

Although off-price retailing have flourished during the 1980s, competition has intensified as more and more off-price retailers have entered the market. The growth of off-price retailing retarded recently due to effective counter strategies by department stores and regular discounters. Nevertheless, off-price retailing will exist as a growing and vital force in modern retailing.

- **Catalogue showroom** : A catalogue showroom is a retail institution that sells a wide selection of high markup, fast-moving, brand name goods at discount prices. These include jewelry, power tools, luggage, small appliances and sporting goods. Catalogue showrooms policy is to cut costs and margins for providing low prices that will attract a higher volume of sales.

In recent years, catalogue showrooms are facing severe price competition from department stores, discount retailers and off-price retailers. To tackle this competition many catalogue showroom chains are broadening their lines, advertise widely, renovating stores, and adding service in order to secure more business.

- **Control of Outlets**

Majority of the retail stores are independent. Other forms of ownership also exist. They include the corporate chain, the voluntary chain and retailer cooperative, the franchise organization, and merchandising conglomerate. Let us discuss each category in details.

- **Corporate chain** : Chain stores are two or more outlets that are commonly owned and controlled, employ central buying and merchandising, and sell similar lines of merchandise.⁶ Corporate chains are found in all types of retailing, but they are most spectacular in department stores, variety stores, food stores, drug

⁶. Ibid., p. 435.

stores, shoe stores, and women's clothing stores. Corporate chains have many advantages over independent retail outlets. As because they are big in size, they can buy in large quantities at lower prices and can hire corporate-level experts to handle areas such as pricing, promotion, merchandising, inventory control, and sales forecasting. Chains can also enjoy economies in promotion because their advertising costs are spread over many stores and over a large sales volume.

- ***Voluntary chain and retailer cooperative*** : Being inspired by the amazing success of corporate chains, many independent retailers decided to band together in either of the two forms of contractual associations. The first one of these two contractual associations is voluntary chain which is a wholesaler-sponsored group of independent retailers that engages in group buying and common merchandising. The second one is the retailer cooperative which is a group of independent retailers that bands together to set up a jointly owned central wholesale operation and performs joint merchandising and promotion efforts.
- ***Franchise organization*** : A franchise is a contractual association between a manufacturer, wholesaler, or service organization (the franchiser) and independent business people (the franchisees) who buy the right to own and operate one or more units in the franchise system.⁷ The distinction between a franchise and other contractual systems like voluntary chains and retail cooperatives is that franchise systems usually are based on some unique product or service; on a method of doing business; or on the trade name, goodwill, or patent that the franchiser has developed. Franchising has been prevalent in fast-food companies, soft-drink producers, filling stations, auto rentals, real estate and travel agencies and many other product and service areas. The return received by the franchiser may include an initial fee, royalty on sales, lease fees for equipment, and a share of the profits.
- ***Merchandising conglomerate*** : Merchandising conglomerates are corporations that combine several different retailing forms under central ownership and share some distribution and management functions.⁸

⁷. Ibid., p. 435.

⁸. Ibid., p. 435.

• Types of Store Cluster

Most stores now a days cluster together to increase their power of drawing customers and to provide consumers the convenience of one-stop shopping. The main store clusters are of two types- the central business districts and the shopping center.

- **Central business district** : Central business districts were the main form of retail cluster in North America and Western Europe until the 1950s. Every large city and town had a central business district which had department stores, specialty stores, banks, and movie theaters. These central business districts began to decline when people began to move to the suburbs. In recent times, many cities are trying to revive downtown shopping areas by building malls and providing underground parking.
- **Regional shopping center** : A shopping center is a group of retail businesses planned, developed, owned, and managed as a unit.⁹ The main variations of shopping centers are regional shopping center, community shopping, and neighbourhood shopping center.

A regional shopping center is like a mini-downtown which typically contains between 40 and 100 stores. It pulls customers from a wide area. Big regional shopping centers (malls) often have several department stores and a wide variety of specialty stores. A community shopping center houses between 15 and 50 retail stores. It usually contains a branch of a department store or variety store, a supermarket, specialty stores, professional offices and sometimes a bank. Neighborhood shopping centers (strip malls) generally contain between 5 and 15 stores. These shopping centers are close to and convenient for consumers. They normally contain a supermarket, a discount store and several service stores such as dry cleaner, self-service laundry, drugstore, beauty shop, or other stores.



Activity :

Identify the characteristics of store retailing in Bangladesh.

Nonstore Retailing

Although stores account for the major share of retail sales of goods and services, nonstore retailing is growing fast. Traditional store retailers have to cope with increasing competition from nonstore retailers. Nonstore retailers sell through catalogues, direct mail, telephone, on-line computer shopping services, home and office parties, and other direct retailing methods. We will discuss three forms of nonstore retailing- direct marketing, direct selling, and automatic vending.

- **Direct Marketing** : Direct marketing is performed through various advertising media that interact directly with consumers, generally

Three forms of nonstore retailing are: direct marketing, direct selling, and automatic vending.

⁹. Ibid., p. 436

calling for the consumer to make a direct response.¹⁰ Direct marketing began mostly with direct mail and mail-order catalogues. But in recent years, other new forms such as telemarketing, direct radio and television marketing, and on-line computer shopping have appeared.

Direct marketing provides many benefits to consumers. Instead of taking the trouble of going to crowded shopping centers, consumers can use their telephone or computers to make their shopping. Today's sophisticated communications technology has linked buyers and sellers in convenient ways. People consider buying through direct mail or by telephone conversation and time saving which enables them to select from a larger volume of merchandise. Industrial customers can know about and order products and services without sparing time by meeting and listening to salespeople.

Direct marketing provides many benefits to consumers and sellers.

Direct marketing also provides many benefits to sellers. It gives the sellers the opportunity of greater selectivity. A direct marketer can obtain a mailing list containing the names of any social group who can be contacted later on. A marketer can personalized and customized his message through direct marketing. The marketer can brouse its database, select consumers with specific characteristics, and send them very individualized letters.

Direct marketing helps the marketer build a continuous customer relationship. Direct marketing also can be scheduled to reach prospects at proper time. As direct marketing reaches more interested prospects at the best times, its message receives higher readership and response. Direct marketing also enables the marketer to test specific messages and media easily. Finally, direct marketing has the unique advantage of privacy. Competitors remain ignorant of the direct marketers offer and strategy.

Direct marketing helps the marketer build a continuous customer relationship.

• **Direct Selling**

Door-to-door retailing, which started centuries ago with peddlers who used to roam around. Door-to-door selling has mainly two advantages – consumer convenience and personal attention. But it involves high costs of hiring, training, paying, and motivating the sales force lead to higher prices. However, with recent developments in interactive direct-marketing technology, the future of door-to- door selling has become somewhat uncertain.

- **Automatic vending** : Automatic vending is not new – in 215 B.C. Egyptians could buy sacrificial water coin-operated dispensers. Automatic vending machines are wide spread in developed countries. But underdeveloped countries are yet to go a long way for introducing them. Today automatic vending machines sell a wide variety of convenience and impulse goods – cigarettes, beverages, candy, newspapers, foods and snacks, cosmetics, paper back books,

Automatic vending machines are wide spread in developed countries.

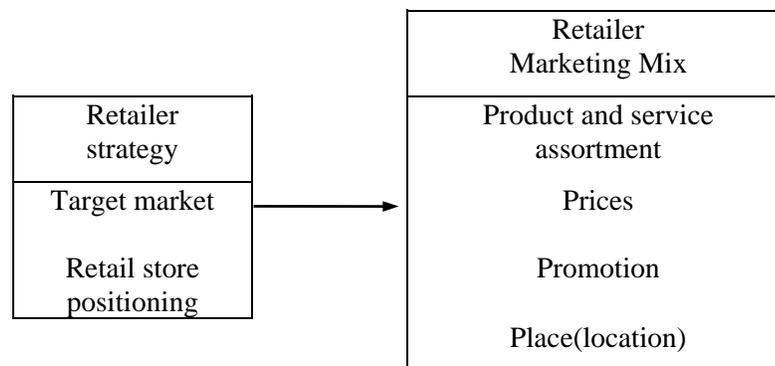
¹⁰. Ibid., p. 437.

insurance policies, video cassettes. In developed countries vending machines are seen everywhere in factories, offices, lobbies, retail stores, filling stations, airports, and train and bus terminals. Banks are installing automatic teller machines that provide bank customers with checking, saving withdrawal, and funds-transfer services. Unlike retail stores, vending machines offer consumers greater convenience (self-service and full-time availability) and fewer damaged goods. But the expensive equipment and labor required for automatic vending increase costs of selling. Moreover, prices of vended goods are often higher than those in retail stores.

Retailer Marketing Decisions

With the changes in marketing environment, consumer preferences and advancement in technology, retailers are looking for new marketing strategies to operate profitably. Retailers face major marketing decisions about their target markets and positioning, product assortment and services, price, promotion, and place. This is shown in the following figure (Fig: 10-1) :

Figure 10-1 : Retailer Marketing Decisions



Source : Philip Kotler and Gary Armstrong, Principles of Marketing, seventh edition, Prentice-Hall of India, New Delhi, 1997; p.440.

- **Target Market and Positioning Decision**

Retailers must begin with defining their target markets. Well defined target markets enable the retailers to decide how they will position themselves in these markets. A retailer should seek answers to some important questions. Should the retail store concentrate on upstrata, midstrata, or downstrata shoppers? Do target shoppers desire variety, depth of assortment, convenience, or low prices? In order to make appropriate and consistent decisions about product assortment, services, pricing, advertising, store decor, and any of the other decisions to support their positions, retailers first must precisely define and accurately profile their markets.

- **Product Assortment and Services Decision**

Retailers must take decisions on three important product variables- product assortment, services mix, and store atmosphere.

- **Product assortment** : The retailers product assortment decisions must aim at matching target shoppers expectations. Decisions regarding product assortment include its width and depth. Thus, a restaurant can offer a narrow and shallow assortment (small lunch counter), a narrow and deep assortment (delicatesser), a wide and shallow assortment (cafeteria) or a wide and deep assortment (large restaurant).¹² Another element of the product assortment is the quality of the goods. Customer considers not only the range of choice but also the quality of the products. To compete with the competitors having similar product assortment and quality level, the retailer must find out other ways to differentiate itself from these competitors. It can pursue any of several product-differentiation strategies. It can offer product that no other competitor carries. It may use its own private brands or may sell national brands on which it holds exclusive distribution right. The retailer can feature blockbuster merchandising events- Bloomingdale's is known for running spectacular shows featuring goods from a certain country, such as India or China. Or the retailer can offer surprise merchandise, as when Loehmann, offers surprise assortments of seconds, overstocks, and closeouts. Finally, the retailer can differentiate itself by offering a highly targeted product assortment - Lane Bryant carries goods for larger women¹³.
- **Service mix** : Retailers must also decide on a service mix to ensure maximum customer satisfaction. Apart from typical customer services modern retailers may offer such services as home delivery, credit, and conversation. A retailer can use service mix as a key tool of nonprice competition for differentiating him from others.
- **Stores Atmosphere** : The stores atmosphere is an another important consideration for a retailer. Store's physical layout and its atmosphere should be properly planned so that they suit the target market and induce customers to buy. For example, a restaurant should be quiet, cozy and clean. Modern retailers are increasingly working to create shopping environment that match their target markets.

The retailers product assortment decisions must aim at matching target shoppers expectations.

Retailers must also decide on a service mix to ensure maximum customer satisfaction.

¹². Ibid., p. 441.

¹³. Ibid., p. 441.

- **Price Decision**

A retailer's price policy plays an important role in positioning.

A retailer's price policy plays an important role in positioning. In formulating price policies, retailers must consider their target market, product, service assortment, and competition. Although all retailers would like to charge high markups and achieve high volume, these two are rarely achievable simultaneously. Most retailers such as specialty stores seek high markups on lower volume. Retailers like mass merchandisers and discount stores seek low markups on higher volume.

Retailers also must pay attention to pricing tactics. Most retailers will put low price on items to serve as "traffic builders" or "loss leaders." On some occasions, they run storewide sales. On others, they plan markdowns on slower moving merchandise. For example, shoe retailers may expect to sell 50 percent of their shoes at the normal markup, 25 percent at a 40 percent markup, and the remaining 25 percent at cost.¹⁴

- **Promotion Decision**

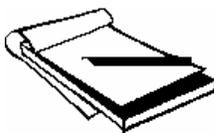
Retailers use advertising, personal selling, sales promotion, and public relations as promotion tools.

Retailers use advertising, personal selling, sales promotion, and public relations as promotion tools. They advertise in print media, (newspaper, magazines) and in electronic media (radio, television). Advertising can be supplemented by circulars and direct-mail pieces. Salespeople are trained properly to carry out personal selling jobs. Sales promotions may include in-store demonstrations, displays, and visiting celebrities. Public relations activities are also performed by retailers. These include press conferences and speeches, store opening, newsletters, and public service activities.

- **Place Decision**

A retailer's location is the key to its ability to attract customers and succeed in business.

A retailer's location is the key to its ability to attract customers and succeed in business. The costs of building or leasing store premises have significant bearing on the retailer's profits. So, for a retailer, site-location decisions are very important. Small retailers may not be able to pay much attention in selecting locations. However, large retailers generally utilize the services of specialists who select locations using advanced methods.



Activity :

Select a retailer of any product and briefly discuss how does he take the marketing decision.

The Future of Retailing

We can visualize several trends that will affect the future of retailing. Retailers can no longer expect sales and profit growth through expansion in current and new markets against the backdrop of fall in population and economic growth. In order to grow, retailers must increase their shares of

¹⁴. Ibid., p. 445.

current markets. This seems to be a difficult task as competition is increasing and new types of retailers are emerging.

In developed economies, the retailing industry suffers from severe overcapacity. Consumer demographics, lifestyles, and shopping patterns also are changing rapidly which are offering new challenges to the retailing industry. It follows that to be successful retailers will have to select target segments carefully and position themselves precisely. In addition, rising costs will make more efficient operation and efficient buying imperative for successful buying. As a result, technologies are making their headway as tools for fighting competition. In countries with higher technological level, smarter retailers are using computers to produce better forecasts, control inventory costs, order electronically from suppliers, communicate between stores, and even sell to consumers within stores.

We can forecast that new retail forms will continue to appear to meet new consumer needs and new situations. But evidence shows that the life cycle of new retail forms is getting shorter. Given the rapidly changing socio-economic environment, success in retailing will depend on the capability to adapt with such changes. Astute retailers should be able to identify the nature and dimensions of such changes in their real perspective so that they can formulate the most appropriate strategies to cope with them.

Questions for Review

1. What is a department store and how is it managed? How department stores face the competition from other types of retail stores?
2. What is a convenience store and what are its characteristics? Explain which would do more to increase a convenience store's sales - an increase in the length or the breadth of its product assortment. Why?
3. Off-price retailers provide tough price competition to other retailers. Do you think that large retailers growing power in channels of distribution will affect manufacturers willingness to sell to off-price retailers at below regular wholesale rates?
4. What marketing decisions do the retailers make? Give examples.
5. Which retail store carries a narrow product line –
 - A. Department store
 - B. Specialty store
 - C. Convenience store
 - D. Superstore.
6. Supermarkets are characterized by –
 - A. Medium size
 - B. High-cost
 - C. High-margin
 - D. High-volume.
7. In which retail store consumers can go for purchases at off-hours?
 - A. Specialty store
 - B. Superstore
 - C. Convenience store
 - D. Combination store.
8. Which stores are combination of supermarket, discount and warehouse retailing?
 - A. Specialty store
 - B. Department store
 - C. Combination store
 - D. Hypermarkets.
9. Well defined target markets enable the retailers to –
 - A. Position themselves properly in the markets
 - B. Reduce costs
 - C. Increase sales volume
 - D. Increase profit.

10. In formulating price policies, retailers must consider –
- A. Target market
 - B. Service assortment
 - C. Competition
 - D. All of the above.

Ans : 5. B, 6. D, 7. C, 8. D, 9. A, 10. D.



Lesson 3 : Wholesaling : Nature and Types

Lesson objectives

After completing this lesson you will be able to:

- Contrast the differences among types of wholesalers-full service and limited-service merchant wholesalers, brokers and agents, and manufacturer's sales branches.
- Explain the wholesaler marketing decisions of target market and positioning and marketing mix decisions.
- Describe trends in wholesaling

Wholesaling



Wholesalers buy from producers and sell to retailers,

Wholesaling refers to all activities performed in selling goods and services to those who buy for resale or business use. Wholesalers are those institutions who mainly perform wholesaling activities as stated above. A retail medicine shop is engaging in wholesaling when it sells medicines to a clinic.

In most cases, wholesalers buy from producers and sell to retailers, industrial consumers and other wholesalers. Producers utilize the services of wholesalers because the wholesalers generally are more efficient in performing various channel functions. Wholesalers perform selling and promoting, buying and assortment building, bulk bearing activities. They also perform such functions as warehousing, transportation, financing and risk bearing. Wholesalers also provides market information and management services and advice to the producers.

Types of Wholesalers

Wholesalers carry different names and also perform variety of functions. They can be grouped into three major categories. These are: 1) merchant wholesalers, 2) brokers and agents, and 3) manufacturers' sales branches and offices. (which can be seen in table 10-2) In the following discussion, we will look at various types of wholesalers.

Merchant Wholesalers

Merchant wholesalers are independent business enterprise.

Merchant wholesalers are independent business enterprise. They take title to the products they deal in. Merchant wholesalers are the largest single group of wholesalers. Broadly, merchant wholesalers are of two types-full-service wholesalers and limited-service wholesalers.

• *Full-Service Wholesalers*

As their name suggests full-service wholesalers render a full set of services. They carry stock, use sales force, offer credit, make deliveries and provide management assistance. Full-Service wholesalers are either wholesale merchants or industrial distributors.

Table 10-2: Classification of Wholesalers

Merchant Wholesalers	Brokers and Agents	Manufacturers' and Retailers' Branches and Offices
Full-Service Wholesalers Wholesale merchants Industrial distributors	Brokers Agents	Sales Branches and offices Purchasing offices
Limited-Service Wholesalers Cash-and-carry wholesalers Truck wholesalers Drop shippers Rack jobbers Producers' cooperatives Mail-order wholesalers		

Source : Philip Kotler and Gary Armstrong, Principles of Marketing, seventh edition, Prentice-Hall of India New Delhi, 1997; p.447.

- **Wholesale merchants** generally sell to retailers and render a full range of services. Width of the product line varies from one wholesale merchant to another. Some wholesale merchants maintain several lines of goods to cater to the needs of both general merchandise retailers and single-line retailers. Some carry one or two lines of goods with deep assortment. Examples are hardware wholesalers, drug wholesalers, and clothing wholesalers. Specialty wholesalers carry a partial but deep line, such as seafood wholesalers.
- **Industrial distributors** are merchant wholesalers who sell to producers. They render such services as inventory, credit, delivery etc. They may carry a broad range of products. They also may carry a general line, or a specialty line. Industrial distributors may choose lines such as maintenance and operating supplies, original-equipment goods, or equipment.
- **Limited-Service Wholesalers**

Industrial distributors are merchant wholesalers who sell to producers.

Unlike full-service wholesalers limited-service wholesalers provide fewer services to producers, suppliers, and customers. The following discussion will make us familiar with several types of limited-service wholesalers.

- **Cash-and-carry wholesalers** sell to small retailers for cash. They maintain a limited line of fast-moving goods and usually do not deliver. For example, a small vegetable retailer normally goes to a cash-and-carry wholesaler and buys several baskets of vegetables, pays on the spot, and brings them to his shop.
- **Truck wholesalers** sell and deliver simultaneously. They carry a limited line of goods. For example, milk, bread and soft drinks. They sell for cash as they make their trips covering supermarkets, small groceries, hospitals, restaurants, factory cafeterias, and hotels.
- **Drop shippers** neither handle the merchandise nor carry inventory.

Truck wholesalers sell and deliver simultaneously.

Drop shippers neither handle the merchandise nor carry inventory.

who ships the goods directly to the buyers. Drop shippers are found to operate in bulk industries such as coal, lumber and heavy equipment. During the period between acceptance of order and delivery of goods, drop shippers takes title and risk.

Rack jobbers deal in nonfood items.

- **Rack jobbers** deal in nonfood items. They send delivery trucks to stores with a delivery person who sets up racks in those stores. The racks are filled with items like toys, paperbacks, hardware items, health and beauty aids, or other items. They price the goods and maintain inventory records. They hold title to the goods and bill the retailer only for the goods sold. Rack jobbers provide delivery, shelving, inventory, and financing services. They are not required to go for heavy promotion as they carry highly advertised branded goods.

Producers' cooperatives are wholesalers who operate in farm products.

- **Producers' cooperatives** are wholesalers who operate in farm products. They are owned by farmer-members. These cooperatives assemble farm produce and sell in local markets. Profits earned by cooperatives are divided among members. Producers' cooperatives want to ensure product quality and promote a co-op brand name such as 'Milk Vita'.

- **Mail-order wholesalers** operate through sending catalogues to customers who include retailers, industries, and institutions. They handle items like jewelry, cosmetics, special foods and other small articles. Business located in far flung areas are the main customers of mail-order wholesalers. These wholesalers do not maintain sales forces and the orders are filled and by mail, truck or other suitable means.

A broker is a wholesaler who brings buyers and sellers together and aids in negotiation.

- **Brokers and Agents**

A broker is a wholesaler who brings buyers and sellers together and aids in negotiation. Brokers do not take title to goods. They earn a commission on the selling price from both the parties hiring them. Brokers do not carry inventory and do not perform financing, and risk taking functions. Like merchant wholesalers, brokers in most cases specialize by product line or customer types. The most common examples of brokers are insurance brokers, real estate brokers, and security brokers.

An agent is a wholesaler who represents buyers or sellers on a relatively permanent basis.

An agent is a wholesaler who represents buyers or sellers on a relatively permanent basis. Agents perform a few functions and do not take title to the goods. The most familiar types of agents are: manufacturers' agents, selling agents, purchasing agents, and commission merchants.

- **Manufacturers' agents** represent two or more manufacturers of related lines. With each manufacturer, manufacturers' agent work under a formal agreement. Such agreement covers prices, territories, order-handling procedures, delivery and warranties, and commission rates. Manufacturers' agents are found to handle goods such as, readymade garments, furniture and electrical goods. Small

manufacturers hire agents to avoid the cost of maintaining own field sales forces. Large producers hire agents when they want to open new territories or enter in areas that do not justify employment of full-time salesperson.

- **Selling agents** work a with a producer under an agreement to sell his entire production. The selling agent virtually works as a sales department whereby it gains sufficient control over price, terms and conditions of sale. Selling agents handle products such as textiles, industrial machinery and equipment, coal and coke, chemicals, and metals.
- **Purchasing agents** make purchases on behalf of buyers and receive, inspect, warehouse, and ship goods to the buyers. One most familiar type of purchasing agent is resident buyers in major garment markets. They have sufficient knowledge about their product lines and provide important market information to clients. They also can procure the best goods at the most competitive price.
- **Commission merchants** who are also known as commission houses take possession of products and negotiate sales. They are generally used on a short-term basis. Commission merchants are found to operate in marketing of farm products. They are used by farmers who do not want to sell their own output and who do not belong to cooperatives. Commission merchant collects products from the farmer and sells them in a central market at the best possible price. After deducting expenses and his commission, the commission merchant pays the balance to the farmer.

Selling agents work a with a producer under an agreement to sell his entire production.

- **Manufacturers' Sales Branches and Offices**

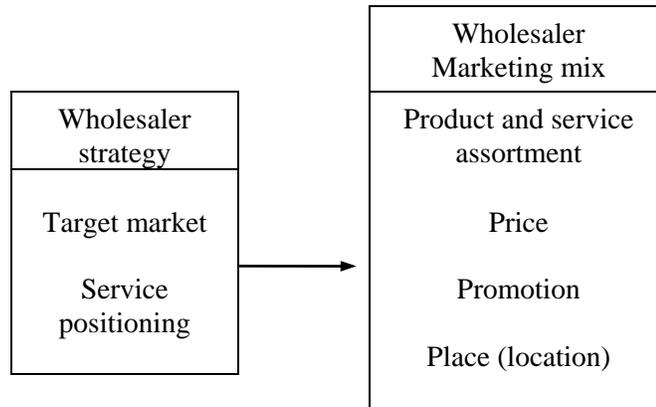
Wholesaling is also done by manufacturers' sales branches and offices. In such cases wholesaling is performed by sellers or buyers themselves without using independent wholesalers. Manufacturers establish their own sales branches and offices because by doing so they can improve inventory control, selling, and promotion. Manufacturers' sales branches maintain inventory. They are found in industries such as lumber and automotive equipment and parts. On the other hand, sales offices do not maintain inventory. They are found mainly in the dry goods and notion industries. It is also found that retailers set up purchasing offices in major trading centers. These offices substitute brokers and are owned by buyers.

Wholesaler Marketing Decisions

In recent years competition in wholesaling is increasing. Apart from new sources of competition, more demanding customers, new technologies, and more direct-buying by large industrial, institutional, and retail buyers are challenges that the wholesalers are facing. To cope with these challenges, wholesalers had to improve their strategic decisions on target

market and positioning, and on the marketing mix. The following figure (Fig : 10-2) shows a wholesaler's marketing decision areas :

Figure 10-2: Wholesaler Marketing Decisions



Source : Philip Kotler and Gary Armstrong, Principles of Marketing, seventh edition, Prentice-Hall of India, New Delhi, 1997, p; 450.

Target Market and Positioning Decision

Wholesalers must define their target markets and position themselves accordingly. Target markets can be chosen by size of customer (large retailers), type of customer (specialty stores), need for service (delivery), or other factors. Wholesalers can identify the more lucrative customers make stronger offers, and build better relationships with the customers within the target markets. Wholesalers can offer some other services to their customers. For example, they can suggest automatic reordering systems, set up management-training and advising systems, or even sponsor a voluntary chain.

- **Marketing Mix Decisions**

Wholesalers' marketing mix decisions include product assortment and services decisions, price decision, promotion decisions and place decisions. The wholesaler's product is not a single item. It is the assortment of products and services that it offers. Wholesalers are often required to carry a full line and to stock enough for immediate delivery. This may eventually reduce profits. As a result, wholesalers are now choosing to carry only the more profitable lines. Wholesalers are also trying to build a service mix to offer for building strong customer relationships.

Another important wholesalers' decision centers around price. Wholesalers usually add a standard mark up to the cost of goods. Excess of gross margin over expenses is the wholesaler's profit. Wholesalers

follow other pricing approaches also. They may cut their margin on some line in anticipation of new customers. They may insist the suppliers for special price breaks if they can justify that such price breaks will lead to higher sales.

Most wholesalers do not seem to appreciate the role of promotion in making their businesses successful. Although they undertake limited scale advertising, sales promotion, personal selling, and public relations, these activities are in most cases unplanned and uncoordinated. Wholesalers should, in addition to personal selling, adopt some of the nonpersonal techniques. They should develop a comprehensive promotional policy. To supplement their own promotional activities wholesalers should try to make best utilization of supplier promotion materials and programs.

Last but not the least, wholesalers' locations and facilities should be chosen prudently. Traditionally, wholesalers tend to locate in low-cost areas, with minimal investment in buildings, equipment, and systems resulting in poor materials-handling and order-processing systems. However, large and modern wholesalers are resorting to mechanization such as automated warehouse and on-line ordering systems. Orders are passed to the wholesaler's computer from the retailer's system. Goods are picked up and assembled by mechanical devices which are then shipped to the retailers. Wholesalers are increasingly adapting their services to the changing needs of target customers and dividing ways and means to make their operations more economical.

Trends in Wholesaling

Dynamic wholesalers recognize that, their existence in future depends on enhancing the efficiency and effectiveness of the marketing channels as a whole. To accomplish this objective, they must continuously improve their services and reduce their costs. With the changes in marketing environment, we notice some important trends in wholesaling such as consolidation growth of remaining firms, geographical expansion, and increasing services to retailers. Consolidation will lead to significant reduction of the number of wholesalers. The remaining wholesaling firms will grow in size through acquisition, merger, and geographic expansion. Geographic expansion will presumably make the wholesalers more capable of competing effectively over wider and more diverse areas. Wholesalers operational efficiency will also improve through increasing use of computerized and automated systems.

As large retailers are setting up enterprises that performs many wholesale activities, many large wholesalers are also setting up their own retailing operations. In view of the demand for increased services, wholesalers will continue to increase the services to retailers such as retail pricing, cooperative advertising and other promotional supports, marketing and management information reports, accounting services, and others. Finally, forward looking wholesalers are continuously adapting their

School of Business

services to the needs of target customers and are making serious endeavor to keep their cost of operations at the lowest level.

Questions for Review

1. Who are full-service wholesalers and limited-service wholesalers? What functions do they perform and how do they differ from manufacturers' sales branches and offices?
2. Compare the basic differences between wholesalers and retailers in the types of marketing decisions they make. Give examples.
3. Which of following is the largest single group of wholesalers?
 - A. Brokers
 - B. Manufacturers' sales offices
 - C. Merchant wholesalers
 - D. Agents.
4. Industrial distributors are merchant wholesalers who sell to –
 - A. Retailers
 - B. Brokers
 - C. Cash-and-carry wholesalers
 - D. Producers.
5. Producers' cooperatives are wholesalers who operate in –
 - A. Consumer products
 - B. Farm products
 - C. Industrial products
 - D. All of the above.
6. Which of the following is not a limited-service wholesaler?
 - A. Cash-and-carry wholesaler
 - B. Rack jobber
 - C. Industrial distributor
 - D. Mail-order wholesaler.

Ans : 3. C, 4. D, 5. B, 6. C .



**PROMOTING PRODUCTS :
ADVERTISING, SALES
PROMOTION, PUBLIC RELATIONS
AND PERSONAL SELLING**



Once a product is developed to meet target market needs and is properly priced and distributed, the intended customers must be informed of the product's availability and value. To accomplish this goal marketers undertake various promotional activities which form an important element of a company's marketing mix. A well-designed promotion mix includes advertising, sales promotion, public relations and personal selling which are mutually reinforcing and focused on a common objective. This unit considers each element of the promotion mix in details and the discussion has been presented in five lessons.

School of Business

Blank page

Lesson 1 & 2 : Advertising : Its Nature and Role

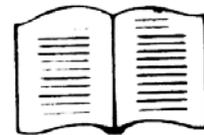
Lesson Objectives

After completing these lessons you will be able to:

- Define advertising
- Identify the advertising objectives, make decisions relating to advertising budget.
- Describe the process of creating an advertising message
- Explain the decisions relating to advertising media.

Advertising

We define advertising as any paid form of nonpersonal presentation and promotion of ideas, goods, or services by an identified sponsor¹. Such presentation and promotion is done through a message called advertisement which is disseminated through one or more media. Definition of advertising provides us with some important considerations. **First**, advertising differs from an advertisement. The advertisement is the message while advertising is a process which consists of a program or a series of activities necessary to prepare the message and send it to the target market. **Second**, the public understands who is behind the advertising because the sponsor is openly identified in the advertisement. **Third**, the cost of media is paid for the message by its sponsor. These last two considerations distinguishes advertising from propaganda and publicity.



Advertising differs from an advertisement.

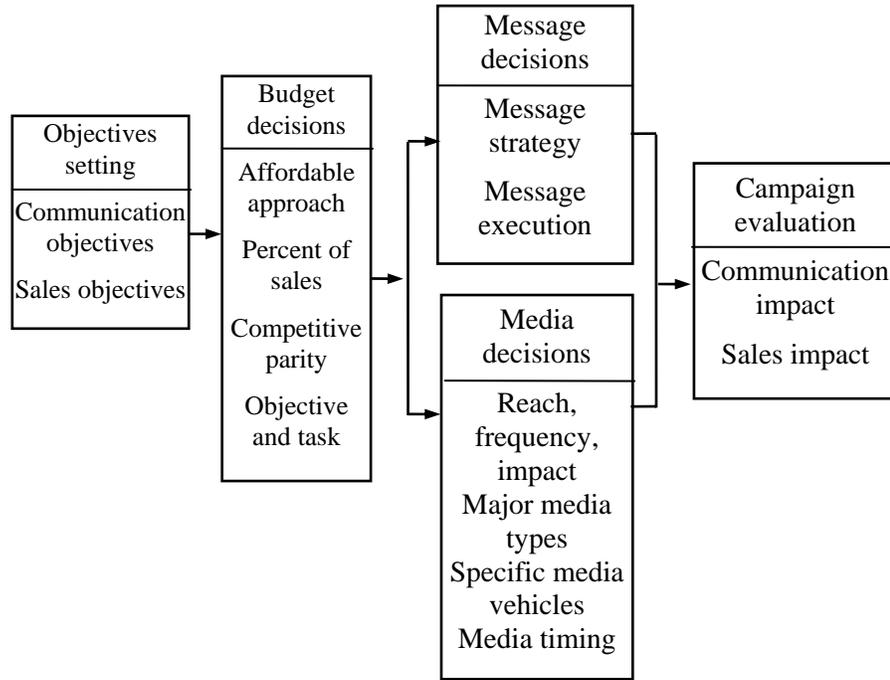
Although advertising is done mostly by business enterprises, it is also used by various nonprofit organizations, professionals, and social organizations who promote their objectives to various target people. Organizations vary in the task of handling advertising. Small companies handle advertising by someone in the sales department. In large companies advertising is handled by separate department. This department performs functions like setting advertising budget, working with the agency, handling direct-mail advertising, dealer displays and other advertising. Most large firms employ outside advertising agencies to implement their advertising programs because these agencies offer several advantages.

Major Decisions in Advertising

In developing an advertising program marketing managers must take five important decisions. The following figure (Fig: 11-1) shows major advertising decisions:

¹. Philip Kotler and Gary Armstrong. Principles of Marketing, Seventh Edition, Prentice-Hall of India, New Delhi, p.495.

Figure 11-1: Major Advertising Decisions



Source : Philip Kotler and Gary Armstrong, *Principles of Marketing, seventh edition, Prentice-Hall of India, New Delhi, 1997, p; 497.*

• **Setting Objectives**

Developing an advertising program begins with setting advertising objectives.

Developing an advertising program begins with setting advertising objectives. These objectives should be determined on the basis of earlier decisions about the target market, positioning, and marketing mix. The marketing positioning and mix strategy dictate the role that advertising must play in the whole marketing program.

An advertising objective is a particular communication task directed towards a definite target audience within a specific time period. Advertising objectives can be classified by basic purpose-to inform, persuade or remind. Examples of each of these objectives are shown in the table (Table no. 11-1) given below:

Table 11-1 : Possible Advertising Objectives

TO INFROM	
Telling the market about a new product	Describing available services
Suggesting new uses for a product	Correcting false impressions
Informing the market of a price change	Reducing buyers' fears
Explaining how the product works	Building a company image

TO PERSUADE

Building brand preference	Persuading buyers to purchase
Encouraging switching to your brand	now Persuading buyers to receive a sales call
Changing buyer perceptions of product attributes	

TO REMIND

Reminding buyers that the product may be needed in the near future	Keeping the product in buyers' minds during off seasons
Reminding buyers where to buy the product	Maintaining top-of-mind product awareness.

Source : Philip Kotler and Gary Armstrong, Principles of Marketing, Eeventh Edition, Prentice-Hall of India, New Delhi, 1997, p; 498.

Informative advertising is used to inform consumers about a new product or feature and to build primary demand. For example, producers of compact-disc players first informed consumers of the sound and convenience benefits of CDs.

Persuasive advertising is used to build selective demand for a brand by persuading consumers that it offers the best quality. For example, when compact-disc players became established, Sony began trying to persuade consumers that its brand offered the best quality for their money.

Some persuasive advertising has turned into comparison advertising, in which a company directly or indirectly compares its brand with one or more other brands. For example, Procter & Gamble positioned Scope mouthwash against Listerine, claiming that minty-fresh Scope "fights bad breath and doesn't give medicine breath". Comparison advertising also has been used for products such as soft drinks, computers, automobiles, deodorants, toothpastes and pain relievers.

Reminder advertising is specially important for mature products. Reminder advertising is used to keep consumers thinking about a product. Coca-Cola ads on television are designed primarily to remind people about Coca-Cola, not to inform or persuade them.

- **Setting the Advertising Budget**

After outlining its advertising objectives, the company moves on setting its advertising budget for each product. Adverting aims at manipulating demand for a product. The company tries to spend the amount required to achieve the sales goal. We will discuss some specific factors that should be considered when setting the advertising budget, These factors can be stated as under :

- **Stage in the Product Life-Cycle :** A product in the introduction stage needs large advertising budgets to create awareness and to gain consumer trial while products in the maturity stage usually require lower budgets as a ratio to sales.

Adverting aims at manipulating demand for a product.

- **Market Share** : Brands that enjoy high-market share need more advertising budget as a percent of sales than low-share brands. Building the market or taking share from competitors requires larger advertising budgets than simply maintaining current share.
- **Competition and Clutter** : In a highly competitive market where advertising spending is also large, a brand should be advertise heavily to attract buyers.
- **Advertising Frequency** : The advertising budget must be larger in a situation where advertising frequency is higher.
- **Product Differentiation** : A brand that closely resembles other brands in its product class requires heavy advertising to maintain its distinctive image. If the product differs significantly from competitors, advertising can be used to project the differences to consumers.
- **Advertising Strategy**

Media planning often was considered as secondary to the message creation process.

Advertising strategy has two important components; creating advertising messages and selecting advertising media. Traditionally, most companies developed messages and media plans separately. Media planning often was considered as secondary to the message creation process. The creative department first created quality advertisements. Then the media department selected the most appropriate media for carrying these advertisements to target audiences. This in many cases resulted in conflict between creatives and media planners.

Today, media fragmentation, increasing media costs, and more concentrated target marketing strategies have recognized the importance of the media planning function. An advertising campaign might begin with a great message idea, followed by the choice of appropriate media. Reversely, a campaign might begin with a good media potential, followed by advertisements designed to take advantage of that potential. companies are increasingly realizing the benefits of planning these two important elements simultaneously. Messages and media should blend properly so that the overall advertising campaign can be made most effective.

- **Creating the advertising message** : A big advertising budget does not necessarily ensure the success of an advertising campaign. Same amount of spending on advertisement by more than one advertisers might produce varying results. Studies reveal that for advertising success, creative advertising messages are more important than the money spent for advertising. Regardless of the size of the advertising budget, the success of advertising depends on the capacity of the advertisement to gain attention and communicate well.
- **The changing message environment** : With the increase in the number and availability of media as a result of amazing technological advancements, the environment in which advertising message is given is also changing. Keeping this in mind, advertising messages must be better planned, more imaginative, more

entertaining, more appealing, and more rewarding to the target consumers. It goes without saying that creative advertising will assume an increasingly important role in success of advertising.

- **Message strategy** : Creating advertising message starts with deciding what general message will be communicated to consumers. This requires planning a message strategy. Advertising aims at getting consumers to think about or react to the product or company in a particular way. Consumers will react only if they feel that they will benefit from doing so. Therefore, what customer benefits that can be used as advertising appeals should be identified first with the purpose of developing an effective message strategy. One approach to identify customer benefits is to talk directly to dealers, experts, and competitors. Another approach is to try to imagine consumers buying or using the product to figure out the benefits they seek. Ideally, advertising message strategy will start directly from the company's broader positioning strategy.

Message strategy statements should highlight benefits and positioning points in a simple and direct manner. These strategy statements must be transformed into advertisements capable of persuading consumers to buy a product or to accept some idea. The advertiser must now develop a convincing and creative concept which will transform message strategy into distinct and appealing advertisements. Thus, simple message ideas take the shape of big ad campaigns.

Message strategy statements should highlight benefits and positioning points in a simple and direct manner.

The creative concept will guide the selection of specific appeals to be used in an advertising campaign. A good advertising appeal should have three characteristics. **First**, it should be meaningful- indicating benefits that make the product more desirable or interesting to consumers. **Second**, an appeal must be believable; consumers must believe that the product or service will give the benefits that have been claimed. However, the most meaningful and believable benefits may not be considered the best ones to feature. **Third**, appeals should also be distinctive. They should indicate clearly how the product is better than the competing brands. For example, the most meaningful benefit of owning a wrist watch is that it keeps accurate time, yet few watch ads feature this benefit. Instead, based on the distinctive benefits they offer, watch advertisers might select any of a number of advertising themes. For years, Timex has been the affordable watch that "Took a lickin and kept on tickin." In contrast, Swatch has featured style and fashion, whereas Rolex stresses luxury and status.²

². Ibid., p. 502.

The impact of the message depends on two things - what is said and how it is said.

- **Message execution** : The impact of the message depends on two things - what is said and how it is said. The advertiser now has to transform the creative concept into an actual ad execution that will attract the target market's attention and interest. The advertiser must find the style, tone, words and format for executing the message. Different execution styles may be adopted for presenting any message, such as the following:
- **Slice of life** : *This style shows one or more "typical" people using the product in a normal setting. For example, two mothers at a picnic discuss the nutritional benefits of Jif peanut butter.*
- **Life-style** : *This style shows how a product fits in with particular life-style. For example, a National Dairy Board ad shows women exercising and talks about how milk adds to a healthy, active life-style.*
- **Fantasy** : *This style creates a fantasy around the product or its use. For instance, Revlon's first ad for Jontue showed a barefoot woman in a chiffon dress coming out of an old French barn, crossing a meadow, meeting a handsome young man on a white horse, and riding away with him.*
- **Mood or image** : *This style builds a mood or image around the product, such as beauty, love, or serenity. No claim is made about the product except through suggestion. Bermuda tourism ads create such moods.*
- **Musical** : *This style shows one or more people or cartoon characters singing a song about the product. Sears intones, "Come see the softer side of Sears."*
- **Personality symbol** : *This style creates a character that represents the product. The character might be animated (the Jolly Green Giant, Cap's Crunch, Garfield the Cat) or real (the Marlboro man, Betty Crocker, Morris the I-Lives Cat).*
- **Technical expertise** : *This style shows the company's expertise in making the product. Thus, Maxwell House shows one of its buyers carefully selecting the coffee beans, and Gallo tells about its many years of wine-making experience.*
- **Scientific evidence** : *This style presents survey or scientific evidence that the brand is better or better liked than one or more other brands. For years, Crest toothpaste has used scientific evidence to convince buyers that Crest is better than other brands at fighting cavities.*
- **Testimonial evidence** : *This style features a highly believable or likable source that endorses the product. It could be a celebrity like Bill Cosby (Jell-O Pudding or Kodak film) or ordinary people saying how much they like a given product ("My doctor said Mylanta").*

The advertiser also must choose a tone for the ad. Procter & Gamble always uses a positive tone. Its ads say something very positive about its

products. P&G also avoids humor that might take attention away from the message. In contrast, Little Caesar's "pizza, pizza" ads use humor- in the form of the comical Little Caesar character - to drive home the advertiser's "two for the price of one" message.

The advertiser must use memorable and attention-getting words in the ad. For example, the following themes on the left would have much less impact without the creative phrasing on the right:

Message Theme	Creative Copy
7-Up is not a cola	"The Uncola"
A BMW is a well-engineered automobile	"The Ultimate Driving Machine"
If you drink a lot of beer, schaefer is a good beer to drink	"The one beer to have when you are having more than one"
We don't rent as many cars, so we have to do more for our customers.	"We are number two, so we try harder"(Avis)
Hanes socks last longer than less expensive ones	"Buy cheap socks and you will pay through the toes."
Through the United Way, you can give to many charities with one donation	We are putting all our begs in one ask it." ³

Conclusively, format elements of an ad account for a difference in its impact and cost. A minor change in ad design can have a major influence on its effects. The reader of an advertisement first notices its illustration. So, illustration must be powerful enough to draw the readers attention. The headline must effectively allure the reader to go through the copy. The copy which is the main block text in the ad must be clear, lucid, powerful and convincing. In the end, these three elements must go together for ensuring maximum effectiveness.

Conclusively, format elements of an ad account for a difference in its impact and cost.

- **Selecting Advertising Media :** Media selection involves four major steps which are: (1) deciding on reach, frequency, and impact; (2) Choosing among major media types; (3) selecting specific media vehicles; and 4) deciding on media timing. These four steps can be stated elaborately as under:
- **Deciding on reach, frequency and impact :** For media selection, the advertiser must take decision on reach and frequency that are needed to accomplish advertising objectives. Reach is a measure of the percentage of people in the target market who are exposed to the ad campaign during a given span of time. For instance, the advertiser might try to reach 80 percent of the target market during the first four months of the campaign. Frequency is the number of times the average person in the target market is exposed to an advertising message during a given period. For example, the advertiser might expect an average exposure frequency of four. The advertiser must

³. Ibid., pp. 502-503.

also decide on the expected media impact. The qualitative value of a message exposure through a given medium has to be assessed. For example, for products needing demonstration, advertisement in television will have more impact than advertisement in radio because television is an audio-visual medium. The same advertisement in one newspaper may be more believable than in another.

Suppose, that the advertiser's product might appeal to a market of 1,00,000 consumers. The goal is to reach 80,000 consumers (80 percent of 1,00,000). Because the average consumer will receive four exposures, i.e. 3,20,000 exposures (80,000 x 4) must be bought. If the advertiser wants exposures of 1.5 impact (assuming 1.0 impact is the average), a rated number of exposures of 4,80,000 (3,20,000 x 1.5) must be bought. If a thousand exposures with this impact cost Tk. 100, the advertising budget will have to be Tk. $\left(\frac{4,80,000}{1000} \times 100\right) = \text{Tk. } 48,000$. In general, the more the reach, frequency, and impact the advertiser wants, the higher the advertising budget will have to be.

- Choosing among major media types :** The advertiser needs to know the reach, frequency, and impact of each of the major media types for media planning. The major media types are newspaper, television, direct mail, radio, magazines, and outdoor. Table 11-2 shows the advantages and limitations of each medium.

In making media choices, media planners take into account many factors. The media habits of target consumers will influence media choice. For example, radio is the best media for reaching rural population. Nature of the product also affects media choice. Detergents are best advertised in television. Different types of media are suitable for different types of messages. A message announcing a major sale tomorrow should go through radio or newspapers. A message containing a lot of technical data might require magazines or direct mailings. Cost is also an important factor in media choice. For example, newspaper advertising is cheaper than television advertising. The media planner considers both the total cost of using a medium and the cost per thousand exposures (the cost of reaching 1,000 people using the medium). Media impact and cost must be reviewed regularly. This will enable the advertiser to switch over to more cost effective media.

Cost is also an important factor in media choice.



Activity :
Choose a product and recommend the suitable advertising medium/media for its advertisement.

Table 11-2 : Advantages and Limitations Major Media Types

Medium	Advantages	Limitations
--------	------------	-------------

Newspapers	Flexibility; timeliness; good local market coverage; broad acceptance; high believability	Short life; poor reproduction quality; small pass-along audience
Television	Combines sight sound, and motion; appealing to the senses; high attention; high reach	High absolute cost; high clutter; fleeting exposure; less audience selectivity
Direct Mail	Audience selectivity; flexibility; no ad competition within the same medium; personalisation	Relatively high cost; "junk mail" image
Radio	Mass use; high geographic, demographic selectivity; low cost	Audio presentation only; lower attention than television; nonstandardised rate structures; fleeting exposure
Magazines	High geographic and demographic selectivity; creditability and prestige; high quality reproduction; long life; good pass-along readership	Long ad purchase lead time; some waste circulation; no guarantee of position
Outdoor	Flexibility; high repeat exposure; low cost; low competition	No audience selectivity; creative limitations

Source: Philip Kotler and Gary Armstrong, *Seventh Edition, Prentice-Hall of India, New Delhi, 1997; p. 505.*

After considering the various media characteristics, the media planner will decide how much of each medium type to use. For example, in launching a new biscuit product, Nabisco may decide to spend Tk. 5 lacs advertising in radio, Tk. 3 lacs in television, and Tk. 2 lacs in newspapers.

- Selecting specific media vehicles :** At this stage, the media planner must select the best media vehicles. Media vehicle is the specific media within each general media type, such as specific magazines, television programs or radio programs. For example, television vehicles include "Drama Serial", "Ittyadi", and "Shuvesha". Magazine vehicles include "Roabbar", "Chitrabangla", "Ananya" and "Krirajagat". If advertisement is given in magazines, the media planner must consider circulation figures and the costs of different ad sizes, color options, ad positions, and frequencies for specific magazines. Then the planner must evaluate each magazine on the basis of credibility, status, reproduction quality, editorial focus, and advertising submission deadlines. The media planner finally decides which vehicles give the maximum reach, frequency, and impact for the money.

Media planners also calculate the cost per thousand persons reached by a vehicle. For example, if a full-page advertisement in Roabbar cost Tk. 5,000 and Roabbar's readership is 40,000 people, the cost of reaching each group of 1000 persons is Tk. 125. The same advertisement in Chitrabangla may cost only Tk. 3,000 but reach only 15,000 persons, the cost of reaching each group of 1000 persons is Tk. 200. The media planner would rank each magazine by cost per thousand and prefer those magazines with the lower cost per thousand for reaching target consumers.

The media planner must consider the costs of producing ads for various media.

The media planner must consider the costs of producing ads for various media. Newspaper ads may cost hundreds while television ads may cost thousands.

So, intelligent media planners should balance media cost measures against several media impact factors such as vehicle's audience quality, audience attention and vehicle's editorial quality.

- **Media timing :** The advertiser must also take decisions on scheduling the advertising over a specific time period – generally one year. Suppose, a product's sale reaches the maximum in October and the minimum in February. The seller can make variation in his advertising. Advertising can be done to follow the seasonal pattern, to oppose the seasonal pattern, or to be the same all over the year. Most firms do some seasonal advertising while some do only yearly advertising. Bombay Sweets advertises its vermicelli only before Eids.

Finally, the advertiser has to decide on the pattern of advertisements.

Finally, the advertiser has to decide on the pattern of advertisements. The advertiser may go for either 'continuity' or 'pulsing'. Scheduling ads evenly within a given period means continuity. Scheduling ads unevenly over a given time period means pulsing. Thus 104 ads could either be scheduled at two per week during the year or pulsed in several bursts. The objective is to advertise heavily for a short period to create awareness that carries over to the next advertising period. Advocates of pulsing maintain that it can be used to achieve the same impact as a steady schedule with a lower cost.

- **Advertising Evaluation**

For ensuring maximum effectiveness of advertising, the advertiser should evaluate both the communication effects and sales effects regularly. This can be discussed in the following sections:

- **Measuring the Communication Effect :** Communication effect of an ad is measured through copy testing which tells whether the ad is communicating well. Copy testing can be conducted either before or after an ad is released. There are three major ways of advertising - direct rating, portfolio tests, and laboratory tests.

Copy testing can be conducted either before or after an ad is released.

- **Direct rating :** In direct rating, the advertiser exposes a consumer panel to alternative ads and asks them to rate the ads. These direct rating indicate two things; how well the ads get attention and how they affect consumers. Although this is not a perfect measure of an ad's actual impact, a high rating indicates a potentially more effective ad.
- **Portfolio test :** In portfolio tests, consumers view or listen to a portfolio of advertisements taking sufficient time. They then are asked to recall all the ads and their content. In this process, they can be aided or unaided by the interviewer. Their recall level indicates the ability of an ad to be distinctive and its message to be understood and remembered.
- **Laboratory test :** In laboratory tests, equipments are used to measure consumers' physiological reactions to an ad such as heartbeat, blood pressure, pupil dilation, perspiration. Advertising pretests measure an ad's attention-drawing ability. But these tests can not tell anything about the ad's impact on beliefs, attitudes, or intentions.

Methods of post-testing ads are of two types – recall-tests and recognition tests. In recall tests, the advertiser asks people who have been exposed to newspapers or television programs to recall everything they can about the advertisers and products they watched. Recall scores indicate the ad's power to be noticed and memorized. In recognition tests, readers are given a particular issue of a magazine. Then they are asked to point out what they recognize as having seen before. Recognition scores can be accepted as indicators of an ad's impact in different market segments and can also be used to compare the company's ads with those of competitors.

- **Measures the Sales Effect :** In reality, measuring the sales effect of advertising is harder than doing the same for the communication effect. Advertising is not the only factor that affects sales. Product features, price, and availability are other factors that have significant influence on sales.

One method of measuring the sales effect of advertising is to compare past sales with past advertising expenditures. This can be done by correlation analysis. Another method is through experiments. For example, to test the effects of different advertising spending levels, "Keya" could vary the amount it spends on advertising in different market areas and measure the differences in the resulting sales levels. It could spend the normal amount in one market area, half the normal amount in another area, and twice the normal amount in a third area. If

the three market areas are similar, and if all other marketing efforts in the area are the same, then differences in sales in the three market areas could be related to advertising level. Other variables such as difference in the ads or media used could be included to design more complex experiments.

Questions for Review

1. What are the benefits and drawbacks of comparison advertising? For which comparison advertising is more fruitful – the leading brand in a market or a lesser brand? State reasons.
2. Why some people are skeptical about advertising claims? Suggest some things advertisers could do to increase credibility.
3. Explain what factors call for more frequency in an advertising media schedule, and what factors call for more reach. How can you increase on without sacrificing the other or increasing the advertising budget?
4. By analyzing the definition of advertising, we can say that advertising is –
 - A. A message
 - B. A process
 - C. An event
 - D. All of the above.
5. Reminder advertising is especially important for –
 - A. Complementary products
 - B. Substitute products
 - C. Mature products
 - D. New products.
6. A product in the introduction stage needs –
 - A. Large advertising budgets
 - B. Small advertising budgets
 - C. Moderate advertising budgets
 - D. None of the above.
7. A good advertising appeal should be –
 - A. Meaningful
 - B. Believable
 - C. Distinctive
 - D. All of the above.
8. Scheduling ads evenly within a given period means –
 - A. Continuity
 - B. Pulsing
 - C. Economizing
 - D. All of the above.
9. One of the methods of post-testing advertisements is –
 - A. Direct rating
 - B. Portfolio tests
 - C. Recognition tests
 - D. Laboratory tests.

Ans : 4. B, 5. C, 6. A, 7. D, 8. A, 9. C .

Lesson 3 : Sales Promotion and Public Relations



Lesson objectives

After completing this lesson you will be able to:

- Discuss the growth and purpose of sales promotion
- Explain the considerations behind setting sales-promotion objectives
- Analyze the process of selecting consumer-promotion, trade-promotion, and business-promotion tools.
- Outline the major public relations tools and decisions.

Sales Promotion



Sales promotion consists of a large variety of promotion tools.

Sales promotion consists of short-term incentives to encourage purchase or sales of a product or service⁴. While advertising gives reasons to buy a product or service, then sales promotion offers reasons for immediate buying. We often notice sales promotion activities. Dipali shoes offers a 20% discount for a period of two weeks before Eid. Fresh Milk gives one mug with its 1 kg. packet of milk powder.

Sales promotion consists of a large variety of promotion tools. These aim at stimulating earlier or stronger market response. Sales promotion includes consumer promotion, trade promotion and sales force promotion. **Consumer promotion** is designed to stimulate consumer purchasing, including samples, coupon, rebates, prices-off, premiums, patronage rewards, displays and contests. **Trade promotion** is designed to gain reseller support and to improve reseller selling efforts, including discounts, allowances, free goods, cooperative advertising, push money, and conventions and trade shows. **Sales force promotion** is designed to motivate the sales force and make sales force selling efforts more effective, including bonuses, contests, and sales rallies.

• Growth of Sales Promotion

Sales promotion tools are being increasingly used by various organizations including manufacturers, distributors, retailers, trade associations, and nonprofit institutions. Recent swift growth of sales promotion can be attributed to several factors. **First**, product managers are facing increasing pressures within the company to increase their current sales. Top management has recognized promotion as an effective sales tool. **Second**, competition is increasing and competitors with less differentiated brands are spending more on promotion. The consumers are also becoming more deal oriented. **Third**, efficacy of advertising has gone down due to increasing costs, media clutter, and legal restraints. **Finally**, retailers and other middlemen are demanding more rewards from manufacturers.

The increasing use of sales promotion has resulted in promotion clutter, similar to advertising clutter. Consumers are becoming increasingly

The increasing sales promotion has resulted in promotion clutter, similar to advertising clutter.

⁴. Ibid., p. 510.

immune to promotional tools. However, manufacturers now are looking for ways such as offering larger coupon values or creating more dramatic point-of-purchase displays.

- **Purpose of Sales Promotion**

Different sales promotion tools are used to accomplish different objectives. For example, a free sample encourages consumer trial; a free management consultancy service strengthens relationship with wholesaler. Sales promotion tools are used to attract new triers, to reward loyal customer, and to increase the repurchase rates of occasional users. New triers are of three types – nonusers of the product category, loyal users of another brand, and users who frequently switch brands. Sales promotions, in most cases, attract the users who frequently switch brands because nonusers and users of other brands are less likely to respond to promotion. In markets where brands are similar sales promotions usually produce short-run increase in sales but do not increase the market share. However, sales promotions can influence market shares more permanently in markets where brands differ greatly.

Many marketers consider sales promotion as a tool for breaking down brand loyalty and advertising as a tool for creating brand loyalty. This lead the marketers to think of priority between sales promotion and advertising while preparing the total promotion budget. If sales promotion is given priority over advertising, the marketer runs the risk of losing consumer brand loyalty. Excessive sales promotion may create an impression in the minds of the consumers that the brand is a cheap one. Most marketing specialists maintain that sales promotion activities do not result in long-term consumer preference and loyalty, as does advertising. Rather, promotion generally brings only short-term sales that can not be sustained. Heavy use of sales promotion is also blamed for decreased brand loyalty, increased consumer price sensitivity, emphasis on short-run marketing planning, and an erosion of brand-quality image.

However, some marketers ignore these demerits of sales promotion. Instead, they maintain that sales promotion provides many important benefits to both the producers and consumers. Sales promotions enable producers adjust to short-term changes in supply and demand and to differences in customer segments. Sales promotions give the consumers the opportunity to try new products. They help emerge varied retail outlets, such as the everyday low-price store or the promotional-pricing store, which gives consumers wider choice. Finally, exposures to sales promotions increases price awareness of the consumers.

For getting the best results, sales promotions are generally used in conjunction with advertising and personal selling. Consumer promotions strengthen advertising when they are done simultaneously. Trade and sales force promotions complement the firm's personal selling activities. For effective use of sales promotion, a company should keep in mind certain important things. It must set objectives, select the right tools, develop the best program, pretest and implement it, and evaluate the results.

For getting the best results, sales promotions are generally used in conjunction with advertising and personal selling.

- **Setting Sales-Promotion Objectives**

Sales promotion aims at accomplishing various objectives. Consumer promotions may be used to increase short-term sales or to help build long-term market share. Objectives of consumer promotions may be: i) to induce consumers to try a new product, ii) to pull consumers away from competitors', products, iii) to encourage continuous buying of a mature product, and iv) to hold and reward loyal customers. Objectives of trade promotions may be: i) encouraging retailers to carry new items and more inventory, ii) inducing them to advertise the product and give it more shelf space, and iii) encouraging them to buy ahead. Sales force promotion objectives are: i) securing more sales force support for current or new products and ii) inspiring salespeople to sign up new accounts.

Generally, sales promotions should aim at consumer relationship building.

Generally, sales promotions should aim at consumer relationship building. Instead of generating only short-term sales volume or temporary brand switching, they should contribute to reinforce the products position and to build long-term consumer relationships. For example, in France, Nestle' set up roadside Relais Be'be' centers, where travelers can stop to feed and change their babies. At each center, Nestle` hostesses provide free disposable diapers, changing tables, high chairs and free samples of Nestle` baby food. Each summer, 64 hostesses welcome 120,000 baby visits and dispense 6,000,000 samples of baby food. This ongoing promotion provides real value to parents and an ideal opportunity to build relationship with customers. At key meal-time moments, Nestle' hostesses are in direct contact with mothers in a unique, brand-related relationship. Nestle also provides a toll-free phone number for free baby- nutrition counseling⁵ . Even well planned price promotions may contribute in building customer relationships. Finally, if carefully planned and used, every sales-promotion tool can go a long way in building consumer relationship.

- **Selecting Sales-Promotion Tools**

Sellers can use many tools for accomplishing sales-promotion objectives. The following discussion will make us familiar with the main consumer and trade promotion tools.

- **Consumer Promotion Tools :** The main consumer-promotion tools are samples, coupons, cash refunds, price packs, premiums, advertising specialties, patronage rewards, point-of-purchase displays and demonstrations, and contests, and games.

- **Samples** are offers to consumers of a trial amount of a product. Sampling is the most effective way to introduce a new product. Although in some cases sampling may be expensive.
- **Coupons** are certificates that give buyers a saving when they purchase specified products. Coupons can stimulate sales of a mature brand or promote early trial of a new brand.

Samples are offers to consumers of a trial amount of a product.

⁵. Ibid., p. 512.

- **Cash refund** offers (rebates) are offers to refund part of the purchase price of a product to consumers who send a "proof of purchase" to the manufacturer.
- **Price packs** are reduced prices that are marked by the producer directly on the label or package. Price packs are very effective in stimulating short-term sales.
- **Premiums** are goods offered either free or at low cost as an incentive to buy a product.
- **Advertising specialties** are useful articles imprinted with an advertiser's name, gives as gifts to consumers.
- **Patronage rewards** are cash or other awards for the regular use of a certain company's products or services.
- **Point-of-purchase** (POR) promotions are displays and demonstrations that take place at the point of purchase or sale.
- **Contests and games** are promotional events that give consumers the chance to win something-such as cash, trips, or goods-by luck or through extra effort.

Activity :

It is said that sales promotion is implemented through advertising. Do you agree? Why or Why not?



- **Trade-Promotion Tools :** Several trade-promotion tools are used by the manufacturers. Consumer-promotion tools such as contest, premiums, displays can also be used as trade-promotion tools. The manufacturer may also offer a straight discount on price on purchases during a stated period of time. The offer induces dealers to buy in quantity or to carry a new item. Dealers can utilize the discount for immediate profit, for advertising, or for price reductions to their customers.

Manufacturers also may offer an allowance which is promotional money paid by manufacturers to retailers in return for an agreement to feature the manufacturer's products in some way. An advertising allowance compensates retailers for advertising the product while a display discount and allowance, manufacturers may offer free goods, push money and specialty advertising items to middlemen and sales force.

- **Business-Promotion Tools :** Companies use business promotions to generate business leads, stimulate purchases, reward customers, and motivate salespeople. Many of the consumer or trade-promotion tools are used for business promotion. Two major business promotion tools are conventions and trade shows, and sales contests.

Throughout the world, many companies and trade associations arrange conventions and trade shows for promoting their products. Companies selling industrial goods exhibit their producers at the trade show. Participants in the trade shows receive many benefits, such as opportunities to find new sales leads, contact customers, introduce new products, meet new customers, sell more to present customers, and educate customers with publications and audio-visual materials. Companies can reach many prospects through trade shows who could not be reached through their sales forces. Marketers may spend a substantial portion of their promotion budgets on trade shows. They face several decisions., including which trade shows to participate in, how much to spend on each trade show, how to build dramatic exhibits that attract attention, and how to follow up on sales leads effectively.⁶

Companies also use sales contest as a business promotion tool. A sales contest is a contest organized for the purpose of motivating salespeople or various middlemen to increase their sales performance over a given period. Sales contests are also called "incentive programs" which recognize and motivate good company performers, who may be awarded trips, cash prizes, or other gifts. Some companies have a system of awarding points on the basis of performance which the receiver can utilize for any of a variety of prizes. Sales contests are most productive when they are linked with measurable and achievable sales objectives such as finding new accounts, reviving old accounts or increasing account profitability.

Public Relations

Public relations includes activities that are directed towards building good relations with the company's various publics by obtaining favorable publicity, building up a good "Corporate image", and handling or heading off unfavorable rumors, stories, and events. The difference between public relations and publicity should be clearly understood. Publicity includes activities to promote a company or its products by planting news about it in media not paid for by the sponsor. Public relations is a much broader concept. It includes publicity as well as many other activities. Public relations departments may perform any or all of the following functions:

- ***Press relations or press agency :*** Creating and placing newsworthy information in the media to attract attention to a person, product, or service.
- ***Product publicity :*** Publicising specific products.

⁶. Ibid., p.516.

- **Public affairs** : Building and maintaining national or local community relations.
- **Lobbying** : Building and maintaining relations with legislators and government official to influence legislation and regulation.
- **Investor relations** : Maintaining relationship with shareholders and others in the financial community.
- **Development** : Public relations with donors or members of nonprofit organizations to gain financial or volunteer support.⁷

Public relations is used for promoting products, people, places, ideas, activities, organizations, and even nations.

• **Major Public Relations Tools**

Various tools are used by the public relations professionals. Major public relations (PR) tools includes news, speeches and special events. PR professionals find or create news in favor of the company and its products. Speeches and talks given at trade associations or sales meeting can create product and company publicity. Special events used as PR tools range from news conferences, press tours, grand opening, multimedia presentations, and star-studded spectacles.

Major public relations (PR) tools includes news, speeches and special events.

PR executives also prepare written materials such as annual reports brochures, articles and company newsletters and magazines. Audio-visual materials, such as films, slide-and-sound programs, and video and audio cassettes, and being used increasingly as PR tools. Corporate-identity materials also work as PR tools. Logos, stationery, brochures, signs, business forms, business cards, buildings uniforms, and company cars and trucks contribute to company's public relations

• **Major Public Relations Decisions**

The major public relations decisions are setting objectives, choosing messages and vehicles, implementing the plan, and evaluating public relations results.

• **Setting Public Relations Objectives**

PR executives should first set objectives for public relations. These objectives should be specific, pragmatic, and capable of being turned into marketing goals. Objectives should then be translated into actions followed by evaluation of results.

- **Choosing Public Relations Messages and Vehicles** : The company now must choose the appropriate PR messages which will reflect the objectives set earlier. These messages will be conveyed through stories created by PR executives. The next task is to select the proper vehicle (PR tools) for sending the message to the target people.
- **Implementing the Public Relations Plan** : Public relations plan should be implemented carefully. PR executive should maintain

⁷. Ibid., pp. 518-519.

personal relationship with media people. This will ensure timely executions of PR plans. Media people should be considered as a market which the PR professionals should try to satisfy.

The simplest approach to measure the effectiveness of publicity is the number of exposures in the media.

- **Evaluating Public Relations Results :** Impact of public relations is difficult to measure for two reasons. *First*, PR is used with other promotion tools. *Second*, its impact is often indirect. However, there are a few approaches to measure the PR results. The simplest approach to measure the effectiveness of publicity is the number of exposures in the media. However, such exposure measures can not be considered perfect. They do not indicate the number of the people reached through the message. Moreover, as the media overlap in readership and viewership, it does not give information on the net audience reached. Another approach is to monitor the change in product awareness, knowledge and attitude resulting from the publicity campaign. However, the most precise method of measuring public relations results is to make an analysis of sales and profit impact if necessary data is available.

Questions for Review

1. Can the effects of advertising, sales promotion, and public relations be separated when they are run at the same time? How would you evaluate the effectiveness of each element in this mix?
2. What is the rationale behind spending more on trade promotions and consumer promotions than on advertising? Does heavy sales promotion budgets bring long-term profits? Justify your answer.
3. One of the elements of sales promotion is –
 - A. Advertising
 - B. Publicity
 - C. Personal selling
 - D. Sales force promotion.
4. One of the trade promotion tools is –
 - A. Sample
 - B. Bonus
 - C. Free Goods
 - D. Sales rallies.
5. One of the objectives of consumer promotion is –
 - A. Encouraging retailers to carry new items
 - B. Encouraging continuous of a mature product
 - C. Encouraging retailers to buy ahead
 - D. Inspiring salespeople to sign up new accounts.
6. Which one of the following is a function of public relations department?
 - A. Product publicity
 - B. Lobbying
 - C. Investor relations
 - D. All of the above.

Ans : 3. D, 4. C, 5. B, 6. D .



Lesson 4 & 5 : Personal Selling : Its Role and Nature

Lesson objectives

After completing these lessons you will be able to:

- Describe the role and nature of personal selling and the role of the sales force.
- Explain the fundamentals of managing the sales force-setting sales force strategy, structure, and size.
- Recognize the key issues in recruiting, selecting, training, and compensating sales people.
- Describe the supervision of salespeople, including directing, motivating, and evaluating performance.
- Understand and implement the principles of personal selling process and outlying the steps in the selling process.

The Role of Personal Selling



Personal selling jobs are of many types. Personal selling plays different role in different companies. The following discussion deals with the nature of personal selling and the role of sales force in modern marketing organizations.

- **The Nature of Personal Selling**

The history of selling profession dates back to the days of antiquity. People engaged in selling job bear many names such as salespeople, sales representatives, account executives, sales consultants, sales engineers, agents, district managers, and marketing representatives. Now a days, most salespeople are well-educated and well-trained professionals. They work for building and maintaining long-term relationships with customers. They accomplish these tasks by listening to their customers, assessing customer needs, and organizing the company's efforts to customer problems and satisfy customer needs.

Salesperson is an individual acting for a company by performing one or more of the following activities: prospecting, communicating, servicing, and information gathering. The term "salesperson" encompassed a wide range of positions. At one extreme, a salesperson might be mainly an 'order taker,' such as the retail store salesperson standing behind the counter. At the other extreme are 'order getters'. They are salespersons whose positions, demand the creative selling of products and service ranging from appliances, industrial equipment, or airplanes to insurance, advertising, or consulting services. There are also salespeople who engage in 'missionary selling'. These salespeople are not supposed to take orders. They work for building goodwill or educating buyers. An example is a salesperson for a pharmaceutical company who calls on doctors to educate them about the company's drug products and to urge

them to prescribe these products to their patients.⁷ In the following sections we concentrate on the more creative types of selling and on the process of building and managing an effective sales force.

- **The Role of the Sales Force**

Personal selling is the interpersonal tool of the promotion mix. Unlike advertising, personal selling is a two-way personal communication between salespeople and individual customers. This communication may take place face-to-face, by telephone, through video conferences, or by other means. This implies that personal selling may be more trustful than advertising in more complicated selling situations. Salespeople can be very effective in exploring the problems of the customers. They can compose the marketing offer to suit the special needs of each customer and can negotiate terms of sale.

Personal selling is the interpersonal tool of the promotion mix.

The role of sales force vary from company to company. Companies who sell through mail-order catalogues, brokers, and agents do not maintain salespeople. However, sales force play a very important role in companies selling business products. They work directly with customers and represent the company. Salespeople employed in consumer goods producing companies do not come into direct contact with the customers. Nonetheless, their role is valuable because they work with wholesalers and retailers and help them be more effective in selling the company's products.

The role of sales force vary from company to company.

Very often sales force works for both the seller and the buyer. They locate and develop new customers and communicate information about the company, its products and services. They perform selling task by approaching customers, presenting their products, answering objections, negotiating prices and terms, and closing sales. Furthermore, salespeople provide services to customers, conduct market research and gather market information, and fill out sales call reports. Simultaneously, salespeople represent customers to the company. They communicate to the executives of the company customer needs and concerns about company products. Thus, salespeople play an important role in managing the relationship between the seller and buyer.

Modern management maintains that salespeople should be interested in more than just generating sales. They also should learn the technique of producing customer satisfaction and making company profit. They should be able to evaluate sales data, measure market potential, gather market information, and formulate marketing strategies and plans.

Activity :

"The success of personal selling depends on the creativity of the sale people"- comment.



⁷. Ibid., p.532.

Managing the Sales Force

We define sales force management as the analysis, planning, implementation, and control of sales force activities. It includes designing sales force strategy and structure, and recruiting, selecting, training, compensating, supervising, and evaluating the firms salespeople.⁹

- **Designing Sales Force Strategy and Structure**

Marketers need to consider several issues relating to sales force strategy and design. These are: structuting the salespeople and their tasks, size of the sales force, mode of working alone or in teams with other people in the company, and method of working in field or by telephone. We will now discuss these issues.

- **Sales Force Structure**

A company can organizes its sales force in a number of ways. The most common types of sales force structures are territorial sales force structure, product sales force structure, customer sales force structure and complex sales force structure. So, sales force structure can be discussed in the following sub sections:

- **Territorial Sales Force Structure :** Territorial sales force structure is a sales force organization that assigns each salesperson to an exclusive geographic territory in which that salesperson carries the company's full line of products or services. This sales organization offers many advantages. It specifically defines the salespersons jobs and responsibilities, it improves selling effectiveness of the salesperson and it involves relatively low cost. A territorial sales organization is managed by many executives at the various levels of the company.
- **Product Sales Force Structure :** Product sales force structure is a sales force organization under which salespeople specialize in selling only a portion of the company's products or lines. For example, a company producing consumer products and industrial products uses two sets of sales force to deal with these two types of products. Companies emphasizing product management use product sales force structure.
- **Customer Sales Force Structure :** Customer sales force structure is a sales force organization under which salespeople specialize in selling only to certain customers or industries. Xerox classifies its customers into four major groups, each served by a different sales force. The top group consists of large national accounts with multiple and scattered locations. These customers are handled by 250 to 300 national account managers. Next are major accounts that, although not national in scope, may have several locations within a region; these are handled by one of Xerox's 1,000 or so major account

⁹. Ibid., p. 533.

managers. The third customer group consists of standard commercial accounts with annual sales potential of \$5,000 to \$10,000; they are served by account representatives. All other customers are handled by marketing representatives.¹⁰ Customer sales force structure help a company develop closer relationship with customers.

- **Complex Sales Force Structure :** Companies selling a wide variety of products to many types to customers located in a wide geographical area often combine several types of sales force structures. Sales force can be specialized by customer and territory, by product and territory, by product and customer, or by territory, product, and customer. Effectiveness of a particular type of structure varies from company to company and situation to situation. In selecting a sales force structure, the company must be convinced that it best serves the needs of the customers and is compatible with its overall marketing strategy.

- **Sales Force Size**

After setting the structure of the sales force, the company decide on its size. The size of the sales force has both cost and size volume implications. The larger the size of the sales force, higher is the cost and sales volume. For determining the sales force size, many companies follow workload approach. Under this approach the company groups accounts into different size classes and then determines the number of salespeople required to call on them the desired number of times. For example, a company has 500 Type-A account and 1,000 Type-B accounts. Type-A accounts need 26 calls a year and Type-B accounts need 13 calls a year. Here, the number of calls (workload) the sales force must make per year is

26,000 calls $[(500 \times 26) + (1000 \times 13) = 13,000 + 13,000 = 26,000]$. Let us assume that an average salesperson can make 500 calls a year. Thus, the company will need 52 salespeople $(26,000 \div 500)$.

After setting the structure of the sales force, the company decide on its size.

- **Other Sales Force Strategy and Structure Issues**

Sales management has to take two important decision; i) who will be involved in the selling effort and ii) how various sales and sales-support people will work together.

- **Outside and Inside Sales Force Structure :** A company may have an outside sales force/field sales force, an inside sales force, or both. Outside salespeople undertake traveling to call on customers while inside salespeople perform their jobs from offices via telephone or visits from prospective buyers. Inside salespeople include technical support people, sales assistants, and telemarketers. Inside salespeople are increasingly using telephone in conducting their job which is called telemarketing. Telemarketers use the phone to locate new leads and qualify prospects for the field sales force. Telemarketing

¹⁰. Ibid., p. 534.

can be cheap and effective for many types of products and selling situations.

- **Team Selling :** As products are becoming more complex and as the customers are growing larger and becoming more demanding, and individual salesman's effort is proving to be inadequate to accomplish the selling task. This has led to the emergence of team selling in which teams of people from sales, marketing, engineering, finance, technical support, and even upper management are used to serve large, complex accounts. Through team selling, salespeople coordinate company effort to build rewarding relationship with important customers.

- **Recruiting and Selecting Salespeople**

Proper recruitment and selection account for satisfactory performance level of sales force.

Proper recruitment and selection account for satisfactory performance level of sales force. Moreover, poor recruitment and selection methods may result in the departure of a portion of the company's sales force and poor turnover. Such a situation is undesirable and the company should therefore be very careful in recruiting and selecting the members of its sales force. To this end, the company should keep in mind the traits of a good salesperson. Despite the fact that different products require salesmen with different qualities, we can make some generalizations about the attributes of a successful salesperson. One survey suggests that good salespeople have a lot of enthusiasm, persistence, initiative, self-confidence, and job commitment. They are committed to sales as a way of life and have a strong customer orientation. Another study suggests that good salespeople are independent and self-motivated, and are excellent listeners. Still another study advises that salespeople should be a friend to the customer as well as persistent, enthusiastic, attentive, and -aboveall- honest. They must be internally motivated, disciplined, hard-working and able to build strong relationships with customers.¹⁰ However, in finding out salespeople, the company should look for persons with traits that suit the company's requirements.

- **Recruiting Salespeople**

Recruitment of salespeople begins with looking for persons with needed traits. Human resources department/personnel department of the company invites applications from current salespeople, employment agencies, through classified ads and through contacting college and university students. For effective recruitment, recruiters must counter the negative notions about selling such as selling is a job and not a profession. Salespeople have to be deceitful to be effective, selling involved too much insecurity and travel and women are not suitable for selling jobs. To create interest in selling jobs, recruiters now offer high starting salaries and income growth and emphasize career opportunities in selling.

- **Selecting Salespeople**

¹⁰. Ibid., p. 537.

The method of selecting appropriate salespeople from the interested applicants can vary from a single informal interview to lengthy testing and interviewing. Formal tests are often given to sales applicants. Tests are designed to measure sales aptitude, analytical and organizational skills, personality traits, and other characteristics. It is claimed that tests reduce turnover and test scores correlate well with the later performance of new salespeople but it is criticized on the ground that test scores reveal only one piece of information in a set that includes personal characteristics, references, past employment history, and interviewer reactions.

- **Training Salespeople**

Companies must give training to salespeople before sending them into the field. For this purpose, companies design training programs that fit into their specific needs and requirements. The duration of training programs can vary. The goals of training programs need to be set clearly. Salespeople must know the company and identify with it. Therefore, the training programs should aim at describing the company's history and objectives, its organization, its financial structure and facilities, and its main products and markets. Salespeople are required to have thorough knowledge about the company's products. So, as a part of training program trainees are made familiar with the production process. For providing the trainees with the knowledge of customers' and competitors' characteristics, training program educates them about competitors' strategies and about different types of customers and their needs, buying motives and buying habits. Salespeople are also trained in the principles of selling for acquiring the art of effective presentations. Salespeople should have clear understanding about field procedures and responsibilities. They learn the method of utilizing time, using an expense account, preparing reports, and communicating effectively.

Companies must give training to salespeople before sending them into the field.

- **Compensating Salespeople**

A company must have attractive compensation plan to draw people for its sales force. Such compensation plans vary from company to company and from industry to industry. Compensation level should be as close as possible to the "going rate" for the nature and type of sales job and required skills.

A company must have attractive compensation plan to draw people for its sales force.

The elements consisting compensation are; i) a fixed amount (salary), ii) a variable amount (commissions or bonuses based on sales performance), iii) expenses allowances (job-related expenses) and, iv) fringe benefits (paid vacations, sickness or accident benefits, pensions). The firm must determine the most appropriate mix of these elements for each sales job. We find four basic types of compensation plans in practice. These are: straight salary, straight commission, salary plus bonus, and salary plus commission. The sales force compensation plan may have two objectives – motivating salespeople and directing their activities. The compensation plan should aim at guiding the sales force towards activities that will help accomplish company's overall marketing objectives.

- **Supervising Salespeople**

Supervision of new salespeople is important because proper supervision results in better performance. Supervision has two dimensions – directing and motivating salespeople.

- **Directing Salespeople**

The task of directing is to determine the degree to which sales management should be involved in helping salespeople manage their territories. It depends on many factors ranging from company's size to the experience of its sales force. Thus, method of supervising salespeople varies from one company to the other.

- **Developing Customer Targets and Call Norms**

Customers are often classified on the basis of sales volume, profit and growth potential. After making such classification, companies set call norms. Salespeople may call once a week on accounts with large sales or potential and calls may be infrequent on small accounts. Besides account size and potential, call norms may also be set considering other factors such as competitive call activity and account development status. Companies also set prospecting standards for better performance of its sales force.

- **Efficient Use of Sales Time**

Companies try to ensure efficient utilization of time by its sales force. Two major tools used for this purpose are annual call plan and time-and-duty analysis. Annual call plan shows which customers and prospects to call on in which months and which activities to carry out. Such activities include taking part in trade shows, attending sales meetings, and carrying out marketing research. Time-and-duty analysis shows, besides time spent selling, time spent by salespeople for traveling, waiting, taking breaks, and doing administrative jobs. Companies are trying to look for time saving ways using phones instead of traveling, simplifying record-keeping forms, finding better call and routing plans, and supplying more and better customer information. Improvements in information and computer technology are also helping companies significantly in their attempts of time saving. Extensive use of computers have led to sales force automation systems. Computers are used by salespeople to profile customers and calls, enter orders, check inventories and order status prepare sales and expense reports, process correspondence, and carry out many other activities.

- **Motivating Salespeople**

Companies must motivate their salespeople to do their best. Sales forces morale and performance can be enhanced through the company's organizational climate, sales quotas, and positive incentives. A brief discussion is given below :

- **Organizational Climate** : Organizational climate indicates the feeling that salespeople have about their opportunities, value and rewards for a good performance within the company. A company's attitude toward its salespeople affects their behavior. If the salespeople feel that they are being properly valued by the management, there is less turnover and higher performance. The opposite is also true. Specially important in this regard is the treatment from the salesperson's immediate superior. To motivate salespeople, the sales manager should act as the salesperson's boss, companion, coach, and confessor.
- **Sales Quotas** : Sales quotas are the standards set for salespeople, stating the amount they should sell and how sales should be divided among the company's products. Companies often relate compensation with quotas. Sales quotas are set at the time of preparing the annual marketing plan. After making a reasonably achievable sales forecasts, the company plans production, work-force size, and financial needs based on such forecasts. Sales quotas are then set for regions and territories. Usually, sales quotas are set higher than the sales forecast. The objective is to provide encouragement to sales managers and salespeople to put their best effort.
- **Positive Incentives** : To enhance sales force effort companies use many incentives. For example, sales meetings as incentives provide social occasions, breaks from routine, opportunities to meet and talk with "company brass" and opportunities to air feelings and to identify with a bigger group. Another incentive is sales contest which a company sponsors to increase the selling effort of the sales force. Some other incentives used by companies are honors, merchandise and cash awards, trips, and profit-sharing plans for outstanding sales performance.

A company's attitude toward its salespeople affects their behavior.

Sales quotas are set at the time of preparing the annual marketing plan.

- **Evaluating Salespeople**

After spelling out the selling task of the sales force in terms of goals and providing motivational means, the company evaluates the performance of its salespeople. To evaluate the performance of the salespeople, the company requires good feedback which means getting regular information from salespeople.

Sales report is the most important source of information.

Sales reports consist of plans for future activities and writeups of already performed activities.

- **Sources of Information**

Several sources can be located from which information about salespeople can be gathered. Sales report is the most important source of information. Other sources of information are personal observation, customers' letter and complaints, customer surveys, and talks with other salespeople.

Sales reports consist of plans for future activities and writeups of already performed activities. Work plan is the best example of plan for future activities which salespeople submit in advance on a weekly or monthly basis. The work plan shows intended calls and routing from which the sales force plans and schedules activities.

Companies also ask their salespeople to draft annual territory marketing plans in which they outline their plans for building new accounts and increasing sales from existing accounts. Some territory plans include general ideas on territory development while others describe detailed sales and profit estimates. Sales management review these territory plans, offer suggestions, and utilize these plans to develop sales quotas.

Salespeople write-up their already performed activities on call reports. Call reports inform the sales management of the salesperson's activities. These reports also show what is happening with each customer's account, and provide information that might be useful in later calls. Salespeople also prepare the expense reports for which they are partly or wholly repaid. Some companies also ask their sales force to prepare reports on new business, lost business, and local business and economic conditions.

Different forms of sales reports discussed above provide the raw data from which sales management can evaluate sales force performance. These reports provide the management with the answers to many important questions - are salespeople making too few calls per day? Are they spending too much time per call? Are they spending too much money on entertainment? Are they closing enough orders per hundred calls? Are they finding enough new customers and holding onto enough old customers?

- **Formal Evaluation of Performance**

Management formally evaluates the performance of the members of the sales force by using sales force reports and other information. Such evaluation gives four benefits. *First*, management need to develop and communicate specific standards for evaluating performance. *Second*, management must gather complete information about each salesperson. *Third*, salespeople get valuable feedback needed to improve future performance. *Finally*, salespeople are motivated to perform satisfactorily as they know that they will have to explain their performance to management.

- **Comparing Salespeople's Performance :** One type of performance evaluation is done through comparing and ranking different salespeople on the basis of their sales performance. Such comparison can be confusing as performance may vary because of differences in territory potential, workload, level of competition, company

promotion effort, and other factors. Moreover, sales are not always accepted as the best indicator of achievement. Rather, each salesperson's contribution to net profits should be considered more important. This calls for looking at each salesperson's sales mix and expenses.

- **Comparing Current Sales with Past Sales :** Evaluation can also be done through comparing a salesperson's current performance with past performance. Such a comparison supposed to show a salesperson's advancement over time.
- **Qualitative Evaluation of Salespeople :** We have discussed above quantitative evaluation of sales force performance. Management can also adopt qualitative method for evaluating salespeople. A qualitative evaluation generally considers a salesperson's knowledge about the company products, customers, competitors, territory, and tasks. Personal traits such as manner, appearance, speech, and temperament can also be considered for rating a salesperson. The sales manager can also examine any problems on motivation or compliance. Each company must be sure of things that it needs to know. The company then should make the sales force aware of these criterion which will give them a better understanding of the method used to evaluate their performance. This will help them improve their performance.

Activity :

What criteria would you recommend to follow for selecting the sales people in your company.



Principles of Personal Selling

Personal selling is an old art. Yet successful salespeople work on more than just intuition. Salespeople follow the principles that have evolved out of the art of personal selling. Today's salespeople are well trained in methods of territory analysis and customer management. Thus, personal selling has been recognized as a process and not as a single event.

- **Steps in the Selling Process**

We have identified personal selling as a process. Selling process consists of the steps that the salesperson follows when selling, which include prospecting and qualifying, preapproach, approach, presentation and demonstration, handling objections, closing, and follow-up. These steps concentrate on getting new customers. However, majority of the salespeople devote much of their time maintaining existing customers and building long-term customer relationship. We now look at the steps in the selling process.

- **Prospecting and Qualifying**

This is the first step in the selling process in which the salesperson identifies qualified potential customers. The salesperson often must approach many prospects to obtain just a few sales. Although the company supplies some leads, salespeople should develop the skill of finding their own. They can collect names of prospects from the current customers. They can create referral sources, such as suppliers, dealers, noncompeting salespeople, and bankers. They can look for names in newspapers or directories and use the telephone and mail to track down leads. They can pay unannounced visits to various offices – a practice known as "cold calling".

Salespeople must learn how to qualify leads. They need to know how to identify the good ones and screen out the poor ones. Prospects can be qualified by examining their financial ability, volume of business, special needs, location, and possibilities for growth.

- **Pre-approach**

In this step of selling process, the salesperson learns as much as possible about a prospective customer before making a sales call. To know about the customer, the salesperson can consult standard sources, acquaintances and others. The salesperson should then set call objectives - qualifying the prospect, gathering information, making an immediate sale. Salesperson should also decide on the best approach-personal visit, phone call or letter. The most appropriate timing should be considered carefully. Finally, the salesperson should careful review the overall sales strategy for the customer.

- **Approach**

In this step, the salesperson meets and greets the buyer to get the relationship off to a good start. This step consists of the salesperson's appearance, opening lines, and the follow-up remarks.

- **Presentation and Demonstration**

During this step, the salesperson tells the product "story" to the buyer, explaining how the product will make or save money. The salesperson describes the product features but emphasises on highlighting customer benefits. Following a need-satisfaction approach, the salesperson begins with a search for the customer's needs by provoking the customer to talk. This approach requires good listening and problem-solving skills. Sales presentations can be made more effective with demonstration aids, such as booklets, flip charts, slides, videotapes or videodiscs, and product samples.

- **Handling Objections**

During this step, the salesperson seeks out, clarifies, and overcomes customer objections to buying. In handling objections, the salesperson should follow a positive approach, seek out bidden objections, ask the buyer to clarify any objections, take objections as opportunities to provide more information, and taken the objections into reasons for buying.

- **Closing**

During this step the salesperson asks the customer for an order. Salespeople can apply one of several closing techniques. They can ask for immediate order, reexamine the points of agreement offer to help write up the order, indicate that the buyer will lose if the order is not placed now. The salesperson may put forward special reasons to close, such as a lower price or an extra quantity without any charge.

- **Follow-up**

Follow-up is the last step in the selling process in which the salesperson follows up after the sale to ensure customer satisfaction and repeat business. Immediately after closing, the salesperson should complete any details on delivery time, purchase terms, and other issues. The salesperson then should fix up a follow-up call when the initial order is received for ensuring proper installation, instruction, and servicing.

Questions for Review

1. Give an account of the most common types of sales force structures.
2. Explain why so many sales force compensation plans combine salary with bonus or commission. What are the advantages and disadvantage of using bonuses as incentives, rather than using commissions?
3. Suggest what role training plays in helping someone develop selling ability. How qualitative valuation of sales force is made?
4. Personal selling is a two-way personal communication between—
 - A. Salespeople and competitors
 - B. Salespeople and individual customers
 - C. Salespeople and management
 - D. Salespeople and supplier.
5. One of the activities performed by salespersons is —
 - A. Transporting
 - B. Storing
 - C. Prospecting
 - D. Delivering.
6. Companies selling a wide variety of products to many types of customers located in a wide geographical area use —
 - A. Territorial sales force structure
 - B. Product sales force structure
 - C. Customer sales force structure
 - D. Complex sales force structure .
7. Compensation level for salespeople should be —
 - A. Higher than the going rate
 - B. Close to the going rate
 - C. Lower than the going rate
 - D. None of the above.
8. Sales forces morale and performance can be enhanced through—
 - A. Organizational climate
 - B. Sales quotas
 - C. Positive incentives
 - D. All of the above.
9. Which of the following consists of plans for future activities?
 - A. Annual territory marketing plan
 - B. Call report
 - C. Expense report
 - D. All of the above.



Ans : 4. B, 5. C, 6. D, 7. B, 8. D, 9. A .

MARKETING OF SERVICES, ORGANIZATIONS, PERSONS, PLACES AND IDEAS



Marketing as a distinct managerial activity emerged initially to sell physical products. With the passage of time, marketing orientation made its way to many things other than physical products. In this unit we have examined special marketing requirements for services, organizations, persons, places and ideas. In lesson one and two we will discuss the relevant considerations in service marketing and strategies available to a service marketer. In lesson three we will focus on special requirements for marketing organizations, persons, places and ideas.

School of Business

Blank page

Lesson - 1 & 2 : Services Marketing –Nature, Characteristics and Strategies.

Lesson objectives

After completing these lessons you will be able to :

- Tell how marketing of services differs from marketing of physical products.
- Identify and discuss the characteristics of services
- Recognize and define the appropriate strategies for marketing of services, including differentiation, service quality and productivity.
- Outline the recent trends in international services marketing.

Service Marketing

In recent years services have witnessed tremendous growth specially in the developed economies. Whereas service jobs accounted for 55 percent of all U.S. jobs in 1970, by 1993, they accounted for 79 percent of total employment. Services are expected to be responsible for all net job growth through the year 2005. Services are growing even faster in the world economy, making up a quarter of the value of all international trade.¹



Services include jobs performed by members of service industries such as hotels, airlines, banks, telecommunications and others. Various service industries are found to exist. The governments offer services to public through courts, employment services, hospitals, loan agencies, police, fire brigades, postal service. The private nonprofit organizations offer services through museums, charities, educational institutions, foundations and hospitals. A large number of business organizations also offer services. They include airlines, banks, hotels, insurance companies, consulting firms, medical and law practices, entertainment companies, real estate firms, advertising and research agencies and retailers. However, with the socio-economic and cultural changes, many types of services are coming up.

• Nature and Characteristics of a Service

A service is any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything.² Services do not always emerge out of physical products. When somebody rents a hotel room, deposits money in a bank, travels on an airplane, visits a physician, gets a haircut, gets a car repaired, watches

Services do not always emerge out of physical products.

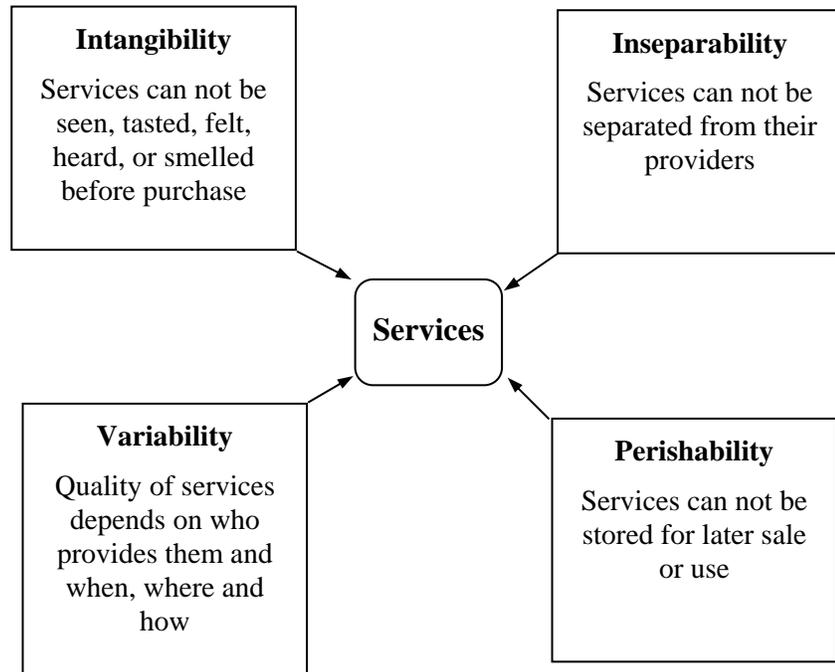
¹. Philip Kotler and Gary Armstrong, Principles of Marketing, seventh edition, Prentice-Hall of India, New Delhi, 1997, p.659.

². Ibid,p.660

a professional sport, watches a movie and gets advice from a lawyer, he/she buys a service.

When designing marketing programs a company must consider the characteristics of services. A service has four characteristics. These are : intangibility, inseparability, variability and perishability. These characteristics are shown in the figure (Fig: 12-1) given below :

Figure 12-1 : Four Characteristics of Service



Source : Philip Kotler and Gary Armstrong, Principles of Marketing Seventh Edition Prentice-Hall of India, New Delhi, 1997; p. 661.

The above mentioned characteristics of service are discussed in the following sections:

- **Intangibility**

Services are intangible in nature.

Services are intangible in nature. It means that services can not be seen, tasted, felt, heard or smelled before they are bought. For example, an airline passenger has only a ticket and the promise of a safe and comfortable journey.

As the buyers are interested in service quality, the service provider must add tangible dimensions to the service. The place, price, equipment and communication material must be indicative of the service quality as claimed by the service provider.

Consider a bank that wants to convey the idea that its service is quick and efficient. It must make this positioning strategy tangible in every aspect of customer contact. The bank's physical setting must suggest quick and efficient service: Its exterior and interior should have clear lines; internal traffic flow should be planned carefully; waiting lines

should seem short at teller windows and ATMs; and background music should be light and upbeat. The bank's staff should be busy and properly dressed. The equipment – computers, copy machines, desks – should look modern. The bank's ads and other communications should suggest efficiency, with clean and simple designs and carefully chosen words and photos that communicate the bank's positioning. The bank should choose a name and symbol for its service that suggest speed and efficiency. Its pricing for various services should be kept simple and clear.³

- **Inseparability**

Inseparability is a major characteristic of services. It means that services are produced and consumed at the same time and can not be separated from their providers, whether the providers are people or machines. As the customer remains present as the service is produced, provider-customer interaction is important in services marketing. The end result of services is affected by both the provider and the customer.

Services are produced and consumed at the same time and can not be separated from their providers.

- **Variability**

Variability, is an another important characteristic of services, means that their quality may vary greatly, depending on who provides them and when, where and how they are provided. Sheraton hotel has reputation for providing better service than others. Within a particular Sheraton hotel, one employee may be cheerful and efficient, while another may be unpleasant and slower. Even the quality of a single Sheraton employee's service varies according to his or her energy and the state of mind at the time of each customer dealing.

Quality of services may vary greatly, depending on who provides them and when, where and how they are provided.

Service variability can be managed in a number of ways. Employees can be selected and trained carefully to provide good service. Employee incentives can be introduced that emphasize service quality. Customer satisfaction can be checked regularly through suggestion and complaint systems, customer surveys and comparison shopping.

- **Perishability**

Services are perishable which means that services can not be stored for later sale or use. A ticket for evening show of a movie can not used for watching the night show.

Services are perishable which means that services can not be stored for later sale or use.

Perishability of services has important implications for service providers. In case of steady demand, perishability is not a problem. But where demand fluctuates, service providers face adjustment problems. For example, public transportation companies have to own much more equipment than they would as demand are not ever throughout the day.

Service providers can several steps to make better demand supply adjustments. On the demand side, different prices can be charged at different times which will shift some demand from peak periods to off-peak periods. On the supply side, part-time employees can be hired to cater to peak demand.

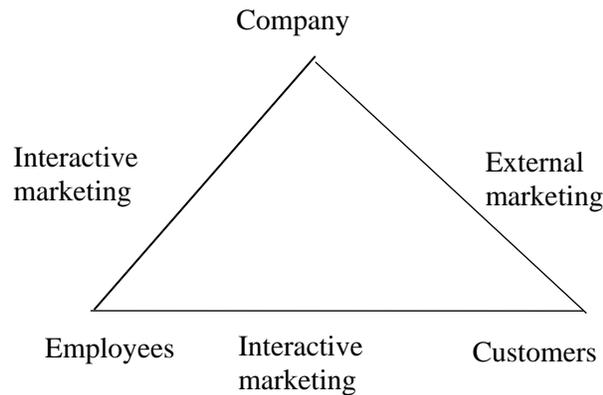
³. Ibid, p.661

- **Strategies for Services Marketing**

Even in the recent past, service firms differed from manufacturing firms in their marketing orientation. Many service firms thought that they were too small to use marketing (auto repair shops, dry cleaners) while others thought that demand for their services were high and marketing was not necessary (colleges and hospitals), some firms even regarded marketing as unprofessional (legal and medical practices). Now a days, like manufacturing firms, service firms adopt marketing to position themselves strongly in selected target markets. Service firms position themselves through traditional marketing mix activities.

Today, however, it is recognized that service marketing requires more than traditional external marketing using marketing mix. Figure 12-2 illustrates that service marketing also requires both internal marketing and interactive marketing.

Figure 12-2: Three Types of Marketing in Service Firms



Source: Philip Kotler and Gary Armstrong, Principles of Marketing, Seventh Edition, Prentice-Hall of India, New Delhi, 1997; p.665.

Internal marketing means that the service firm must effectively train and motivate its customer-contact employees and all the supporting service people to work as team for the purpose of providing customer satisfaction . All the members of a firm must practice customer orientation for ensuring consistent delivery of high service quality. Internal marketing must take place before external marketing.

Interactive marketing means that perceived service quality is strongly dependent on the quality of the buyer-seller interaction.

Interactive marketing means that perceived service quality is strongly dependent on the quality of the buyer-seller interaction. In service marketing, service quality is related with both the service deliverer and the quality of the delivery. This is especially true in case of professional services. The customer considers technical quality as well as functional quality in judging service quality. Thus, professionals can not expect to satisfy the customer by providing good technical service only. In addition, they have to acquire interactive marketing skills or functions.

Today, for being successful, service firms have to accomplish three major marketing tasks. They need to increase their competitive differentiation, service quality, and productivity.

- **Increasing Competitive Differentiation**

As price competition is being intensified, service marketers are finding it more difficult to differentiate their services from those of competitors. More similar the services of different providers are, less concerned will be the customers about the provider than the price. Price competition can be tackled by developing a differentiated offer, delivery and image. The offer should carry innovative features that distinguishes one company's offer from those of others. For example, airlines have introduced such innovations as in-flight movies, advance seating, air-to-ground telephone service and frequent-flyer award programs to differentiate their offers.⁴ Although innovations are imitated easily, service companies that try for continuous innovation will find it easier to keep customers loyal to them.

Service companies can differentiate their service delivery from that of their competitors' through people, physical environment and process. The company can employ customer-contact people who are more competent and reliable than those of its competitors'. The company can also create a better physical environment in which the service product is delivered. Finally, the company can tailor an improved delivery process. Service companies can also differentiate their images through compatible symbols and branding.

- **Increasing Service Quality**

A service company can differentiate itself from its competitors by delivering consistently higher quality services. Many service companies now are practicing total quality management like manufacturing companies. Many companies are realizing that exceptional service quality can give a competitive advantage which results in better sales and profit performance.

Good service quality management should aim at keeping the quality of the delivered service above the customers' service-quality expectations. When perceived service of a given firm exceeds expected service, customers are inclined to use the provider again. The best measure of service quality is customer retention. A service firm's ability to retain its customers depends largely on how consistently it delivers value to them.

The service firm must identify expectations of target customers regarding service quality. Although service quality is hard to define and higher service quality involves increased costs, investment in service is rewarded through increased customer retention and sales. After deciding the level of service to be provided, the service provider must clearly define and communicate that level so that its employees know what they must deliver and customers know what they will get.

Many service companies have developed streamlined, efficient and consistent service-delivery systems. Companies should take steps to provide good service every time. In addition, they should learn how to recover from service mistakes when they do occur. To accomplish, this

A service company can differentiate itself from its competitors by delivering consistently higher quality services.

The service firm must identify expectations of target customers regarding service quality.

⁴. Ibid, p.666.

goal, companies take steps to empower front-line service employees. Companies give these employees the authority, responsibility, and incentives which are vitally needed to recognize and fulfill customer needs. Empowerment training encourages the employees to go beyond their regular jobs to solve customer problems. Such empowered employees can act swiftly and efficiently to keep service problems resulting in lost customers.

It has been observed that well-managed and reputed service companies have some common characteristics concerning service quality. **First**, leading service companies are "customer obsessed". They pursue a clear-cut strategy for satisfying customer needs that gains enduring customer loyalty. **Second**, successful service companies have a tradition of top management commitment to quality. Management of these companies are interested not only at financial performance but also at service performance. **Third**, well-doing service companies set high service quality standards. Swissair, for example, aims to have 96 percent or more of its passengers rate it service as good or superior; otherwise, it takes action.⁵ **Fourth**, thriving service companies monitor service performance closely. They review their own service performance and that of competitors. In doing so, they follow methods such as comparison shopping, customer surveys, and suggestion and complaint forms. For example, General Electric sends out 700,000 response cards each year to households who rate their service people's performance.⁶

- **Increasing Productivity**

As costs are rising, service companies are trying hard to increase service productivity.

As costs are rising, service companies are trying hard to increase service productivity. They can take several steps in doing so. The service companies can provide better training to their employees. They can also recruit new employees with improved skills. The service companies can even increase the quantity of their service by sacrificing some quality. The service providers can mechanise the service by introducing equipments. They can also adopt measures for standardizing production. Commercial dishwashing, jumbo jets and multiple-unit movie theaters all represent technological expansions of service.⁷

Another way of increasing productivity is to design more effective services.

Another way of increasing productivity is to design more effective services. Need for expensive local professionals can be reduced by hiring paralegal workers. Service providers can also encourage customers to substitute company labor with their own labor.

However, service companies must not over emphasized quality which may reduce perceived quality. While some productivity measures help standardize quality and increase customer satisfaction other productivity measures lead to too much standardization and deprive consumers of customized service. Mechanization of service and cost cutting can

⁵. Ibid., p. 668

⁶. Ibid., p. 668

⁷. Ibid., p. 668

increase the efficiency of a service company in the short run; but it reduces the company's ability in the long run to innovate, maintain service quality or respond to consumer needs and desires. creating more service differentiation or quality, service providers accept reduced productivity in some situations.

- **International Services Marketing**

Thousands of service transactions are taking place everyday around the world. Services are gradually occupying a dominating position in global economy. In fact, a variety of service industries – from banking, insurance and communications to transportation, travel and entertainment – now account for well over 60 percent of the economy in developed countries around the world. The worldwide growth rate for services almost doubles the growth rate for manufacturing.⁸

Some service industries are operating internationally for quite a long time. For example, the commercial banking industry was one of the pioneers to operate internationally. Banks were required to provide services globally for meeting the foreign exchange and credit needs of their home-country clients wanting to trade overseas. With the recent broadening of the scope of international financing, many banks have become global in their operations. ANZ Grindleys Bank has branches in many countries of all the continents of the world. Thus, for its clients around the world, ANZ Grindleys Bank can raise money not just in Sydney, but also in Zurich, London, Paris, Tokyo and Dhaka.

The travel and tourism industry also assumed international character. American hotel and airline companies grew quickly in Europe and the Far East during the economic expansion that followed World World II. Credit card companies soon followed –the early worldwide presence of American Express has now been matched by Visa and Master Card. Business travellers and vacations like the convenience, and they have now come to expect that their credit cards will be honored wherever they go.⁹

Professional and business services industries have also step into global operations. Oflet, accounting, management consulting and advertising have globalised their activities. The international growth of these service firms came as a consequence of the globalisation of the manufacturing companies they work for. For example, manufacturing firms becoming global and operating in a number of countries have found it more convenient to have their accounts prepared by a single accounting firm. During the late 1980s, America's "Big Eight" accounting firms quickly merged with established companies around the world to become the international "Big Six" almost overnight. Similarly, as their client companies began to employ global marketing and advertising strategies, advertising agencies and other marketing services firms responded by

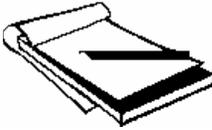
⁸. Ibid., p. 669

⁹. Ibid., p. 669.

globalising their own operations. For instance, the ten largest U.S. advertising agencies now make over 50 percent of their billings abroad.¹⁰

The globalisation of markets provide many lucrative opportunities for service firms. At the same time, it also creates some social challenges. Foreign service companies are not always welcome. Unlike manufacturing firms, service firms are likely to face more indirect barriers when entering foreign markets. Foreign service firms are often subjected to rules and regulations by the host country which aim at protecting its own service industries. In other cases, however, these rules and regulations are designed only to discourage foreign service firms.

Despite such difficulties, the trend toward growth of global service companies will continue, especially in banking, airlines, telecommunications, and professional services. Today service firms are no longer simply following their manufacturing customers. Instead, they are taking the lead in international expansion.¹¹



Activity :

Select an organization which is involved in service marketing and explain their marketing strategies.

¹⁰. Ibid., p. 669.

¹¹. Ibid., p. 670.

Questions for Review

1. How can marketers gain a competitive advantage by satisfying the growing demand for increased services?
2. Illustrate how a theater can deal with the intangibility, inseparability, and variability of the service it provides,. Give specific examples.
3. Tell how airlines solve the perishability of unsold seats. Give additional examples of perishability and how service firms address it.
4. One of the major characteristics of a service is –
 - A. Quality of a service does not vary
 - B. Service can not be seen
 - C. It can be separated from its provider
 - D. It can be stored for later sale.
5. Service variability can be managed by –
 - A. Selecting and training employees carefully
 - B. Introducing employee incentives that emphasize service quality
 - C. Checking customer satisfaction regularly
 - D. All of the above.
6. Perishability is not a problem in case of –
 - A. Rising demand
 - B. Falling demand
 - C. Steady demand
 - D. None of the above.
7. Service companies can differentiate their service delivery from that of their competitors' through –
 - A. Differentiated price
 - B. Aggressive promotion
 - C. Efficient customer contact people
 - D. All of the above.
8. The best measure of service quality is –
 - A. High sales volume
 - B. High profit volume
 - C. Low cost
 - D. Customer retention.
9. Service productivity can be increased by –
 - A. Providing better training to the employees
 - B. Recruiting new employees with improved skills
 - C. Sacrificing some quality
 - D. All of the above.

Ans : 4. B, 5. D, 6. C, 7. C, 8.D, 9. D .



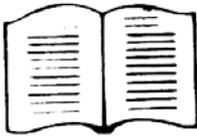
Lesson 3 : Marketing Organization, Person, Place and Idea.

Lesson objectives

After completing this lesson you will be able to :

- Examine the different aspects of organization marketing, including image assessment, image planning and control.
- Identify the key elements of person marketing, place marketing, and idea marketing.

Organization Marketing



Various organizations often perform 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 organisation.¹² Both profit and nonprofit organizations are increasingly accepting and practicing organization marketing. Business firms undertake public relations or corporate advertising campaigns to brighten their images. Nonprofit organizations, such as colleges, charities museums, and performing arts groups, market their organizations for raising funds and attracting members or patrons. Effective organizations marketing requires assessing the organization's current image and developing a marketing plan to improve it.

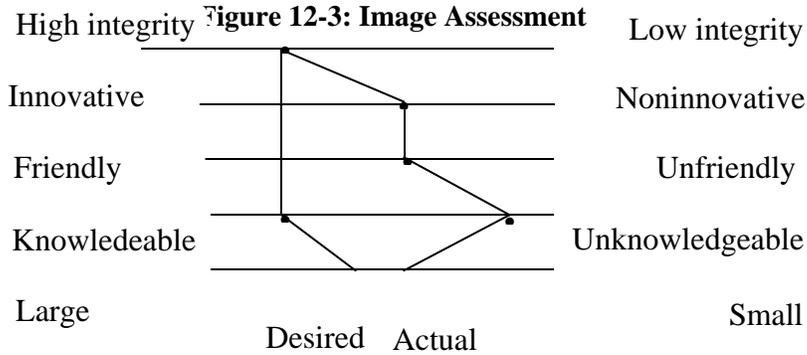
- **Assessing Organization Image**

Assessing organization image begins with researching the organization's current image among key publics. Organization image means the way an individual or a group perceives an organization. An organization may have different images among different people. The organization might be complacent with its current public image or it may think that it has image problems.

For example, suppose a bank conducts marketing research to measure its image in the community. It finds its image to be that shown by the mauve line on the right in figure 12-3. Current and potential customers view the bank as somewhat small, noninnovative, unfriendly, and unknowledgeable. The bank will want to change this image.¹³

¹². Ibid., p. 670.

¹³. Ibid., p. 670.



Source: Philip Kotler and Gary Armstrong, Principles of Marketing, seventh edition, Prentice-Hall of India, New Delhi, 1997; p. 671.

• **Image Planning and Control**

The organization now must decide what image it would like to have and what is achievable by it. We can consider the example of the bank given earlier. The bank might decide that it would like the image shown in figure 12-3. It would like to be seen as a provider of more friendly and personal service, and as larger, more innovative, more knowledgeable.

The organization now designs a marketing plan with the objective of shifting its actual image toward the desired one. Let us assume that the bank first wants to improve its image as an organization that provides friendly and personal service. The basic step, however, is to provide friendlier and more personal service. The bank can recruit and train better employees who interact with customers. It can renovate its office premises. After being sure that it has improved its performance on important image dimensions, the bank can design marketing program to communicate that new image to customers. For this purpose, the bank can use public relations. It can sponsor communally activities, send its executives to speak to local business and citizen groups, hold public seminars on household finance, and issue press releases on various bank activities. Through its advertisements, the bank can position itself as "your friendly, personal neighborhood bank"

Organizations find corporate image advertising a very useful tool to market themselves to various publics. Corporate advertising is used to build up or maintain a favorable image over a long time. Or they can use it to balance events that might impair their image. For example, Waste Management, the giant garbage disposal company, got into trouble a few years ago for dumping toxic waste. So to countered with an advertising campaign telling how the company has worked with various government agencies to help save a threatened species of butterfly.¹⁴

Organizations find corporate image advertising a very useful tool to market themselves to various publics.

An organization must conduct survey its publics intermittently to know whether its activities are improving its image. Certain important things should be kept in mind; image changing needs time, campaign funds are limited, and public images are more or less rigid. If the organization fails

¹⁴. Ibid., p. 671.

to improve its image it implied that it will have to change either its marketing offer or its organization marketing program.

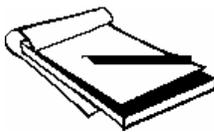
- **Person Marketing**

Person marketing consists of activities undertaken to create, maintain, or change attitudes or behavior toward particular people.¹⁵ Person marketing is practiced by all kinds of people and organizations. Politicians market themselves to get votes and to secure public support for their programs. Entertainers and sports personalities promote their careers and enhance their incomes through person marketing. Professionals such as doctors, lawyers, accountants, and architects also use person marketing for building their reputations and increasing their businesses. Business leaders also use person marketing for ensuring their company's success as well as their own.

Person marketing aims at creating a "celebrity".

Person marketing aims at creating a "celebrity". A celebrity is a well-known person whose name generates attention, interest and action. Visibility of different celebrities varies considerably. Some celebrities are well-known, but only in limited geographic areas (a local business entrepreneur) or specific segments (a Sitarist with a small group of fans). Some celebrities have wide national or international visibility (sports superstars, world political leaders).

Durability of celebrities also varies greatly. Figure 12-4A shows a standard celebrity life-cycle pattern. The persons visibility begins at a low level, gradually builds to a peak as the person matures and becomes well known, then declines as the celebrity fades from the limelight. But as the rest of figure 12-4 shows, celebrity life-cycle patterns can vary greatly. For example, in the overnight pattern (Figures 12-4B), a person acquires quick and lasting visibility because of some major deed or event. In the comeback pattern (Figure 12-4C), a celebrity achieves high visibility, loses it, then gets it back again. In the meteor pattern (Figure 12-4D), someone gains fame quickly then loses it suddenly.¹⁶



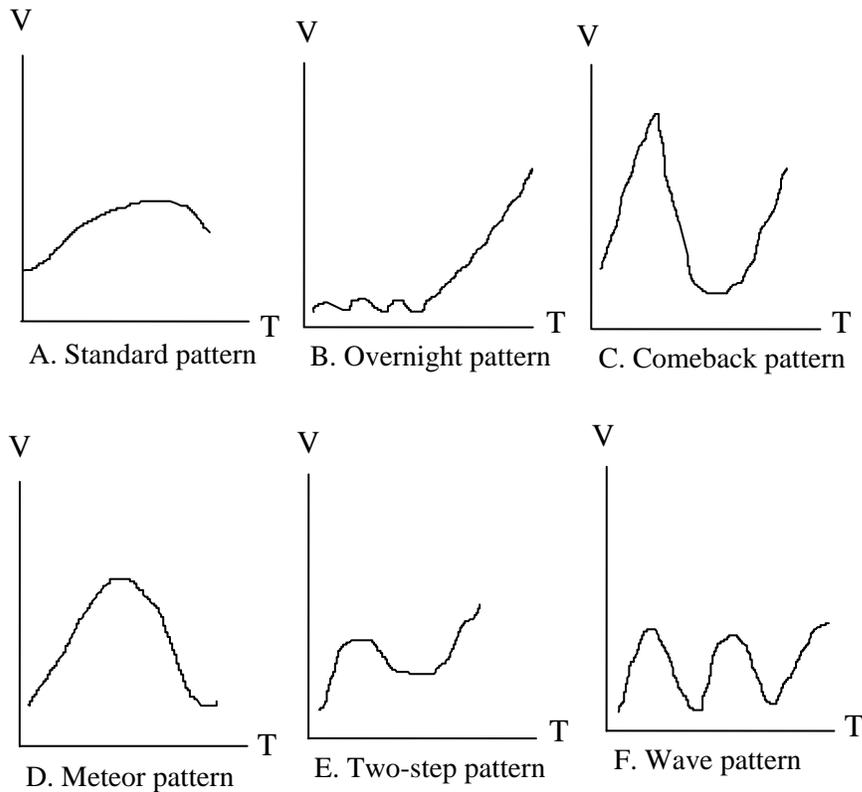
Activity :

How do the political leaders of Bangladesh market themselves? Explain.

¹⁵. Ibid., p. 672.

¹⁶. Ibid., p. 673.

Figure 12-4: Celebrity Life Cycles



V = Visibility, T = Time

Source: Philip Kotler and Gary Armstrong, *Principles of Marketing, Seventh Edition*, Prentice-Hall of India, New Delhi, 1997; p.673.

The person marketing process has similarity with that of product and service marketing. Person marketing begins with careful market research and analysis for identifying consumer needs and market segments which is followed by product development. It includes the task of assessing the person's current qualities and image and moulding the person to match market needs and expectations better. In the end, the marketer develops program for valuing, promoting, and delivering the celebrity.

The person marketing process has similarity with that of product and service marketing.

Place Marketing

Place marketing involves activities undertaken to create, maintain, or change attitudes or behavior toward particular places.¹⁷ Business site marketing and tourism marketing are typical examples of place marketing. Business site marketing consists of activities performed for developing, selling, or renting business sites for factories, stores, offices, warehouses, and conventions. Property developers assess various organizations, land needs and offer real estate solutions, such as industrial parks, shopping centers and new office buildings. In the USA,

¹⁷. Ibid., p. 673.

most states operate industrial development offices that try to sell companies on the advantages of locating new plants in their states. They spend large sums on advertising and offer to fly prospects to the site at no cost. Troubled cities, such as New York City, Detroit, Dallas, and Atlanta, have appointed task forces to improve their images and to draw new businesses to their areas. They may build large centers to house important conventions and business meetings. Even entire nations, such as Canada, Ireland, Greece, Mexico, and Turkey, have marketing themselves as good locations for business investment.¹⁸

Tourism marketing consists of activities performed for attracting vacationers to resorts, cities, states, and even entire nations. Travel agents, airlines, motor clubs, hotels, motels, tour operators, and governmental agencies are engaged in tourism marketing. Tourism is a rapidly expanding industry and almost every country, state, and city markets its tourist attractions.

Idea Marketing

Ideas are also marketed.

Ideas are also marketed. In fact, all marketing involves the marketing of an idea-either specific or general. Here we will concentrate on marketing of social ideas, such as public health campaigns to give up smoking, drug taking; environmental campaigns to protect forests and other campaigns such as family planning, human rights and literacy. This area has been termed as social marketing. Social marketing is the design, implementation, and control of programs seeking to increase the acceptability of a social idea, cause or practice among a target group.¹⁹

Social marketers can pursue different objectives. They might want to produce understanding (knowing the nutritional value of different foods) or trigger one-time action (joining in a mass-immunization campaign). They might want to change behavior (discouraging drunk driving) or a basic belief (convincing employers that handicapped people can make strong contributions in the work force).²⁰ Social marketers use variety of advertising campaigns. But mere advertising is not enough to accomplish the goals of social marketing. Many social marketing campaigns do not succeed because they over emphasized the role of advertising and do not pay adequate attention to develop and use all the marketing-mix tools.

For designing effective social-change strategies, social marketers follow the conventional marketing planning process.

For designing effective social-change strategies, social marketers follow the conventional marketing planning process. At the first step of the process, social-change objective is defined. For example, reducing the percentage of teenager smokers from 10 percent to 5 percent within five years. Next, social marketers analyze the attitudes, beliefs, values, and behavior of teenagers and factors that encourage teenage smoking. They contemplate communication and distribution approaches that might prevent teenagers from smoking, develop a marketing plan, and build a

¹⁸. Ibid., p. 674.

¹⁹. Ibid., p. 675.

²⁰. Ibid., p. 675.

marketing organization to execute the plan. In the end, social marketers evaluate the whole program and make necessary adjustment to make it more effective.

Social marketing is a recent phenomenon, and its effectiveness relative to other social-change strategies is difficult to measure. It is difficult to produce social change with any strategy, particularly when a strategy that relies on voluntary response. Main areas when a social marketing has been applied are family planning, environmental protection, energy conservation, public health, literacy, improved health and nutrition, auto driver safety, and public transportation. Social marketing has achieved some encouraging successes. But for properly assessing social marketing's potential for producing social change, more applications are required.

Questions for Review

1. Marketing is defined as satisfying needs and wants through exchange processes. Hypothesize what exchanges occur in marketing nonprofit organizations, such as the Bangladesh Red Crescent Society.
2. How do the notions of products, exchanges, transactions and markets apply when you vote for the political candidate of your choice? Explain your answer.
3. Organization image means –
 - A. The profitability of an organization
 - B. The size of an organization
 - C. An individual's perception of an organization
 - D. The age of an organization.
4. Sports personalities promote their careers through –
 - A. Organization marketing
 - B. Person marketing
 - C. Place marketing
 - D. Idea marketing.
5. Business site marketing and tourism marketing are typical examples of –
 - A. Organization marketing
 - B. Idea marketing
 - C. Person marketing
 - D. Place marketing.
6. Many social marketing campaigns do not succeed because they–
 - A. Overemphasized the role of advertising
 - B. Overemphasized the role of personal selling
 - C. Overemphasized the role of sales promotion
 - D. Overemphasized the role of public relations.



Ans : 3. C, 4. B, 5. D, 6. A.

REFERENCE BOOKS

1. Philip Kotler and Gary Armstrong - Principles of Marketing, Seventh Edition, Prentice-Hall of India Pvt. Ltd., New Delhi, 1997.
2. William J. Statnton and others - Fundamentals of Marketing, Tenth Edition, McGraw-Hill, Inc., Singapore, 1994.
3. Joel R. Evans and Barry Berman - Marketing, Third Edition, Macmillan Publishing Co. New York, 1987.
4. Paul S. Busch and Michael J. Houston - Marketing, Strategic Foundations, Rich and D. Irwin, Inc., Homewood, Illinois, 1985.